

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 May 2021 on the “Financial Statements and Related Announcement”, and its announcement dated 9 March 2021 in relation to its response to queries raised by the Singapore Exchange Securities Trading Limited on 1 March 2021 (the “**Announcements**”). Capitalised terms not otherwise defined herein shall have the meanings respectively ascribed to them in the Announcements. In this regard, the Board would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited on 21 July 2021 and 29 July 2021 (the “**SGX Queries**” and each an “**SGX Query**”) as follows:

SGX Query (i)

It is noted on page 3 of the financial results that the Group disclosed prepayments, deposits and other receivables amounting to HK\$ 108,139,000 as at 31 March 2021. However, it is also noted that the cost of sales for the 6 months ended 31 March 2021 amounted to HK\$ 42,726,000, which is less than the amount of prepayments, deposits and other receivables as at 31 March 2021.

Please disclose:

- a. A breakdown of the prepayments, deposits and other receivables amounting to HK\$ 108,139,000 and identify the nature of each of the material prepayments;
- b. When the prepayments were made, and the terms of the prepayments, where applicable.
- c. Rationale for provision of the prepayments, deposits and other receivables as at 31 March 2021 exceeding the cost of sales for the 6 months ended 31 March 2021;
- d. The identities of the suppliers and whether they are related parties of the Group;
- e. How long have these suppliers been supplying goods to the Company;
- f. The products they have been supplying to the Company;
- g. Whether the Group has made any impairment of the prepayments for this financial period and whether the Group is still purchasing from these suppliers. If there are impairment(s), please clarify what is the basis for the impairment(s).
- h. On the Group’s other receivables, please disclose:
 - I. the nature and breakdown of the Group’s other receivables; and
 - II. the underlying transactions and the terms of the transactions (including the contract sum) and payment terms of the underlying contracts.

Company’s Response to SGX Query (i)

- a. The breakdown is as follows:

| | Amount |
|--|----------|
| | HK\$’000 |

| | |
|---|---------|
| Deposits | 1,144 |
| Prepayment | 1,704 |
| Advances to third parties and suppliers | 31,961 |
| Advances in respect of proposed acquisition | 60,075 |
| Advances to a related party | 7,094 |
| Other receivables | 6,161 |
| Total | 108,139 |

- b. As at 31 March 2021, the advances to the supplier were made over the last 12 months. The advances to the third parties were made between June 2019 to March 2021 while the advances to the related party were advanced from Feb 2020 to Dec 2020. These advances do not have a fixed repayment period and interest free.

The advances in respect of proposed acquisition were disbursed since 2018 and interest free. Please refer to SGX Query (ii) and the Company's response to these queries for further details.

- c. Of the prepayments, deposits and other receivables amounting to HK\$108.1 million, 55% of the amounts (being approximately HK\$60.1 million) is due to the refundable advances in respect of the proposed acquisition of First Linkage Inc while the advances to third parties and suppliers were in furtherance of the business of NutryFarm (Chengdu) Biomedicine Ltd ("**NFC**") as the company sought to build new supplier and distribution relationships.

Advance to a related party of HK\$7.1 million is for NHT (names are abbreviated as this is commercially sensitive), which is 100% owned by a director of NFC. NFC has a trading relationship with NHT since 2018. Its business has grown over the years and in FY2020, NHT became the top 7th customer of NFC. NHT is the 2nd largest customer up to Q3 FY2021.

Other receivables mainly included taxes receivables related to the acquired internet related hardware and software which could be offset by the future sales of those assets and other receivables related to the operating activities.

- d. Except for NHT being taken as a related party as described above, to the best knowledge of the Company, there are no other amounts due from related parties.
- e. The supplier has been supplying to the Company since 2018.
- f. The products they supply include:
- (a) Oat Bran Coconut Powder;
 - (b) Fruit and vegetable whole grain powder;
 - (c) Blueberry Lutein Ester Drink;
 - (d) Chia Seed Blueberry Powder;
 - (e) Algae and Walnut Oil;
 - (f) Crispy oatmeal;
 - (g) Flaxseeds Oil;
 - (h) Tremella Carrot Liquid;
 - (i) Grape Seeds Oil;
 - (j) Probiotic Drink;
 - (k) Cranberry concentrate powder etc.
- g. The Company did not make any impairment during this financial period.
- h. On the Company's other receivables,
- i. Other receivables mainly included i) HK\$5.6 million taxes receivables related to the acquired internet related hardware and software which could be offset by the future sales of those assets, and ii) HK\$0.6 million other receivables related to the operating activities.
 - ii. Please refer to the above response to SGX Query (i)(h)(i).

SGX Query (ii)

It is stated on page 14 of the financial results that, “The Group recorded HK\$108.1 million prepayments, deposits and other receivables as at 31 March 2021. It mainly comprises HK\$60.1 million the advance previously paid by the Company to Mr. Xiaoxin Wang in connection with the previous proposed acquisition of First Linkage Inc, and HK\$42.8 million the advances to suppliers and third parties. In this quarter, Mr. Xiaoxin Wang refunded HK\$1.9 million to the Group in Q2FY2021.”

- a. Please clarify what is the remaining balance to be refunded, what is the schedule for the refund and whether the refund is on schedule?
- b. It is stated on page 9 of the financial results:- “With regards to the refundable advances, the Company is still in discussions with Mr. Xiaoxin Wang to reach a definitive agreement on a repayment schedule for the outstanding advances, and in the meantime, HK\$1.9 million had been refunded in Q2FY2021, and a further HK\$670,000 refunded until 7 May 2021.” (emphasis added)

It is also stated in the Company’s SGXNet announcement on 9 March 2021 available here that:-

- **“Company’s Response to SGX Query (c)(ii)**

The Company has reached an in-principle agreement with Xiaoxin Wang for the advancement of HK\$62.0 million to be repaid over four (4) years. This amounts to approximately at least HK\$15.5 million each year.”

- **“Company’s Response to SGX Query (c)(iii)**

Mr. Haimin Xu, the Non-Executive Director of the Company has been appointed as the legal representative and director of Beijing Shengyuantong Technology Development Co. Ltd. (“SYT”), Beijing Zhonglian Shengtong, Internet Technology Co. Ltd. (“ZLST”) and Xinjiang Zhongtong Internet Science and Technology Development Co. Ltd. (“XJZT”), all of which are ultimately owned by Mr. Xiaoxin Wang. Considering Mr. Xiaoxin Wang has already refunded HK\$26.9 million, which is approximately 30% of the total original advances, barring any unforeseeable adverse business conditions of those operating companies mentioned above, the Board is of the view that Mr. Xiaoxin Wang should be able to fulfil his repayment obligation of the remaining HK\$62.0 million advance as committed.” (emphasis added)

- i. Please clarify what are the “discussions with Mr. Xiaoxin Wang to reach a definitive agreement on a repayment schedule”, taking into consideration that the Company’s SGXNet announcement on 9 March 2021 stated:- “The Company has reached an in-principle agreement with Xiaoxin Wang for the advancement of HK\$62.0 million to be repaid over four (4) years”?
- ii. With regards to the Company’s SGXNet announcement on 9 March 2021 which stated, amongst others:- “The Company has reached an in-principle agreement with Xiaoxin Wang for the advancement of HK\$62.0 million to be repaid over four (4) years”
 - A. Please clarify how the Company arrived at repayment over 4 years and how come the full amount of the repayment was not agreed to be received sooner? Please provide the Board and Audit Committee’s assessment as to whether this agreement of repayment over 4 years is in the interest of Company and its shareholders and the basis for its view(s).
 - B. Please clarify what are the salient terms of the in-principle agreement, including and not limited to whether there are default clauses if the repayments are not made as scheduled.
- iii. Please clarify how the appointment of Mr. Haimin Xu as the legal representative and director of SYT, ZLST and XJZT would provide the Company with safeguards to recover the HK\$62.0

million advance previously paid by the Company to Mr. Xiaoxin Wang? Please also clarify whether this safeguard is sufficient and the basis for the Company's view(s).

- iv. Please clarify whether the advancement of HK\$62.0 million to Mr. Xiaoxin Wang is or is not interest-bearing? If yes, please provide further details in this regard.

Company's Response to SGX Query (ii)

- a. The remaining balance to be refunded to the Group as at 31 March 2021 is HK\$60.1 million. As earlier announced by the Company, the Company had previously reached an in-principle agreement with Xiaoxin Wang whereby Xiaoxin Wang will repay the outstanding advances owing by him over four (4) years ("Proposed Settlement"), and as at the date of this announcement, nothing has come to the attention of the Company to suggest that there has been a change in such understanding between the parties.

However, repayment according to the aforesaid repayment schedule has yet to commence as there has been a delay in the signing of the definitive agreement relating to the Proposed Settlement, *inter alia*, as parties are still in discussions on some of the other terms and conditions to be agreed related to the Proposed Settlement, including provisions relating to potential collateral, default clauses and penalties. Progress in discussions and negotiations have also been hampered due to postponement of travel plans resulting from the COVID pandemic. Nevertheless, the parties continue to be in communication and the Company targets to execute a definitive agreement before the end of FY2021.

b.

- i. Please see response under paragraph (a) above.
- ii. (A) The terms of the Proposed Settlement, including the rationale for the proposed repayment schedule of 4 years and not charging interest on the advances made in the meanwhile, was discussed and negotiated on a willing buyer willing seller basis, and on the Company's part, taking into consideration the following factors and circumstances:
 - a. The amounts owing arose out of advances made to Xiaoxin Wang in anticipation of the Group's then proposed acquisition of 45% of First Linkage Inc., (an entity owned by Xiaoxin Wang). Such acquisition was rejected by Singapore Exchange after almost a year. The subsequent acquisition of XJZT was aborted by the Company after a long period of more than one and a half years in view of, *inter alia*, regulatory considerations. Both parties have incurred opportunity costs and losses as a result thereof.
 - b. The repayment schedule was agreed to after negotiations on a commercial arms' length basis and taking into consideration, *inter alia*, SYT, ZLST and XJZT's operations and financial position, which, to the Company's understanding, are the main business which Xiaoxin Wang owns and operates.
 - c. While, in lieu of the Proposed Settlement, the Company can consider pursuing cross-border legal action to demand recovery of the amounts owing by Xiaoxin Wang in its entirety in one lump sum, the Board had weighed this against the litigation costs that will be involved and also there is no guarantee that the Company will be able to recover the judgment debt in full in such event.
 - d. Accordingly, the Board and the Audit Committee is of the view that pursuing the Proposed Settlement is the most viable option available to, and in the interest of the Company and its shareholders at this point in time.
- (B) Please see response under paragraph (a) above.
- iii. Mr Xu was appointed the legal representative of SYT, ZLST and XJZT when the Company advanced the payments pursuant to the proposed acquisition. Mr Xu has since resigned from

SYT but continues to be the legal representative of ZLST and XJZT. As earlier mentioned, the Company understand that SYT, ZLST and XJZT are the main business which Xiaoxin Wang owns and operates, and by having Mr Xu as the legal representative of ZLST and XJZT, ZLST and XJZT cannot amongst other conditions; be sold, take any legal action or bank loans without Mr Xu's endorsement as per PRC laws. The Company believes that this would give the Company some form of commercial leverage over Xiaoxin Wang, to come to a definitive agreement in relation to the Proposed Settlement.

- iv. The original advancement to Xiaoxin Wang was not interest-bearing as it was expected to be part of the consideration for the proposed acquisition. Subject to the execution of the definitive agreement relating to the Proposed Settlement, the Group may or may not impose an interest component relating to the Proposed Settlement.

SGX Query (iii)

Please disclose a breakdown of trade and other payables amounting to HK\$30,881,000 as at 31 March 2021. For other payables, please disclose the aging and nature of these other payables and whether the counterparties are related parties.

Company's Response to SGX Query (iii)

The trade and other payables breakdown is as follows:

| Nature | Amount | Ageing |
|---|---------------|----------------|
| | HK\$'000 | |
| Trade payable | 8,655 | Within 1 year |
| Salary payable | 2,100 | Within 2 years |
| Director salary | 1,421 | Within 1 year |
| Previous director salary | 240 | Within 2 years |
| Director fees payable | 1,827 | Within 2 years |
| Professional fees payable | 3,869 | Within 1 year |
| Interest payable to third party (refer to Query (vi)) | 7,101 | Within 2 years |
| Amount due to former director of the Company | 2,640 | Within 2 years |
| Amount due to a related party | 770 | Within 2 years |
| Amount received from a third party | 1,410 | Within 1 year |
| Taxes payable | 386 | Within 1 year |
| Others | 462 | Within 1 year |
| | | |
| Total | 30,881 | |

SGX Query (iv)

It is stated on page 3 that the Group has HK\$15,497,000 short term loans. Please disclose:

- Details of the loan, including the terms of the loan, interest on loan and maturity dates;
- A breakdown of the lenders and their identities;
- When were the loans obtained and approved by the Board including the Audit Committee; and
- The use of the proceeds from the loan.

Company's Response to SGX Query (iv)

- a. This loan is to facilitate NFC's operating cash flow. The amount is RMB13.0 million. The term is 1 year. The maturity date is July 11, 2022. RMB10.0 million annual interest rate is 4.25% and RMB3.0 million annual interest rate is 5.7%. It is secured by NFC's property in China.
- b. The lender is Agricultural Bank of China.
- c. This loan has been approved by NFC board of directors in July 2013 and has been renewed annually.
- d. The use of proceeds of this loan is to support working capital requirement of NFC.

SGX Query (v)

Given the Group's current liabilities of HK\$ 48,326,000 and cash and cash equivalents of only HK\$ 3,777,000 and noting that the Group incurred losses of HK\$ 501,000 for the 6 months ended 31 March 2021, please disclose the Board's assessment (i) whether the Group's current assets are adequate to meet its short term liabilities of HK\$ 48,326,000, including its bases of assessment; and (ii) how the Group intends to fulfil its significant payment obligations in the next 12 months. Where the Group has worked out debt repayment plans to fulfil its debt obligations, please disclose if the Group is on track to fulfilling these obligations.

Company's Response to SGX Query (v)

Excluding the refundable advancement of HK\$60.1 million to Xiaoxin Wang, the Group's current assets amounted to HK\$78.0 million and a net current asset of HK\$29.7 million. Accordingly, the Group's current assets (even excluding the refundable advancement of HK\$60.1 million to Xiaoxin Wang) is in excess of its current liabilities of HK\$48.3 million.

The Group's significant payment obligations in the next 12 months include the interest and principal amounts expected to come due under the third party loans from Corpbond IV Ltd, as further described below. The Company is currently in the midst of discussion with the lender for a possible restructuring of such loans. The amount of cash which the Company will need for repayment in relation to such loans will depend *inter alia*, on the outcome of such discussion, and the Company's ability to raise such amounts would in turn depend, *inter alia*, on the quantum and timing of its business receipts, collections of amounts owing to it and proceeds to be raised from the proposed placement exercise.

Despite the 6 months loss of HK\$501,000 ended 31 March 2021, the Group achieved a profit of HK\$457,000 for the 3 months ended 31 March 2021. This turnaround is largely due to the Group's new fruit-trading business. The Group expects the fruit-trading business to continue to contribute positively over the next few months.

The Group has also on 4 June 2021 announced the placement of 22,000,000 new shares of the Company to raise approximately S\$6.3 million. Subject to the completion of the placement, the funds will be used to grow the fruit-trading business but, if necessary, can be used for the aforesaid purpose and to strengthen the Group's net current assets position.

SGX Query (vi)

The Group recorded HK\$126.6 million in long term payables as at 31 March 2021. It represents the Company's receipt of a third-party loan from investors with an annual interest rate of 3.5% and 7.4% for one years to three years. Please disclose:

- a. Details of the loan, including the terms of the loan, interest on loan and maturity dates;
- b. A breakdown of the lenders and their identities;

- c. When were the loans obtained and approved by the Board including the Audit Committee; and
- d. The use of the proceeds from the loan.

Company's Response to SGX Query (vi)

- a. The third-party loans were originally from two companies:
 - 1. New Star Education Limited (“**NS**”) – approximately HK\$43.1 million, annual interest of the respective loan tranches range from 3.7% to 7.4% and the maturity dates of the respective loan tranches fall between 18 Apr 2020 to 9 Oct 2021. The loans were transferred to Furong Corpbond II Ltd. (“**FC**”) in January 2021. After the transfer, the loans were renewed another two years. The revised maturity dates fall between 18 Apr 2022 to 9 Oct 2023. The revised annual interest rates for the renewal range from 3.7% to 7.4%.
 - 2. Furong Corpbond II Ltd. (“**FC**”) – approximately HK\$83.5 million, annual interest rate is 6.25%. The maturity dates of the respective loan tranches fall between 7 Nov 2021 to 15 Nov 2022. Approximately HK\$11.7 million of the loan was renewed for 1 year in Jan 2021. After the renewal, the HK\$11.7 million loan will mature on or after 6 Nov 2022. The annual interest is 6.25%. FC was subsequent renamed as Corpbond IV Ltd.
- b. The outstanding lender as at 31 March 2021 is Corpbond IV Ltd. There is no relationship between Corpbond IV Ltd, its directors, chief executive officer and shareholders with the Company and/or its directors, chief executive officer and controlling shareholders (or any of their associates).
- c. The original NS loans were approved by the Board on 17 Apr 2017 and the FC loans were approved by the Board on 9 Oct 2017.
- d. The use of proceeds are as follows:

| Items | Amount |
|---|----------|
| | HK\$'000 |
| Expenses of the loans | 4,431 |
| Prepayment for the proposed acquisition of First Linkage Inc. | 91,400 |
| Interests paid | 9,118 |
| Working capital | 9,800 |
| Acquisition of property, plant and equipment | 11,840 |
| Total | 126,589 |

BY ORDER OF THE BOARD

Cheng Meng
 Chief Executive Officer and Executive Director
 3 August 2021