ZIXIN GROUP HOLDINGS
紫心集团控股

(formerly known as China Star Food Group)
(Incorporated in the Republic of Singapore with Unique Entity No.: 200718683N)
Website: **www.zixingroup.com.sg**
SGX stock code: **42W**

RESPONSE TO SUBSTANTIAL AND RELEVANT QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN RESPECT OF THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2022

The board of directors (the "**Board**" or the "**Directors**") of Zixin Group Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**") refers to:

(i) the annual report of the Company for the financial year ended 31 March 2022 (the "**Annual Report 2022**"); and

(ii) the questions raised by the Securities Investors Association (Singapore) ("**SIAS**") in respect of the Annual Report 2022.

Terms not defined in this announcement shall bear the same meanings ascribed to them as set out in the Annual Report 2022.

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

Q1. SIAS:

As noted in the chairman's statement, due to the travelling restrictions in China before January 2023, the Company is behind scheduled statutory requirements on financial reporting. The Company is holding its Annual General Meeting for the financial year ended 31 March 2022 ("**FY2022**") eight months later than usual.

In FY2022, revenue increased by 1.3% to RMB 289.1 million and the gross profit margin improved from 24.4% to 26.8%, due to increased sales of higher-margin snack products. Net profit after tax was RMB 3.7 million.

The Company announced its 1H 2023 results (covering the 6-month financial period ended on 30 September 2022) on 14 November 2022. The results showed a decline in revenue by 12.4% and a decrease in profit by 99%, with the group earning just RMB 37,000. Management has attributed the weaker performance to disruptions in logistics during the lockdown in Shanghai as well as to the group's manufacturing facilities during the upgrade.

(i) What are the sentiments on the ground in China since the zero-COVID policy was removed? In management's view, how strong is consumer confidence and has it been restored to the pre-COVID levels after China's reopening?

Company's response

While the relaxation of the zero-COVID policy and stringent precautionary measures, as well as easing of travelling restrictions is uplifting, the Group remains cautious as such relaxation also poses new challenges, including the sudden increase in the number of COVID-19 infections.[1]

(ii) What is the manufacturing capacity of the Zilaohu facility following the upgrade? How much automation has been introduced into the production process?

Company's response

The Zilaohu manufacturing facility has an annual installed production capacity of 10,860 tonnes following completion of the upgrading programme. Currently, approximately thirty-five percent (35%) of the production process has been automated.

(iii) What progress has been made to the group's Singapore expansion plans? Are the group's products being sold in Singapore and other major international markets? If not, what are the reasons for this?

Company's response

The Group has incorporated a Singapore subsidiary to manage trading and distribution of its products in overseas markets. However, obtaining the relevant approvals for the import and export of food products into different countries and efforts to cultivate distribution networks is a lengthy process. At present, selected sweet potato snack products are stocked and sold in specific supermarkets located in Singapore and Thailand. The Group will provide additional updates as and when material developments arise.



SIAS:

The group is building a 35,000 tonnes capacity, high-tech manufacturing facility to produce functional food such as purple sweet potato powder and as well as ingredients for poultry and animal feed by converting discarded sweet potato parts.

(iv) Can management provide further information on the size of the addressable market? What commercial due diligence and/or business development has the group undertaken in the functional food/animal feed segments?

[1] https://www.reuters.com/world/china/air-travel-recovers-china-amid-covid-infection-worries-2023-01-14/

Company's response

The information involving addressable market size and business opportunities are deemed by the Company to be too sensitive to disclose, as this information may impact the Group's competitiveness in the relevant market. The due diligence and/or business development undertaken by the Group are documented internally.

Q2. SIAS:

On 3 October 2022, the company announced its participation in the rural revitalisation project in Lingao county, Hainan Province. The project involves the development of an eco-friendly urban village, including residential and public infrastructure, as well as the establishment of agricultural and tourism industries.

The group will share and transfer the proven solutions and techniques of its biotech-focused sweet potato circular economy business to contribute to one of the key economic drivers for Lingao county and to improve the living standards of the local community.

(i) Was the group's participation in a rural revitalisation project in Hainan approved by the board? What is the expected investment required?

Company's response

Please refer to the Company's announcement dated 3 October 2022 for more details on the Group's participation in the rural revitalisation project in Hainan Province (the "**Revitalisation Project**"). Shareholders will be updated on any material developments in relation to the Revitalisation Project as and when it is appropriate.

(ii) Would this project significantly alter the group's risk profile?

Company's response

The Revitalisation Project will not significantly alter the Group's risk profile.

(iii) How would sharing and transferring the group's expertise benefit the group? Is this a for-profit venture, and can management explain the commercial benefits of the revitalisation project?

Company's response

The Revitalisation Project is an opportunity for the Company to work outside of the Fujian Province with established partners, and such participation would allow the Group to establish its presence in the Hainan Province. Please refer to the Company's announcement on 3 October 2022 for more details.

The Company would like to highlight that detailed discussions in relation to the Revitalisation Project are still underway and the Company will provide updates on material developments as and when they arise.

(iv) Has management assessed whether the growing conditions in Hainan are suitable for sweet potato cultivation?

Company's response

Hainan has a long history of sweet potato plantation. The sweet potato was first introduced to the island in the late Ming [1368-1644] and early Qing [1644-1911] dynasties. Hainan has a typical tropical, oceanic climate which is suitable to grow and harvest sweet potatoes. The island receives an average of more than two thousand hours of sun per year, which is more than enough solar energy to stimulate the growth of sweet potatoes all year long. The average rainfall measures 1,664 mm per year and the moist air helps to nourish the sweet potato plants. The average temperature is around 26 degrees Celsius, which makes the island suitable for year-round sweet potato growth and harvesting.[2]

(v) Additionally, does the management team have sufficient capacity and expertise to undertake this new project, which is outside of the group's Fujian base?

Company's response

While the Group has been cultivating sweet potatoes through its whole-owned subsidiary, Dizhongbao, based in Liancheng County, Fujian Province, for more than ten years, the management team has continually collaborated with research institutions outside of Fujian Province on a regular basis to finetune its cultivation solutions and techniques. The team is well-experienced and equipped with the professional knowledge and capabilities to operate the cultivation project in Hainan Province.

Q3. SIAS:

To fund the capital requirements of Fujian Zixin and expand the group's business, the company conducted two placements in quick succession.

The first placement took place in February 2021 and involved the issuance of 290 million ordinary shares at an issue price of $0.021, raising $6.09 million in aggregate, with net proceeds amounting to $5.63 million. The second placement occurred in November 2021 and involved the issuance of 500 million ordinary shares at an issue price of $0.024, raising $11.9 million (approximately RMB 60 million) in net proceeds.

For the first placement, the subscription shares represent approximately 32.81% of the then-enlarged issued share capital of the company of 883,818,100 shares. On a pro forma basis, the net tangible assets (NTA) per share was diluted from 66.79 RMB cents to 48.24 RMB cents.

The second placement of 500 million shares represented approximately 56.57% of the enlarged issued share capital of the company of 1,383,818,100 shares. The NTA per share was once again diluted from 47.14 RMB cents to 34.25 RMB cents on a pro forma basis.

Within 10 months, the issued share count increased from 594 million shares to 1.38 billion Shares (2.3x times) while NTA per share decreased from 66.79 RMB cents to 34.47 RMB cents.

[2] https://www.freshplaza.com/europe/article/9204517/off-season-sweet-potatoes-from-hainan-enter-chinese-market/
https://www.chinadaily.com.cn/china/2017-04/21/content_29023299.htm

For the financial year ended 31 March	2022	2021	2020	2019	2018
Income Statement (RMB'000)					
Revenue	289,132	285,474	323,141	357,001	357,001
Gross profit	77,611	69,616	70,159	102,300	102,300
Profit / (Loss) before tax	5,911	(13,002)	(10,590)	39,638	39,638
Net profit / (loss) after tax	3,652	(12,676)	(6,467)	23,675	23,675
Per Share (RMB Cents)					
Basic earnings [1]	0.34	(1.98)	(1.17)	8.00	4.86
Net asset value [2]	37.14	51.36	73.43	141.54	147.54
Net tangible asset value [2]	34.47	47.14	66.79	127.79	131.98

(Source: company annual report; emphasis added)

NTA per share has declined by 48% mainly due to the past two dilutive placements.

(i) Could the board, particularly the independent directors (IDs), provide greater clarity to shareholders on the company's efforts to secure cheaper sources of financing, such as bank borrowings?

Company's response

In deciding the means of raising the funds required by the Company, the Board has considered that the Group had over the previous few years already enlarged its bank borrowings to meet the growing working capital and capital investment needs of the Group. The Board had subsequently decided that equity funding could provide a long-term stable source of funding without incurring additional debts to the Group. The mixture of equity and finance funding has, in the Board's view, allowed the Group to manage its capital structure, improvise its financial stability, and access a range of funding options to meet its evolving needs.

(ii) Did the IDs assess the impact of the dilutive placements on minority shareholders and approve the large dilutive placements? If so, what was the basis for their approval of the dilutive private placements?

Company's response

Prior to each of the February 2021 and November 2021 placement exercises, the Board and the Independent Directors had considered the outcome of the shareholding proportions post-placement. Save for Ms Duanmu Xiaoyi (executive director of the Company) who had ceased to be a substantial shareholder of the Company pursuant to the February 2021 placement exercise, there was no change in the classification of any substantial or controlling shareholders. Based on the foregoing, and taking into consideration the benefits to the Group in obtaining this source of funding without having to incur additional debts or significant costs, the Board and the Independent Directors had approved the placement exercises.

Further, the Company notes that the placement exercises were carried out (a) pursuant to a general mandate approved at the Company's annual general meeting for the financial year ended 31 March 2020 for the February 2021 placement, and (b) with specific shareholder approval obtained at an extraordinary general meeting of the Company dated 29 October 2021 for the November 2021 placement.

(iii) Why did the board not propose a rights issue which would allow all shareholders to participate in the fundraising?

Company's response

The Board had considered various fundraising methods, taking into consideration the market for public investments and the time-sensitive nature of the funds required to be raised. The Board had decided not to pursue a rights issue due to the substantially higher legal and compliance costs, the considerably longer time taken to obtain approval for the rights issue, as well as the timing of the fundraising period, which was during the height of the COVID-19 pandemic.

(iv) Can the audit committee confirm that the company has received the full cash proceeds from both share placement exercises (minus the outstanding sums of $398,000 to be capitalised)? Were the subscription monies paid into the company's Singapore bank accounts?

Company's response

The audit committee has verified the management's confirmation that all cash proceeds from both share placement exercises had been received by the Group's designated bank accounts. The deposit of the subscription monies into the aforementioned accounts has been verified in the audits of the Group for the financial years ended 31 March 2021 and 31 March 2022.

(v) Specifically, is the balance of $9.84 million from the November 2021 placement currently held in the company's Singapore bank accounts?

Company's response

This Company takes the view that this information is confidential and relates to internal operations, and therefore should not be publicly disclosed.

(vi) Can management provide additional details on how they identified the subscribers, including whether they are long-term investors? Are the subscribers still holding on to their shares?

Company's response

Please refer to the Company's announcement dated 22 January 2021 for details of the subscribers in the February 2021 placement exercise, and the Company's announcement dated 21 September 2021 and the circular published on the SGXNET dated 14 October 2021 for details on the subscribers to the November 2021 placement exercise.

Given that the Company's shares are traded on the SGX-ST, the Company is not able to control the subscribers' actions in respect of the shares that were placed to them following the placement exercise. The Company however is able to confirm that the placement was undertaken on the basis that most of the subscribers are long-term investors of the Company.

(vii) Did the board and the sponsor perform the relevant due diligence on the subscribers and the sources of their funds?

Company's response

The Company had carried out its own due diligence checks by obtaining the relevant background information for each subscriber and identifying their rationale for participating in the placement exercises. Furthermore, the Company had also done their local due diligence checks by carrying out appropriate and media searches and obtaining confirmation from subscribers that, among others and save for those relevant directors and/or controlling shareholders who had participated in the placement exercise, (i) they are not persons falling within the categories of persons set out in Rules 804 and 812(1) of the Catalist Rules, (ii) they are not associates of or related to any director, chief executive officer, substantial shareholder or controlling shareholder of the Company, (iii) they are the beneficial owner of the subscribed shares and are subscribing for shares in the Company for their own purpose, and (iv) they are not co-operating with or acting in accordance with instructions from or acting in concert with any party to subscribe for shares in the Company.

With regards to the subscribers, the sponsor had (a) obtained the relevant background information of each subscriber from the Company and sought details on how the subscribers were identified for each placement exercise and the Company's rationale for placing the shares to them, (b) conducted third-party due diligence checks on the subscribers including appropriate internet and media searches and the use of third-party databases / registries, (c) obtained written confirmation from the Company in respect of the subscribers and written confirmations from the subscribers that, among others and save for those relevant directors and/or controlling shareholders who had participated in the placement exercise, (i) they are not persons falling within the categories of persons set out in Rules 804 and 812(1) of the Catalist Rules, (ii) they are not associates of or related to any director, chief executive officer, substantial shareholder or controlling shareholder of the Company, (iii) they are the beneficial owner of the subscribed shares and are subscribing for shares in the Company for their own purpose, and (iv) they are not co-operating with or acting in accordance with instructions from or acting in concert with any party to subscribe for shares in the Company.

SIAS:

Specifically, it was noted that two employees of the group, Mr Wu Yunhai and Mr Luo Weilong, who are not executive directors, each subscribed for 40 million shares at a cost of $840,000. They have not been identified as key management personnel and their names are not in the top 20 largest shareholders list.

(viii) Are the two employees still working in the group? Are they the beneficial owners of the 40 million shares?

Company's response:

The two employees are no longer working with the Group. They are not in the top 20 largest shareholders list as their shareholdings are held under custodian accounts. The Company is not aware of any information that would indicate that they are not beneficial owners of the 40 million shares.

By Order of the Board

Liang Chengwang
Executive Chairman and Chief Executive Officer

27 March 2023

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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 ("**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 assume 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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