CHINA STAR FOOD GROUP
中国之星食品集团

(Incorporated in the Republic of Singapore with Unique Entity No.: 200718683N)
Website: www.zixinshuye.com
SGX Stock Code: **42W**

RESPONSE TO QUESTIONS FROM SHAREHOLDERS IN RESPECT OF THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2021

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 questions raised by shareholders in respect of the Company's annual report for the financial year ended 31 March 2021 ("**FY2021**") (the "**Annual Report FY2021**"). In this regard, the Company would like to inform shareholders that it has not provided responses to certain questions where the responses to which would be of a confidential nature, involve trade secrets of the Group and/or the relevant information are not available for disclosure (as the case may be), including, questions relating to the prices of raw materials or supplies and questions requiring estimations to be made. Save for the foregoing, the substantial and relevant questions received by the Company by the deadline, i.e. 2.00 p.m. on 29 August 2021, have been responded to and are published in this announcement. The Company has made some editorial amendments to certain questions received from the shareholders to ensure that the questions are clear. For the avoidance of doubt, the editorial amendments do not change the meaning of the questions from the shareholders.

The Company wishes to provide its responses to the questions from the shareholders below:

Q1. **Please refer to page 14 of the Annual Report FY2021 in relation to the "Financial Highlights".**

What are the structural factors behind the decline in revenue since 2019 (even before Covid)? Other than the adoption of e-commerce, what have the Board and Management planned to do to address these structural factors?

Company's response

In the final quarter of financial year ended 31 March 2020 (i.e. January to March 2020), the initial outbreak of COVID-19 pandemic led to the extension of the Lunar New Year holiday in 2020 and temporary suspension of business operations following the lockdown of cities in China. This had seriously impacted the operations of the Company and the conventional way of trading in China. Due to the factors above, the Company was spurred to accelerate its adoption of e-commerce and "livestream" online sales. The accelerated adoption broadens the growth path and consumer base as the Company is now able to market and sell the product through virtual channels to mitigate the impact of the suspension of conventional business dealings.

The Company has also taken time and efforts to build three core business areas, (i) cultivation and supply, (ii) product innovation and snacks production, and (iii) brand building, strengthening its business model into an agri-tech value chain operator. Please refer to page 11 of the Annual Report FY2021 under "Business Operations" for more details on the structural factors.

Q2. **Please refer to page 103 of the Annual Report FY2021 in relation to the "Employee Benefits Expense". From the Sustainability Report, the total number of employees has decreased by 14 (3.6%) from 393 in 2020 to 379 in 2021. However, Employee Benefits Expense has declined by a larger proportion of 18.7% from RMB36.005m in 2020 to RMB29.278m in 2021.**

How did the Group manage the manpower cost to this extent?

Company's response:

The decrease in Employee Benefits Expenses was mainly due to lower staff costs which include bonus and overtime pay as the operations of the Company were affected by the COVID-19 pandemic.

Q3 **Please refer to page 110 of the Annual Report FY2021 in relation to "Intangible assets", in particular the "Right of use assets/land use rights". It was stated that "In September 2018, Liangcheng Dizhongbao Modern Agriculture Development Co., Ltd ("Dizhongbao"), a subsidiary in the Group, entered into Land Use Rights Transfer Agreements (the "Agreements") with 86 farmers to lease 91 plots of farmland (certain farmers are contracted to lease more than 1 plot of farmland) …"**

What is the total area of these "91 plots of farmland"? 300mu?

Company's response:

The total land size under the Land Use Rights is 300.04mu.

Q4 **Please refer to page 113 of the Annual Report FY2021 in relation to "Other assets". In the 4th paragraph, it was stated that "The agreements last for 15 years and grant Dizhongbao with the first right of refusal of the supply of sweet potatoes. In return, Dizhongbao pays prepayments to the suppliers once every 5 years. The prepayments are used to offset the purchase within the 5 years. In case of the prepayments are fully utilised within the 5 years, the payment of subsequent purchase is due according to the agreed terms per respective contract."**

Are these suppliers of sweet potatoes the same as the 86 farmers that Dizhongbao has entered the 15-years Land Use Rights Transfer Agreements with?

Company's response:

The Land Use Rights Transfer Agreements and the 15 years "Supply Contract" are two different contractual agreements. The Land Use Rights Agreements with the 86 farmers are to lease a total of 300.04mu of land for sweet potato seedlings cultivation and research and development purposes. The Supply Contract, on the other hand, was with the co-operative that represents farmers of contracted farmland to secure a consistent supply of quality sweet potatoes for the Company and the supply of sweet potatoes will be offset against the advance payment.

Q5 **Please refer to page 112 of the Annual Report FY2021 in relation to "Other assets".**

For the Advance payments for supplies of sweet potatoes of RMB157.214m as at FYE2020 and RMB70.899m as at FYE2021, how many months of sweet potatoes supplies did they cover respectively? Since "Cost of sales" was RMB252.982m for FY2020 and RMB215.858m for FY2021, does it mean the advance payments for supplies of sweet potatoes last about 7.5months (RMB157.214m/RMB252.982m *

12) in FY2020 and 3.9months (RMB70.899m/RMB215.858m * 12) in FY2021 respectively?

Company's response:

The "Cost of Sales" comprises of other components besides the cost of sweet potatoes, including but not limited to other raw material cost, labour cost, overhead cost and packaging cost. Accordingly, the number of months in which the advance payments for supplies of sweet potatoes cover cannot be ascertained by directly dividing the amount of advance payments by the total cost of sales.

Q6 **Please refer to page 112 of the Annual Report FY2021 in relation to "Trade and other receivables".**

For the RMB46.678m trade receivables to outside parties, how much has been collected back in cash so far?

Company's response:

As at the date of the Annual Report FY2021, all the Trade Receivables from outside parties had been fully collected.

Q7 **Please refer to page 119 of the Annual Report FY2021 in relation to "Trade and other payables".**

Why have "Other payables" to outside parties increased 2.84 times from RMB4.222m in 2020 to RMB12.003m in 2021?

Company's response:

Other payables to outside parties had increased mainly due to the increase in amount payable to the advertising service providers arising from advertisement contracts entered at the end of financial year ended 31 March 2021.

Q8 **Please refer to page 118 of the Annual Report FY2021 in relation to "Statutory common reserve".**

With regards to the Company's announcement on 17 Aug 2021 on "the Group's expansion into high-tech manufacturing and research capabilities", how much capital commitments are estimated for both the "intended developments" and "development of the plot of land relates to an area of 56,019.31m2 located at the Food Processing Zone SP-F1-4 in Liancheng County, China" respectively? How will they be funded?

Company's response:

With reference to the announcements dated 22 January 2021, 2 March 2021 and 17 August 2021, the development will be partially financed with the net proceeds of the share placement in February 2021, internal resources and bank borrowings. Any further update will be announced through SGXNet, if and when it is applicable.

Q9 **Since the company is net cash, will there be any dividend be paid out in the next 1-2 years?**

Company's response:

In deciding whether dividends are to be declared for subsequent financial years/periods, the Board will assess, among others, the Group's financial performance and position in respect of the relevant financial period. Any dividends declaration will be made through SGXNet.

Q10 **How will the firm optimise the massive space in the new facility?**

Company's response:

With reference to the announcements dated 22 January 2021, 2 March 2021 and 17 August 2021, these new facilities are to cater for research and development as well as to increase the Group's production capability for new products developed by the Group.

By Order of the Board

Liang Chengwang
Executive Chairman and Chief Executive Officer

30 August 2021

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*This announcement has been prepared by the Company and reviewed by the Company's 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.

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