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**Issuer:** NutryFarm International Limited

**Security:** NutryFarm International Limited

**Meeting details:**

Date: 27 July 2018

Time: 10.00 a.m.

Venue: Maxwell

Chambers, Large Room, Level 3, 32 Maxwell Road, #03-01, Singapore 069115

**Company Description**

NutryFarm International Limited, an investment holding company, engages in the research, development, production, and sale of nutrition, health food, and related health products in the People's Republic of China. The company also develops and sells digital video surveillance products and solutions; and provides technical support services relating to Internet and Web-TV business. In addition, it offers health food related technical services; and sells self-produced products. The company was formerly known as LottVision Limited and changed its name to NutryFarm International Limited in August 2015. NutryFarm International Limited was founded in 1986 and is based in Tsim Sha Tsui, Hong Kong.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=AZT](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=AZT))

1. In FY2018, the group reported lower revenue of HK\$66.9 million, a dip of 15% year-on-year. The following changes to the balance sheet were noted in the “Balance sheet review” (page 11):

*The Group’s current assets doubled to HK\$171.0 million in FY2018 from HK\$86.6 million in FY2017. This was largely attributable to the HK\$85.7 million spike in prepayments, deposits and other receivables stemming mainly from the HK\$59.4 million for the proposed acquisition of First Linkage Inc. and HK\$35.7 million advance to NFC’s third parties and suppliers. However, trade receivables fell significantly by HK\$13.1 million to HK\$24.6 million as at 31 March 2018 from HK\$37.7 million as at 31 March 2017 and reverse of a HK\$6.4 million impairment loss.*

- (i) Can management explain in greater detail why it was necessary to make a HK\$35.7 million advance to NFC’s third parties and suppliers?**
- (ii) Please provide a breakdown of the HK\$35.7 million advance by amount, recipient and the reasons.**
- (iii) In addition, the purchase of First Linkage Inc. is subject to the approval of the Singapore Exchange and shareholders. Can management explain why a large sum of HK\$59.4 million was paid out as “advance payment” before approval was obtained?**
- (iv) Did the independent directors approve the payment of the “advance payment” of HK\$59.4 million?**

2. In the Corporate Governance Report, under Principle 13: Internal Audit, the group made the following disclosure:

**Principle 13: Internal Audit**

The Group currently does not have in place an internal audit function as the Board is of the view that this is not necessary taking into account the Group’s current size and operations.

The Board recognises the importance of the internal audit function and will continue to monitor whether it is necessary to set up such function internally or outsource it to a professional body.

(Source: Company annual report)

- (i) Would the audit committee (AC) help shareholders understand the deliberations it has had on the issue of setting up an independent internal audit function in the group?**

Principle 13 of the 2012 Code of Corporate Governance (CG Code) states that a listed company “should establish an effective internal audit function that is adequately resourced and independent of the activities it audits”.

- (ii) Did the AC concur with the board that an internal audit function is “not necessary”?**

- (iii) Would the AC provide its justification as to why it agreed that an internal audit function “is considered not necessary”? What are the unique circumstances of the group that makes the internal audit function unnecessary?**

An internal audit function serves as an independent assurance over the soundness of the system of internal controls within the company and its subsidiaries to safeguard shareholders’ investments and the company’s assets.

- (iv) Would the AC reconsider the deviation from the CG Code and oversee the set up of an internal audit function in the group?**

3. Guideline 2.2 of the 2012 Code of Corporate Governance (Code) states that, inter alia, where the chairman is part of the management team and is not an independent director, independent directors should make up at least half of the board.

The board is made up of five directors of whom two are independent non-executive directors. As such, the company has deviated from Guideline 2.2 of the Code requiring independent directors make up at least half of the board when the chairman is not independent.

The company has further stated that:

*Although slightly less than half of the Board is independent, the Company is confident that the two independent Directors are able to more than adequately perform their roles as independent Directors and safeguard the interests of minority shareholders.*

- (i) Would the nominating committee (NC) elaborate further on the deliberations it has had on the company’s deviation from Guideline 2.2?**
- (ii) Given that the company is in a transition and is in the process of major acquisitions, would the board agree that having a stronger independent element on the board would benefit the company in terms of the diversity of views, experience and skills?**
- (iii) Would the board reconsider its deviation from Guideline 2.2 and reconstitute the board such that independent directors make up at least half the board?**

A copy of the questions for the Annual Report for the financial year ended 31 March 2017 could be found here:

[https://sias.org.sg/index.php?option=com\\_qaannualreports&view=qareports&filter\\_company=256](https://sias.org.sg/index.php?option=com_qaannualreports&view=qareports&filter_company=256)

The company’s response could be found here: -----