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 THE SGX-ST IN RESPECT OF THE COMPANY'S ANNOUNCEMENT OF THE PROPOSED PLACEMENT DATED 21 SEPTEMBER 2021

Unless otherwise defined, all capitalised terms shall bear the same meanings ascribed to them in the Placement Announcement (as defined below).

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 Company's announcement dated 21 September 2021, in relation to the proposed placement of 500,000,000 new ordinary shares in the Company (the "**Placement Announcement**").

The Company has on 22 September 2021 through its continuing sponsor, Novus Corporate Finance Pte. Ltd., received queries from the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") in relation to the Proposed Placement.

The queries posed by the SGX-ST, as well as the Company's responses are set out below:

Q1. Please provide information on the financial position of Fujian Zixin.

Company's response

	Fujian Zixin Biological Potato Co. Ltd.
	31-Mar-2021
	RMB'000
ASSETS	
Total Non-Current Assets	59,510
Total Current Assets	381,883
Total Assets	441,393
EQUITY AND LIABILITIES	
Total Equity	387,056
Total Liabilities	54,337
Total Equity and Liabilities	441,393

Q2. What are the main activities of Fujian Zixin and how significant is this subsidiary to the Group?

Company's response

China Star Food Group Limited ("**CSFG**" or the "**Company**" and together with its subsidiaries, the "**Group**"), is a leading sweet potato focused integrated snacks supply chain operator in the People's Republic of China (the "**PRC**"). Through its wholly-owned subsidiaries, the Group leverages on advanced technology to strengthen its three core business areas: (i) cultivation and supply – sweet potato seedlings cultivation base and fresh sweet potatoes supply, (ii) product innovation and snacks production – sweet potato snacks product innovation and production of broad categories of snacks, and (iii) brand building, marketing and distribution – build proprietary brands of healthier snacks through targeted marketing campaigns and various distribution platforms (traditional and modern) throughout PRC.

Through its wholly-owned subsidiary, Fujian Zixin Biological Potato Co., Ltd. ("**Fujian Zixin**"), the Group operates three wholly-owned indirect subsidiaries Fujian Zilaohu Food Co., Ltd., Liancheng Dizhongbao Modern Agriculture Development Co., Ltd. ("**Liancheng Dizhongbao**"), and Fujian Xingpai Food Co., Ltd.

Based in Liancheng county of Fujian Province, PRC, the Group sells its wide range of sweet potato snack products to more than 300 distributors and wholesalers who in turn distribute the sweet potato snack food products, through e-commerce portals and other brick-and-mortar stores such as supermarkets, petrol kiosks, convenience stores and specialty stores throughout the PRC.

Fujian Zixin is mainly involved in research, production and distribution of sweet potato food products. Fujian Zixin's five broad product categories include sweet potato pastries, candies, crisps, baked goods and preserved foods. The Group also has a series of proprietary product brands, such as "Starpie" (星派), "Ledi" (乐地), "Delijia" (德丽佳) and "Zilaohu" (紫老虎). "Zilaohu" and "Starpie" which were recognised as a "Famous Trademark of Fujian Province" in 2013 and 2015 respectively.

For the financial year ended 31 March 2021, Fujian Zixin contributed approximately 44.4% of the Group's total revenue. Fujian Zixin also holds approximately 48.9% of the Group's total assets (excluding intercompany balance) as at 31 March 2021.

Q3 What is the rationale for the capital injection of S$5.2m into of Fujian Zixin?

Company's response

The Company intends to use the aforementioned portion of the Net Cash Proceeds amounting to S$5.2 million to complete the capital contribution to Fujian Zixin (the "**Full Capital Contribution**"). This is consistent with the Company's announcement dated 10 December 2018 which sets out, *inter alia*, the partial capital contribution to Fujian Zixin using the net proceeds from the rights issue conducted in April 2019 (the "**Rights Issue**"). Pursuant to the Rights Issue, the Company had utilised S$3.5 million to partially fulfil its outstanding capital contribution to Fujian Zixin (the "**Partial Capital Contribution**").

Fujian Zixin is a company incorporated on 6 July 2009 in Liancheng County, Longyan, Fujian Province, 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 and accordingly Fujian Zixin is a wholly foreign-owned entity. As at the date of this announcement and pursuant to the Partial Capital Contribution, the total registered capital of Fujian Zixin is RMB80,000,000 (approximately S$16,700,000 based on the Illustrative Exchange Rate(1)) and an unpaid share capital of approximately RMB25,000,000 (approximately S$5,200,000 based on the Illustrative Exchange Rate) remains outstanding (the "**Unpaid Share Capital**"). As at the date of this announcement, an aggregate of approximately RMB55,000,000 (approximately S$11,500,000 based on the Illustrative Exchange Rate) 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 31.25%(2) of Fujian Zixin's total registered capital.

Notes:

(1) The "Illustrative Exchange Rate" used in this announcement is S$1:RMB4.78. 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 RMB25,000,000.

Whilst Fujian Zixin has previously obtained an extension to the deadline to satisfy the Unpaid Share Capital by 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 completely paid up.

Should the Unpaid Share Capital not be satisfied in accordance with the deadline set out in 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.(3) 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.(4) 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:

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

(4) 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).

The Company further notes 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 it would be in the best interests of the Company to 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.

Having considered the above, the Board is of the view that it would be timely to proceed with the Full Capital Contribution using the proportion of Net Proceeds as set out below.

Whilst the Board has considered other methods of fundraising on the capital market (e.g. through a rights issue or warrants) or from third-party financial institutions (e.g. bank loans), the Board ultimately decided to conduct the Proposed Placement as it is of the view that the Proposed Placement would allow the Company to secure the funds necessary to fulfil its plans for further development of the Group.

Q4 Please provide further breakdown on the intended use of S$5.2 million by Fujian Zixin.

Company's response

The Full Capital Contribution will ultimately be used by Fujian Zixin for the purposes of funding the upcoming advance payments to sweet potato suppliers (under Liancheng Dizhongbao) under existing contractual obligations, which is part of the Group's long-term supply contracts to secure raw sweet potato supplies.

Q5 **On the Company's plans to expand its business in Singapore, please provide details on its plans to establish an import and export function in Singapore.**

Company's response

Expanding the business of the Group has always been the main priority of the Company as it could potentially create more value and returns to the shareholders of the Company (the "**Shareholders**"). At present, the Group has not reached its full production capacity, and with the ongoing project involving the construction of the factory in Fujian province (please refer to the Company's announcements on 22 January 2021 and 17 August 2021 for more details), the Group has plans to increase its range of products. Therefore, the Company has plans to explore business opportunities outside of the PRC so as to further maximise its current and projected production capacities. The Company is of the view that healthier foods and snacks are increasingly becoming a priority choice of the public and that the lack of healthy sweet potato related products in the Southeast Asia region is a potential business opportunity for the Company.

The Company currently plans to collaborate with local distributors to bring the Group's sweet potato related products to Singapore. When such distribution channels have developed and are deemed to be stable and mature, the Company intends to explore exporting its products to nearby regional countries such as Malaysia, Indonesia and Thailand. Should the opportunity arise, the Company may consider exporting suitable products, not limited to sweet potato related products, from the Southeast Asia region to the PRC for sale and distribution to expand its' market share in its existing and new industries.

At this juncture, the Company is considering to either incorporate a new company or to acquire an existing company in Singapore to carry out the expansion of business in the Southeast Asia region. The Company is currently speaking to various stakeholders to finalise its plans in relation to the above, with discussions still in the early stages and of a confidential nature. Such expansion plans are still at a preliminary stage and may be subject to change as the Company deems appropriate. The Company will inform Shareholders of material developments as and when they occur by announcing such information via the SGXNET.

Ultimately, the Company believes the above actions will create more value and returns to benefit the Shareholders, as well as introducing a healthier snack to the market in the Southeast Asia region.

By Order of the Board

Liang Chengwang
Executive Chairman and Chief Executive Officer

23 September 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.

The contact person for the Sponsor is Mr Andrew Leo, Chief Executive Officer, at 7 Temasek Boulevard, #18-03B Suntec Tower 1, Singapore 038987, telephone (65) 6950 2188.