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F A R N O V A

## **FARNOVA GROUP HOLDINGS LIMITED**

**法諾集團控股有限公司**

*(Formerly known as Code Agriculture (Holdings) Limited 科地農業控股有限公司)*

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 8153)**

### **SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL RESULTS ANNOUNCEMENT AND THE ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2020**

Reference is made to the announcements of the Company dated 4 September 2020 (the “**FY2020 Results Announcement**”) in relation to the annual results for the year ended 31 March 2020 (the “**FY2020 Annual Results**”) and the annual report for the year ended 31 March 2020 for the Company (the “**FY2020 Annual Report**”). Unless otherwise defined in this announcement, terms used herein shall have the same meanings as those defined in the Announcement and the FY2020 Annual Report.

The Board would like to provide supplemental information to the Shareholders with a view to addressing the Disclaimer Opinion on the FY2020 Annual Results as included in the Corporate Governance Report in the FY2020 Annual Report.

### **MANAGEMENT’S POSITION AND ASSESSMENT THE DISCLAIMER OPINION**

During the course of audit of the FY2020 Annual Results, the Auditors had raised concern on the Group’s ability to operate as a going concern. To address the Auditors’ concern, the Directors had set out the following action plans to mitigate the liquidity issues of the Group before and after the publication of the FY2020 Results Announcement. Based on the action plans below, the Directors held a different view from that of the Auditors, believing that the Group would have sufficient working capital to continue as a going concern and would be able to resolve the Disclaimer Opinion.

- (i) Conversion of the Outstanding CB (defined below)

As at 31 March 2020, the outstanding principal amount of the convertible bond of the Company (the “Outstanding CB”) due on 31 December 2020 was HK\$80 million, of which:

- (a) HK\$50 million was held by Win Wind Securities Limited (“**Win Wind**”);
- (b) HK\$21 million by Mr. Yiu Tommy Kwok Ming (“**Mr. Yiu**”); and
- (c) HK\$9 million by Mr. Fung Ho Sum (“**Mr. Fung**”) (collectively, the “**CB Holders**”).

Since March 2020, the Company has discussed with the CB Holders on the possible conversion or extension of the maturity date of the Outstanding CB. In June 2020, Win Wind and Mr. Fung informed the Company of their intention to transfer the Outstanding CB to other investors, while Mr. Yiu intended to convert the Outstanding CB after publication of the FY2020 Results Announcement.

In August 2020, Win Wind informed the Company that it had transferred the Outstanding CB held by it in the principal amount of (i) HK\$5.0 million to two independent investors (the “**Two Independent Investors**”), who then immediately converted the Outstanding CB on 7 August 2020; and (ii) HK\$25.0 million to China Ding Yi Feng Holdings Limited (“**Ding Yi Feng**”, stock code: 00612), which converted part of the Outstanding CB in the principal amount of HK\$10.0 million on 17 August 2020 and notified the Company that they would convert the remaining Outstanding CB upon publication of the FY2020 Results Announcement.

Taking into account the actual conversions of the Outstanding CB in the principal amount of HK\$15.0 million prior to the publication of the FY2020 Results Announcement, and the stated intention to further convert the Outstanding CB in the principal amount of HK\$36.0 million upon publication of the FY2020 Results Announcement, the Directors expected that the net current liabilities of the Group could be largely reduced, and the Group would have sufficient working capital to continue as a going concern after publication of the FY2020 Results Announcement.

Upon publication of the FY2020 Results Announcement, the stated intention to convert the Outstanding CB was materialised. As of the date of this announcement, the net current liabilities was largely reduced to approximately HK\$18.0 million from approximately HK\$124.3 million as at 31 March 2020.

(ii) Financial support from Mr. Guo

Mr. Guo Gelin (“**Mr. Guo**”) was appointed as an executive director of the Company and the chairman of the board of director on 27 February 2020. Since his appointment, Mr Guo has reviewed the Group’s operation and explored business opportunity to broaden the Group’s income stream. Knowing that the Group’s was in a net current liabilities position based on the unaudited management accounts of the Group as at 29 February 2020, Mr. Guo on 30 March 2020 provided the Company a letter of intent to provide continuous financial support to the Group to meet its liabilities and obligations as and when they fall due (the “**Letter of Intent**”). Mr. Guo also informed the Company that he was willing to subscribe new Shares or acquiring the Outstanding CB as a support to the Group. As the Company was yet to finalise the terms of subscription and line up Mr. Guo with the CB Holders prior to the commencement of the blackout period, the plans were halted until the publication of the FY2020 Results Announcement.

On 28 September 2020, in line with the stated intention in the Letter of Intent, Mr. Guo acquired the Outstanding CB in the principal amount of HK\$20.0 million and has converted them into 408,065,752 Shares.

(iii) Potential Placing (as defined below)

In June 2020, the Company approached several financial institutions and conducted preliminary discussions with them on equity fund raising by the Company. Prior to the publication of the FY2020 Results Announcement, Cheong Lee Securities Limited (“**Placing Agent**”), a licensed corporation to carry out business in type 1 (dealing in securities) regulated activities under the SFO and a wholly owned subsidiary of CL Group (Holdings) Limited (stock code: 08098.hk) informed the Company that they were interested to be the placing agent of the Company for a potential placing of new Shares raising not less than HK\$100.0 million (the “**Potential Placing**”). However, the terms of the placing were not finalised prior to the publication of the FY2020 Results Announcement due to the significant fluctuations of the Share price since 30 July 2020.

On 16 October 2020, the Company entered into a placing agreement (the “**Placing Agreement**”) with the Placing Agent to place, on a best effort basis, up to 749,230,000 new Shares at a price of HK\$0.143 per new Share. The net proceeds of approximately HK\$105.3 million will be used for repayment of debts, general working capital and expansion plan of the Group’s business. Details are set out in the announcement of the Company dated 16 October 2020.

Despite the aforementioned efforts of the Company in addressing the concern, the Auditors issued the Disclaimer Opinion on the basis that they were doubtful about the stated intention to convert the Outstanding CB and the certainty of other remedial measures in place after the publication of FY2020 Results Announcement. The Directors had considered the Auditors’ rationale and understood their consideration in arriving at their opinion.

As detailed above, after the publication of the FY2020 Results Announcement, all the action plans have been materialised, including (i) conversions of the Outstanding CB by the CB Holders and the subsequent transferees; (ii) financial support by Mr. Guo by way of the acquisition and conversion of the Outstanding CB; and (iii) the entering into of the Placing Agreement to raise the net proceeds of approximately HK\$105.3 million, all of which have significantly remedied the working capital position of the Group.

The Directors expect that the Disclaimer Opinion would be removed in the next year’s financial statements.

## AUDIT COMMITTEE’S VIEW ON THE DISCLAIMER OPINION

The members of the audit committee of the Company (the “**Audit Committee**”) had critically reviewed the Disclaimer Opinion, the management’s position concerning the Disclaimer Opinion and measures taken by the Company for addressing the Disclaimer Opinion. The Audit Committee agreed with the management’s position based on the reasons detailed above. Moreover, the Audit Committee requested the Management to take all necessary actions such that the Disclaimer Opinion could be removed in the forthcoming audited financial statements. The Audit Committee had also discussed with the Auditors regarding the financial position of the Group, measures taken and to be taken by the Company, and considered the Auditors’ rationale and understood their consideration in arriving their opinion.

By order of the Board  
**Farnova Group Holdings Limited**  
**Guo Gelin**  
*Chairman*

Hong Kong, 2 November 2020

*As of the date of this announcement, the executive Directors are Mr. Guo Gelin, Mr. Chow Chi Wah Vincent, Mr. Hu Chao and Mr. Mou Zhongwei; the non-executive Director is Mr. Wang Qiang; and the independent non-executive Directors are Mr. Lee Chi Hwa Joshua, Mr. Wong Ching Keung, Dr. Antonio Maria Santos and Mr. Luo Ji.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

*This announcement will remain on the “Latest Company Announcements” page of the GEM website <http://www.hkgem.com> for at least 7 days from the date of its publication. This announcement will also be published on the Company’s website at <http://www.farnovagp-hk.com>.*