CHINA STAR FOOD GROUP LIMITED
(Company Registration No.: 200718683N)
(the "**Company**")

RESPONSE TO FURTHER QUERIES FROM THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED (THE "SGX-ST") ON THE UNAUDITED FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2019

The Board of Directors (the "**Board**" or the "**Directors**") of China Star Food Group Limited (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the response to queries raised by the Singapore Exchange Securities Trading Limited ("**SGX-ST**") announced on 1 August 2019 in relation to the unaudited results of the Company for the financial year ended 31 March 2019 that was released on 29 May 2019 and wishes to respond to the further queries raised by the SGX-ST on 3 September 2019 as follows:

SGX Queries on 3 September 2019

No.	SGX Queries	Responses
Pledged fixed deposit for bank loan		
1.	There appears to be discrepancies in the classification of the fixed deposit of S$500k that was pledged for bank facility between the unaudited results announcements for FY2019 ("URA") and the audited financial statements for FY2019 ("AFS"). It appeared to be classified as "financing activity" in the cash flow statement of the URA and as an "investing activity" in the AFS. What was the reason for the discrepancies? Are these material adjustments that require announcement by the Company under Rule 704(5)?	The fixed deposit of S$500k (the "**Fixed Deposit**") was initially classified under "financing activity" in the cash flow statement of the URA as the Company was of the view that the fixed deposits pledged for the banking facilities constituted a type of financing activity. Pursuant to the audit conducted by and discussions with the Company's independent auditors (the "**Independent Auditors**"), the Fixed Deposit was reclassified under "investing activity" of the AFS as the Company had amended its view that, due to the placement of pledged fixed deposit served more than 3 months and the nature of the fixed deposit likely closer to "Investing Activity" rather than "Financing Activity". The Board and Audit Committee have reviewed, among others, the URA and the AFS and have considered the following: a) The aforementioned reclassification represents less than 1% of the total

No.	SGX Queries	Responses
		assets and net asset value of the Group; and b) there is no change to the net movement in cash and cash equivalents or the ending cash and cash equivalents balance for FY2019 between the URA and the AFS. Company and the Independent Auditors to amend or add any other considerations in determining that this is not material Accordingly, the Company is of the view that this reclassification is not material and does require an announcement under Rule 704(5).
2.	Para 14 of the URA states that S$500k fixed deposit was pledged for bank facility. However, under Note 21 of the AFS, the Company disclosed that it had a fixed deposit of RMB2.456m but did not mention that this fixed deposit was pledged or otherwise restricted from the free use of the Company. In addition, Note 25D of AFS disclosed that the Company had a revolving credit bank loan outstanding of RMB2.456 as at 31 Mar 2019, but that the revolving loan is unsecured, bear interest rate of 4.7% per annum and are repayable on demand. What was the reason for the discrepancies?	The Fixed Deposit is pledged for the revolving credit loan from a bank as disclosed in Note 25D of the AFS (the "**Revolving Loan**"). The Company wishes to point out that there was an error in the disclosure under Note 25D of the AFS which should be read as follows "***Revolving credit loan from a bank (secured)*** *The revolving loan is secured by a fixed deposit of S$500,000, bear interest rate of 4.7% (2018: NA) per annum and are repayable on demand*" Note 21 of the AFS should also include the following additional disclosure: "*Fixed deposit of the Group and Company of RMB2.46 million is pledged to bank for banking facilities*" The Company wishes to highlight that the fixed deposit amount of RMB2.456 million as disclosed in Note 21 of the AFS had already been excluded from the cash and cash equivalents balance in the consolidated cash flow statement in page 83 of the annual report, which is the amount available for free use by the Group and excludes cash subject to restriction as defined on page 99 of the AFS, and is still consistent with the disclosures in the cashflow statements of both the URA and the AFS.

No.	SGX Queries	Responses
		Notwithstanding the above, the Company is of the view that there were no material discrepancies given that the above were merely inadvertent clerical errors in Note 21 and Note 25D of the AFS and there is no impact on the figures presented in the consolidated financial statements of the Group, hence no adjustment or restatement is required. Save for these inadvertent clerical errors, there are no other changes to the AFS.
3.	Please confirm whether the Company's fixed deposit of S$500k as at 31 Mar 2019 was pledged to the bank to secure the loan of the same amount of S$500k and/or unencumbered.	The Company confirms that the Fixed Deposit was pledged to secure The Revolving Loan and hence is an encumbered amount.
Use of Placement Proceeds		
4.	Based on the Company's announcement on 12 Mar 2018, the Company had intended to use 100% of the net placement proceeds for its working capital requirements for its Singapore corporate office, corporate advisory fees, legal and independent accountant fees, payment of operating expenses, and all additional fees, as the Company wishes to strengthen its cash position. In Para 14 of the URA, the remaining balance of S$500k (about 19% of the net placement proceeds) was pledged for bank facility in the form of fixed deposit. It was also stated in the URA that the use of proceeds is in accordance with the intended use as previously announced on 12 Mar 2018. a) Please confirm and explain why the S$500k that was pledged for bank facility in the form of fixed deposit was in accordance with the intended use. b) Would this be considered a transaction related to working capital requirements for the Listco? c) Why did the Company obtain such a secured bank loan (by pledging the S$500k of the net placement proceed in the form of fixed deposit) upon which the Company would have to incur loan interest at 4.7% per annum? d) Why not use the S$500k directly based on the proposed intended use of the placement proceeds?	a) The S$500k under the Fixed Deposit was pledged with the bank to secure the Revolving Loan. The rationale for using the Fixed Deposit to secure the Revolving Loan was to commence a banking relationship with the said bank and to allow the Company to build up its credit track record in Singapore with a view to possibly securing additional credit facilities in the future for the purposes of expanding its operations into Singapore. In addition, the Company wishes to highlight that the funds drawn down from the Revolving Loan have only been used to fund the working capital requirements of the Company such as professional fee, audit fee, secretary fee, lawyer fee, rental expenses, employee benefit expenses, directors' fee and remunerations and etc. Accordingly, the Company is of the view that the utilization of part of the placement proceeds for the purposes of the Fixed Deposit is considered a transaction related to its working capital requirements and confirms that this is in accordance with the intended use as previously announced.

No.	SGX Queries	Responses
	e) What exactly was the bank loan utilized for? f) Were the loan proceeds of S$500k fully utilized in Singapore? g) Please confirm whether the use of the net placement proceeds was consistent with the proposed intended use as announced. h) Are the Board acting in the best interest of the Company through such an arrangement?	b) Yes, please see our response to Q4(a) above. c) Please see our response to Q4(a) above. d) Please see our responses to Q4(a) above. e) Please see our responses to Q4(a) above. f) Yes, the drawdown of funds under the Revolving Loan were fully utilised for the Company's working capital requirements in Singapore. g) Yes, the Company confirms that the use of the net placement proceeds is consistent with the proposed intended use as announced. h) The Board, having taken into consideration, among others, the reasons set out in 4(a) above, had approved such an arrangement on the basis that it is in the best interest of the Company.
Advance Payment for Supplies of Sweet potatoes		
5.	Please confirm whether the advance payments are only meant for the supply contracts for sweet potatoes between the Group and the 5 suppliers as upfront payments, and not payments for "land leases" or "transfers of land use rights" from the farmers.	The advance payments are only applicable for the supply of sweet potatoes pursuant to the supply contracts entered into with the suppliers.
6.	The Company previously responded that the size of the sweet potato plantation land utilized by the Group is 8,268.64 mu and is rented at a rate of RMB130 per mu per month. The Company also responded that the land is leased by the Group from the Co-Ops for the purposes of securing sweet potatoes supplies. Please confirm whether the 8,268.64 mu of land are actually rented by the Group. And if so, is the advance payment solely meant as supply contracts between the Group and the 5 suppliers for the supplies of sweet potatoes by the suppliers (i.e. Co-Op) or does this payment also entail the leasing of the land from the Co-Ops by the Group?	For the avoidance of doubt, the Company wishes to clarify that the advance payment is only for the supply of sweet potatoes and the land use rights of the 8,286.65 mu of land is owned by the Co-op. There is no rental payable for the 8,268.65 mu of land. The Company had also previously announced on 1 August 2019 in its responses to queries from the SGX-ST that the leasing rate of RMB130 per mu per month is in relation to the 300 mu of land which is leased solely for the purpose of research and development of new sweet potato varieties and the

No.	SGX Queries	Responses
		cultivation of new seedlings. It is not for the purposes of plantation and production.
Payment for Soil Improvement Project		
7.	The payment for soil improvement project as classified under "cash flow from investing activities" under the cash flow statement in the URA was not found in the AFS. Please explain the reason for this. Would this constitute a material variance between the URA and the AFS which would require disclosure under Rule 704(5)?	The payment for soil improvement project has been renamed as "Additions to property, plant and equipment" which is still classified under "cash flow from investing activities" under the cash flow statement of the AFS. Accordingly, the Company is of the view that there is no material variance between the URA and the AFS which would require a disclosure under Rule 704(5).
8.	Is the payment classified under "additions to Property, Plant and Equipment" as "Renovation" in the AFS instead? And if so, why classified as "Renovation"?	As mentioned above, the payment for soil improvement project has been grouped under "Additions to property, plant and equipment" in the cash flow statement under AFS. This payment for soil improvement project is also recognized under the "Renovation" component of Property, Plant and Equipment ("**PPE**") in the AFS. Under FRS 16 Para 7, this payment has been recognized in the AFS as Renovation (PPE) based on the following criteria: i) The payment is justified to have future economic benefits associated with the item will flow to the entity; and ii) the cost of the item can be measured reliably. The Company is of the view that "Renovation" which is part of the PPE, is the process to bring back old land or non-fertile land into a fertile land where therefore, such payment has been classified under "Renovation.
9.	Given the significant increase in "Renovation", are the nature and purpose of such significant renovations addressed in the AFS?	The current disclosures in the AFS are in accordance with the requirements of the SFRS(I) Para 73 to 79, which have been prepared by the Company and audited by the Independent Auditors.

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		The Independent Auditors has also provided its opinion on page 74 of the AFS that the relevant consolidated financial statements are properly drawn up in accordance with the provisions of the Singapore Companies Act and SFRS(I) so as to give a true and fair view of the financial position of the Group and the financial position of the Company as at 31 March 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and the changes in equity of the Company for the financial year ended on that date. Accordingly, the Company is of the view that the nature and purposes of such renovations are adequately addressed in the AFS.
10.	In page 18 of the annual report on "Business and Financial Performance Review", the net increase in PPE did not include the significant additions of "Renovation" as disclosed under Note 13 of the AFS. Why is this so?	The Company wishes to clarify that this was a typographical error and as such, the amount should be RMB46 million instead of RMB4.6 million.
11.	Please confirm whether the 8,568.56 mu of farmland are the assets of the Group. If not, why was the Group: a) allowed to incur, bear and pay for these expenditures for the farmers (who have the land use rights over the farmlands); and b) recognize or capitalize these payments for soil improvement project as part of its assets?	The 8,268.56 mu of land is not recorded under the assets of the Group as the land is owned by the state and the land use right owned by the Co-op. Only the land use rights in relation to the 300 mu of land which has been leased by the Group is recorded under the Group's assets. a) Please see our response to Q12 below. b) As stated in our response to Q8 above, under FRS 16 Para 7, this payment has been recognized in the AFS as Renovation (PPE) based on the following criteria: i) The payment is justified to have future economic benefits associated with the item will flow to the entity; and ii) the cost of the item can be measured reliably.
12.	If the payments were meant to improve the soil of these farmlands, should the cost be on the account of the farmers (who have the land use	The payments in relation to the soil improvement is a commercial decision undertaken by the Group for the

No.	SGX Queries	Responses
	rights over the farmlands) instead, and not that of the Group?	purposes of ensuring that the farmland is able to consistently yield sweet potatoes that are of good and satisfactory quality and which are prioritised to be sold to the Group under the supply contracts. Notwithstanding that the land use rights belong to the farmers, given that such payments serve to sustain and enhance the quality and quantity of the sweet potato supplies above and beyond what was agreed in the supply contracts, and which would ultimately benefit the Group's business, these costs are borne by the Group instead of the Co-Op or the farmers. This is essential as the Group has positioned itself as a producer and manufacturer of high-quality sweet potato snacks. The Group is of the view that quality control in the form of high-quality sweet potato snacks ultimately outweighs the costs of the soil improvement expenses. Further to this, the Group undertook the soil improvement project in order to ensure that it could cultivate its own supply of sweet potatoes that suits its business needs. The Company is also of the view that high-quality and quantity of the sweet potato will assist the Group to lower its cost of sales by securing high-quality and cheaper raw material in the long term. With the above, the Company believes that this will continue to improve the financial result of the Group and Company.
13.	Who approved the payment for soil improvement project and what was the rationale for the Group to bear the cost?	Please refer to our response to Q12 above and Q14 below for the rationale. The decision to approve the payment for the soil improvement project was discussed and agreed among the Board.
14.	Do the 5-year supply contracts stipulate supplies of safe and quality sweet potatoes? And if so, why should the Group need to bear the cost to improve the soil of these farmlands for the farmers (who have the land use rights over the farmlands)? Would it not be the responsibility of the suppliers to supply the sweet potatoes to the Group timely and ensure that the lands are fertile	The supply contracts stipulate, among others, an agreed level of quality and quantity of sweet potatoes to be supplied to the Group as well as the purchase price. The responsibility of the suppliers is essentially, among others, to provide the farmland for growing the sweet potatoes as well as the labor manpower (farmers) to sow, grow and harvest the

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	enough to produce the contractual amount of sweet potatoes supplies to the Group?	sweet potatoes to be supplied to the Group. Given that the contracts only give the Group priority to sweet potato supplies from these farmlands for a fixed term, the soil improvement project serves to enable the Group to maximise its utilisation of the farmland during the term of the supply contracts. Any decision on soil improvement activities is a commercial matter and is based on the operational needs of the Group. Factors that the Group will consider include, among others, the quantity and quality of the sweet potato. In this regard, based on the Group's testing and on-the-spot inspection, it is anticipated that soil improvement will be done every 8 – 10 years to ensure the high quantity and quality of the sweet potato.
15.	If the soil improvement payment was necessary, why did the Group not factor this in before finalizing the 5-year supply contracts, or offset these costs against the purchase price of the sweet potatoes under the long-term supply contracts?	The land condition prior to the soil improvement works is already capable of producing sweet potatoes in accordance with the terms of the supply contracts. However, the Company wanted to ensure that there is a consistent supply of good and satisfactory quality sweet potatoes as it was of the view that quality control is paramount in order to carry on with its branding as a producer and manufacturer of high-quality sweet potato snacks. On top of the quality and quantity mentioned above, the Company had already been given priority to purchase the supplies of the high-quality sweet potato at a discounted price. Through the improvement of the land, this would produce more high-quality sweet potatoes supplied to the Group instead of having to purchase sweet potatoes from the market at a higher market price. Accordingly, the Company envisions that the soil improvement payment would serve to enhance the quality and quantity of the sweet potatoes above the guaranteed levels stipulated in the supply contracts, and which would further improve the sales and profitability of the Group.

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16.	Is the accounting treatment of the payment for soil improvement project appropriate and the basis?	Referring to our response to Q8 above, the Company is of the view that the accounting treatment and the basis of the payment for soil improvement project are appropriate.
Payment for Land Lease		
17.	Please confirm whether the Group had only secured and paid for the land use rights over the 300 mu of land for its new R&D center, and not the 8,268.56 mu of land of which the farmers still have the land use rights over the 8,268.56 mu of land.	The Company confirms that the Group has only secured and paid for the land use rights in respect of the 300 mu of land for its new R&D center.
Material variances between URA and AFS		
18.	In addition to the above under Q1 and Q7, please confirm whether there are material variances between the URA and AFS that should be disclosed under Rule 704(5).	In addition to our responses to Q1 and Q7 above, the Company confirms that there are no material variances between the URA and AFS that should be disclosed under Rule 704(5).
1Q2020 Results Announcement		
19.	Under para 1(b)(ii), does the amount of secured borrowings of RMB8,039,000 include the bank loan of S$500k that is secured by the fixed deposit of the same amount from the placement proceeds?	Yes, the secured borrowings of RMB8,039,000 includes the Fixed Deposit. This is consistent with the accounting treatment and previous disclosures in the URA and the AFS
Going Concern		
20.	The Group has negative operating cash flows of about RMB16.5m and RMB16.3m for FY2019 and FY2018 respectively. Please provide the Board's assessment on whether the Group is able to generate sufficient cashflow from its operations.	The negative operating cash flows recorded in FY2018 and FY2019 were mainly due to the advance payments to suppliers for the suppliers of sweet potatoes. No further payment to the existing supplier until the advance payment is fully utilised. The advance payment is expected to be fulfilled in 5 years' time. The payment will be occurred only when there is supplies contract to secure new supplier in the future. As disclosed in the most recent 1Q2020 announcement, the Company wishes to point out that the Group had generated

No.	SGX Queries	Responses
		net cash flows from operating activities of approximately RMB19.0 million for the three months ended 30 June 2019. On this basis, and taking into consideration among others the cashflow projection prepared by the Company as previously announced on 1 August 2019, the Board is of the opinion that the Group is able to generate sufficient cashflow from its operations.
21.	Please provide the Board's assessment on the Group's ability to operate on a going concern.	The Board has taken into consideration the following: a) As announced in the 1Q2020 results announcement, the Group has available cash at bank and in hand of approximately RMB106.8 million at 30 June 2019; b) during the course of its audit of the FY2019 financial statements, the Independent Auditors did not highlight any concerns or issues with regards to the Group's ability to continue as a going concern; c) as announced on 1 August 2019 in the Company's responses to queries from the SGX-ST (the "**Earlier Queries**"), the Company has done a cashflow forecast in respect of the Group and has determined that it has sufficient financial resources for its working capital requirements; d) As stated in the Earlier Queries, Mr Liang, Executive Chairman and Chief Executive Officer, has demonstrated his commitment to the Company by providing an undertaking to provide financial assistance to the Company as and when the Company requires it. Mr Liang had previously provided a loan of S$1,200,000 to the Company for working capital purposes in April 2019. Accordingly, based on Mr Liang's track record, the Board is of the view that Mr Liang has the ability to provide financial assistance; and e) the Company will continue to consider its options of raising

No.	SGX Queries	Responses
		additional funds from the capital markets as part of its long-term goal of ensuring that it is able to fully capitalizing the registered paid up capital of its subsidiary. Further to this, the Board is confident that any fund-raising activities will be fully supported by its existing shareholders as this is based on the fact that its recent rights issue was oversubscribed. Based on the above, the Board is of the reasonable opinion that, after having made due and careful enquiries, that the Group is able to operate as a going concern and that the working capital available to the Company and the Group is sufficient for the present requirements and for the next 12 months.

By Order of the Board

Liang Chengwang
Executive Chairman and Chief Executive Officer

6 September 2019

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*This announcement has been prepared by the Company and reviewed by the sponsor, Novus Corporate Finance Pte. Ltd. (the "**Sponsor**"), in compliance with Rule 226(2)(b) of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") Listing Manual Section B: Rules of Catalist.*

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

The contact person for the Sponsor is Mr Pong Chen Yih, Chief Operating Officer, at 9 Raffles Place, #17-05 Republic Plaza Tower 1, Singapore 048619, telephone (65) 6950 2188.