



NUTRYFARM INTERNATIONAL LIMITED

# RE DE FIN ING

ANNUAL REPORT 2016

NutryFarm International Limited

Redefining

Annual Report 2016



Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda





# Business Philosophy

“Nutrition for health” – We believe that through the use of advanced technologies in the areas of research and development, rigorous recipe screening and efficacy trials, we will be able to provide the finest quality nutrition and health food products to improve human lives.

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## CORPORATE PROFILE

NutryFarm International Limited (“NutryFarm” or “the Company”), and together with its subsidiaries, (“the Group”), through its 55% interest in Nutryfarm Biomedicine International Limited (“NFB”), produces high quality nutrition and health food products formulated mainly from natural traditional medicinal herbs from across the Americas and regions in China, Europe and New Zealand for consumers in the People’s Republic of China (“PRC”).

Based at its 34,165.33 square metres state-of-the-art facilities in the Sichuan province, the Group is involved in the research and development, manufacturing and sales and marketing of more than 40 of its self-manufactured brands catering to the diverse nutritional needs of every customer segment in its vast PRC market.

## VISION

**To be a leading manufacturer and distributor of nutrition and health food products.**

## MISSION

**To develop a sound business model and to continually seek and develop opportunities in high-growth markets.**

## OUR CORE VALUES

### Good Management

We seek innovation and continuous improvements in our business, and work diligently to deliver on our plans and overcome obstacles.

### Ownership

We take great pride in our ability to meet expectations and trust put in us as a leading company. This includes the quality of our nutrition and health food products, our overall company growth and our obligation to the advancement and training of our employees.

### Honesty and Integrity

We operate in an open and honest manner with our stakeholders, in the spirit of creating long-term business relationships.

### Proactivity

We constantly work towards being the best we can be. We do this by continuously improving our efficiency, innovating our products and refining our efforts to win bigger market share.

### Mutual Respect

We believe in conducting business in a respectful manner with all our stakeholders to gain and keep their confidence and faith in us.



# REDEFINING BUSINESS







Immersing in a fresh new business direction successfully signals NutryFarm's continuing vibrancy and vitality amid challenging market conditions. Through the highs and lows, we have kept our promise to uphold the Group's commitment to quality and value, and this journey remains our focus as we seek continuous progress. This approach has enabled us to achieve a future filled with limitless possibilities and development opportunities. We are determined to continue our push to be a nimble and competitive company concentrating on delivering excellent products and services.



# ABOUT NUTRYFARM

NutryFarm aims to provide the finest quality nutrition and health food products and the gentlest care to its customers with the intention to improve the quality of their lives.

## NFB'S BUSINESS

Established in 2005 by award-winning scientist Dr. Chen Yao Ming, NFB, through its wholly-owned subsidiary, Nutryfarm (Chengdu) Biomedicine Limited. ("NFC"), focuses on research and development, manufacture and sale of nutrition and health food products. At its 34,165.33 square metres state-of-the-art factory, NFC employs close to 40 highly-qualified researchers, nutritionists, sales and marketing professionals with the aim of providing the finest quality nutrition and health food products and the gentlest care to its customers to improve the quality of their lives.

Under the strong leadership of Dr. Chen, who is the President and Chief Scientist at NFB, NFC has built a sound business model with a profitable track record since 2007. The Company also has a strong research and development team that is constantly innovating and improving its products to produce a series of diverse and competitively-priced nutrition and health food products for the PRC market.

In addition, NFC has jointly set up a special laboratory with the Chinese Academy of Sciences and National Physical Examination Centre to study the physical health status and dietary habits of consumers in the PRC, which has helped boost its product offerings.

## KEY PRODUCTS

Manufactured in strict accordance to the requirements of the Good Manufacturing Practice guidelines prescribed by the PRC government, NFC counts collagen, Vitamin C, Vitamin E, fish oil, liquid calcium and royal jelly as some of its most popular products. These core products are mainly aimed at protecting and improving the functions of the joints, heart, brain and blood as well as controlling diabetes.

A vast majority of its products are made from traditional medicinal herbs and plants, and NFC has to-date launched more than 40 nutritional products catered to the diverse nutritional needs of the population in the PRC.

## GROWING PROSPECTS

With the increasing health awareness in the PRC creating a vast potential for growth in demand for nutrition and health food products, NFC has developed and embarked on three key "Macro" strategies to enhance its branding and distribution channels to boost brand recognition and further expand its market share.

## MACRO PLATFORM

- Focus on e-commerce platforms to enhance brand recognition
- Expanding sales team to increase trading of its own brands and imported products through its e-commerce platforms
- Introduce more diverse varieties of the most advanced and trusted nutrition and health food products

## MACRO BRAND

- Target traditional brick-and-mortar retail chains to build its Over-The-Counter distribution network
  - Cooperate with large pharmaceutical retail chains, as well as local gyms, spas, hospitals and clinics, fitness and nutrition stores and candy stores
- Build brand equity through marketing and public relations activities
  - Work with specialised media companies to concentrate on its reach in second and third tier cities, including Changsha, Lanzhou, Harbin and Wenzhou
  - Team up with Focus Media, a major media partner, to create tasteful marketing campaigns

## FAST MOVING NUTRITION CONSUMER GOODS (FMNCG)

- Identify high traffic supermarket chains to sell highly popular products
- Boost market awareness and sales by making products more visible and accessible within the supermarket

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Paul Gao Xiang Nong

Executive Director and Chief Executive Officer

### Xu Hai Min

Non-Executive Director

### Ng Poh Khoon Jimmy

Independent Director

### Neo Chee Beng

Independent Director

## MANAGEMENT TEAM

### Paul Gao Xiang Nong

Executive Director and Chief Executive Officer

### Andy Xu Peng

Chief Financial Officer

## AUDIT COMMITTEE

Ng Poh Khoon Jimmy (Chairman)

Neo Chee Beng

Xu Hai Min

## NOMINATING COMMITTEE

Ng Poh Khoon Jimmy (Chairman)

Neo Chee Beng

Xu Hai Min

## REMUNERATION COMMITTEE

Neo Chee Beng (Chairman)

Ng Poh Khoon Jimmy

Xu Hai Min

## COMPANY SECRETARY

Andy Xu Peng

## DEPUTY COMPANY SECRETARY

Adrian Chan Pengee

## REGISTERED OFFICE

Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

## PRINCIPAL SHARE REGISTRAR

### Appleby Management (Bermuda) Ltd.

Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda

## SHARE TRANSFER OFFICE

### Boardroom Corporate & Advisory Services Pte. Ltd.

50 Raffles Place  
#32-01 Singapore Land Tower  
Singapore 048623

## AUDITORS

### Baker Tilly TFW LLP

#### Chartered Accountants of Singapore

600 North Bridge Road  
#05-01 Parkview Square  
Singapore 188778

Partner-in-charge : Gilbert Lee Chee Sum  
(Appointment effective from financial year ended  
31 March 2015)

## CEO'S MESSAGE

Today, having channelled our resources to focus on the nutrition and health food market, the Group has made a strategic decision to change our listed company's name from LottVision Limited to NutryFarm International Limited in August 2015.

### DEAR SHAREHOLDERS,

Against a backdrop of challenges over the past years, the Group has remained resilient and steadfast in our efforts to seek profitable and sustainable investments to boost growth and deliver long term value to all our stakeholders.

This bore fruit when the Group identified and made a strategic investment in NFB with a 55% stake in 2013. Following which, the Group has evolved into a more vibrant business with growing prospects in the nutrition and health food business.

Since then, NFB, through its wholly-owned subsidiary, NFC has been growing its standing as a reputable and innovative player in the nutrition and health food market in the PRC. NFB's founder Dr. Chen Yao Ming, who was the first Chinese to win the prestigious Germany Felix Schoeller Chemistry prize in 1997, continues to lead the business and he has remained active in researching and improving on its range of products to bolster the health of the people in the PRC.

Today, having channelled our resources to focus on the nutrition and health food market, the Group has made a strategic decision to change our listed company's name from LottVision Limited to NutryFarm International Limited in August 2015. Following the name change, and underscoring our confidence in the business, the Group has made a proposed acquisition of the remaining 45% effective interest in NFB, to which shareholders' approval was received at a Special General Meeting on 24 June 2016.

Although the purchase consideration of RMB61 million was at a premium, the Group is confident of NFB's proven business model, backed by a strong research and development team and a stable profitable track record since 2007. For financial year ended 31 March 2016 ("FY2016"), NFC achieved a net profit of RMB8.1 million after adjusting for impairment of receivables.

### FINANCIAL PERFORMANCE

With majority of revenue contributed by the Group's 55% stake in NFC, NutryFarm registered revenue of HK\$83.5 million in FY2016, compared to HK\$99.8 million in FY2015. The dip was due to lower sales of imported products. However, sales for self-manufactured products rose marginally and with lower cost of sales registered in FY2016, gross profit margin expanded eight percentage point to 59% in FY2016 from 51% in FY2015.

Due to the decrease in advertising and marketing expenses during the year, distribution expenses declined 19% to HK\$17.6 million compared to HK\$21.8 million in the preceding year. On the other hand, administrative expenses rose HK\$7.5 million to HK\$27.9 million, mainly stemming from impairment of trade receivables and higher research and development expenses and social insurance for employees. As a result, the Group registered a net loss attributable to equity holders of the Company of HK\$2.3 million in FY2016 compared to a net profit of HK\$1.1 million in FY2015.

#### REVENUE FY2016

**HK\$ 83.5 million**

#### PROFIT BEFORE INCOME TAX FY2016

**HK\$ 2.9 million**



## CEO's Message

### NFC UPDATES AND OUTLOOK

To establish NFC as a reputable and leading nutrition and health food player in the Chinese market, the Group has continued to work on building brand awareness, expanding distribution channels as well as extending the range and diversity of its products.

### ADVERTISING

Effective from 1 October 2015, the Chinese government regulated New Advertisement Law that bans celebrities from representing food or nutrition products. As such, NFC re-channelled its advertising campaigns to focus on building awareness for its core range of products, as well as extoll on the health benefits of its products.

NFC continued to team up with Focus Media, one of the largest advertisement and marketing promotion companies in China, as well as other media platforms such as local TV stations, newspapers, magazines and outdoor advertising on office buildings and at local communities, in populous cities such as Changsha, Lanzhou, Harbin and Wenzhou, amongst others.

### DISTRIBUTION CHANNELS

During the year, NFC has been beefing up its sales team to expand and tap into new distribution channels as well as forging stronger relationships with its partners. It has maintained a strong e-commerce channel, working with new partners to increase online sales. In addition, NFC is also actively working to increase its Over-The-Counter sales by cooperating with other business partners to distribute their products in fitness centres, spas, hospitals, clinics, candy stores and other nutrition stores.

To date, the Company has added pharmacy and superstore chains to its distribution channel, achieving its target of having its products distributed in over 100 retail stores. It will continue to develop its Over-The-Counter channels going forward, focusing on existing markets in provinces such as Hunan, Gansu, Heilongjiang, Zhejiang and Shandong.

Meanwhile, the Group is funding the upgrade of NFC's logistics system to better trace its products all over the PRC. This will also aid in improving overall operational efficiency.

### PRODUCTS

Being in the nutrition and health food business, product quality is pivotal to the Group's success. Hence, the Group continues to invest in research and development to improve product quality as well as expand the diversity of self-manufactured products.

With over 40 nutritional and health food products already in the market, NFC targets to obtain 10 new product licences in FY2017. Its core health products are primarily supplements for joints, heart, brain, blood circulation, diet and controlling diabetes, and it is continuously working to enhance and refine these core products with the use of natural plants and herbs.

Going forward, NFC will continue to improve on its core products, expand self-manufactured product lines as well as source for quality imported ingredients and products to entrench NFC's position in the nutrition and health food industry. Other than the domestic market, the Group will also explore opportunities to penetrate overseas markets.

### OUTLOOK

In 2015, supported by a widening consumer focus on health and rising household incomes, health and wellness continued to see robust double-digit current value growth. A growing number of consumers, from both top- and lower-tier cities, are trading up to health and wellness packaged food and beverages, with some even trading up to premium products such as organic rice and organic milk<sup>1</sup>.

According to China Briefing<sup>2</sup>, dietary and health supplements are an industry with huge growth potential in China. The market has almost doubled since 2008, and was worth approximately RMB102 billion by the end of 2014. Surveys show that close to half of urban Chinese consumers regularly buy vitamins and dietary supplements.

Some social factor trends influencing the market include rising income and consumer class, aging society, and highly developed e-commerce systems. Additionally, China has long promoted the proactive consumption of various products (herbs, liquids, tinctures, etc.) to maintain a healthy body. Specific health supplement products might be new to China, but the general concept behind them fits very well with existing Chinese culture.

With these positive growth prospects, the Group is confident that NFC, with its quality and competitive offerings will be able to continue to gain market share and stay profitable going forward.

### ACKNOWLEDGEMENTS

On behalf of the Board of Directors, I would like to thank all our stakeholders for your continuous support and faith in the Group through the challenging years. The journey has not been a bed of roses but we have persevered and will work hard in steering the Group back to profitability. I would like to assure our valued shareholders that the Group will endeavour to deliver growing value to you all going forward.

Paul Gao Xiang Nong  
Chief Executive Officer

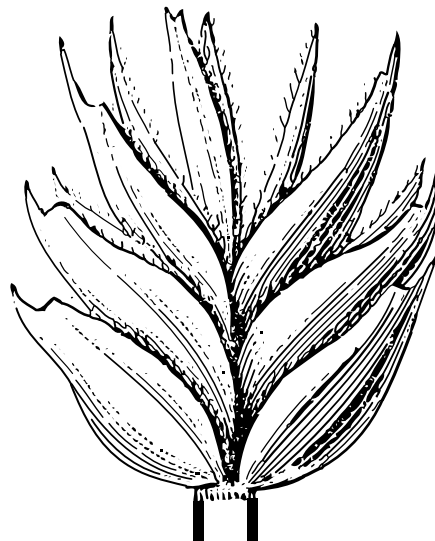
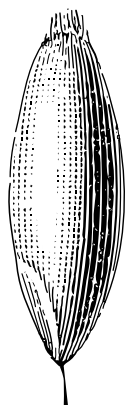
<sup>1</sup> Euromonitor International – Health & Wellness in China, March 2016

<sup>2</sup> China Briefing – Getting into Shape: Exploring China's Health Supplements Industry, 28 January 2016



# REDEFINING VALUE

NutryFarm's aspirations to provide nutritional and health benefits to the vast Chinese population provided the Group a strong growth proposition. This will put the Group in good stead to ride on the rising wave of health-consciousness. We believe this strategy will not only protect shareholder interests, but unlock greater value for shareholders.





# FINANCIAL REVIEW

## INCOME REVIEW

In FY2016, with majority of its revenue contributed by its 55% interest in NFC, the Group registered a 16% year-on-year decline in sales to HK\$83.5 million from HK\$99.8 million in the preceding year. The decline was due to lower sales from imported products impacted by more stringent regulations imposed by the Chinese government on imported nutrition and health food products, and partially offset by a slight increase in sales of its self-manufactured products.

Consequently, gross profit came in 3% lower at HK\$49.3 million in FY2016 compared to HK\$51.0 million in FY2015. However, gross profit margin, underpinned by better sales of its self-manufactured products, gained eight percentage points to 59% in FY2016 from 51% in FY2015.

Mainly comprising HK\$0.2 million in interest income and HK\$0.3 million in subsidy income from NFC, the Group's other income contracted by 15% to HK\$0.6 million in FY2016 from HK\$0.8 million in FY2015.

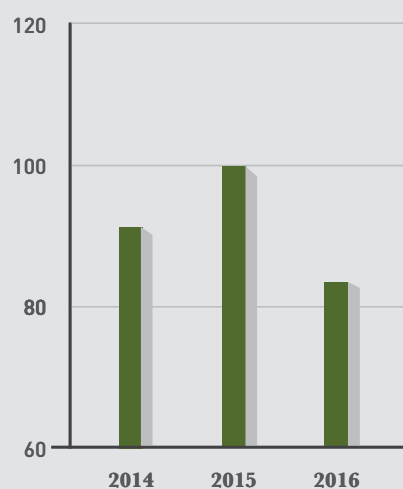
The Group reported a year-on-year increase in operational expenses of 8% to HK\$45.6 million in FY2016 from HK\$42.3 million in FY2015. Distribution expenses shrank 19% year-on-year to HK\$17.6 million on the back of an HK\$8.3 million reduction in advertisement and marketing expenses and partially offset by an increase of HK\$3.8 million to expand the Group's sales force. On the other hand, administrative expenses rose 37% year-on-year to HK\$27.9 million in FY2016 due mainly to impairment of trade receivables of HK\$5.9 million,

increase in research and development costs of HK\$0.8 million and increase in social insurance for employees of HK\$0.2 million.

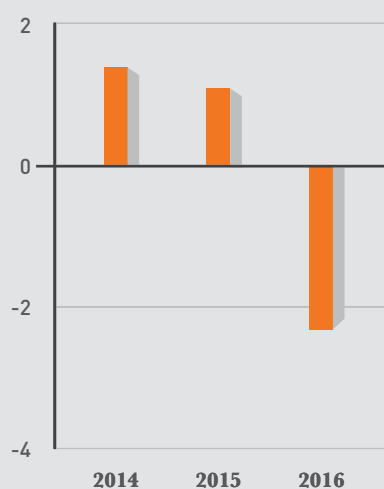
Finance costs, comprising interest paid for the Group's bank loan decreased 30% year-on-year to HK\$1.5 million, while income tax expense increased to HK\$2.4 million as a results of the income tax charged to NFC for its operating profit generated in the PRC.

As a result, the Group posted a net loss attributable to equity holders of the Company of HK\$2.3 million in FY2016 compared to an attributable profit of HK\$1.1 million in FY2015.

## REVENUE (HK\$'MILLION)



## NET PROFIT/(LOSS) (HK\$'MILLION)



### Turnover

2016 : **83.5**  
2015 : **99.8**  
2014 : **91.2**

### Net Attributable (Loss)/Profit

2016 : **(2.3)**  
2015 : **1.1**  
2014 : **1.4**

## Financial Review

### BALANCE SHEET REVIEW

As at 31 March 2016, NutryFarm's balance sheet remained healthy with net assets growing to HK\$138.8 million in FY2016 from HK\$109.9 million in FY2015. At the same time, total assets of the Group stood at HK\$256.1 million, a 9% increase from the year before, while total liabilities decreased 7% year-on-year to HK\$117.2 million from HK\$125.7 million in FY2015.

Due to intangible assets declining HK\$6.0 million to HK\$46.6 million in FY2016 from HK\$52.6 million in FY2015 as a result of amortisation of intangible assets charged in the financial year and translation adjustment of goodwill, as well as decrease of property, plant and equipment of HK\$4.9 million mainly due to depreciation, non-current assets decreased 11% to HK\$96.8 million as at 31 March 2016.

Current assets of the Group increased to HK\$159.2 million on the back of increase of HK\$67.1 million in prepayments,

deposits and other receivables in FY2016, which was largely attributable to the prepayment of HK\$76.0 million for the remaining 45% interest in NFB. This was partially offset by HK\$14.3 million decrease in trade receivables as a result of a HK\$5.9 million impairment of trade receivables by the Group.

The Group's current liabilities decreased to HK\$49.6 million as at 31 March 2016 from HK\$53.7 million as at 31 March 2015 due to a marginal dip in trade and other payables and lower short term loans. Non-current liabilities declined to S\$67.6 million from HK\$71.9 million due to currency translation difference on dividend payable to the vendor of NFC for the accumulated profits of NFC.

Based on 64,281,402 ordinary shares in issue as at 31 March 2016, the Group's net asset value per share was HK\$1.64 compared to HK\$1.79 of the last financial year.

### CASH FLOW REVIEW

HK\$' million	FY2016	FY2015
Net cash generated from operating activities	24.0	11.6
Net cash (used in) investing activities	(75.5)	(2.5)
Net cash generated from / (used in) financing activities	31.0	(2.3)
Net (decrease) / increase in cash and cash equivalents	(20.5)	6.8
Cash and cash equivalents as at 31 March	18.6	39.1

The Group posted a net cash inflow of HK\$24.0 million from operating activities in FY2016 compared to a net cash inflow of HK\$11.6 million in FY2015. This was mainly due to an increase in the collection of trade and other receivables by NFC during the financial year.

On the back of its HK\$73.6 million payment for the proposed acquisition of the remaining 45% stake in NFB, NutryFarm recorded a net cash outflow of HK\$75.5 million from investing activities in FY2016.

NutryFarm received proceeds of HK\$34.9 million from its issuance of 20,000,000 new ordinary shares in the

financial year. As a result, the Group registered a net cash inflow of HK\$31.0 million from financing activities in FY2016 compared to a net cash outflow of HK\$2.3 million in FY2015.

As at 31 March 2016, the Group remained in a cash balance position of HK\$18.6 million.





# REDEFINING THE FUTURE





Through the precise execution of objective and well-thought strategies, NutryFarm has set in motion concrete and workable plans, creating a positive and bright future for the Group. Moving forward, we will continue to remain vigilant to threats and opportunities by streamlining our business processes and remaining true to our core values.



## BOARD OF DIRECTORS

### MR. PAUL GAO XIANG NONG

*Executive Director and Chief Executive Officer*

Mr. Paul Gao Xiang Nong was appointed as Executive Director on 9 January 2006, and is also the Chief Executive Officer of the Group.

Mr. Gao has been with the Group since August 2003, when he joined as Chief Financial Officer. He has more than 19 years of international experience having worked in the USA, Hong Kong and China. Prior to joining the Group, Mr. Gao served as International Marketing Director at Platt College: Cerritos (now renamed Western College) in the USA and Chief Account Officer at Amdec LLC in the USA. Mr. Gao is a Certified Public Accountant with the State Board of Accountancy, Colorado, USA.

### MR. XU HAI MIN

*Non-Executive Director*

Mr. Xu Hai Min was appointed as Non-Executive Director on 9 April 2014.

He is currently the Chief Financial Officer of Beijing Sinoix Communication Co., Ltd. since 2000. From 1996 to 2000, he served as Deputy General Manager at China United Assets Appraisal Group. Prior to that, he was with state-run research institutions and was engaged in quantitative economics research from 1987 to 1995. He was awarded the prestigious National Science Progress Award and a number of provincial and ministerial level scientific and technological progress awards for his research works.

## Board of Directors

### MR. NEO CHEE BENG

*Independent Director*

Mr. Neo Chee Beng was appointed as Independent Director on 1 October 2009.

He is currently the Chief Investment Officer of Beijing Ruyi Media Group, a leading movie and TV series production company. Prior to that, Mr. Neo was Chief Compliance Officer of Persistent Asset Management Pte Ltd, an asset management company with total assets of USD800 million under management. Mr. Neo was also an Independent Business Consultant appointed to a number of companies listed on Catalyst and NASDAQ. From 1996 to early 2005, he was with Vertex Management II Pte Ltd, a venture capital firm and was head of its Beijing office. A number of his investments were successfully listed on NASDAQ, New York Stock Exchange and Hong Kong Stock Exchange. Mr. Neo was previously the Finance Manager of the Cycle & Carriage Group and has years of working experience with international audit firms.

Mr. Neo is a Fellow of the Association of Chartered Certified Accountants, United Kingdom and a member of Singapore Institute of Directors.

### MR. NG POH KHOON JIMMY

*Independent Director*

Mr. Ng Poh Khoon was appointed as our Independent Director on 1 April 2008.

He has over 20 years of experience in auditing, financial management, sales & business development, IR, fund raising and M&A activities. Mr. Ng is currently the Independent Director and the Chairman of the Audit Committee of Star Pharmaceutical Limited, a company listed on the mainboard of SGX-ST. Mr. Ng is a Chartered Accountant and a member of the Institute of Singapore Chartered Accountants and Singapore Institute of Directors. Mr. Ng is also a fellow member of the Association of Chartered Certified Accountants, UK.

# MANAGEMENT TEAM

## MR. PAUL GAO XIANG NONG

*Executive Director and Chief Executive Officer*

Mr. Paul Gao Xiang Nong was appointed as the Chief Executive Officer of the Group on 9 January 2006. In this capacity, he is responsible for spearheading the execution of the Group's strategic direction and charting the roadmap for its growth.

## MR. ANDY XU PENG

*Chief Financial Officer*

Mr. Andy Xu Peng was appointed as Chief Financial Officer on 1 February 2009. He is responsible for the finance, accounting and corporate secretarial functions of the Group.

Mr. Xu was previously the Chief Financial Officer of the Group's associate company, PAL (Beijing) Information and Technology Co., Ltd, where he oversaw the human resource and finance departments within the company. From 2005 to 2006, he was with Dell (China) Co., Limited as Finance Manager. He has over five years of audit and financial consulting as well as finance and accounting management experience with Deloitte and Ernst & Young in the PRC.

Mr. Xu holds a Master Degree of Science in Business and Administration (Finance) from San Diego State University, USA. He also holds a Bachelor Degree of Economics from University of International Business and Economics, PRC.

Mr. Xu is also a Certified Public Accountant with the State Board of Accountancy, Guam, USA