

Independent Auditor's Report to the members of NutriFarm International Limited

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the accompanying financial statements of NutriFarm International Limited (the "Company") and its subsidiaries (the "Group") as set out on pages 40 to 99, which comprise the balance sheets of the Group and 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 and the statement of changes in equity of the Company for the financial year 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 balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with International Financial Reporting Standards ("IFRSs") so as to present fairly, in all material respects, the consolidated financial position of the Group and the financial position of the Company as at 31 March 2019, and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and the changes in equity of the Company for the financial year ended on that date.

Basis for Qualified Opinion

1. Refundable advances for proposed acquisition

As disclosed in Note 20 to the financial statements, the Group has refundable advances for proposed acquisition amounted to HK\$89,757,000 as at 31 March 2019.

The refundable advances were paid to the vendor in connection with the proposed acquisition of 45% of the issued and paid-up shares of First Linkage Inc. ("First Linkage"). The proposed acquisition of First Linkage was terminated during the financial year.

Subsequent to 31 March 2019, the Group has received refunds of HK\$21,610,000 from the vendor. The Group is still in the process of recovering the remaining advances of HK\$68,147,000 from the vendor. The safeguard and measure implemented by management for recovering the refundable advances for proposed acquisition of First Linkage are disclosed in Note 20 to the financial statements. Management is of the view that the safeguard and measure are adequate and appropriate for the recovery of the remaining advances of HK\$68,147,000.

We are, however, unable to conclude whether the safeguard and measure implemented by management would enable the full recovery of the remaining advances of HK\$68,147,000 from the vendor. Consequently, we are unable to satisfy ourselves as to whether any adjustments might be necessary in respect of the carrying amount of the Group's refundable advances for proposed acquisition as at 31 March 2019.

2. Advances to suppliers and third parties

As disclosed in Note 20 to the financial statements, the Group recognised allowance for impairment losses on advances to suppliers and third parties which totalled HK\$10,233,000 in profit or loss during the current financial year.

We are unable to obtain sufficient appropriate audit evidence to satisfy ourselves with respect to the appropriateness of the allowance for impairment losses provided on advances to suppliers and third parties. Consequently, we are unable to determine whether any adjustments might be necessary in respect of the carrying amount of the Group's advances to suppliers and third parties as at 31 March 2019 and the impairment losses as recognised in profit or loss during the current financial year.

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 Accounting and Corporate Regulatory Authority ("ACRA") *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("ACRA 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 ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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Report on the Audit of the Financial Statements (cont'd)

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.

1. Impairment assessment of goodwill and non-financial assets (Group level) and cost of investment in subsidiaries (Company level)

As disclosed in Note 15(a) to the financial statements, the Group had goodwill of HK\$42,778,000 (2018: HK\$45,152,000) which arose from acquisition of Nutryfarm Biomedicine International Limited and its subsidiary ("NFB Group"). An impairment loss of HK\$42,778,000 was recognised in the current financial year to write down goodwill to its recoverable amount of HK\$Nil.

As disclosed in Note 14 and 15(b) to the financial statements, the net carrying amount of the Group's property, plant and equipment and other intangible assets amounted to HK\$10,811,000 and HK\$Nil respectively, after deducting impairment loss of HK\$22,096,000 and HK\$909,000 respectively as at 31 March 2019. 99% of the Group's total property, plant and equipment and other intangible assets are derived from NFB Group.

As disclosed in Note 11 to the financial statements, the net carrying amount of the Company's investment in subsidiaries amounted to HK\$76,447,000 which represents investment in NFB Group, after deducting impairment loss of HK\$58,275,000 as at 31 March 2019.

During the financial year, the Group performed an impairment assessment to determine the recoverable amounts of the Group's goodwill and non-financial assets and the Company's cost of investment in subsidiaries. The Group's financial performance and financial position are mainly contributed by NFB Group. Management considered NFB Group as a cash-generating unit ("CGU") that generate cash flows from nutrition, health food and related health products segment that are largely independent cash flows from other segments.

Impairment assessment of the Group's goodwill and non-financial assets and the Company's cost of investment in NFB Group is considered to be a key audit matter due to the significance of the assets to the Group's and the Company's financial position, and also due to the estimations involved in the assessment of the value-in-use of the CGU performed by the management. The estimation relates to cash flow forecasts of the CGU and discount rate applied to the cash flow forecasts.

Our procedures to address the key audit matter

We obtained an understanding of management's impairment assessment process.

We obtained the Group's value-in-use calculations. Key assumptions to the value-in-use calculations include discount rate, budgeted revenue growth rate, budgeted gross margin and terminal year growth rate. We reviewed these key assumptions by comparing the forecasts to historical revenue achieved, historical costs incurred, gross margin achieved and revenue growth rate to published industry reports.

We obtained management's assessment of the value-in-use calculations and evaluated the assessment for reasonableness.

We involved our valuation specialist in evaluating the appropriateness of the discount rate used by management.

We performed sensitivity analysis in the areas of budgeted revenue growth rate, budgeted gross margin, terminal year growth rate and discount rate assumptions.

We have also assessed the adequacy and appropriateness of the disclosures made in the financial statements.

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Report on the Audit of the Financial Statements (cont'd)

Key Audit Matters (cont'd)

2. Impairment of trade receivables

As disclosed in Note 19 to the financial statements, the carrying amount of the Group's trade receivables is HK\$9,492,000 (2018: HK\$24,645,000) after deducting allowance for impairment losses of HK\$17,321,000 (2018: HK\$13,949,000) as at 31 March 2019.

Management determines the expected credit losses ("ECL") of trade receivables by applying the simplified approach and using the provision matrix to measure the lifetime ECL for trade receivables. The Group categorises its trade receivables by its past due status and segregates debtors regarded as credit-impaired where one or more credit impairment events have occurred. The ECL rates for each category of debtors are estimated based on historical credit loss experience adjusted as appropriate to reflect current conditions and forecasts of future economic conditions. The measurement of allowance for ECL for trade receivables is considered to be a key audit matter as it requires management to exercise judgement and make assumptions with respect to past events, current conditions and forecasts of future economic conditions as disclosed in Notes 3(ii) and 27(b) to the financial statements.

Our procedures to address the key audit matter

We obtained an understanding and evaluated the Group's processes and ECL assessment for trade receivables. We assessed the reasonableness of management's judgement and assumptions applied in the ECL model such as management's determination of historical credit loss rates, the application of respective ECL rates for each category of past due status of debtors and debtors regarded as credit-impaired, and management's consideration of current conditions and forecast economic conditions specific to its trade receivables. We checked the arithmetic accuracy of management's computation of ECL and tested management's categorisation of debtors by their past due status.

We also reviewed the adequacy of disclosures relating to the ECL assessment of trade receivables and the Group's credit risk made in the financial statements.

Other Information

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. Because of the possible effects of the matters described in the *Basis for Qualified Opinion* section of our report, we are unable to conclude whether or not the other information is materially misstated with respect to these matters.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

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.

The directors' responsibilities include overseeing the Group's financial reporting process.

Independent Auditor's Report to the members of NutryFarm International Limited

Report on the Audit of the Financial Statements (cont'd)

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.

We communicate with the directors regarding, 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 the directors 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 the directors, 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.

The engagement partner on the audit resulting in this independent auditor's report is Lim Kok Heng.

Baker Tilly TFW LLP
Public Accountants and
Chartered Accountants
Singapore

28 June 2019

Notes to the Financial Statements

For the financial year ended 31 March 2019

19 TRADE RECEIVABLES

	Group	
	2019	2018
	HK\$'000	HK\$'000
Amounts due from third parties	26,813	38,594
Less: Allowance for impairment losses	(17,321)	(13,949)
	9,492	24,645

20 OTHER RECEIVABLES

	Group		Company	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current				
Prepayment to third party vendors ^(a)	1,453	1,534	–	–
Deposits paid for acquisition of property, plant and equipment ^(c)	23,552	–	–	–
	25,005	1,534	–	–
Current				
Deposits	122	118	–	–
Prepayments	709	682	125	117
Advances to suppliers	5,138	16,111	–	–
Advances to third parties ^(b)	13,361	19,623	–	–
Advances for proposed acquisition ^(c)	89,757	59,400	–	–
Advances to a related party [Note 26(a)] ^(b)	1,162	–	–	–
Other receivables	698	979	8	8
	110,947	96,913	133	125
Less: allowance for impairment losses				
Advances to suppliers	(5,005)	–	–	–
Advances to third parties	(5,228)	–	–	–
	100,714	96,913	133	125

^(a) Prepayment to third party vendors of HK\$1,453,000 (2018: HK\$1,534,000) relate to amounts paid to third party vendors for purchase of intangible assets - patent.

^(b) Advances to third parties and a related party are unsecured, interest-free and repayable on demand except for an amount of HK\$9,295,000 included in advances to third parties and advances to a related party of HK\$1,162,000 which are repayable on fixed maturity dates, within the next financial year.

Notes to the Financial Statements

For the financial year ended 31 March 2019

20 OTHER RECEIVABLES (CONT'D)

- (c) The Group, through LottVision Internet Management Limited ("LottVision Internet Management"), an indirectly wholly-owned subsidiary, entered into a deed of sale and purchase and a shareholders' agreement with Mr. Xiaoxin Wang (the "Vendor") on 15 March 2018 in connection with the proposed acquisition of an aggregate of 4,500 fully issued and paid-up ordinary shares of First Linkage Inc. ("First Linkage") of US\$1.00 each, representing 45% of the issued and paid-up shares of First Linkage. The aggregate consideration for the proposed acquisition of First Linkage is RMB90,000,000, subject to a profit guarantee and retained sum of RMB22,500,000.

As at 31 March 2018, the advances paid to the Vendor for proposed acquisition of First Linkage amounted to HK\$59,400,000.

During the current financial year, the proposed acquisition of First Linkage was terminated. Accordingly, the advances paid to the Vendor become refundable.

As at 31 March 2019, the refundable advances for proposed acquisition of First Linkage amounted to HK\$89,757,000 (RMB77,250,000). Subsequent to 31 March 2019, the Group has received refunds of HK\$21,610,000 (RMB18,605,000) from the Vendor. The Group is still in the process of recovering the remaining advances of HK\$68,147,000 (RMB58,645,000) from the Vendor.

On 15 April 2019, the Group has signed contracts with Beijing Zhonglian Shengtong Internet Technology Co., Ltd. ("Zhonglian Shengtong"), an indirectly wholly owned subsidiary of First Linkage, to acquire hardware and software for a total consideration of RMB66,400,000 (HK\$77,150,000). As at 31 March 2019, a 30% deposit of HK\$23,552,000 (RMB20,270,000) was paid to Zhonglian Shengtong.

Management has implemented the following safeguard and measure for recovering the remaining refundable advances for proposed acquisition of First Linkage of HK\$68,147,000:

- (i) Mr. Xu Haimin, a non-executive and non-independent director of the Company has been appointed as the legal representative and director of Beijing Shengyuantong Technology Development Co., Ltd., ("Shengyuantong"), Zhonglian Shengtong and Xinjiang Zhongtong Internet Science and Technology Development Co., Ltd. ("Xinjiang Zhongtong"). The ultimate beneficial owner of Shengyuantong, Zhonglian Shengtong and Xinjiang Zhongtong is the Vendor.
- (ii) As disclosed in Note 32, LottVision Internet Management has entered into a sale and purchase agreement dated 21 June 2019 with First Linkage to acquire 100% of the equity interests of Xinjiang Zhongtong from Zhonglian Shengtong, whereby First Linkage has agreed to procure that Zhonglian Shengtong sell, and LottVision Internet Management has agreed to purchase, for the aggregate consideration of RMB50,000,000.

The Vendor is committed to refund the remaining advances of HK\$68,147,000 (RMB58,645,000) prior to the completion of the proposed acquisition of Xinjiang Zhongtong and completion of installation of hardware and software. Otherwise, the Vendor has agreed that the outstanding advances can be used to offset against the purchase consideration of Xinjiang Zhongtong and outstanding balance of acquisition of hardware and software from Zhonglian Shengtong.

Management is of the view that the above-mentioned safeguard and measure are adequate and appropriate for recovering the remaining advances of HK\$68,147,000.