CHINA STAR FOOD GROUP LIMITED

(Company Registration No.: 200718683N)
(Incorporated in the Republic of Singapore)

PROPOSED RENOUNCEABLE NON-UNDERWRITTEN RIGHTS ISSUE OF UP TO 296,909,050 NEW ORDINARY SHARES IN THE CAPITAL OF THE COMPANY

1. INTRODUCTION

1.1. The board of directors (the "**Board**" or the "**Directors**") of China Star Food Group Limited (the "**Company**" and together with its subsidiaries, the "**Group**") wishes to announce that the Company is proposing a renounceable non-underwritten rights issue of up to 296,909,050 new ordinary shares in the issued and paid-up capital of the Company (the "**Rights Shares**") at an issue price of S$0.015 for each Rights Share (the "**Issue Price**"), on the basis of one (1) Rights Share for every one (1) existing ordinary share in the issued share capital of the Company (the "**Shares**"), held by shareholders of the Company (the "**Shareholders**") as at a time and date to be determined by the Directors, at and on which the register of members and the transfer books of the Company will be closed to determine the provisional allotments of Rights Shares of the Entitled Shareholders (as defined herein) (the "**Books Closure Date**") under the rights issue, fractional entitlements to be disregarded (the "**Rights Issue**").

1.2. The proposed Rights Issue is made pursuant to the share issue mandate approved by the Shareholders at the last annual general meeting of the Company held on 30 July 2018 (the "**AGM**"), which authorises the Directors to issue shares not exceeding one hundred per centum (100%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company, of which the aggregate number of shares to be issued other than on a pro-rata basis to Shareholders shall not exceed fifty per centum (50%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (the "**General Mandate**"). As at the date of the AGM, the total number of Shares in issue (excluding treasury shares and subsidiary holdings) was 296,909,050.

2. PRINCIPAL TERMS OF THE RIGHTS ISSUE

2.1. **Basis of Provisional Allotment.** The Rights Issue is proposed to be made on a renounceable basis to Entitled Shareholders (as defined herein) on the basis of one (1) Rights Share for every one (1) existing ordinary share, as at the Books Closure Date, fractional entitlements to be disregarded.

2.2. **Issue Price**. The Issue Price for each Right Share is S$0.015, payable in full upon acceptance and application. The Issue Price represents a discount of:

(i) approximately 38.46% to the closing market price of S$0.039 for trades done on the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") on 10 December 2018 (being the last trading day on which the Shares were transacted on the SGX-ST prior to the release of the announcement); and

(ii) approximately 55.56% to the theoretical ex-rights price of S$0.027 per Share (the "**Theoretical Ex-Rights Price").** The Theoretical Ex-Rights Price per Share is

calculated based on the closing market price of S$0.039 per Share on the SGX-ST on 10 December 2018, being the last trading day of the Shares on the SGX-ST prior to this announcement.

2.3. **Size**. As at the date of the AGM, there are 296,909,050 Shares issued by the Company (the "**Existing Issued Share Capital**") and no convertible securities which can be converted into shares remain outstanding. For illustrative purposes only, based on the Existing Issued Share Capital, assuming the Rights Issue is fully subscribed, the number of Rights Shares to be allotted and issued under the Rights Issue will be 296,909,050 and, upon the completion of the allotment and issuance of the Rights Shares (the "**Completion**"), the issued and paid-up share capital of the Company will increase to 593,818,100 Shares (the "**Enlarged Share Capital**").

2.4. **Status and Ranking**. The Rights Shares will be payable in full upon acceptance and/or application and, upon issue and allotment, will rank *pari passu* in all respects with the existing Shares, save for any dividends, rights, allotments or other distributions, the Record Date for which falls before the date of issue of the Rights Shares.

For the purpose herein, "**Record Date**" means, in relation to any dividends, rights, allotments or other distributions, the date as at the close of business (or such other time as may have been notified by the Company) on which the Shareholders must be registered with the Company or the CDP, as the case may be, in order to participate in such dividends, rights, allotments or other distributions.

2.5. **Non-Underwritten Rights Issue**. The Company has decided to proceed with the Rights Issue on a non-underwritten basis as it is of the view that:

(i) the Issue Price of S$0.015 for each Rights Share is sufficiently attractive for the existing Shareholders of the Company who have acquired Shares at a historically higher price;

(ii) there is no minimum amount to be raised from the proposed Rights Issue, as in the event that the Company is unable to raise sufficient funds, it will source for alternative sources of funding, including but not limited to, raising capital from through private placements; and

(iii) the Company will enjoy savings in costs as a result of not having to bear any underwriting fees and commission.

Please refer to paragraphs 4 and 5 for more information on the rationale and intended use of proceeds of the Rights Issue.

2.6. **Odd Lots**. Shareholders who hold odd lots of the Rights Shares, and who wish to trade in odd lots on the Catalist Board should note that they will be able to do so on the Unit Share Market.

2.7. **Option to scale down subscription.** Depending on the level of subscription for the Rights Shares, the Company will, if necessary, scale down the subscription and/or excess applications for the Rights Shares by any of the Shareholders (if such Shareholder chooses to subscribe for his/her/its pro-rata Rights Shares entitlement and/or apply for Excess Rights Shares (as defined herein)) to avoid placing the relevant Shareholder and parties acting in concert with him/her/it (as defined in the Singapore Code of Takeovers and Mergers (the "**Code**")) in the position of incurring a mandatory general offer obligation under the Code, as a result of other Shareholders not taking up, whether partly or in full, their provisional allotments of the Rights Shares.

3. ELIGIBILITY OF SHAREHOLDERS TO PARTICIPATE IN THE RIGHTS ISSUE

3.1. **Entitled Shareholders**. The Company proposes to provisionally allot Rights Shares to all the Shareholders who are eligible to participate in the Rights Issue (the "**Entitled Shareholders**"), comprising Entitled Depositors and Entitled Scripholders (both as defined herein) and excluding Foreign Shareholders (as defined herein).

Entitled Shareholders will be entitled to participate in the Rights Issue and receive the offer information statement (the "**Offer Information Statement**") and its accompanying documents at their respective Singapore addresses as maintained with the records of the Central Depository (Pte) Limited ("**CDP**") or the Share Registrar (as defined herein), as the case may be.

3.2. **Entitled Depositors**. Shareholders whose securities accounts with CDP are credited with Shares as at the Books Closure Date and whose registered addresses with CDP are in Singapore as at the Books Closure Date ("**Depositors**") will be provisionally allotted the Rights Shares on the basis of the number of Shares standing to the credit of their securities accounts with CDP as at the Books Closure Date.

To be "**Entitled Depositors**", Depositors must have registered their addresses with the CDP in Singapore as at the Books Closure Date or must have, at least three (3) Market Days (being days on which the SGX-ST is open for trading in securities) prior to the Books Closure Date, provided the CDP with addresses in Singapore for the service of notices and documents.

3.3. **Entitled Scripholders**. Shareholders whose share certificates are not deposited with CDP and whose Shares are not registered in the name of CDP (the "**Scripholders**") will have to submit duly completed and stamped transfers (in respect of Shares not registered in the name of CDP), together with all relevant documents of title, so as to be received up to 5.00 p.m. (Singapore time) on the Books Closure Date by the Company's share registrar Boardroom Corporate & Advisory Services Pte Ltd (the "**Share Registrar**") in order to be registered to determine the transferee's provisional allotments of the Rights Shares.

To be "**Entitled Scripholders**", Scripholders must have registered their addresses in Singapore as at the Books Closure Date or must have, at least three (3) Market Days prior to the Books Closure Date, provided the Share Registrar with their addresses in Singapore for the service of notices and documents.

3.4. **Foreign Shareholders**. For practical reasons and in order to avoid violation of relevant legislation applicable in countries other than Singapore, the Rights Issue is only made in Singapore and the Rights Shares will not be offered to the Shareholders with registered addresses outside Singapore as at the Books Closure Date and who have not at least three (3) Market Days prior to the Books Closure Date, provided to the Company, the CDP, or the Share Registrar, as the case may be, addresses in Singapore for the service of notices and documents (the "**Foreign Shareholders**"). The Offer Information Statement to be issued for the Rights Issue and its accompanying documents will not be despatched outside Singapore. Accordingly, no provisional allotments of the Rights Shares will be made to Foreign Shareholders and no purported acceptance thereof or application will be valid.

Entitlements to Rights Shares which would otherwise accrue to Foreign Shareholders will, if practicable, be sold "nil-paid" on the sponsor-supervised listing platform of the SGX-ST (the "**Catalist Board**") after dealings in the provisional allotments of Rights Shares commence. Such sales may, however, only be effected if the Company, in its absolute discretion, determines that a premium can be obtained from such sales, after taking into account expenses to be incurred in relation thereto.

The net proceeds from all such sales, after deduction of all expenses therefrom, will be pooled and thereafter distributed to Foreign Shareholders in proportion to their respective shareholdings as at the Books Closure Date and sent to them at their own risk by ordinary post, where the amount of net proceeds to be distributed to any single Foreign Shareholder is not less than S$10.00. In the event the amount is less than S$10.00, the Company shall be entitled to retain or deal with such net proceeds as the Directors may, in their absolute discretion, deem fit in the interests of the Company and no Foreign Shareholder shall have any claim whatsoever against the Company, the Directors, the Share Registrar, or the CDP and their respective officers in connection therewith.

Where such provisional allotments of Rights Shares are sold "nil-paid" on the Catalist Board, they will be sold at such price or prices as the Company may, in its absolute discretion, decide

and no Foreign Shareholder shall have any claim whatsoever against the Company, the Directors, the Share Registrar, or the CDP and their respective officers in respect of such sales or the proceeds thereof, the provisional allotments of Rights Shares or the Rights Shares represented by such provisional allotments.

SHAREHOLDERS WITH REGISTERED ADDRESSES OUTSIDE SINGAPORE WHO WISH TO PARTICIPATE IN THE RIGHTS ISSUE SHOULD PROVIDE CDP OR THE SHARE REGISTRAR, AS THE CASE MAY BE, WITH ADDRESSES IN SINGAPORE FOR THE SERVICE OF NOTICES AND DOCUMENTS, AT LEAST THREE (3) MARKET DAYS PRIOR TO THE BOOKS CLOSURE DATE.

3.5. **Provisional Allotments and Excess Applications**. Entitled Shareholders will be at liberty to accept, decline, renounce or trade their provisional allotments of the Rights Shares and will be eligible to apply for Rights Shares in excess of their provisional allotments under the Rights Issue (the "**Excess Rights Shares**").

Provisional allotments of Rights Shares which are not taken up for any reason shall be used to satisfy excess applications for Rights Shares (if any) or otherwise dealt with in such manner as the Board may in its absolute discretion deem fit in the interests of the Company. In the allotment of Excess Rights Shares, preference will be given to the Entitled Shareholders for rounding of odd lots, and Directors and substantial Shareholders who have control or influence over the Company in connection with the day-to-day affairs of the Company or the terms of the Rights Issue, or have representation (direct or through a nominee) on the Board of the Company will rank last in priority for the rounding of odd lots and allotment of Excess Rights Shares. The Company will also not make any allotment or issuance of any Excess Rights Shares that will result in a transfer of controlling interest in the Company unless otherwise approved by the Shareholders at a general meeting.

Fractional entitlements to the Rights Shares will be disregarded in arriving at the Entitled Shareholders' entitlements and will, together with the provisional allotments which are not taken up for any reason, be aggregated and used to satisfy excess applications (if any), or otherwise dealt with in such manner as the Directors may in their absolute discretion, deem fit for the benefit of the Company.

4. RATIONALE OF THE RIGHTS ISSUE

4.1 **Partial capital contribution to Fujian Zixin Biological Potato Co., Ltd.** The Company intends to use part of the Net Proceeds as partial capital contribution to Fujian Zixin Biological Potato Co., Ltd. ("**Fujian Zixin**") (the "**Partial Capital Contribution**"). Fujian Zixin is a company incorporated in Liancheng County, Longyan, Fujian Province, People's Republic of China ("**PRC**"), and is a wholly-owned subsidiary of Zixin International Pte. Ltd ("**Zixin International**"). Zixin International is, in turn, a company incorporated in Singapore and the Company's wholly-owned subsidiary.

4.2 Fujian Zixin was incorporated on 6 July 2009 and is a wholly foreign-owned entity. As at the date of this Announcement, the total registered capital of Fujian Zixin is RMB80,000,000 (approximately S$16,000,000 based on the Illustrative Exchange Rate(1)) and an unpaid share capital of approximately RMB42,700,000 (approximately S$8,250,000 based on the Illustrative Exchange Rate) remains outstanding (the "**Unpaid Share Capital**"). As at the date of this Announcement, an aggregate of approximately RMB37,300,000(S$7,750,000) has been contributed to Fujian Zixin (in Singapore dollars) as partial satisfaction of the registered capital. Nevertheless, the Unpaid Share Capital outstanding as at the date of this Announcement remains significant, representing approximately 53.38%(2) of Fujian Zixin's total registered capital.

Notes:

*(1) The "**Illustrative Exchange Rate**" used in this announcement is S$1:RMB5. The Illustrative Exchange Rate is solely for illustrative purposes and should not be construed as a representation that the relevant amounts have been or could be converted at this rate or any other rate..*

(2) Based on the total registered capital of RMB80,000,000 and the Unpaid Share Capital of approximately RMB42,700,000.

4.3 Whilst Fujian Zixin has obtained an extension to the deadline for satisfying the Unpaid Share Capital to 10 June 2024, a significant proportion of Unpaid Share Capital remains outstanding. The Board is of the view that it would be in the Company's best interest to ensure that the Unpaid Share Capital is paid up in smaller instalments over a period of time rather than to seek a large capital funding for the same at a later time.

4.4 Should the Unpaid Share Capital not be satisfied in accordance with the deadline set in the Fujian Zixin's Articles of Association, the Industry and Commerce Bureau of the PRC has the right to demand satisfaction of the Unpaid Share Capital by the Company and additional fines may be levied.(1) Furthermore, should Fujian Zixin be unable to pay its debts timely, its creditors would be entitled to make a claim in the local courts requiring the shareholder who has not fulfilled or fully fulfilled its capital contribution obligation to bear additional liabilities, to the extent of the principal and interest of the capital not contributed by it, for compensating the debts of the company that are unable to be repaid.(2) If either of the abovementioned scenarios materialise, it would negatively impact the reputation or business operations of Fujian Zixin. Consequently, the financial health and operations of Group and the Company would be adversely affected as Fujian Zixin generates a significant proportion of the Group's income and revenue.

Notes:

(1) Pursuant to Article 199 of the Company Law (of the PRC).

(2) Pursuant to Article 13 of Provisions of the Supreme People's Court on Several Issues concerning the Application of the Company Law (III) (of the PRC).

4.5 The Company wishes to further inform Shareholders that Fujian Zixin was previously granted certain land use rights by the Land and Resource Bureau of Liancheng County in September 2014 (the "**Land Use Rights**"). The Land Use Rights were granted the basis of, *inter alia*, representations made to the relevant authorities regarding Fujian Zixin's registered capital and the Group's commitment towards satisfying such registered capital. Therefore, the Board is of the view that the it would be inappropriate for Fujian Zixin to undergo a reduction of share capital and the Company should honour its commitment towards satisfying Fujian Zixin's registered capital so that the relationship between Fujian Zixin and the relevant authorities would not be adversely affected.

4.6 While Fujian Zixin has existing internal cash resources, the Board understands that the local authorities in China would not look favourably on an arrangement where dividends declared by Fujian Zixin are subsequently utilised to satisfy the Unpaid Share Capital. This would be akin to depleting existing monies already in the account of Fujian Zixin and using such monies to satisfy the Unpaid Share Capital instead of injecting fresh capital into Fujian Zixin.

4.7 Having considered the above, the Board is of the view that it would be timely to procced with the Partial Capital Contribution using the proportion of Net Proceeds as set out in paragraph 5.2 below.

4.8 Whilst the Board has considered other methods of fundraising on the capital market (e.g. through private placements), the Board ultimately decided to conduct a Rights Issue as it is of the view that a Rights issue could enable all Shareholders to participate in and benefit from the future development of the Company. In contrast, alternative methods of fundraising (e.g. private placements) may only benefit particular subscribers or placees.

4.9 The Partial Capital Contribution will ultimately be used by Fujian Zixin for the purposes of general working capital including, *inter alia*, funding the salaries of its employees, administrative expenses and other operating expenses.

4.10 **Working capital for the Company**. The Company also intends to use part of the Net Proceeds as its Singapore office's working capital for purposes including, *inter alia*, funding the salaries

of its employees, administrative expenses, other operating expenses and other future expansions which the Board deems to be in the interests of the Company and the Group.

4.11 Further, the Rights Issue has been proposed by the Company as part of its ongoing and prudent balance sheet management to strengthen its financial position, enlarge its capital base and further enhance the financial flexibility of the Group, and to provide existing Shareholders who are confident of the future prospects of the Company with an opportunity to subscribe for additional Shares.

5. USE OF PROCEEDS OF THE RIGHTS ISSUE

5.1. Assuming full subscription of the Rights Shares, the gross proceeds will be approximately S$4,450,000. The estimated net proceeds (the "**Net Proceeds**"), after deducting estimated costs and expenses of S$130,000, are expected to be approximately S$4,320,000**.**

5.2. In particular, the Net Proceeds will be used in the following proportions:

Use of Net Proceeds	Allocation of the Net Proceeds (S$)	Approximate Allocation of the Net Proceeds (%)
Partial Capital Contribution	3,500,000	81.0
Working capital for the Company	820,000	19.0
Total	**4,320,000**	**100.0%**

5.3. Pending the deployment of the Net Proceeds for the uses identified above, such proceeds may be deposited with banks and/or financial institutions, invested in short-term money market instruments and/or marketable securities, or used for any other purposes on a short-term basis as the Directors may, in their absolute discretion, deem appropriate in the interests of the Group.

5.4. The Company will make periodic announcements on the utilisation of the Net Proceeds as and when such proceeds are materially disbursed, and will provide a status report on the use of the Net Proceeds in its interim and full-year financial statements issued under Rule 705 of the The Listing Manual of the SGX-ST Section B: Rules of Catalist (the "**Catalist Rules**") and in the Company's annual report(s). Where the proceeds have been used for working capital, the Company will also provide a breakdown with specific details on the use of proceeds for working capital in the announcements and status reports. Where there is a material deviation in the use of the use of proceeds, the Company will also state the reasons for such deviation. Any material deviation in the use of the Net Proceeds will be subject to the Catalist Rules and appropriate announcements will be made by the Company on the SGXNET.

5.5. There is no minimum amount to be raised from the proposed Rights Issue, as in the event that the Company is unable to raise sufficient funds, it will source for alternative sources of funding, including but not limited to raising capital from through private placements.

6. CONFIRMATION BY DIRECTORS

6.1. For the purposes of Rule 814(1)(e) of the Catalist Rules, the Directors are of the opinion that, barring any unforeseen circumstances:

(i) after taking into consideration the present bank facilities, the working capital available to the Group is sufficient to meet its present requirements, and the Rights Issue is being undertaken for the reasons as set out in paragraphs 4 and 5 above; and

(ii) there after taking into consideration the present bank facilities available to the Group and the Net Proceeds, the working capital available to the Group is sufficient to meet its present requirements.

7. APPROVAL OF THE RIGHTS ISSUE

7.1. The proposed Rights Issue is subject to, *inter alia*, the following:

(i) the approval in-principle from the SGX-ST, being obtained for the listing and quotation of the Right Shares on the Catalist Board and, if the approval is granted subject to conditions, such conditions being reasonably acceptable to the Company, and such approval in-principle not having been withdrawn or revoked on or prior to the closing date of the offer of the Rights Shares under the proposed Rights Issue; and

(ii) the lodgement of the Offer Information Statement, together with all other accompanying documents (if applicable) in respect of the proposed Rights Issue with the SGX-ST, acting as an agent on behalf of the Monetary Authority of Singapore ("**MAS**").

7.2. The continuing sponsor of the Company, PrimePartners Corporate Finance Pte. Ltd. (the "**Sponsor**"), for and on behalf of the Company, will submit an additional listing confirmation to the SGX-ST for permission for the listing and quotation of the Rights Shares on the Catalist Board. Accordingly, an appropriate announcement will be made in due course to notify the Shareholders when the listing and quotation notice is obtained.

7.3. As at the date of the AGM, the total number of Shares in issue (excluding treasury shares and subsidiary holdings) was 296,909,050. The Company has not allotted or issued any Shares since the AGM, at which the General Mandate was granted by the Shareholders. Accordingly, the maximum number of Shares that may be issued pursuant to the General Mandate, on a pro-rata basis, is 296,909,050.

7.4. As the maximum number of Rights Shares (being 296,909,050 Rights Shares) to be issued pursuant to the proposed Rights Issue is within the number of Shares that can still be issued pursuant to the General Mandate, the Company will not be seeking specific approval from Shareholders for the proposed Rights Issue.

8. OFFER INFORMATION STATEMENT

The terms and conditions of the Rights Issue are subject to such changes as the Directors may in their absolute discretion deem fit. The final terms and conditions of the proposed Rights Issue will be contained in the Offer Information Statement, to be lodged with the SGX-ST, acting as an agent on behalf of the MAS, and to be despatched by the Company to Entitled Shareholders together with the appropriate application forms and accompanying documents in due course, subject to the necessary approvals listed in paragraph 7 above being obtained.

9. INTERESTS OF DIRECTORS, SUBSTANTIAL SHAREHOLDERS, AND CONTROLLING SHAREHOLDERS

None of the Directors, substantial shareholders, and controlling shareholders has any interests, direct or indirect, in the Rights Issue, other than through each of their respective shareholding interests, direct and/or indirect, in the Company.

10. RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this announcement and confirm after making all reasonable enquiries, that

to the best of their knowledge and belief, this announcement constitutes full and true disclosure of all material facts about the Rights Issue, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this announcement misleading. Where information in the announcement has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in this announcement in its proper form and context.

11. CAUTION IN TRADING

Shareholders and potential investors of the Company are hereby reminded to exercise caution when dealing in the securities of the Company. In particular, Shareholders and potential investors of the Company are reminded that there is no assurance that the Rights Issue mentioned in this announcement will materialise. Persons who are in doubt to the action they should take should consult their stockbrokers, bank managers, solicitors, accountants, tax advisers or other professional advisors.

12. FURTHER ANNOUNCEMENTS

Further announcements will be made by the Company in relation to the Rights Issue as and when appropriate.

BY ORDER OF THE BOARD

CHINA STAR FOOD GROUP LIMITED
Liang Chengwang
Executive Chairman and Chief Executive Officer

10 December 2018

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*This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. ("**Sponsor**") for compliance with the Singapore Exchange Securities Trading Limited ("**SGX-ST**") Listing Manual Section B: Rules of Catalist. The Sponsor has not verified the contents of this announcement.*

This announcement has not been examined or approved by the SGX-ST. The Sponsor and the SGX-ST assume no responsibility for the contents of this announcement, including the accuracy, completeness or correctness of any of the information, statements or opinions made or reports contained in this announcement.

The contact person for the Sponsor is Mr Lance Tan, Director, Continuing Sponsorship (Mailing Address: 16 Collyer Quay, #10-00 Income at Raffles, Singapore 049318 and E-mail: sponsorship@ppcf.com.sg).