

NUTRYFARM INTERNATIONAL LIMITED

(Company Registration Number: 32308)

(Incorporated in Bermuda)

CLARIFICATION AND UPDATE ANNOUNCEMENT

The Board of Directors (the “**Board**”) of NutryFarm International Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) refers to the following announcements:

- (i) Announcement dated 29 November 2021 titled Waiver: “APPLICATION FOR EXTENSION OF TIME FOR COMPLIANCE WITH RULE 705(1) of the LISTING MANUAL” (the “**29 November Announcement**”); and
- (ii) Announcement dated 13 February 2022 titled “General Announcement: (1) APPLICATION FOR FURTHER EXTENSION OF TIME AND (2) REDESIGNATION OF ROLES” (the “**13 February Announcement**”).

Capitalised terms not otherwise defined herein shall have the meanings respectively ascribed to them in the 29 November Announcement and/or the 13 February Announcement.

The Company would like to make certain clarifications and update Shareholders on certain matters arising from the 29 November Announcement and/or the 13 February Announcement, *inter alia*, in response to certain queries raised by the Singapore Exchange Securities Trading Limited on 15 February 2022, as set out in **Annex A** hereto (the “**SGX Queries**” and each an “**SGX Query**”).

Section A - Clarification on sales memo requested by external auditors in connection with audit of FY2021 Results

As mentioned in the 29 November Announcement and the 13 February Announcement, one of the reasons why the Company had sought an extension of time to announce the unaudited FY2021 Results was because “*at the time of the 29 November Announcement, the Board was informed that the Management team needed time to prepare the sales memo which the external auditors had requested for to review revenue recognition issues arising from certain trade transactions undertaken in respect of the export of durian fruits out of Thailand. This had resulted in a delay of the carrying out of the statutory audit.*”

By way of clarification, the “sales memo” requested by the Company’s external auditors referred to aforesaid is a management position paper to explain the sales cycle and process of the Group’s durian trading business, particularly in Thailand which commenced during the second quarter of FY2021 (“**Sales Memo**”).

As further elaborated below, as the Group did not, prior to 14 September 2021, have the relevant export licence in Thailand to enable the Group to be able to directly export the durians which it had agreed to sell from Thailand to its customers in China, hence, for the purchase contracts that the Group had entered into with its customers in China prior thereto (“**Relevant End-Customers**”), the Group had to go through certain export agent company(ies) based in Thailand including Tianchue (as defined below) (the “**Export Agent**”) to ship the durians to such customers in China, since the Export Agent had the relevant export licence to do so (“**Relevant Trade Transactions**”).

The Group’s revenue recognition policy is set out in the latest available annual report for the financial year ended 30 September 2020.

The Group had, since the commencement of the Relevant Trade Transactions, recognised the entire amount of the purchase contracts entered into under the Relevant Trade Transactions as the sales

revenue earned by the Group, upon the Relevant End-Customers taking delivery of the goods shipped to them by the Export Agent.

The Group had adopted such accounting treatment at that time, *inter alia*, as the Group was the principal in respect of the Relevant Trade Transactions, and the Export Agent merely acted as the agent of the Group in relation to the sales to the Relevant End-Customers even though, *inter alia*, the relevant customs clearance paperwork to export the fruits to the customers in China was put up by the Export Agent, and payment from the customers was also made to the Export Agent instead of to the Group (“**Trading Arrangement**”).

Based on Management representations and the information currently available to the Board, subject to further substantiation or verification and/or such additional or new information to be obtained from the Thai Operations Accounting Records once they are fully collated, the principal-agent relationship between the Group and the Export Agent under the Trading Arrangement was evidenced or substantiated, *inter alia*, by the agreement or understanding between the Group and the Export Agent that the Group took title risk, i.e. the Group and not the Export Agent bore the risk of losses incurred or to be incurred should there be any loss or damage to the fruits exported by the Export Agent to the Relevant End-Customers while in transit.

The Company’s external auditors had, as part of its audit process for auditing the FY2021 Results, requested Management to provide the Sales Memo, *inter alia*, to review if the Company’s recognition of revenue under the Relevant Trade Transactions is in line with the Group’s revenue recognition policy. Management needs more time to prepare the Sales Memo as the preparation of such Sales Memo would require, *inter alia*, the collation of the relevant supporting documents or information to substantiate or verify the principal-agent relationship between the Group and the Export Agent, and given that the Thai Operations Accounting Records are currently either incomplete, unavailable or otherwise not adequately maintained, Management would require to collate and update the Thai Operations Accounting Records in order to prepare the Sales Memo for review by the external auditors.

Section B - Clarification on the manner in which the Relevant Trade Transactions were conducted

The Company only started its durians trading business during the second quarter of FY2021 following the appointment of Cheng Meng as CEO on 6 January 2021, and did not manage to obtain shareholders’ approval for its proposal to diversify into the durians and fruits trading business as a core business until 12 August 2021.

In its initial foray into the durians trading business, the Group did not apply for the relevant export licence in Thailand, *inter alia*, pending further assessment of the viability of such business, and the Group applied for such licence, which it obtained on September 2021, after deciding to set up its own subsidiary in Thailand, i.e., Global Agricapital (Thailand) Co., Ltd (“**GAT**”) on 17 June 2021 to pursue and expand the durians trading business in Thailand.

Notwithstanding that the Group did not have the relevant export licence in Thailand to enable the Group to be able to directly export the durians which it had agreed to sell from Thailand to its customers in China, the Group was able to effect the Relevant Trade Transactions through the Trading Arrangement with the Export Agent.

Under the Trading Arrangement, while the Group enters into purchase contracts with the Relevant End-Customers where the latter agrees to buy the durians from the Group, at the same time, there are also invoices issued by the Export Agent to the Relevant End-Customers as part of the documents required for the Export Agent to undertake customs clearance for the durians. Payments are then made by or on behalf of the Relevant End-Customers (including by import agent company(ies)) based in China, who may collect or receive the durians from the Export Agent and/or made payments on behalf of the Relevant End-Customers to the Export Agent (the “**Import Agents**”) pursuant to such invoices raised by the Export Agent. Notwithstanding that the invoices to the Relevant End-Customers are raised by and payments from the Relevant End-Customers are received by the Export Agent, pursuant to the principal-agent relationship between the Group and the Export Agent under the Trading Arrangement. Such invoices and payments would be deemed or construed as having been raised or received (as the case may be) by the Export Agent as an agent of, or otherwise on behalf of the Group.

As far as the Board is aware, the Trading Arrangement that the Group had with the Export Agent was in compliance with the relevant laws and regulations in Thailand, as such laws and regulations requires the person exporting the durians to China to have the requisite export licence, and the Export Agent, which was the party that carried out the export of the durians to the Relevant End-Customers, did have such requisite export licence to do so.

However, the Group needs to have the relevant accompanying documents and accounting records, *inter alia*, to match the transactions between the Group, the durian plantations/suppliers, the Export Agent, the Import Agent and the Relevant End Customers in China. This would include source documents such as purchase orders, invoices, delivery notes, bank transfers, and it is particularly in this respect that the Thai Operations Accounting Records may be currently incomplete, unavailable or otherwise not adequately maintained.

Pending the full collation and updating of the Thai Operations Accounting Records, the Board is not able at this juncture to quantify the amount involved in relation to the Thai Operations Accounting Records and/or whether this amount would be considered material to the Group, nor would the Board be able to comment on what may be the implication on the Company's past announcements and previously released financial statements.

The following are the list of end-customers as well as the Export Agent and suppliers in Thailand with whom the Group has entered into contracts, as previously announced by the Company:

Thailand Suppliers/Export Agents

1. Tianchue (Thailand) Co., Ltd (announced on 29 Jan 2021)
2. Royal Farm Group Co., Ltd (announced on 17 Mar 2021)
3. Thung Thang Thong Co., Ltd (announced on 17 Mar 2021)

End-Customers

1. Moonda (Beijing) Agriculture Science and Technology Co., Ltd 慕大（北京）农业科技有限公司 (announced on 8 Jan 2021 and 21 June 2021)
2. Shanghai Yuqu Trading Co., Ltd 上海昱渠贸易有限公司 (announced on 18 Jan 2021)
3. China Railway Production Control (Chengdu) Industrial Co., Ltd 中铁产控（成都）实业有限公司 (announced on 29 Jan 2021)
4. Anhui Tianhe Preferred Import and Export Co., Ltd 安徽天合优选进出口有限公司 (announced on 6 Sep 2021)
5. Anhui Dingguan Supply Chain Management Co., Ltd (announced on 11 Oct 2021)
6. Shenzhen Runtai Silk Road Intelligent Retail Co., Ltd (announced on 23 Nov 2021)
7. Guangzhou Wenwu Hetai Trading Co., Ltd 广州文武和泰贸易有限公司 (announced on 21 Dec 2021)

Based on Management representations and the information currently available to the Board, subject to further substantiation or verification and/or such additional or new information to be obtained from the Thai Operations Accounting Records once they are fully collated, the Board understands that Tianchue, apart from holding an export licence, also owns durian plantations and/or is a supplier of durians, and Tianchue had supplied durians and/or paid for the durians supplied to fulfill purchase contracts entered into by Group with the Relevant End-Customers under the Relevant Trade Transactions, and for that reason, following completion of the placement, part of the proceeds raised from the placement amounting to approximately S\$3.26 million (THB78,000,250) was paid by Group to Tianchue, *inter alia*, to settle such amounts due from Group to Tianchue as well as prepayments for further orders.

The Board also understands that there may have been the Import Agent(s) who made payments to our Export Agents on behalf of our End Customers for the Relevant Trade Transactions.

Section C - Clarification on Management team

The Management team in place for FY2021 and for the period up to 13 February 2022 was Cheng Meng, then the CEO (appointed since 6 January 2021), Lim Boo Hiong, the Acting CFO (appointed since 1 October 2021) and Levin Lee, Executive Director in charge of fund-raising and investor relations activities (appointed since 16 November 2021).

Prior to Lim Boo Hiong being appointed as the Acting CFO, the CFO was Andy Xu who had been the CFO of the Company and the Group for more than 10 years while Lim Boo Hiong was the Regional Finance Director of Thailand Operations from 1 May 2021.

As mentioned in the 13 February Announcement, the Board has redesignated the roles and responsibilities of the Management team, including having Cheng Meng relinquish his role as CEO and be re-designated as Executive Director (Thai Operations) with effect from 11 February 2022, *inter alia*, to ensure that the Thai Operations Accounting Records are put in order expeditiously. At the same time, the Board had, on the recommendation of the Nominating Committee, taken the following measures:

- (1) As Executive Director (Thai Operations) Cheng Meng's primary responsibilities are only for overall supervision and management of the business, operations, transactions, accounts and finance of the durian trading business in Thailand, and he no longer has supervision or management of the business, operations, transactions, accounts and finance of the Singapore operations of the fruits trading business or those of the wider Group.
- (2) During the Review Period, Cheng Meng is not authorised to carry out any further business transactions on behalf of GAT or operate the bank accounts of GAT without a concurring or second-level approval from another member of the Management team. To this end, Cheng Meng should submit weekly forecasts for shipments and expenses to the Board. The finance manager of GAT should also provide weekly reports of receipts to the Board.
- (3) Levin Lee has assumed certain executive responsibilities previously assumed by Cheng Meng as CEO during the Review Period including but not limited to the Group's fruits trading business in Singapore and managing the corporate affairs of the Group.

While Lim Boo Hiong has tendered his resignation, he is currently serving his notice period, and the Company is currently actively looking to recruit a chief financial officer to replace the outgoing Acting CFO.

Pending the appointment of a new CFO, the finance teams in Singapore and in Thailand reports to the Executive Directors.

Section D - Update on use of proceeds of placement

The share placement of 22,000,000 new shares was completed in September 2021. Based on Management representations and the information currently available to the Board, subject to further substantiation or verification and/or such additional or new information to be obtained from the Thai Operations Accounting Records once they are fully collated, it would appear that the proceeds of S\$4 million that was allocated to the working capital for the durian trading business has been almost fully utilised (at approximately S\$ 3.9 million) by way of deployment for the Thai operations.

In addition, approximately S\$0.9 million of the S\$ 1 million allocated for headquarter expenses and payables, has been utilised with the further breakdown as follows:

A breakdown of the use of the headquarter expenses and payables of the Group is as follows:

	S\$'000
Directors' Fees and Staff Cost	108
Legal and professional fees	118
Listing expenses	42
Audit fees	134

Loan interest	320
Other miscellaneous expenses	194
Total	916

As for the remaining balance of the proceeds of approximately S\$ 1.52 million, approximately S\$105,000 has been utilised as working capital for new markets for the fruit trading business, *inter alia*, through the deployment towards purchases of fruits for the Singapore market, although there was also utilisation of an amount of S\$ 1.4 million as payment of deposit towards a contract for purchase of fruits which was subsequently terminated on 20 January 2022, and the supplier in question has agreed to refund such deposit to the Company under a repayment schedule.

The Company will provide shareholders with a further update on the use of proceeds, *inter alia*, once the Thai Operations Accounting Records are fully collated.

BY ORDER OF THE BOARD

Levin Lee
Executive Director
18 February 2022

SGX Queries

<u>SGX Query (a)</u> It is stated in the 13 February 2022 Announcement, <i>"1. At the time of the 29 November Announcement, the Board was informed that the Management team needed time to prepare the sales memo which the external auditors had requested for to review revenue recognition issues arising from certain trade transactions undertaken in respect of the export of durian fruits out of Thailand. This had resulted in a delay of the carrying out of the statutory audit."</i> i. Please elaborate as to what is a sales memo and why did the "Management team needed time to prepare the sales memo"? ii. Please clarify the Group's revenue recognition policy.	i. Please refer to Section A titled "Clarification on sales memo requested by external auditors in connection with audit of FY2021 Results". ii. Please refer to Section A titled "Clarification on sales memo requested by external auditors in connection with audit of FY2021 Results".
<u>SGX Query (b)</u> It is stated in the 13 February 2022 Announcement, <i>"2. To recapitulate, the Group had set up a subsidiary in Thailand, Global Agricapital (Thailand) Co. Ltd ("GAT") to export durian fruits out of Thailand, and GAT had obtained the necessary export license from the Department of Agriculture of Thailand on 14 September 2021. However, prior to 14 September 2021, the Group did not have the relevant export license, and depended on export agent companies based in Thailand to ship the products to China based on purchase contracts that the Group had entered into with the customers in China.</i> <i>3. To prepare the financial statements therefore, the Group has to have the accounting records and other relevant information relating to the durians and fruits trading business, inter alia, to match the transactions between the Group, the durian plantations, Thailand export agent companies, China import agent companies and the end customers in China."</i> i. Please clarify why the Group did not have the necessary export license prior to 14 September 2021?	i. Please refer to Section B titled "Clarification on the manner in which

ii. Please clarify why the Company continued business in the export of durian fruits out of Thailand if it did not have the necessary export license prior to 14 September 2021? iii. Please clarify as to whether and if so how the Company is in compliance with the relevant laws and regulations in the conduct of the business of export of durian fruits out of Thailand if it did not have the necessary export license prior to 14 September 2021? iv. Please elaborate as to how the Company conducted its business of the export of durian fruits, if it did not have the necessary export license prior to 14 September 2021? v. Please clarify whether the Company entered into purchase contracts with each of the customers in China? vi. Please identify the key durian plantations, Thailand export agent companies and China import agents.	the Relevant Trade Transactions were conducted”. ii. Please refer to Section B titled “Clarification on the manner in which the Relevant Trade Transactions were conducted”. iii. Please refer to Section B titled “Clarification on the manner in which the Relevant Trade Transactions were conducted”. iv. Please refer to Section B titled “Clarification on the manner in which the Relevant Trade Transactions were conducted”. iii. Please refer to Section A titled “Clarification on sales memo requested by external auditors in connection with audit of FY2021 Results” iv. Please refer to Section B titled “Clarification on the manner in which the Relevant Trade Transactions were conducted”.
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SGX Query (c)

It is stated in the 13 February 2022 Announcement, “4. The Board had however, since early December 2021, in the course of getting the Chief Executive Officer (“CEO”), Cheng Meng (“Mr Cheng”), and Acting Chief Financial Officer (“CFO”), Lim Boo Hiong, to finalize the FY2021 Results and the 1QFY2022 Results for the purposes of reporting the FY2021 Results and the 1QFY2022 Results on 14 February 2022, discovered that the accounting records and other relevant information relating to the fruits and trading business, in particular the accounting records of the operations in Thailand, were either incomplete, unavailable or otherwise not adequately maintained.

5. Moreover, part of the proceeds raised from the share placement completed on 15 September 2021 was used to pay the export agent company who had previously paid suppliers on behalf of GAT, but the Group does not appear to have the full set of accounting records and other relevant information required to substantiate or verify this (the accounting records and other relevant information referred to in paragraph 3 and this paragraph 5 to be collectively referred to as the “Thai Operations Accounting Records”).

6. The Thai Operations Accounting Records are needed, inter alia, for the Company to prepare the unaudited FY2021 Results and the unaudited 1QFY2022 Results and for the Group’s external auditors to verify and substantiate the relevant trade and other transactions in order for the external auditors to carry out and complete its audit of the FY2021 Results.

7. The Nominating Committee and the Board has determined that the lack of completeness or availability of the Thai Operations Accounting Records has come about in large part due to an ineffective Management team led by the CEO, further exacerbated by the Acting CFO’s sudden resignation whilst the Board was trying to resolve the outstanding issues.”

- i. Please elaborate on “the accounting records of the operations in Thailand, were either incomplete, unavailable or otherwise not adequately maintained.”
- ii. Please quantify the amount involved in relation to the Thai Operations Accounting Records and whether this amount would be considered material to the Group?
- iii. Please clarify as to whether and if so what is the implication on the Company’s past announcements and previously released financial statements?

i. Please refer to Section B titled “Clarification on the manner in which the Relevant Trade Transactions were conducted”.

ii. Please refer to Section B titled “Clarification on the manner in which the Relevant Trade Transactions were conducted”.

iv. Please clarify the identity of the export agent company who had previously paid suppliers on behalf of GAT. v. Please clarify the identities of the Management team? vi. Please clarify who will be taking over the Acting Chief Financial Officer Lim Boo Hiong's duties? vii. In view of the above, please clarify what are the measures that have been put in place? viii. Please quantify the remaining net proceeds from the placement and whether this has been utilised? If it is unutilised, please clarify what are the controls that have been put in place?	iii. Please refer to of Section B titled "Clarification on the manner in which the Relevant Trade Transactions were conducted". iv. Please refer to of Section B titled "Clarification on the manner in which the Relevant Trade Transactions were conducted". v. Please refer to Section C titled "Clarification on Management team". vi. Please refer to Section C titled "Clarification on Management team". vii. Please refer to Section C titled "Clarification on Management team". viii. Please refer to Section D titled "Update on use of proceeds of placement".
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