

**NUTRYFARM INTERNATIONAL LIMITED**

(Company Registration Number: 32308)

(Incorporated in Bermuda)

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**RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES  
TRADING LIMITED**

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The Board of Directors (the “**Board**”) of NutryFarm International Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) refers to its announcement (the “**Announcement**”) dated 13 February 2021 on the “Financial Statements and Relate Announcement”. 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 (each, an “**SGX Query**”) raised by the Singapore Exchange Securities Trading Limited (the “**SGX**”) on 1 March 2021 as follows:

**SGX Query (a)**

Please clarify why there is “inventories written down” of approximately HK\$235,000?

**Company’s Response to SGX Query (a)**

It is a normal practice for Chinese companies to perform an assessment of obsolete and slow-moving inventories, including finished goods, work-in-progress and raw materials, as at the end of each calendar year which is 31 December 2020 in the case of NutryFarm (Chengdu) Biomedicine Ltd. (“**NFC**”). This amount of HK\$235,000 refers to the net book value of those defective inventories and inferior materials identified as not qualified to be used in further production. It represented 2.83% of the net book value of the Group’s inventory as at 31 December 2020.

**SGX Query (b)**

It is noted that the non-current other receivables of the Group as at 31/12/2020 is approximately HK\$1,201,000. Please disclose:-

- i. the nature of the non-current other receivables; and
- ii. the Board’s assessment of the recoverability of the non-current other receivables.

**Company’s Response to SGX Query (b)**

The non-current other receivables represented payments made to acquire certain new products patents. It normally takes years for the Company to eventually obtain those products patents and hence such payments have been classified as “non-current other receivables” for accounting purposes. The counterparty is a traditional nutrition products manufacturer. To increase revenue, NFC has to find a way to launch more products. One of the ways therefore is to acquire it from other business partners. Based the industry experience, the Company did not foresee any problems in obtaining the necessary patents in such a manner. The Board believes that the “non-current other receivables” has been stated in fair value and will be properly reclassified as long-term intangible assets upon obtaining the relevant product patents.

**SGX Query (c)**

It is noted that the Group’s “Prepayments, deposits and other receivables” current asset account line item amounted to approximately HK\$114,724,000 as at 31/12/20.

It is also noted on page 13 of the financial results that:- “The Group recorded HK\$114.8 million prepayments, deposits and other receivables as at 31 December 2020. It mainly comprises HK\$62.0 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\$44.6 million the advances to suppliers and third parties.”

It is also stated on page 9:-

*“(1) Refundable advances for proposed acquisition*

*With regards to the refundable advances, HK\$0.98 million had been refunded by Mr. Xiaoxin Wang in January 2021. Mr. Xiaoxin Wang and First Linkage Inc. have also agreed to continue to refund the outstanding refundable advances. The Company will try efforts to ensure Mr. Xiaoxin Wang will refund as scheduled.*

*(2) Advances to suppliers, third parties and a related party*

*Until 31 January 2021, a total amount of approximately HK\$25,070,000 has been subsequently settled by the suppliers, third parties and a related party which represented approximately 56.22% of HK\$44,587,000 outstanding as at 31 December 2020. The Group kept positive business with these suppliers, third parties and the related party in Q1FY2021. The Company believes that the impairment has been properly recognized and the amount of net carrying amounts of the Group’s advances was fairly presented.”*

- i. Please disclose the nature and breakdown of the “Prepayments, deposits and other receivables” current asset account line item.
- ii. It is stated:- “The Company will try efforts to ensure Mr. Xiaoxin Wang will refund as scheduled.” Please clarify what is the schedule for refund?
- iii. What are the safeguards in place to recover the “HK\$62.0 million the advance previously paid by the Company to Mr. Xiaoxin Wang in connection with the previous proposed acquisition of First Linkage Inc”? Please provide the Board’s assessment of the recoverability of the HK\$62.0 million advance and the basis of such assessment.

**Company’s Response to SGX Query (c)(i)**

<b>Items</b>	<b>Note</b>	<b>HK\$’000</b>
Deposits		113
Prepayments		992
Advances to suppliers and third parties	1	35,337
Advances to proposed acquisition	2	61,976
Advances to related party	1	9,293
Other receivables	3	7,013
Total		114,724

Note 1: Please refer to point iv.a below for further details.

Note 2: The refundable advances to proposed acquisition were related to the proposed acquisition of First Linkage Inc.

Note 3: 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\$1.4 million other receivables related to the operating activities.

**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.

**SGX Query (c)(iv)**

It is noted on page 13 that HK\$44.6 million relates to the advances to suppliers and third parties. However, it is also noted that the cost of sales for the three months ended 31 December 2020 is approximately HK\$9,310,000 which is less than the HK\$44.6 million relating to the advances to suppliers and third parties. Please disclose:-

- a. A breakdown of the advances to suppliers and third parties of HK\$44.6 million and identify the nature of each of the material advances to suppliers and third parties;
- b. When the advances to suppliers and third parties were made and the terms of the advances to suppliers and third parties, where applicable;
- c. Rationale for the provision of the advances to suppliers and third parties as at 31 December 2020 exceeded the cost of sales of HK\$9,310,000 for the three months ended 31 December 2020?
- d. The identities of the suppliers and third parties 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; and
- g. It is noted on page 9 that:- “The Company believes that the impairment has been properly recognized and the amount of net carrying amounts of the Group’s advances was fairly presented.” Please clarify whether the Group has made any impairment of the advance payments to these suppliers and third parties for this financial period and whether the Group is still purchasing from them. What is the basis for the impairment? In view of the impairments to the advance payments to the suppliers, has the Board implemented any additional control measures so as to safeguard the Group’s assets and the Company’s interests.

**Company’s Response to SGX Query (c)(iv)(a) and (c)(iv)(b)**

<b>Suppliers and Third Parties (Names are abbreviated)</b>	<b>Advances Amt. (as at 31 Dec 2020)</b>	<b>Note</b>
	HK\$'000	
KQ	20,195	1
MLTY	15,099	2
NHT	9,293	3
<b>Total</b>	<b>44,587</b>	

1. The advances to KQ were made in July 2020 and the full amount has been subsequently settled at date of this response.
2. The advances to MLTY were made from June 2019 to June 2020. HK\$4.8 million was refunded in January 2021. The remaining advances were expected to be refunded by the end of Dec 2021 and interests free.
3. The advances to NHT were made from Feb to Dec 2020. HK\$1.2 million was refunded in January 2021. The remaining advances were expected to be refunded by the end of Dec 2021 and interest free.

#### **Company's Response to SGX Query (c)(iv)(c)**

Please refer to note 1 to 3 in (a) above. These suppliers and third parties have business interactions with the Group for many years and critical to the Group's business. From time to time, some of the suppliers and third parties may face short-term working capital shortfall and may need advancement from the Group. In 2020, this was aggravated by the COVID pandemic. In most cases, these advancements are fully recovered.

#### **Company's Response to SGX Query (c)(iv)(d)**

The identities are listed in the table under "Company's Response to SGX Query (c)(iv)(a)" above. None of the parties are related to the directors and/or the substantial shareholders of the Company. NHT is however related to a management personnel of NFC.

#### **Company's Response to SGX Query (c)(iv)(e)**

The suppliers have been supplying goods to the Company since 2014.

#### **Company's Response to SGX Query (c)(iv)(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.

#### **Company's Response to SGX Query (c)(iv)(g)**

The impairments with the suppliers are based on the advice of the Company's external auditors and adopted by the Board based on a conservative prudent approach. The Group continues to have business relationships with the parties and barring any unexpected events, believes that the parties will be able to repay the amounts according to the schedule.

#### **SGX Query (d)**

It is noted that the Group's "inventories" current asset account line item amounts to approximately HK\$8,300,000 as at 31/12/2020. Please provide information on the Group's inventory turnover days.

#### **Company's Response to SGX Query (d)**

The Group's inventory turnover days is approximately 67.83 days.

#### **SGX Query (e)**

It is noted that the Group's "Trade and other payables" current liabilities account line item amounts to approximately HK\$33,156,000 as at 31/12/2020. It is stated on page 14 that:- "Trade and other payables amounted to HK\$33.2 million as at 31 December 2020, which is a decrease of HK\$3.6 million from

HK\$36.8 million as at 30 September 2020. The decrease mainly represented the payment to third parties to settle outstanding professional fees.”

- i. Please disclose a breakdown of trade and other payables amounting to approximately HK\$33,156,000 as at 31/12/2020.
- ii. 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 (e)(i)**

Items	HK\$’000
Trade payables	9,726
Other payables and accruals	11,246
Accrued interest expenses	5,378
Director fees payable	1,578
Amount due to former Director of the Company	2,640
Amount due to a related party	770
Advances received from a third party	1,818
Total	33,156

**Company’s Response to SGX Query (e)(ii)**

Nature	Notes	Amount	Ageing
		HK\$’000	
Director’s salary	1	1,701	Within 2 years
Salary	2	1,937	Within 2 years
Professional fees	3	6,232	Within 1 year
Others	3	1,376	Within 1 year
Total		11,246	

Note 1: Director salary represented the Company’s Directors’ salary.

Note 2: Salary included HK\$1,260,000 key management personnel’s salary payable.

Note 3: Professional fees and others are all within 1 year and the counterparties are all third parties.

**SGX Query (f)**

Given the Group’s current liabilities of approximately HK\$95,528,000 including short-term loans of HK\$58,757,000, and cash and cash equivalents of approximately HK\$6,663,000 as at 31/12/2020, and noting that the Group incurred loss for the period of approximately HK\$958,000 for the three months ended 31 December 2020, please disclose the Board’s assessment:-

- i. Whether the Company’s current assets are adequate to meet the Company’s short term liabilities including its bases of assessment; and
- ii. How the Company intends to fulfil its significant payment obligations in the next 12 months. Where the Company has worked out debt repayment plans to fulfil its debt obligations, please disclose if the Company is on track to fulfilling these obligations.

**Company’s Response to SGX Query (f)**

As at January 2021, HK43.3 million of the short-term loans have been extended by at least one year. None of the third-party loans will hence be maturing within the next 12 months. For the remaining HK\$52.2 million in current liabilities, the Group intends to meet the payments obligations using, *inter alia*, its trade receivables (circa HK\$13.5 million), recovery of partial amounts from the advancements and pre-payments which stands at HK\$114.7 million as at 31 December 2020 (in particular, refund from Mr Xiaoxin Wang), profits and possible cash flows expected to be generated from the fruit-trading business and a potential placement of new shares.

Taking the above into consideration, the Board is of the view that the Company is on track to fulfil its debt or payment obligations as they fall in the next 12 months.

By Order of the Board

**Cheng Meng**

Chief Executive Officer and Executive Director

9 March 2021