

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 (the “**Group**”), refers to its announcement dated 29 May 2019 (the “**Announcement**”) on the unaudited quarterly financial statement and dividend announcement for the financial year ended 31 March 2019. In this regard, the Board would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited on 10 June 2019 (the “**SGX Queries**”) and each an “**SGX Query**”) as follows:

SGX Query (a)

It is stated on Page 10 of the announced financial statements for the year ended 31 March 2019 (“**FY2019**”):-

“The Group reported HK\$6.0 million in other income in FY2019 compared to HK\$1.8 million that in FY2018. Other income in FY2019 included HK\$2.4 million gain on modification of the terms of loans from third parties, HK\$2.1 million foreign exchange gain and HK\$0.8 million government subsidiary recognised in NFC.”

Please clarify (i) what are the modifications of the terms of loans from third parties; and (ii) the reason(s) why these modifications have resulted in a gain?

Company’s Response to SGX Query (a)

During FY2019, as negotiated with the lender, the lender waived interest for loans from third parties with the aggregate principal of approximately SGD2 million, which were obtained in FY2018 and are repayable in FY2022. The gain on modification of the terms of loans from third party is due to the modification of interest rate from 3.5% per annum to interest-free.

SGX Query (b)

It is stated on Page 11 of the announced financial statements for FY2019:-

“The administrative expenses in FY2019 main included:-

- i) HK\$22.1 million for the impairment of property, plant and equipment. This impairment is because of the drop of revenue generated as well as the drop in gross profit margin achieved by NFC;*
- ii) HK\$0.9 million for the impairment of intangible assets and HK\$42.8 million for the impairment of goodwill. Those intangible assets and goodwill are related to the consolidation of NFC. The impairment is due to the significant decrease of revenue generated as well as the drop in gross profit margin achieved by NFC; and*
- iii) HK\$4.0 million for the impairment of trade receivables and HK\$10.2 million for the impairment of other receivables due to the long ageing of uncollected and unrecovered items.”*

Please clarify:-

- (1) the reason(s) for impairment of (i) property, plant and equipment; (ii) intangible assets; and (iii) goodwill and why these impairments are because of the decrease in revenue generated and drop in gross profit margin achieved by NFC?
- (2) Which business(es) were the property, plant and equipment used for?
- (3) What is the nature of the intangible assets and how it arose?
- (4) What is the nature of the goodwill and how it arose?

- (5) The Board's opinion on the reasonableness of the methodologies used to determine the value of impairments for (i) property, plant and equipment; (ii) intangible assets; and (iii) goodwill.
- (6) In relation to the impairment of trade and other receivables; please clarify:-
- a. The Company plans to recover the trade and other receivables;
 - b. Whether they are major customer(s) and whether the Company continues to transact with these customer(s);
 - c. How long are the debts outstanding and when were the sales reported;
 - d. What were the actions taken to recover the trade and other receivables;
 - e. The reason(s) for impairment;
 - f. The Board's opinion on the reasonableness of the methodologies used to determine the value of impairment for trade and other receivables; and
 - g. The Board's assessment of the recoverability of the remaining trade and other receivables.

Company's Response to SGX Query (b)(1)

The property, plant and equipment ("PPE") and intangible assets are held by the Company's 100% subsidiary, Nutryfarm (Chengdu) Biomedicine Ltd. ("NFC"). The goodwill arose from acquisition of Nutryfarm Biomedicine International Limited and its subsidiary during the financial year ended 31 March 2013. The Company has evaluated the impairment loss of the PPE, intangible assets and goodwill as at every financial year end. The Company adopted projected discounted cash flow method for the evaluation as at the financial year ended 31 March 2019. Based on FY2019 performance and the decrease in revenue and gross profits of NFC, there has been a resulting loss in the value of PPE, intangible assets and goodwill.

Company's Response to SGX Query (b)(2)

The PPE recorded under NFC mainly included the factory and machines for the manufacture of nutrition and food supplement, as well as an office in a commercial building.

Company's Response to SGX Query (b)(3)

The intangible assets mainly represents the patent held by NFC related to the license by which NFC could manufacture nutritional and health food products.

Company's Response to SGX Query (b)(4)

The goodwill arose from acquisition of Nutryfarm Biomedicine International Limited and its subsidiary during the financial year ended 31 March 2013.

Company's Response to SGX Query (b)(5)

After the internal discussion, the Board has approved the projected discounted cash flow method to evaluate PPE, intangible assets and goodwill as well as the result of such impairment related to PPE, intangible assets and goodwill.

Company's Response to SGX Query (b)(6)(a)

The NFC sales people have been regularly contacting such customers to chase for payment of the receivables. The management of NFC has also been in negotiations with such customers. So far approximately RMB8.8 million of outstanding receivables have been recovered.

In addition, the NFC sales department is planning to set up a collection team to focus on the collection of those receivables. If necessary, NFC will consult legal advisors and exercise the right to take legal action.

Company's Response to SGX Query (b)(6)(b)

The receivables are mainly from the major customers of NFC and other receivables are from both major customers and other third parties. NFC has continuous business with those major customers.

Company's Response to SGX Query (b)(6)(c)

Most of the debts have been outstanding for a period of 1 to 3 years. The relevant revenue that the debts are in respect of are related to the sales that occurred between 1 to 3 years ago too.

Company's Response to SGX Query (b)(6)(d)

As set out in the Company's response to SGX Query (b)(6)(a), NFC sales people have been regularly contacting such customers to chase for payment of the receivables. The management of NFC has also been in negotiations with such customers. So far approximately RMB8.8 million of outstanding receivables have been recovered.

Company's Response to SGX Query (b)(6)(e)

Although NFC has been taking action to collect the trade and other receivables (as set out above), considering that the repayment record of such customers in relation to the receivables, considering that the recoverability of respective receivables are remote, and also to reflect the correct financial position of the Company, the Company decided to make impairment loss provision for receivables in the financial statements.

Company's Response to SGX Query (b)(6)(f)

After discussion on those issues, the Board approved the adoption of the expected credit loss method to evaluate the impairment loss for receivables. Following such evaluation, the Board approved the impairment loss provision in current financial year to fairly present the consolidated financial position of the Group.

Company's Response to SGX Query (b)(6)(g)

After consideration of the remaining balance of trade and other receivables, the Board is of the view that these are recoverable and accordingly, no impairment is required.

SGX Query (c)

It is stated on Page 12 of the announced financial statements for FY2019:- *"The Group recorded HK\$116.4 million in non-current repayments as at 31 March 2019. It mainly represents the HK\$23.6 million deposits paid for acquisition of property, plant and equipment to expand the Group's internet business, and the HK\$91.4 million refundable deposit for the proposed acquisition of First Linkage Inc."*

- (1) Please clarify whether the HK\$91.4 million refundable deposit for the proposed acquisition of First Linkage Inc has been recovered?
- (2) If not, what are the safeguards in place to recover the HK\$91.4 million refundable deposit? Please also provide the Board's assessment on the recoverability of the HK\$91.4 million refundable deposit and the basis of such assessment.

Company's Response to SGX Query (c)

Thus far, HK\$13.5 million of the refundable deposit has been subsequently returned to the Company and the remaining amount is still in process of being recovered.

As a safeguard, the legal representative and director of Beijing Shengyuantong Technology Development Co., Ltd., Beijing Zhonglian Shengtong Internet Technology Co., Ltd. and Xinjiang Zhongtong Internet Science and Technology Co., Ltd. was changed to Mr. Haimin Xu (who is the Company's non-executive director) during the course of the negotiations.

The Company is still in process of recovering the remaining amount with the further cooperation with the vendor. Therefore, the Board is of the view that the remaining balance can be recovered.

SGX Query (d)

Please explain the reason(s) for the decrease in the Group's Prepayments, deposits and other receivables account line item from approximately HK\$96,913,000 as at 31/03/2018, to HK\$10,957,000 as at 31/03/2019.

Company's Response to SGX Query (d)

The decrease of HK\$85.9 million mainly relates to the following: 1) HK\$59.4 million paid to a vendor representing advance payment to a third party for proposed acquisition in FY2018, which was reclassified to non-current asset due to the nature of the investment that the advances were paid for; 2) Advances to supplier decreased by HK\$16.0 million (including impairment of HK\$5,005,000); 3) Advances to third parties decreased by HK\$11.5 million (including impairment of HK\$5,228,000)

BY ORDER OF THE BOARD

Paul Gao Xiangnong

Chief Executive Officer and Executive Director

14 June 2019