CHINA STAR FOOD GROUP LIMITED
中国之星

China Star Food Group Limited

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CHINA STAR FOOD GROUP LIMITED
中国之星

Fun, Healthy Snacks

Annual Report 2018

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

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

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).

Contents


Sweet
Potato

Corporate Profile

China Star Food Group Limited (中国之星食品集团有限公司) ("CSFG" or the "Company"), together with its subsidiaries (the "Group"), is one of the leading manufacturers of healthy snack foods in the People's Republic of China ("PRC"). The Group is engaged in the production and sale of sweet potato snack food products across PRC, processed from purple and orange-fleshed sweet potatoes.

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

The Group's six broad product categories include sweet potato pastries, candies, crisps, baked goods, roasted sweet potato nuts 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" were recognised as a "Famous Trademark of Fujian Province" in 2013 and 2015 respectively.

Through its wholly-owned subsidiary, Fujian Zixin Biological Potato Co., Ltd. (福建紫心生物薯业有限公司), the Group operates three wholly-owned indirect subsidiaries Fujian Zilaohu Food Co., Ltd. (福建紫老虎食品有限公司), Liancheng Dizhongbao Modern Agriculture Development Co., Ltd. (连城县地中宝现代农业发展有限公司), and Fujian Xingpai Food Co., Ltd. (福建星派食品有限公司).

CSFG was listed on the Catalist board of Singapore Exchange via a reverse takeover of Brooke Asia Limited on 22 September 2015.

Our Quality Products

Savour the Natural Goodness of Sweet Potato

Sweet potato offers a healthy and rich source of nutrients, of which the orange-coloured flesh varieties are the most common, is rich in complex carbohydrates, dietary fibre, beta carotene, vitamins A, B6 and C[1].

Sweet potato is rich in beta-carotene, which the body converts into Vitamin A. Beta-carotene is an antioxidant that has numerous health benefits. Besides its antioxidant properties protecting the cell from damage, people who have consumed high levels of beta carotene have been shown to have a reduced risk of developing cancer, heart disease and various diseases [2].

The purple variation of the sweet potato also contains anthocyanin, which is responsible for the root's brilliant purple colour. Anthocyanins have been demonstrated to improve eyesight, reduce blood pressure, contain strong anti-inflammatory properties and suppress the spread of human cancer cells[3]. Thus, purple sweet potato is a highly beneficial crop.

Sweet potato also offer one of the lowest glycemic index (GI) rating. Low glycemic index of sweet potato makes it an ideal alternative food for China's large population of diabetics.

The Center for Science in the Public Interest (CSPI) in the United States highly recommended sweet potato as one of the most nutritious food. It was found that sweet potatoes are rich in dietary fibre, sugars, vitamins, minerals and other essential nutrients, as compared to common vegetables.

Notes:

1. Mitra S (2012) Nutritional Status of Orange-Fleshed Sweet Potatoes in Alleviating Vitamin A Malnutrition through a Food-Based Approach. Journal of Nutrition and Food Sciences 2:160.
2. Council for Responsible Nutrition (CRN) – www.crnusa.org/safety.
3. Izabela Konczak and Wei Zhang, "Anthocyanins – More Than Nature's Colours," Journal of Biomedicine and Biotechnology,vol. 2004, no. 5, pp. 239-240, 2004.


温柔
紫老虎
Purple Tiger
乐地
紫薯花生
温柔
紫老虎
Purple Tiger
德丽佳
地瓜干
德丽佳
蒸红薯
德丽佳
蒸红薯


星派
Starpay
紅心薯條
净含量：250克
北纬25.7度
星派
Starpay
紫薯仔
星派
Starpay
紫心
Q薯
Purple Yam
天合食品
Tianhe Foods

Building Up Our Foundation

With our Zilaohu factory commencing production in mid-September 2017, the Group will continue its current focus on the production of high-value products in Zilaohu factory, which will in turn bring about higher margin and return for our shareholders.

Chairman's Statement

"With the resumption of operations in our Zilaohu factory, the Group believes that it is now ready to embrace greater opportunities ahead. The recommencement of operations also enabled us to meet the demand for the coming peak sales season."

Liang Chengwang
Executive Chairman & Chief Executive Officer

Dear valued shareholders,

On behalf of the Board of Directors, I am pleased to present to you the annual report for China Star Food Group Limited (the "Company" together with its subsidiaries, the "Group") (中国之星食品集团有限公司) for the financial year ended 31 March 2018 ("FY2018"). FY2018 was a challenging period for the Group as it continued to face the effects of environmental control policies implemented by the Government of the People's Republic of China ("PRC"). This development substantially impacted the Group's performance and operations during the year under review.

Despite these challenges, we were able to remain resilient and make significant strides in improving our operational efficiency and productivity. At the same time, we continued our efforts to fortify our position as one of the leading players in the sweet potato snack food industry as a result of industry consolidation.



Financial Year Under Review

The Group's revenue totalled RMB221.3 million for FY2018, a 43.6% decrease from RMB392.7 million for the financial year ended 31 March 2017 ("FY2017"). The decline was due to the Group's Zilaohu factory having only commenced production in mid-September 2017 after a halt in the Group's production activities in April 2017.

Gross profit decreased by 62.2% from RMB158.3 million in FY2017 to RMB60.0 million in FY2018. Overall, the Group registered a net profit of RMB12.5 million in FY2018 as compared to RMB21.6 million in FY2017.

The Group's financial position remains healthy. As at 31 March 2018, the Group held net assets of RMB379.1 million, translating into a net asset value per share of RMB1.48, up from RMB1.43 as at 31 March 2017.

With the resumption of operations in our Zilaohu factory, the Group believes that it is now ready to embrace greater opportunities ahead. As many smaller competitors have ceased operations after failing to comply with the government's strict regulations, the Group now faces lesser competition from the industry going forward. The recommencement of operations also enabled us to meet the demand for the coming peak sales season.

Strategising for the Future

The concepts of health diet and quality lifestyle have become increasingly prevalent across the PRC. In tandem with rapid urbanisation and higher disposable income, this reflects a burgeoning demand for convenient and healthy food products. According to Euromonitor International estimates, sales volume of packaged food in mainland China reached approximately RMB1,577 billion in 2017, representing an average annual growth rate of 6.6% since 2012.[1]

As one of the leading players in the sweet potato snacks industry, the growing health-conscious trend provides a bounty of opportunities for the Group to capture a broad consumer base in the PRC and beyond. We offer a diverse range of nutritious products, which currently include sweet potato baked goods, candies, pastries, crisps, preserved foods, roasted sweet potato nuts, nougats and steamed sweet potato snacks.

Meanwhile, the rise of E-commerce and online retail sales in China has presented businesses with an avenue to reach consumers in a fast and convenient manner. In a 2017 consumer survey conducted by HKTDC research, consumers ordering packaged snacks through online shopping channels have risen exponentially.[2]

[1]http://hkmb.hktdc.com/en/1X0ADC6U/hktdc-research/China%E2%80%99s-Packaged-Food-Market-Major-Consumer-Trends

[2]http://economists-pick-research.hktdc.com/business-news/article/Research-Articles/China-s-Packaged-Food-Market-Major-Consumer-Trends/rp/en/1/1X000000/1X0ADC6U.htm

In order to tap the growing potential of the e-commerce industry in China, the Group seeks to build upon its digital market presence, as well as enhancing its customer engagement online. We believe that these strategies will further drive customer reach and brand awareness.

Nevertheless, brick and mortar stores are still the most significant channel for purchasing packaged food products and we continue to build a solid foundation for widening our footprint in the hypermarket segment.

Looking Ahead

With a sharp focus on developing an effective business strategy, the Group strives to improve productivity, increase efficiencies and enhance its competitive edge within the market. To address the ever-changing preferences of consumers, we are also committed in heavily investing in research and development to continuously enhance our product portfolio. We will also continue to improve on our existing sales channels while keeping an eye on expansion opportunities in the domestic PRC market and beyond.

Note of Appreciation

The Board expresses its appreciation to Mr Lee Choong Onn, Ms Chen Zhen, Mr Kuan Cheng Tuck and Mr Koh Eng Kheng Victor for their contributions during their respective terms of service as Non-Executive Director, Independent Director and Lead Independent Directors. We wish them success in their future endeavours.

At the same time, we would like to welcome Mr Leow Yong Kin and Mr Ng Poh Khoon who recently joined the Group as Lead Independent Director and Independent Director respectively. Mr Leow has taken the role of Chairman of the Audit Committee, Chairman of the Nominating Committee and a member of the Remuneration Committee. Mr Ng has joined as a member of the Audit, Nominating and Remuneration Committees.

In addition, I would like to welcome Mr Luo Jiachang as Executive Director, who is responsible for the running of the Group's operations in China. Mr Luo's vast experience in management positions across the Chinese food industry will enable the Group to scale new heights.

On behalf of the Board, I would like to convey my gratitude and appreciation to our staff and management for their relentless contributions and commitment during a tough year. I would like to express my sincere appreciation to our shareholders, associates and customers for their long-standing trust and loyalty. Last but not the least, I would also like to extend my thanks to the Board for their continued support and guidance, which are integral in cultivating the next chapter of the Group's journey towards future growth.

Liang Chengwang
Executive Chairman &
Chief Executive Officer

执行董事长致词

尊敬的各位股东，

我谨代表董事会，向您提呈中国之星食品集团有限公司（“本公司”及其子公司，简称“本集团”）截至2018年3月31日之财政年度（“2018财年”）的年度报告。由于中华人民共和国政府所实施的环境控制政策持续发酵，因此对本集团而言，2018财年是充满挑战的一年，本集团的绩效与经营活动在此期间也因此受到极大影响。

尽管如此，我们仍然能够保持应变能力，并在改善经营效率、提高生产率方面取得长足进展。同时，我们继续努力，通过产业合并，强化了本集团在红薯零食业的领先地位。

财政年度回顾

2018财年，本集团总收入达2亿2,130万元人民币，比截止于2017年3月31日之财政年度的3亿9,270万元人民币减少43.6%。这主要是由于本集团旗下的Zilaohu厂于2017年4月随本集团停产后直至2017年9月中旬才开工所致。

2018财年的毛利润为6,000万元人民币，比2017财年的1亿5,830万元人民币减少62.2%。相应地，本集团2018财年的净利总额为1,250万元人民币，相比之下，2017财年则为2,160万元人民币。

本集团的财务状况依然稳健。截至2018年3月31日，本集团持有的资产净额为3亿7,910万元人民币，每股资产净值为1元4角8分人民币，比2017年3月31日的1元4角3分略有增加。

随着紫老虎厂恢复经营，我们相信本集团已为未来出现的更多良好机遇做好了准备。许多规模较小的竞争者因无法满足政府的严格规定已停止经营，本集团未来所面对的竞争因此而减少。此外，重新开始运营还使我们有能力应付市场即将到来的销售需求高峰。

谋划未来战略

当今中国，人们越来越重视健康饮食，追求生活品质。伴随城市化步伐加快，可支配收入的增加，市场对既健康又方便的食品需求与日俱增。根据欧睿国际所做的估计，2017年中国大陆包装食品的销量达到近1万5,770亿元人民币，2012年以来的年平均增长率为6.6% [1]。

本集团作为红薯零食业的领军企业，将得益于人们越来越强烈的健康意识，从而有望获得中国及其周边国家消费者青睐其产品的大量机会。我们提供多种多样的营养产品，包括红薯焙烤食品、糖果、甜点、薯片、保藏食物、烤红薯坚果、牛轧糖及蒸红薯等。

与此同时，中国电子商务和网上零售业的崛起为许多企业提供了能与消费者快速及便捷地接触的途径。 在香港贸发局进行的2017年消费者调查中发现，消费者通过网购渠道订购包装零食的数量呈指数上升。[2]

为了挖掘中国电子商务产业的增长潜力，本集团拟利用自身的数码市场优势，提高在线顾客体验率。我们相信这些策略将有助于我们获得更多的客户，增加他们的品牌意识。

尽管如此，实体店仍然是消费者购买包装食品最主要的渠道，我们将为在超大型超市占有一席之地夯实基础，不懈努力。

[1]http://hkmb.hktdc.com/en/1X0ADC6U/hktdc-research/China%E2%80%99s-Packaged-Food-Market-Major-Consumer-Trends
[2]http://economists-pick-research.hktdc.com/business-news/article/Research-Articles/China-s-Packaged-Food-Market-Major-Consumer-Trends/rp/en/1/1X000000/1X0ADC6U.htm

我们继续努力，通过产业合并，强化了本集团在红薯零食业的领先地位。

展望未来

为了制定有效的商业战略，本集团努力提高生产率，改善经营效率并提高市场竞争力。为满足消费者不断变化的口味偏好，我们同时耗重资进行产品研发，以不断改善我们的产品组合系列。我们还将继续完善现有的销售渠道，密切留意中国国内市场及其周边市场的扩张机会。

鸣谢

董事会借此机会感谢李松安先生、陈瑱女士、关正德先生及许维特先生在其分别担任本公司非执行董事、独立董事及首席独立董事期间所作出的贡献。我们祝他们未来旅途马到成功。

与此同时，我们欢迎近期分别担任首席独立董事和独立董事的廖荣進先生和吴宝光先生加入董事会。廖先生已受委担任审计委员会主席、提名委员会主席及薪酬委员会委员；吴先生则受委担任审计、提名及薪酬等三个委员会的委员。

除此之外，我还要欢迎罗家长先生担任执行董事，负责经营本集团在中国的各项业务。罗先生广泛涉足中国食品行业，曾任多个管理层职务，拥有广泛的丰富经验，他的加入将有助于本集团百尺竿头更上一层楼。

最后，我谨代表董事会，感谢广大员工和管理层精诚团结，不屈不挠，携手走过不平凡的一年；我还要对我们的股东、合作伙伴及客户长期以来给予我们的信任和忠诚表示诚挚的谢意。最后一点，也是非常重要的一点，我要对董事会不断给予的鼎力支持和指导表示感谢；正是有了他们的支持和指导，我们才得以前赴后继，带领本集团一路向前，再创辉煌。

梁承旺
执行董事长兼首席执行总裁

Business and Financial Review

Financial Review

China Star Food Group Limited (the "Company" together with its subsidiaries, the "Group") (中国之星食品集团有限公司) recorded a 43.6% decrease in revenue to RMB221.3 million for the financial year ended 31 March 2018 ("FY2018"), as compared to RMB392.7 million for the financial year ended 31 March 2017 ("FY2017").

The decline in revenue was due to the Group's Zilaohu factory having only commenced its production in mid-September 2017 after a halt in the Group's production activities (the "Production Resumption") since April 2017.

Gross profit fell by 62.2% or RMB98.4 million year-on-year ("yoy") to RMB59.9 million in FY2018 from RMB158.3 million in FY2017. Gross profit margin decreased from 40.3% in FY2017 to 27% in FY2018 mainly attributable to lower sale prices due to a change in channel management strategy. The decrease was also due to higher cost of sales as the Group had subcontracted bulk of its production during the Production Resumption so as to catch up on the revenue loss whilst the Zilaohu factory restores to its normal level.

Marketing and distribution costs decreased by RMB62.2 million or 80.5% primarily due to decreases in delivery charges of RMB18.9 million, publicity expense of RMB1.8 million, advertisement costs of RMB39.3 million and sales personnel salaries and bonuses of RMB1.8 million. Such decreases in marketing and distribution costs were mainly due to a change in the channel management strategy and minimal advertisement spending in FY2018.

Administrative expenses decreased by RMB6.2 million or 16.5% mainly due to the absence of retrenchment fee of RMB6.5 million that was incurred in FY2017 as a result of the closure of two of the Group's factories, as well as the decrease in administrative staff salaries by RMB0.7 million and utilities expenses of RMB0.7 million.

Other losses decreased in FY2018 by RMB14.4 million or 98.8% due to the absence of the following expenses that were recorded in FY2017: (i) loss on disposal of property, plant and equipment of RMB5.6 million; (ii) write-off of obsolete packaging materials of RMB2.5 million; and (iii) additional

The decline in revenue was due to the Group's Zilaohu factory having only commenced its production in mid-September 2017 after a halt in the Group's production activities (the "Production Resumption") since April 2017.

TOTAL REVENUE

RMB221.3 million

-43.6%

NET PROFIT

RMB12.5 million

-42.2%

expenses of RMB4.2 million relating to VAT on promotional sales items that are not claimable.

As a result of the above-mentioned, the Group recorded a net profit of RMB12.5 million in FY2018 as compared to a net profit of RMB21.6 million in FY2017.

Financial Position

The Group's financial position remains robust. As at 31 March 2018, the Group held net assets of RMB379.1 million, translating into a net asset value per share of RMB1.48, up from RMB1.43 as at 31 March 2017.

Total assets comprised non-current assets of RMB246.4 million and current assets of RMB203.1 million as at 31 March 2018.

Non-current assets increased to RMB246.4 million as at 31 March 2018, from RMB234.7 million as at 31 March 2017. This was mainly due to:

- Net increase in other assets (non-current) of RMB81.9 million mainly comprising of advance payment of the three 5-year supply contracts of sweet potatoes.
- Increase in other assets (current and non-current) of RMB41.5 million mainly due to (i) the payment of RMB43.2 million, being balance payment for a 5-year supply of sweet potatoes pursuant to two supply contracts for the use of 4,300 mu of farm land for 15 years as previously announced in March 2017; and (ii) the full upfront payment of RMB24.6 million for a 5-year supply of sweet potatoes at discounted price pursuant to another supply contract for the use of 984 mu of farm land for 15 years. Consequently, the total farm land secured for key raw material supply to date is 7,284 mu.

Current assets increased to RMB203.1 million as at 31 March 2018 from RMB165.3 million as at 31 March 2017 due to the following key contributing factors:

- Increased inventories of RMB1.7 million mainly due to stocking of direct materials following the Production Resumption and finished goods produced for delivery in April 2018.

- Trade and other receivables increased by RMB30.9 million mainly due to the increase in trade receivable of RMB33.2 million relating to sales recognised in March 2018.

- Cash and cash equivalents decreased to RMB126.6 million as at 31 March 2018, from RMB145.1 million as at 31 March 2017.

Total liabilities comprised non-current liability of RMB451,000 and current liabilities of RMB70.1 million as at 31 March 2018.

Current liabilities increased to RMB70.1 million as at 31 March 2018 from RMB33.1 million as at 31 March 2017. This was mainly due to:

- Trade and other payable increased by RMB26.6 million mainly due to (i) increase in trade payables of RMB25.6 million for the purchase of raw materials following the Production Resumption; (ii) increase in other payables of RMB1.0 million.

- Other financial liabilities increased by RMB9.0 million mainly due to an increase in bank loan of RMB5.0 million, loan from a shareholder of RMB2.5 million and loan from a director of RMB1.5 million. Both were drawn down to support the Singapore office operations.

Cash Flow

Net cash from operating activities was RMB51.6 million in FY2018, mainly due to the profit before income tax, adjustment for PPE depreciation and changes in working capital.

Net cash used in investing activities was RMB78.3 million in FY2018, mainly due to a final payment of RMB43.2 million was made against 2 sweet potatoes supply contracts signed in FY2017 and an advance payment of RMB24.6 million to a new sweet potatoes supplier. Additional investment in property, plant and

Following the resumption of factory production, the Group had been able to supply to the channels in time to meet the peak season market demand. The Zilaohu factory currently operates at 35% capacity and is expected to reach an optimal level of approximately 80% capacity by the end of December 2018.

equipment and increase in construction work in progress of Zilaohu factory amounting to RMB9.0 million and RMB1.1 million respectively.

Net cash from financing activities of RMB8.1 million in FY2018, mainly due to a proceed from new bank loan of RMB5.0 million, renewal of existing bank loan of RMB12.8 million and loans from a shareholder and a director of RMB2.5 million and RMB1.5 million respectively.

Operations Review

In September 2017, the Group commenced operations in its Zilaohu factory in Liancheng County, Fujian Province, following a directive from the Chinese government due to tighter pollution control requirements. Following the resumption of factory production, the Group had been able to supply to the channels in time to meet the peak season market demand. The Zilaohu factory currently operates at 35% capacity and is expected to reach an optimal level of approximately 80% capacity by the end of December 2018.

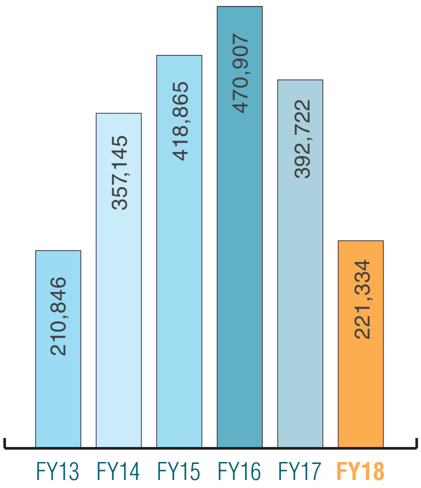
The Group intends to continue the engagement of sub-con service to produce low margin products and allow the new factory to undertake the production of high margin products instead.

Meanwhile, the central waste water treatment plant is currently under construction and will commence operation by August 2018. The current interim waste water disposal and treatment arrangement remains unchanged and is working smoothly.

Financial Highlights

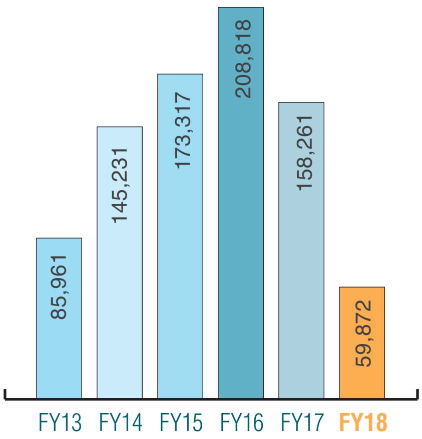
Revenue (RMB'000)

RMB 221.3 million



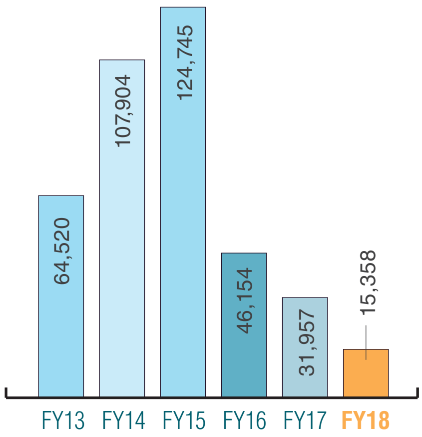
Gross Profit (RMB'000)

RMB 59.9 million



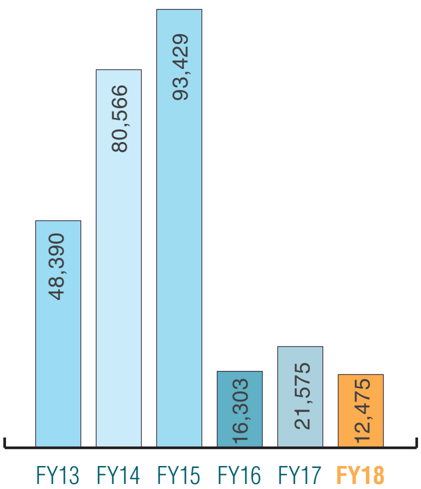
Profit Before Tax (RMB'000)

RMB 15.4 million



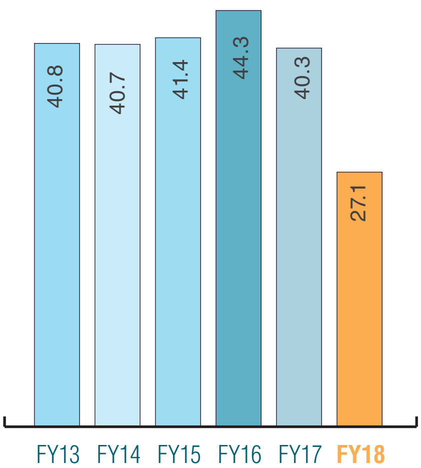
Profit After Tax (RMB'000)

RMB 12.5 million



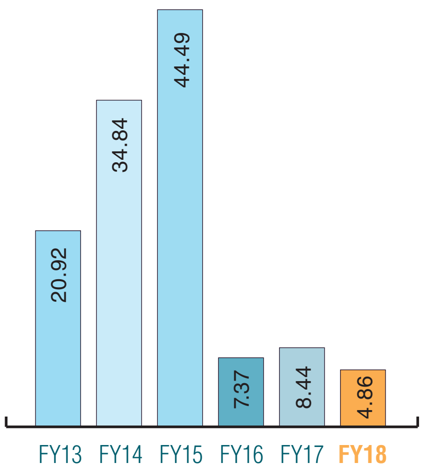
Gross Profit Margin (%)

27.1%



Basic Earnings Per Share (RMB cents)

RMB 4.86 cents



Setting for Long-term Efficiency

Having managed to secure the supply of sweet potato from 7,284 mu of farm land, our Group's requirement of constant supply of key raw materials is secured for at least the next 5 years. We are set for our long-term production and sustainability.


星派
Starpay
手工
制作
紫薯曲酥
Sweet Potato
闽台
特产
净含量：150克
乐地
紫薯花生
爱上地瓜 爱上乐地
星派
Starpie
TM
这一刻 就是喜欢

Board of Directors

Liang Chengwang
Executive Chairman and Chief Executive Officer

Date of first appointment as a director:
22 September 2015

Date of last re-appointment as a director:
28 July 2017

Present Directorship:
Other Listed Companies
Nil

Other Principal Commitments
Nil

Past Directorships in listed companies held over the preceding three years:
Nil

Aged 40, Mr Liang Chengwang is responsible for formulating and implementing the development strategy and annual business plans of the Group. He also supervises major financing plans and the appointment of key executives. Mr Liang was a founder of Fujian Zixin Biological Potato Co., Ltd. and had previously been engaged in the sweet potato food products business as a general manager of Liancheng Tianhe Food Factory.

Mr Liang completed his education with the Open University of Fujian in 1998 with a Bachelor of Accounting and Finance and attended the Peking University Strategic Private Equity Investment and Capital Operation Seminar for Chairmen at the Peking University School of Electronics Engineering and Computer Science, Executive Education Center in December 2014.

Luo Jiachang
General Manager

Date of first appointment as director:
1 February 2018

Date of last re-appointment as a director:
Not applicable

Present Directorships:
Nil

Other Principal Commitments:
Executive Director

Past Directorships in listed companies held over the preceding three years:
Nil

Aged 40, Mr Luo Jiachang has more than 15 years' of experience in the management, production, sales and distribution of various food products in China and the regional market. He was the general manager of Xiamen Xinglu Food Products Co, Ltd from 2014 to 2017 and was in charge of the overall day-to-day business and operations of the company. He was the regional sales director of Fujian Chef Food Products Co, Ltd, a company headquarter in Fujian, China and with operations in the United States, Europe and East Asia from 2009 to 2014.

He is currently responsible for the product marketing and channel management of the Group.

Leow Yong Kin, Louis
Lead Independent Director

Date of first appointment as director:
06 February 2018

Date of last re-appointment as a director:
Not applicable

Present Directorships:
China Sports International Ltd
China Fibretech Ltd

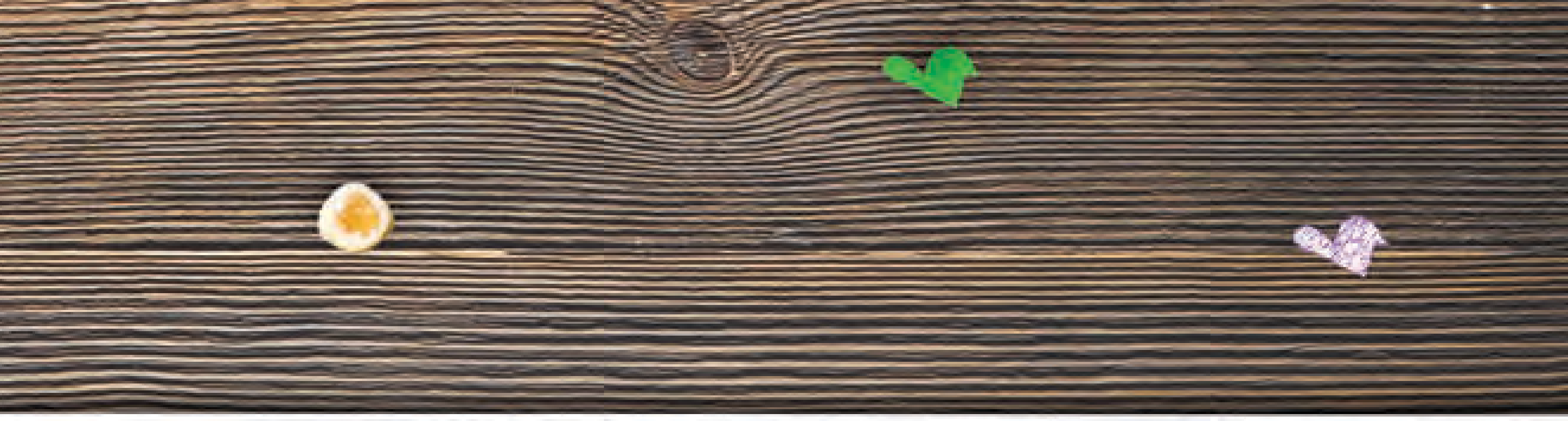
Other Principal Commitments:
Falcon Incorporation Pte Ltd
(Regional Financial Controller)

Past Directorships in listed companies held over the preceding three years:
China Taisan Technology Group Holdings Limited
Foreland Fabritech Holdings Ltd

Aged 47, Mr Leow has more than two decades of experience in the field of finance and accounting with both private and listed companies. His experiences include, amongst others, working in multinational companies headquartered in United States and Japan. He was previously the Chief Financial Officer of China Great Land Holdings Ltd from July 2014 to March 2017. He is currently working as a Regional Financial Controller in Falcon Incorporation Pte Ltd..

Mr Leow holds a BA in Accounting from the University of Lincolnshire & Humberside.

He is a qualified Chartered Accountant of Singapore, a member of the Association of Chartered Certified Accountants and a member of the Institute of Certified Public Accountants of Singapore.



He Jing
Independent Director

Date of first appointment as a director:
9 February 2017

Date of last re-election as a director:
28 July 2017

Present Directorship:
Other Listed Companies
Nil

Other Principal Commitments
BDO China Shu Lun Pan Certified Public Accountants LLP (Partner)

Past Directorships in listed companies held over the preceding three years:
Nil

Aged 40, Ms He Jing is currently a Partner of BDO China Shu Lun Pan Certified Public Accountants LLP. With over 15 years of auditing experiences in China and US, Ms He has in-depth knowledge of various financial reporting and regulatory standards such as the US GAAP, IFRS, SOX Compliance, SEC reporting and she is focusing on assisting Chinese companies with their listing process on the US and European capital markets. Ms He provides professional guidance for various industries on the US and German IPO process and has extensive experiences in cross-border mergers & acquisitions transaction support.

Ms He holds a Master Degree in Accounting from Boston College and Bachelor Degree in Economics from Nankai University, and she is a member of the American Institute of Certified Public Accountants and a CPA of Massachusetts, US.

Ng Poh Khoon
Independent Director

Date of first appointment as a director:
31 May 2018

Date of last re-election as a director:
Not Applicable

Present Directorship:
Other Listed Companies
STAR Pharmaceutical Ltd
Nutryfarm International Limited

Other Principal Commitments
Guangdong Chengde Financial Advisory Co Ltd (Director)

Past Directorships in listed companies held over the preceding three years:
Nil

Aged 51, Mr. Ng Poh Khoon is currently a Project director with Guangdong Chengde Financial Advisory Co., Ltd and a member of Financial Advisory committee with the Entrepreneur Capital Management Association of Guangdong Province.

He has over 20 years of experience in auditing, financial management, sales & business development, investor relations, fund raising and M&A activities. Mr. Ng is also currently the Independent Director and the Chairman of the Audit Committee of Star Pharmaceutical Limited and Nutryfarm International Limited, both companies listed on the mainboard of SGX-ST. Mr. Ng is a Chartered Accountant and member of the Institute of Singapore Chartered Accountants and Singapore Institute of Directors. He is also a fellow member of the Association of Chartered Certified Accountants, UK.

Key Management

Yeo Choon Tat
Chief Financial Officer

Mr Yeo Choon Tat joined the Group as Deputy CEO on 1 December 2016 and was re-designated to be Chief Financial Officer on 31 May 2017.

Mr Yeo is a finance professional with more than 30 years of regional experience in senior management roles for multi-national corporations and local organisations across diverse industries, such as electronics manufacturing, venture capital investment, portfolio management, and managing turnaround operations in Hong Kong, China and Singapore.

His past principal appointments includes, *inter alia*, Vice President (Finance and Asia-Pacific Operations) at Creative Technology Ltd.; Senior Vice President (Head of Greater China Investment) at Vertex Management Pte. Ltd.; Chief Operating Officer at Jolimark Holdings Ltd., Hong Kong; Executive Director of ASA Holdings Ltd., Singapore; and Group Financial Controller of Intraco Limited.

Mr Yeo is an accountancy graduate of the University of Singapore. He is also a fellow member of the Institute of Singapore Chartered Accountants (FCA), CPA Australia (FCPA Australia) and ACCA U.K. (FCCA).

Corporate Information

Board of Directors

Executive:
Mr Liang Chengwang
(Executive Chairman and Chief Executive Officer)

Mr Luo Jiachang
(General Manager, Zixin Fujian)

Non-Executive:
Mr Leow Yong Kin, Louis
(Lead Independent Director)

Ms He Jing
(Independent Director)

Mr Ng Poh Khoon
(Independent Director)

Audit Committee

Mr Leow Yong Kin, Louis
(Chairman)

Mr Ng Poh Khoon

Ms He Jing

Nominating Committee

Mr Leow Yong Kin, Louis
(Chairman)

Ms He Jing

Mr Ng Poh Khoon

Remuneration Commitee

Ms He Jing
(Chairman)

Mr Leow Yong Kin, Louis

Mr Ng Poh Khoon

Company Secretary

Mr Lim Kok Meng

Registered Office

24 Raffles Place
#19-05, Clifford Centre
Singapore 048621
Tel : (65) 6535 9887
Fax : (65) 6535 0680

Business Office

20 Collyer Quay #09-04
Singapore 049319
Tel : (65) 6225 9987

Share Registrar/Share Transfer Agent

Boardroom Corporate & Advisory Services Pte. Ltd.
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623
Tel : 6536 5355
Fax : 6536 1360

Sponsor

PrimePartners Corporate Finance Pte. Ltd.
16 Collyer Quay
#10-00 Income at Raffles
Singapore 049318

Auditors

RT LLP
1, Raffles Place,
#17-02 One Raffles Place
Singapore 048616

Audit Partner-In-Charge

Mr Su Chun Keat
(Appointed since the financial year ended 31 March 2018)

Group Structure

- **CHINA STAR FOOD GROUP LIMITED** 中国之星
  - 100% **Zixin International Pte. Ltd.** (formerly known as China Star Food Holdings Pte. Ltd.)
    - 100% **Fujian Zixin Biological Potato Co., Ltd.**
      - 100% **Fujian Zilaohu Food Co., Ltd.**
      - 100% **Fujian Xingpai Food Co., Ltd.**
      - 100% **Liancheng Dizhongbao Modern Agriculture Development Co., Ltd.**

Financial Contents

Corporate Governance Report

The Board of Directors (the "**Board**" or the "**Directors**") of China Star Food Group Limited (the "**Company**" and together with its subsidiaries, the "**Group**") is committed to maintaining a high level of corporate governance to promote greater transparency and safeguard the interests of shareholders.

This report outlines the Company's corporate governance structures and practices that were in place during the financial year ended 31 March 2018 ("**FY2018**"), with specific reference made to the principles of the Code of Corporate Governance 2012 (the "**Code**"), issued by Monetary Authority of Singapore on 2 May 2012, and the disclosure guide developed by the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") in January 2015 to aid companies in compliance with the Code (the "**SGX Guide**") through effective self-regulatory corporate practices to protect and enhance the interests and value of its shareholders.

The Group has substantially complied with the principles and guidelines as set out in the Code and/or the SGX Guide where appropriate. Appropriate explanations have been provided in the relevant sections below where there are deviations from the Code and/or the SGX Guide.

I. BOARD MATTERS

The Board's Conduct of its Affairs

Principle 1: Effective Board to lead and control the Company

As at the date of this report, the Board has five members and comprises the following:

Name of Director	**Designation**
Liang Chengwang	Executive Chairman and Chief Executive Officer
Luo Jiachang *(appointed on 1 February 2018)*	Executive Director
Leow Yong Kin *(appointed on 6 February 2018)*	Lead Independent Director
He Jing	Independent Director
Ng Poh Khoon *(appointed on 31 May 2018)*	Independent Director

The profiles of the Directors are set out on pages 20 and 21 of this Annual Report.

The Board oversees the business affairs of the Group and is responsible for setting the strategic direction and establishing goals for the management team of the Company ("**Management**"). In addition, the Board works with Management to achieve these goals set for the Group. To ensure smooth operations, facilitate decision-making and ensure proper controls, the Board has delegated some of its powers to its committees (the "**Board Committees**") and Management. The Board Committees and Management remain accountable to the Board.

The principal functions of the Board are as follows:

Guideline 1.1 of the Code: The Board's role

(a) Approving strategies and financial objectives of the Group and monitoring the performance of Management;

(b) Ensuring that the necessary financial and human resources are in place for the Company to meet its objectives;

(c) Evaluating the adequacy of internal controls, risk management, financial reporting and compliance;

(d) Ensuring the Group's compliance with laws, regulations, policies, directives, guidelines and internal code of conduct;

(e) Approving the nomination of Board members and the appointment of key management personnel;

(f) Reviewing the performance of Management;

(g) Approving annual budgets, major funding, investments and divestment proposals; and

(h) Ensuring accurate, adequate and timely reporting to, and communication with shareholders.

All Directors exercise reasonable diligence and independent judgement when making decisions and are obliged to act honestly and consider the interests of the Company at all times.

Guideline 1.2 of the Code: Directors to act in the interests of the Company

To efficiently discharge its responsibilities, the Board has established several Board Committees, namely, the Audit Committee ("**AC**"), the Nominating Committee ("**NC**") and the Remuneration Committee ("**RC**"). These Board Committees are given specific responsibilities and they are empowered by the Board to deal with matters within the limits of authority set out in the terms of reference, which are reviewed on a regular basis by the Board. They assist the Board operationally without the Board losing authority over major issues.

Guideline 1.3 of the Code: Disclosure on delegation of authority by Board to Board Committees

The Board is free to request for further clarification and information from Management on all matters within their purview. The schedule of all Board Committees' meetings for the financial year is usually given to all Directors well in advance. The Board conducts meetings on a quarterly basis to review the Group's financial results and where necessary, additional Board meetings are held to address significant issues or transactions.

In FY2018, the Board met four times to review the Company's financial results and to consider proposed corporate actions by the Company. Ad-hoc meetings are held to address significant issues or transactions. The Company's Constitution (the "**Constitution**") allows Board meetings to be conducted by way of telephone conference and/or by means of similar communication equipment where all Directors participating in the meeting are able to hear each other. Decision of the Board and the Board Committees may also be obtained through circular resolutions.

Guideline 1.4 of the Code: Board to meet regularly

Corporate Governance Report

Directors' attendance at the Board and the Board Committee meetings during FY2018 and up to the date of this report is as follows:

	Board of Directors' Meeting		Audit Committee			Nominating Committee			Remuneration Committee		
				Meetings			Meetings			Meetings	
Name of Directors	No. held	No. attended	Membership	No. held	No. attended	Membership	No. held	No. attended	Membership	No. held	No. attended
Present Directors											
Liang Chengwang	4	4	No	4	4*	No	1	1*	No	1	1*
Luo Jiachang(1)	4	2	No	4	2*	No	1	1*	No	1	1*
Leow Yongkin(2)	4	2	Yes (Chairman)	4	2	Yes (Chairman)	1	1	Yes	1	1
He Jing	4	4	Yes	4	4	Yes	1	1	Yes (Chairman)	1	1
Ng Poh Khoon(3)	4	–	Yes	4	–	Yes	1	–	Yes	1	–
Past Directors											
Kuan Cheng Tuck(4)	4	2	Yes (Chairman)	4	2	Yes	1	–	Yes	1	–
Chen Zhen(5)	4	2	Yes	4	2	Yes	1	–	Yes	1	–
Lim Teck Chai, Danny(6)	4	–	Yes	4	–	Yes	1	–	Yes (Chairman)	1	–
Huang Lu(7)	4	–	No	4	–	No	1	–	No	1	–
Victor Koh Eng Kheng(8) #	4	–	Yes	4	–	Yes (Chairman)	1	–	Yes	1	–
Lee Choong Onn(9)	4	2	No	4	1	No	1	–	No	1	–

* By invitation

\# Relinquished his position as the Chairman of the AC and remained as Member of the AC on 3 July 2017

Notes:

(1) Appointed as Executive Director on 1 February 2018

(2) Appointed as Lead Independent Director on 6 February 2018

(3) Appointed as Independent Director on 31 May 2018

(4) Resigned as Lead Independent Director on 16 January 2018

(5) Resigned as Independent Director on 31 January 2018

(6) Resigned as Independent Director on 26 April 2017

(7) Resigned as Non-executive Director on 5 May 2017

(8) Resigned as Independent Director on 28 July 2017

(9) Resigned as Non-executive Director on 21 February 2018

The Company has documented internal guidelines for matters that require Board approval. The Board approves transactions exceeding certain threshold limits, while delegating authority for transactions below these limits to the Board Committees and/or Management to optimize operational efficiency guided by internal policies and limits of authority.

Guideline 1.5 of the Code: Matters requiring Board approval

Matters and transactions requiring Board's approval include (i) major investments; (ii) material acquisitions and disposals of assets; (iii) corporate and financial restructuring; (iv) share issuance, dividends and other returns to shareholders; (v) budgets, financial results announcements, annual report and audited financial statements; (vi) capital expenditures; (vii) capital borrowings and financial commitments; and (viii) material interested person transactions.

Each Board member has extensive experience and knowledge in his/her respective area of work, thus providing valuable contribution to the decision-making process of the Board.

All new Directors are given guidance and orientation including onsite visits to get them familiarised with the Group's business, organization structure, corporate strategies and policies and corporate governance practices to facilitate the effective discharge of their duties. The Lead Independent Director, together with the Chief Financial Officer had conducted site visit to the Group's factories in Liancheng, China in May 2018.

Guideline 1.6 of the Code: Directors to receive appropriate training

For new Directors who do not have prior experience as a director of a public listed company in Singapore, they will attend training courses organized by the Singapore Institute of Directors ("SID") or other training institutions in areas such as accounting, legal and industry-specific knowledge, where appropriate, in connection with their duties. The Company would arrange the Directors to attend the relevant courses organised by SID to familiarise themselves with the roles and responsibilities of Directors of a listed company. For FY2018, the Company Secretary will be conducting the training courses for new Directors who do not have prior experience as a director of a public listed company.

All Directors have access to information and further training on new developments, including new laws, regulations and changing commercial risks, at the Company's expense. During FY2018, the Directors were briefed by the external auditors on changes and amendments to the Singapore Financial Reporting Standards and the Company Secretary on changes and amendments to the Listing Manual Section B: Rules of Catalist of the SGX-ST (the "**Catalist Rules**") and the Companies (Amendment) Act 2017.

News releases issued by the SGX-ST and the Accounting and Corporate Regulatory Authority ("**ACRA**") which are relevant to the Directors are circulated to the Board.

A formal letter of appointment is provided to every new Director, setting out his/her duties and obligations.

Guideline 1.7 of the Code: Formal letter to be provided to Directors setting out their duties

Board Composition and Balance

Principle 2: Strong and independent element on the Board

In FY2018, the Board comprises five Directors, two of whom are Executive Directors and three of whom are Non-Executive Independent Directors.

Guideline 2.1 of the Code: One-third of Directors to be independent

Name of Director	Designation
Liang Chengwang	Executive Chairman and Chief Executive Officer
Luo Jiachang	Executive Director
Leow Yong Kin	Lead Independent Director
He Jing	Independent Director
Ng Poh Khoon	Independent Director

The Executive Chairman and the Chief Executive Officer ("CEO") is the same person. In view that the Executive Chairman and the CEO is also part of the management team and is not an Independent Director, the Company met the Code's recommendation as the Independent Directors make up more than half of the Board.

Guideline 2.2 of the Code: Independent Directors to make up at least half of the Board in certain circumstances

The NC conducted its annual review of the Directors' independence in accordance with the Code's definition of what constitutes an Independent Director. In its deliberation as to the independence of a Director, the NC took into consideration whether a Director has any relationships with the Company, its related companies, its 10% shareholders or its officers, and if so, whether such relationships could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgement with a view to the best interests of the Company.

Guideline 2.3 of the Code: Disclosure of Directors considered to be independent

For FY2018, the NC has reviewed and determined that the Independent Directors of the Company are independent according to the Code.

None of the Independent Directors of the Company has served the Board beyond nine years from the date of his/her first appointment.

Guideline 2.4 of the Code: Independence of Director who has served on the Board beyond nine years should be subject to rigorous review

For FY2018, the Board is of the opinion that its current Board size and composition is reasonably effective and efficient considering the nature, scope and size of the Group's business operations.

Guideline 2.5 of the Code: Board to determine its appropriate size

The Directors of the Company come from diverse backgrounds and possess core competencies, qualifications and skills, all of whom as a group, provides the Board with a good mix of the necessary experience and expertise to direct and lead the Group. Their combined wealth and diversity of experience enable them to contribute effectively to the strategic growth and governance of the Group.

Guideline 2.6 of the Code: Board to comprise Directors with core competencies

The Non-Executive Directors constructively challenge and assist in the development of proposals on strategies, and assist the Board in reviewing the performance of Management in meeting agreed goals and objectives, and monitor the reporting of such performance.

Guideline 2.7 of the Code: Role of non-executive directors

The Non-Executive Directors meet regularly and as and when circumstances required, to discuss any matters without the presence of Management. During FY2018, the Non-Executive Directors have met informally at least once without the presence of Management.

Guideline 2.8 of the Code: Regular meetings of non-executive directors

Chairman and Chief Executive Officer

Principle 3: Clear division of responsibilities and balance of power and authority

Mr Liang Chengwang is the Executive Chairman and the CEO of the Company.

Guideline 3.1 of the Code: Chairman and CEO should be separate persons

The role of the Chairman and the CEO should principally be separated to maintain an appropriate balance of power, increased accountability and to facilitate independent decision making by the Board. However, the Board is of the view that the existing leadership arrangement is effective as it does not hinder the decision-making process of the Company unnecessarily.

The Chairman and the CEO promotes high standards of corporate governance on the Board and within the Group. In FY2018, the presence of the three Independent Directors also provides a strong independent and objective element to the Board. They participate actively in matters relating to business, finance, corporate governance, risk management, remuneration and appointment of Board members. The Board Committees comprise primarily Independent Non-Executive members.

Hence, the Board believes that there are sufficient safeguards against an uneven concentration of power and authority in a single individual, and that the existing leadership arrangement is effective. The Board will continually review the role of the Executive Chairman and the CEO as well as the composition of the Board to ensure that it does not impede the principles of independence and objectivity in decision making.

<u>Roles of the Executive Chairman and the CEO</u>

Guideline 3.2 of the Code: Chairman's role

As the Executive Chairman, Mr Liang Chengwang assumes responsibilities for amongst others, the effective function of the Board and exercise control over the quality, quantity and timeliness of the flow of information between Management and the Board and assisting in ensuring compliance with the Company's guidelines on corporate governance. He will be assisted by Management in the daily operations and administration of the Group's business activities and in the effective implementation of the Group's business strategies including but not limited to the following:

(i) ensuring the Board's effectiveness and managing the relationship with shareholders;

(ii) ensuring that Board meetings are held when necessary and to approve the meeting agenda;

(iii) providing accurate and clear information contained in the Board papers;

(iv) allowing sufficient time for the discussion of the agenda items;

(v) monitoring communications and relations within the Board and between the Board and Management to facilitate constructive dialogue;

(vi) facilitating effective contribution of the Non-Executive Directors; and

(vii) ensuring compliance with the guidelines set out in the Code.

The Executive Chairman and the CEO remains involved in significant corporate matters, especially those of strategic nature. As the CEO, Mr Liang Chengwang is responsible for the Group's overall management, including overseeing the Group's operation, setting directions for new growth areas and developing business strategies. He played an instrumental role in developing the business of the Group and has provided the Group with strong leadership and vision.

Taking into account the size, scope and nature of the operations of the Group, the roles of the Executive Chairman and the CEO are not separated as the Board is of the view that it is currently in the best interests of the Group to adopt a single leadership structure given the adequate level of accountability and transparency within the Group.

To promote a high standard of corporate governance, Mr Leow Yong Kin was the Lead Independent Director of the Company in FY2018, who has made himself available to shareholders at the Company's general meetings and by way of appointment where they have concerns for which contact through the normal channels of the Executive Chairman and the CEO or the Chief Financial Officer ("CFO") have failed to resolve or for which such contact is inappropriate.

Guideline 3.3 of the Code: Appointment of Lead Independent Director

During FY2018, the Independent Directors have met informally at least once to discuss the Company's matters without the presence of Management and has provided feedback to the Executive Chairman.

Guideline 3.4 of the Code: Led by the Lead Independent Director, Independent Directors to meet periodically

BOARD MEMBERSHIP

Principle 4: Formal and transparent process for the appointment and re-appointment of Directors to the Board

As at the date of this report, the NC comprises three members, all of whom, including the Chairman, are Independent Directors.

Guideline 4.1 of the Code: NC to recommend all Board appointments

Leow Yong Kin	Chairman
He Jing	Member
Ng Poh Khoon *(appointed on 31 May 2018)*	Member

The NC is regulated by a set of written terms of reference and is responsible for making recommendations to the Board on all Board appointments and re-appointments through a formal and transparent process, which includes internal guidelines to address the conflict of competing time commitments that are faced by Directors with multiple board representations. In respect of re-nominations, the NC will consider the individual Director's contribution and performance and whether the Director has adequate time and attention to devote to the Company, in the case of Directors with multiple board representations.

The responsibilities and principal functions of the NC, as set out in its terms of reference, include:

(a) Reviewing, assessing, making recommendations to the Board on the appointment of Directors, including making recommendations on the composition of the Board generally (taking into account Guidelines 2.1, 2.2, 2.3 and 3.3 of the Code, progressive renewal of the Board, each Director's qualifications, competencies, the number of other listed company board representations and whether he/she is independent) and providing to all newly appointed Directors a formal letter setting out his/her duties and obligations;

(b) Regularly reviewing the Board structure, size and composition having regard to the scope and nature of the operations, the requirements of the business, the diversity of skills, experience, gender and knowledge of the Company and the core competencies of the Directors as a group and recommending to the Board with regards to any adjustment that may be deemed necessary;

(c) Reviewing, assessing and recommending nominee(s) or candidate(s) for re-appointment or re-election to the Board and considering his/her competency, commitment, contribution, performance and whether or not he/she is independent;

(d) Making plans for succession, in particular, for the Chairman of the Board and the CEO;

(e) Preparing and recommending, for approval of the Board, written guidelines on the division of responsibilities of the Chairman of the Board and the CEO;

(f) Determining, on an annual basis, if a Director is independent bearing in mind the circumstances set forth in Guidelines 2.3 and/or 2.4 of the Code and other salient factors;

(g) Recommending Directors who are retiring by rotation to be put forward for re-election;

(h) Deciding whether or not a Director is able to and has been adequately carrying out his/ her duties as a Director of the Company, particularly when he/she has multiple board representations, and/or other principal commitments;

(i) Recommending to the Board internal guidelines to address the competing time commitments faced by Directors who serve on multiple boards and the maximum number of listed company board representations which any Director may hold;

(j) Assessing the effectiveness of the Board as a whole and the contribution of each individual Director to the effectiveness of the Board and recommending to the Board the development of a process for evaluation and deciding how the performance of the Board may be evaluated and proposing objective performance criteria. The Chairman of the NC should act on the results of the performance evaluation and where appropriate, proposing new members be appointed to the Board or seeking the resignation of Directors, in consultation with the members of the NC; and

(k) Recommending to the Board comprehensive induction training programmes for new Directors and reviewing the training and professional development programmes for the Board to keep the Board apprised of relevant new laws, regulations and changing commercial risk.

Guideline 4.2 of the Code: NC to recommend to the Board on certain relevant matters

In accordance with Articles 99(1) and (2) of the Company's Constitution, one-third of the Directors shall retire from office by rotation at each annual general meeting ("**AGM**"). In addition, Articles 99(3) and (4) provide that the Directors to retire in every year shall be those subject to retirement by rotation who have been longest in office since their last re-election or appointment and that the retiring Directors are eligible to offer themselves for re-election and Articles 81 and 100 provide that all new Directors who are appointed as additional directors or to fill up the vacancy occurring in the Board of Directors shall hold office only until the next AGM and are eligible to offer themselves for re-election.

Subsequent to the end of FY2018, the NC had met once to:

(a) assess and review the Board's size and competency mix;

(b) assess and evaluate effectiveness of the Board and the Board's performance as a whole;

(c) assess and review the independence of each Non-Executive Independent Director, including those with multiple directorships in other companies; and

(d) review and recommend the re-election of Directors.

The Board has accepted the NC's nomination of the retiring Directors who have given their consent for re-election at the forthcoming AGM of the Company. The retiring Directors at the forthcoming AGM of the Company are Ms He Jing who will retire pursuant to Article 99 of the Company's Constitution and Mr Leow Yong Kin and Mr Ng Poh Khoon who will retire pursuant to Article 100 of the Company's Constitution.

Guideline 4.3 of the Code: NC to determine Directors' independence annually

The NC reviews the independence of each Director annually in accordance with the Code's definition of independence. In respect of the Company's current Independent Directors, Mr Leow Yong Kin, Ms He Jing and Mr Ng Poh Khoon, the Board is of the view that they are independent, taking into account the circumstances set forth in the Code and any other salient factors. The Independent Directors had also confirmed their independence in accordance with the Code.

When a Director has multiple board representations, the NC also considers whether or not the Director is able to and has adequately carried out his/her duties as a Director of the Company, taking into consideration the Director's number of listed company board representations and other principal commitments. Based on the Directors' contributions at meetings of the Board and Board Committees and their time commitment to the affairs of the Company, the Board believes that at present, it would not be meaningful to define the maximum limit on the number of listed company board representations and other principal commitments which any Director may hold, and has instead tasked the NC to review if a Director with multiple board representations is devoting sufficient time and attention to the affairs of the Company.

Guideline 4.4 of the Code: Ensure Directors with multiple board representations give sufficient time and attention to the Company

During FY2018, each individual Director had provided their confirmation to the NC on his/her ability to carry out his/her duties as a Director of the Company and to address any competing time commitments. The NC had evaluated and is satisfied that each of the Directors had spent sufficient time and attention on the affairs of the Group to fulfill their responsibilities, notwithstanding their other commitments.

The NC would continue to review from time to time on the board representations and other principal commitments of each Director to ensure that the Directors continue to meet the demands of the Group and are able to discharge their duties adequately.

There are no Directors who are deemed independent by the Board, notwithstanding the existence of a relationship as stated in the Code that would otherwise deem him/her not to be independent.

Currently, the Company does not have alternate directors.

Guideline 4.5 of the Code: Boards should avoid approving the appointment of alternative directors.

Guideline 4.6 of the Code: Description of process for selection, appointment and re-appointment of Directors to be disclosed

<u>Appointment of new Directors</u>

When the need for a new Director is identified, either to replace a retiring Director or to enhance the Board's capabilities, the NC will make recommendations to the Board regarding the identification and selection of suitable candidates based on the desired qualifications, skill sets, competencies and experience, which are required to supplement the Board's existing attributes. If need be, the NC may seek assistance from external search consultants for the selection of potential candidates. Directors and Management may also put forward names of potential candidates, together with their curriculum vitae, for consideration.

The NC, after completing its assessment, meets with the short-listed candidates to assess their suitability, before submitting the appropriate recommendations to the Board for approval.

<u>Re-appointment of incumbent Directors</u>

The NC would access the contributions and performance of the incumbent Director and would also review the range of expertise, skills and attributes of current Board members and consider the current needs of the Board.

Subject to the NC's satisfactory assessment, the NC would recommend the proposed re-appointment of the incumbent Director to the Board for its consideration and approval.

Information in respect of the academic and professional qualification, date of first appointment as a director, date of last re-appointment as a director, and directorship or chairmanship, both present and those held over the preceding three years in other listed companies, and other principal commitments, is set out in the "Board of Directors" section of the Annual Report. In addition, information on shareholdings in the Company and its related companies held by each Director is set out in the "Statement by Directors" section of the Annual Report.

Guideline 4.7 of the Code: Key information regarding Directors

Board Performance

Principle 5: Formal assessment of the effectiveness of the Board as a whole and the contribution by each Director to the effectiveness of the Board

The NC, guided by its terms of reference, decides on how the Board's performance is to be evaluated and has developed objective performance criteria, which address how the Board has enhanced long-term shareholders' value and the effectiveness of the Board as a whole.

In evaluating the Board's performance, the NC implements a self-assessment process that requires each Director to submit the assessment of the performance of the Board as a whole during the year under review. This self-assessment process takes into account, *inter alia*, the Board size and composition, maintenance of independence, Board information, Board process, Board accountability, communication with top Management and standard of conduct. The Company Secretary and his representatives will collate the Board evaluations and provide the summary observations to the NC. The NC would then discuss the evaluation and conclude the performance results during the NC meeting.

Guidelines 5.1 and 1.2 of the Code: Board to implement process to address how the Board's performance may be evaluated and disclose the process in Annual Report

The NC has reviewed the overall performance of the Board in terms of its role and responsibilities and the conduct of its affairs as a whole for FY2018 and is of the view that the Board as a whole has met its performance objectives.

The NC had concurred that it was difficult to evaluate the performance of the Board Committees or individual Director given the changes to the composition of the Board and Board Committees during FY2018. As such, no assessment was carried out for the Board Committee and each individual Director for FY2018. The NC would consider implementing such performance evaluation for each Board Committee and individual Director at a time deemed appropriate.

Guideline 5.3 of the Code: Evaluation of each Director whether he/she continues to contribute effectively

The Board has not engaged any external consultant to conduct an assessment of the performance of the Board. Where relevant and when the need arise, the NC will consider such an engagement.

The NC reviewed the mix of skills and experiences of the Directors that the Board requires to function competently and efficiently in achieving the Group's strategic objectives. When reviewing the Board's performance for FY2018, the NC is satisfied that the Board has a good mix of skills and expertise to meet the needs of the Group and noted the following points:

(a) Feedback received from the Directors and acted on their comments accordingly; and

(b) Individual Director's attendance at meetings of the Board, Board Committees and general meetings, individual Director's functional expertise and his/her commitment of time to the Company.

The Executive Chairman, in consultation with the NC, will, if necessary, propose steps to be undertaken to strengthen the Board's leadership so as to improve the effectiveness of the Board's oversight of the Company.

Each member of the NC has abstained from reviewing and voting on any resolution relating to his/ her re-nomination as Director, or in any matter where he/she has an interest.

Access to Information

Principle 6: Board members should be provided with complete, adequate and timely information

To enable the Board to function effectively and to fulfill its responsibilities, Management recognises its obligation to supply the Board and Board Committees with complete, adequate information in a timely manner. In addition, all relevant information on the Group's annual budgets, financial statements, material events and transactions complete with background and explanations are circulated to Directors as and when they arise.

Guidelines 6.1 and 6.2 of the Code: Board should have separate and independent access to Management; Management obliged to provide Board with adequate and timely information and include background and explanatory information

Management recognises the importance of circulating information on a timely basis to ensure that the Board has adequate time to review the materials to facilitate a constructive and effective discussion during the scheduled meetings. As such, Management endeavours to circulate information for the Board meetings at least one week prior to the meetings to allow sufficient time for the Directors' review.

Management will also on best endeavours, encrypt documents which bear material price sensitive information when circulating documents electronically.

Key management personnel will also provide any additional material or information that is requested by Directors or that is necessary to enable the Board to make a balanced and informed assessment of the Group's performance, position and prospects.

Each Director has been provided with the up-to-date contact particulars of the Company's key management personnel and the Company Secretary to facilitate access to any required information.

Guideline 6.3 of the Code: Directors should have separate and independent access to Company Secretary; role of Company Secretary to be clearly defined

All Directors have separate and independent access to the Company Secretary. The Company Secretary and her representatives attend all meetings of the Board and Board Committees and are responsible in ensuring that Board procedures and all relevant rules and regulations applicable to the Company are complied with. The Company Secretary also advises the Board on corporate governance matters and she is also the channel of communication between the Company and the SGX-ST.

The appointment and removal of the Company Secretary is subject to the approval of the Board as a whole.

Guideline 6.4 of the Code: Appointment and removal of Company Secretary

In furtherance of their duties, the Directors, individually or as a group, may seek independent professional advice on matters relating to the businesses of the Group, at the Company's expense, subject to approval by the Board.

Guideline 6.5 of the Code: Procedure for Board to take independent professional advice at the Company's cost

II. REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 7: Formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors

As at the date of this report, the RC comprises the following members, all of whom are Independent Directors.

Guideline 7.1 of the Code: RC to consist entirely of Non-Executive Directors

He Jing	Chairman
Leow Yong Kin *(appointed on 6 February 2018)*	Member
Ng Poh Khoon *(appointed on 31 May 2018)*	Member

The RC is regulated by a set of written terms of reference. Its key functions include:

(a) Reviewing and recommending to the Board for endorsement by the entire Board, a general framework of remuneration for the Board, the specific remuneration packages and terms of employment for each Director, the CEO (if the CEO is not a Director) and key management personnel including but not limited to senior executive/divisional directors/those reporting directly to the Managing Director/Chairman/CEO/employee related to the Executive Directors or controlling shareholders of the Group;

(b) Reviewing and recommending for endorsement by the entire Board, share-based incentives or awards or any long term incentive schemes which may be set up from time to time, in particular to review whether Directors and key management personnel should be eligible for such schemes and also evaluating the cost and benefits of such scheme and to do all acts necessary in connection therewith;

(c) Functioning as the committee referred to in the China Star Employee Share Option Scheme ("**China Star ESOS**") and the China Star Performance Share Plan ("**China Star PSP**") (collectively referred to as the "**Schemes**") and shall have all the power as set out in the Schemes;

(d) Carrying out its duties in the manner that it deemed expedient, subject always to any regulations or restrictions that may be imposed upon the RC by the Board from time to time;

(e) Ensuring that all aspects of remuneration including but not limited to Directors' fees, salaries, allowances, bonuses, options, share-based incentives and awards and benefits-in- kind are covered; and

(f) Reviewing shall take into consideration Guidelines 8.1 to 8.4 of the Code, that the remuneration packages should be comparable within the industry and in comparable companies and shall include a performance-related element coupled with appropriate and meaningful measures of assessing individual Directors' and key management personnel's performance; the remuneration packages of employees related to Executive Directors, CEO (if CEO is not a Director) and substantial or controlling shareholders of the Group are in line with the Group's staff remuneration guidelines and commensurate with their respective job scopes and levels of responsibility; and the Company's obligations arising in the event of termination of the Executive Directors and key management personnel's contracts of service, to ensure that such contracts of service contain fair and reasonable termination clauses.

Guideline 7.2 of the Code: RC to review and recommend to the Board a general framework of remuneration for the Board and key management personnel

The RC recommends to the Board for endorsement, a framework of remuneration for the Board and key management personnel to ensure that the structure is competitive and sufficient to attract, retain and motivate senior management to run the Company successfully in order to maximize shareholder value.

There is a formal and transparent procedure for fixing the remuneration packages of the Directors. No individual Director is involved in deciding his/her own remuneration. All Non-Executive Directors are paid Directors' fees annually on a standard fee basis.

Each member of the RC abstains from making any recommendation on or voting on any resolution in respect of his/her own Director's fees payable to them, except for providing information and documents specifically requested by the RC to assist it in its deliberations.

Guideline 7.3 of the Code: RC to seek expert advice

In reviewing the remuneration packages, the RC takes into account the current market circumstances and the need to attract and retain Directors of experience and good standing. The RC has full authority to obtain external professional advice on matters relating to remuneration should the need arise.

No remuneration consultants were engaged by the Company in FY2018.

Guideline 7.4 of the Code: RC to review the Company's obligations in the event of termination of Executive Directors and key management personnel

The RC reviews the terms and conditions of service agreement of the Executive Director before his execution. In the course of such review, the RC will consider the Group's obligations arising in the event of termination of Executive Director and key management personnel, to ensure that the service agreements contain fair and reasonable termination clauses and are not overly generous so as to avoid rewarding poor performance.

The service agreement entered into with Mr Liang Chengwang, the Executive Chairman and the CEO of the Company, is for a term of three years with effect from 22 September 2015 and will automatically renewed for a further term of three years unless otherwise terminated by either party giving not less than six months' notice in writing to the other in accordance with the terms of the said agreement.

None of the Non-Executive Directors has entered into a service agreement with the Company.

Level and Mix of Remuneration

Principle 8: Level of remuneration of Directors should be appropriate but not excessive

The annual review of the compensation is carried out by the RC to ensure that the remuneration of the Executive Director and key management personnel commensurate with their performance and that of the Company, giving due regard to the financial and commercial health and business needs of the Group. The performance of the Executive Director (together with other key management personnel) is reviewed periodically by the RC and the Board.

Guideline 8.1 of the Code: Package should align Executive Directors' interest with shareholders' interest

The Executive Director do not receive Directors' fee. The remuneration of the Executive Director and the key management personnel comprise primarily a basic salary component and a variable component which is inclusive of bonuses and other benefits.

The Company has adopted the China Star ESOS and China Star PSP on 20 July 2015.

Guideline 8.2 of the Code: Long-term incentive schemes are encouraged

The China Star ESOS and China Star PSP serve as long-term incentive Schemes for the Company to provide greater flexibility in structuring market-competitive compensation packages for eligible Group employees, Group Executive Director and Group Non-Executive Directors (including the Independent Directors), including those who are also controlling shareholders. These Schemes provides an additional tool for the Company to reward, retain and motivate a core group of Directors, executives and employees so as to build sustainable businesses in the long term.

The China Star ESOS and China Star PSP are administrated by the RC in its absolute discretion with such powers and duties as may be conferred on it by the Board.

Directors' fees are set in accordance with a remuneration framework based on the level of responsibility and scope of work. The Non-Executive Directors are paid Directors' fees in accordance with their level of contributions, taking into account factors such as efforts and time spent, as well as responsibilities and obligations of the Directors. Directors' fees are recommended by the Board for approval by the shareholders at the AGM of the Company. The Board has endorsed the remuneration framework.

Guideline 8.3 of the Code: Remuneration of Non-Executive Directors dependent on contribution, effort, time spent and responsibilities

The Company does not use contractual provisions to allow the Group to reclaim incentive components of remuneration from the Executive Director and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company. The Executive Director owes a fiduciary duty to the Company. The Company should be able to avail itself to remedies against the Executive Director in the event of such breach of fiduciary duties.

Guideline 8.4 of the Code: To consider the use of contractual provisions to allow the Company to reclaim incentive components of remuneration from Executive Directors

Disclosure on Remuneration

Principle 9: Clear disclosure of remuneration policy, level and mix of remuneration, and procedure for setting remuneration

The Board has not included a separate annual remuneration report to shareholders in the Annual Report on the remuneration of Directors and the top key management personnel (who are not Directors or the CEO of the Company) as the Board is of the view that the matters which are required to be disclosed in such annul remuneration report have already been sufficiently disclosed in this report and in the financial statements of the Company.

The remuneration of each individual Director and key management personnel is disclosed in bands of S$250,000 with a breakdown of the components in percentage. Their remuneration is however not disclosed as the Company believes that such disclosure may be prejudicial to its business interests given the highly competitive and niche sweet potato snack industry it is operating in. The RC has reviewed the practice of the industry in this regard, weighing the advantages and disadvantages of such disclosure.

Guidelines 9.1, 9.2 and 9.3 of the Code: Remuneration of Directors and top five key management personnel

Disclosure on Directors' Fees and Remuneration

A breakdown of the level and mix of the remuneration payable to each individual Director in FY2018 are as follows:

Name of Director	Remuneration Band	Salary %	Director's Fees %	Performance Based Bonuses %	Other Benefits %	Total %
Present Directors						
Liang Chengwang	<$250,000	100	–	–	–	100
Luo Jiachang	<$250,000	100	–	–	–	100
He Jing	<$250,000	–	100	–	–	100
Leow Yong Kin[(1)]	<$250,000	–	100	–	–	100
Ng Poh Khoon[(2)]	<$250,000	–	–	–	–	–
Past Directors						
Lim Teck Chai, Danny [(3)]	<$250,000	–	100	–	–	100
Huang Lu [(4)]	<$250,000	–	100	–	–	100
Kuan Cheng Tuck[(5)]	<$250,000	–	100	–	–	100
Chen Zhen[(6)]	<$250,000	–	100	–	–	100
Victor Koh Eng Kheng[(7)]	<$250,000	–	100	–	–	100
Lee Choong Onn[(8)]	<$250,000	–	–	–	–	–

Notes:

(1) Appointed as Lead Independent Director on 6 February 2018
(2) Appointed as Independent Director on 31 May 2018
(3) Resigned as Independent Director on 26 April 2017
(4) Resigned as Non-executive Director on 5 May 2017
(5) Resigned as Lead Independent Director on 16 January 2018
(6) Resigned as Independent Director on 31 January 2018
(7) Resigned as Independent Director on 28 July 2017
(8) Resigned as Non-executive Director on 21 February 2018

Corporate Governance Report

Disclosure on Key Management Personnel's Remuneration

During FY2018, there were only two key management personnel (who are not Directors or the CEO) in the Company.

A breakdown of the remuneration bands payable to the top four key management personnel in FY2018 was as follows:

Name of Key Management Personnel	Remuneration Band	Salary %	Performance Based Bonuses %	Other Benefits %	Total %
Yeo Choon Tat(1)	<$250,000	96.2	–	3.8	100.00
Chan Siew Kit(2)	<$250,000	90.3	–	9.7	100.00

Notes:

(1) Appointed as Deputy Chief Executive Officer on 1 December 2016 and subsequently re-designated as Chief Financial Officer on 31 May 2017

(2) Resigned as Chief Financial Officer on 31 May 2017

Total remuneration for the Directors and the top two key management personnel in FY2018 amounted to S$234,000 and S$242,740 respectively.

There were no termination, retirement and post-employment benefits granted to the Directors and key management personnel.

Guideline 9.4 of the Code: Disclosure of remuneration of employees who are immediate family members of Director and whose remuneration exceeds S$50,000

No employee of the Group was an immediate family member of any of the Directors and/ or the CEO whose remuneration exceeded S$50,000 in FY2018. Based on the Catalist Rules, "Immediate family" in relation to a person, means the person's spouse, child, adopted child, step- child, sibling and parent.

Guideline 9.5 of the Code: Details of employees share schemes

The Company has adopted the China Star ESOS and the China Star PSP which will provide eligible participants with an opportunity to participate in the equity of the Company and to motivate them towards better performance through increased dedication and loyalty. Such Schemes form an internal component of the compensation plan and are designed to primarily reward and retain Directors and employees whose services are vital to the growth and performance of the Group. As at the date of this Annual Report, no options and/or awards have been granted under the China Star ESOS and China Star PSP respectively.

Further details of the Schemes are set out in the "Statement by Directors" section of the Annual Report.

The Company advocates a performance-based remuneration system for Executive Director and key management personnel that is flexible and responsive to the market, comprising a base salary and other fixed allowances, as well as variable performance bonus which is based on the Group's performance and the individual's performance such as management skills, process skills, people skills and business planning skills. This is designed to align remuneration with the interests of shareholders and link rewards to corporate and individual performance so as to promote the long- term sustainability of the Group.

Guideline 9.6 of the Code: To disclose information on the link between remuneration paid to the Executive Directors and key management personnel, and performance

An assessment on the performance of the Executive Director and key management personnel for their entitlement to the variable performance bonus was done in FY2018. As production of the group only resumed in September 2017, certain performance conditions in regards to revenue and net profit were not met. The RC will review the performance of the Executive Directors and key management personnel based on its performance conditions again in the next financial year.

III. ACCOUNTABILITY AND AUDIT

Accountability

Principle 10: Presentation of a balanced and understandable assessment of the Company's performance, position and prospects

The Board recognises that it is accountable to shareholders for the performance of the Group. In discharging this responsibility, the Board ensures the timely release of the Group's financial results and that the results provide a balanced and understandable assessment of the Group's performance, financial position and prospects.

Guideline 10.1 of the Code: Board's responsibility to provide balances, understandable assessment of the Company's performance and position on interim basis

To assist the Board in discharging its responsibility, the Company has established a system whereby business and finance heads of individual subsidiaries and business units provide written representations, to Management who would in turn furnish an overall representation to the AC and the Board confirming, *inter alia*, the integrity of the Group's financial statements.

The Board takes steps to ensure compliance with legislative and regulatory requirements with all of the Group's operational practices and procedures and relevant regulatory requirements under the Catalist Rules, where appropriate. The Independent Directors will also obtain advices from Management when establishing written policies for any particular matter that is deemed to be essential to form part of management control.

Guideline 10.2 of the Code: Board to take adequate steps to ensure compliance with legislative and regulatory requirements

Management keeps the Board regularly updated on the Group's business activities and financial performance by providing operations reports on a regular basis to make a balanced and informed assessment of the Group's performance, position and prospects. Such reports include information on:

Guideline 10.3 of the Code: Management should provide the Board with management accounts on a monthly basis

- The Group's actual performance against the approved budget and where appropriate, against forecast; and

- Key business indicators and major issues that is relevant to the Group's performance.

Risk Management and Internal Controls

Principle 11: Sound system of risk management and internal controls

The Board is responsible for the governance of risk and sets the direction for the Group in the way risks are managed in the Group's businesses. The Board regularly reviews and improves the Company's business and operational activities to identify areas of significant risks as well as take appropriate measures to control and mitigate these risks. Management highlights and discusses (if any) salient risk management matters to the Board on a quarterly basis.

Guideline 11.1 of the Code: Board to determine the Company's levels of risk tolerance and risk policies

For FY2018, the AC had reviewed the Group's internal controls and risk management policies and processes, and based on its assessment and reports of the external and internal auditors, the AC is assured that adequate and effective internal controls and risk management systems are in place.

Guideline 11.2 of the Code: Board to review adequacy and effectiveness of risk management and internal control systems

The Board is committed to maintaining a sound system of internal controls, including financial, operational, compliance and information technology controls, and risk management systems to safeguard the interests of the shareholders and the Group's assets. To achieve this, regular internal reviews are constantly being undertaken to ensure that the system of internal controls maintained by the Group is sufficient to provide reasonable assurance that the Group's assets are safeguarded against loss from unauthorised use or dispositions, transactions are properly authorised and proper financial records are being maintained.

Guideline 11.3 of the Code: Board to comment on the adequacy and effectiveness of the internal controls

As for the operational and compliance controls, the Group has periodically reviewed these control areas through the various heads of departments, and has continuously made improvements with the assistance of regular internal review.

For FY2018, the Board has received assurance from the CEO and the CFO that:

Guideline 11.3 of the Code: Board to comment on the adequacy and effectiveness of the internal controls

(a) the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances; and

(b) the system of risk management and internal control in place within the Group (including financial, operational, compliance, and information technology) are sufficiently adequate and effective in addressing the material risks in the Group in its current business environment.

Based on the on-going review as well as the continuing efforts in enhancing controls and processes which are currently in place, the Board, with the concurrence of the AC, is of the opinion that the Group's internal controls, including financial, operational, compliance and information technology controls, and the risk management systems, are adequate and effective as at 31 March 2018.

Catalist Rule 1207(10)

The Board has not established a separate risk committee and relies on internal control policies and procedures established and maintained by the Group, and the regular audits, monitoring and reviews performed by the external auditors in carrying out its responsibility of overseeing the Company's risk management and policies.

Guideline 11.4 of the Code: Board to assess appropriate means to assist in carrying out its responsibility of overseeing the Company's risk management framework and policies

The system of internal controls and risk management established by the Group provides reasonable, but not absolute, assurance that the Group will not be adversely affected by any event that can be reasonably foreseen as the Group strives to achieve its business objectives. However, the Board also notes that no system of internal controls and risk management can provide absolute assurance in this regard, or absolute assurance against the occurrence of material errors, poor judgment in decision-making, human error, losses, fraud or other irregularities.

The Company has appointed Shinewing LLP Singapore as its internal auditors to perform the internal audit functions of the Group including the review and test of controls of its processes.

Audit Committee

Principle 12: Establishment of Audit Committee with written terms of reference

As at the date of this report, the AC comprises the following three members, all of whom are Independent Directors.

Guideline 12.1 of the Code: AC should comprise at least three Directors, all non-executive, and the majority of whom, including the Chairman, are independent

Leow Yong Kin *(appointed on 6 February 2018)*	Chairman
He Jing	Member
Ng Poh Khoon *(appointed on 31 May 2018)*	Member

The Board is of the opinion that the members of the AC are appropriately qualified to discharge their responsibilities. All AC members, Mr Leow Yong Kin, Ms He Jing and Mr Ng Poh Khoon have many years of experience in accounting and finance and are qualified accountants in their respective jurisdictions.

Guideline 12.2 of the Code: Board to ensure AC members are qualified

The AC is authorised by the Board to investigate any matters within its terms of reference. It has unrestricted access to information pertaining to the Group, to both internal and external auditors, and to all employees of the Group. Reasonable resources have been made available to the AC to enable it to discharge its duties properly.

Guideline 12.3 of the Code: AC to have explicit authority to investigate and have full access to Management and reasonable resources

The AC is regulated by a set of written terms of reference. The principal functions of the AC include:

Guideline 12.4 of the Code: Duties of the AC

(a) Reviewing with the external auditors on the audit plan, the evaluation of the system of internal accounting controls that are relevant to the audit, the audit report and the management letter and Management's response;

(b) Ensuring co-ordination where more than one audit firm is involved;

(c) Reviewing the quarterly and annual financial statements to ensure integrity of the said financial statements before submission to the Board for approval;

(d) Reviewing any formal announcements relating to the Company's financial performance;

(e) Discussing problems and concerns, if any, arising from the quarterly and final audits, in consultation with the external auditors and the internal auditors where necessary;

(f) Meeting with the external auditors and with the internal auditors without the presence of Management, at least annually, to discuss any problems and concerns they may have;

(g) Reviewing the assistance given by Management to the external auditors;

(h) Reviewing annually the scope and results of the external audit and its cost effectiveness and the nature and extent of non-audit services (if any) to the Company as well as the independence and objectivity of the external auditors;

(i) Reviewing the internal audit program and the adequacy and effectiveness of the Company's internal audit function, as well as to ensure co-ordination between the internal auditors and the external auditors and Management;

(j) Overseeing and advising the Board in formulating its risk policies to effectively identify and manage the Company's current (and future) risks in its financial, operational, compliance and information technology systems and all strategic transactions to be undertaken by the Company;

(k) Overseeing the design and implementation of the overall risk management systems and internal control systems (including financial, operational, compliance and information technology controls);

(l) Reviewing the adequacy and effectiveness of the Company's risk management and internal control systems (including financial, operational, compliance and information technology controls) and to report to the Board annually;

(m) Reviewing the scope and results of the internal audit procedures including the effectiveness of the internal audit functions and ensuring that such function is adequately resourced and has appropriate standing within the Company;

(n) Reviewing and discussing with the external auditors, any suspected fraud or irregularity, or suspect infringement of any law, rules and regulations, which has or is likely to have a material impact on the Company's operating results or financial position, and Management's response;

(o) Investigating any matter within its terms of reference, with full access to and co-operation by Management and full discretion to invite any Director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly;

(p) Reviewing arrangements by which staff of the Company and any other persons may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and ensuring that arrangements are in place for such concerns to be raised and independently investigated and for appropriate follow up actions to be taken;

(q) Reporting to the Board its findings from time to time on matters arising and requiring the attention of the AC;

(r) Reviewing interested person transactions falling within the scope of the Catalist Rules;

(s) Approving the hiring, removal, evaluation and compensation of the head of the internal audit function, or the accounting firm/auditing firm or corporation which the internal audit function is outsourced and ensuring that the internal audit function is staffed with persons with the relevant qualification and experience and that they carry out their function according to the standards set by nationally or internationally recognized professional bodies, including the Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors;

(t) Recommending to the Board the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors;

(u) Reviewing the audit representation letters before consideration by the Board, giving particular consideration to matters related to non-standard issues;

(v) Undertaking such other reviews and projects as may be requested by the Board; and

(w) Undertaking such other functions and duties as may be required by statute or the Catalist Rules, and by such amendments made thereto from time to time.

The AC met four times during FY2018 to review the audit plan/report, the audit findings, the reports on interested person transactions, and the announcements of the quarterly and full-year financial results before being approved by the Board for release to the SGX-ST.

The AC reviews the scope and results of the internal audit procedures, including the effectiveness of the internal audit functions and ensures that the internal audit function is adequately resourced and has appropriate standing within the Company and the adequacy of the internal audit function. The CFO is tasked to oversee the implementation of any improvement to the weaknesses in the internal controls.

Guideline 12.5 of the Code: AC to meet external and internal auditors without the presence of Management, annually

The AC has full access to and the co-operation of Management and reasonable resources to enable it to discharge its functions properly. The AC meetings are held with the external auditors and by invitation, any Director and representatives from Management. The AC also meets with the external auditors and the internal auditors without the presence of Management, at least annually, to discuss any problems and concerns they may have.

The AC had met with the external auditors, RT LLP, once in the absence of Management during FY2018.

The AC had undertaken a review of all non-audit services provided by the external auditors and was of the opinion that the provision of such services would not affect their independence.

Guideline 12.6 of the Code: AC to review independence of external auditors

Total fees paid by the Group to the external auditors for audit and non-audit services are as disclosed:

External auditor fees for FY2018	S$	% of Total
Total audit fees	120,000	100
Total non-audit fees	–	–
Total fees payable	120,000	100

The AC has reviewed the independence of the external auditors and is satisfied that the nature and extent of the non-audit services provided by the external auditors will not prejudice the independence of the external auditors. The AC is satisfied with the external auditors' confirmation of their independence.

The AC will undertake a review of the scope of services provided by the external auditors, the independence and the objectivity of the external auditors on annual basis. RT LLP, the external auditors of the Company, has confirmed that they are a Public Accounting Firm registered with ACRA and provided a confirmation of their independence to the AC. The AC had assessed the external auditors based on factors such as performance, adequacy of resources and experience of their audit engagement partner and auditing team assigned to the Group's audit, given the size and complexity of the Group. The AC is satisfied that the appointment of external auditors is in compliance with the requirements of Catalist Rules 712 and 715. Accordingly, the AC has recommended the re-appointment of RT LLP as external auditors for the ensuring year at the forthcoming AGM of the Company.

Catalist Rules 712 and 715

The Company has put in place a whistle-blowing policy whereby staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting, fraudulent acts and other matters. The arrangement also provide for independent investigation of such matters and permit whistle blowers to report directly to any member of the AC of the Company either in person or in writing.

Guideline 12.7 of the Code: AC to review arrangements for staff to raise concerns/ possible improprieties to AC

The AC has power to conduct or authorize investigations into any matter within the AC's scope of responsibility. On a regular basis, all whistle-blowing cases reported and the resolution would be reported to the AC. Depending on the nature of the concern raised or information provided, the investigation may be conducted. The details of the policy and the conduct details of the AC members have been disseminated and made available to all parties concerned.

Guideline 12.8 of the Code: AC to keep updated on changes to accounting standards

The AC members take measures to keep abreast of changes of accounting standards and issues which have a direct impact on financial statements through attending training and seminars as well as receiving updates from the Group's external auditors.

Guideline 12.9 of the Code: Director of the Company's existing auditing firm should not act as member of the AC

None of the members of the AC were previous partners or directors of the Company's existing auditing firm within the previous 12 months or hold any financial interest in the auditing firm.

Internal Audit

Principle 13: Effective and independent internal audit function

The Board recognizes the importance of maintaining a system of internal controls, procedures and processes for the Group to safeguard the shareholders' investments and the Group's assets.

Guideline 13.1 of the Code: IA to report to AC Chairman

As the size of the operations of the Group does not warrant the Group having an in-house internal audit function, the Company has outsourced its internal audit function to an independent external service provider. As recommended by the AC, the Board has appointed Shinewing LLP Singapore, a professional accounting firm providing internal audit, risk and compliance services as internal auditors to perform the internal audit functions of the Group including the review and test of controls of its processes. The internal auditors reported directly to the AC.

Guideline 13.2 of the Code: AC to ensure internal audit function is adequately resourced

The AC reviews and approves the internal audit plan to ensure the adequacy of the scope of audit. The AC also reviews the needs of the internal audit function on a regular basis, including overseeing and monitoring the implementation of the improvements required for various internal control weaknesses identified by Management and the external auditors.

For FY2018, the internal auditors had carried out a review in the audit areas focusing on the Group's key operations, and to make recommendations for improvement.

Guideline 13.3 of the Code: Internal audit function staffed with relevant experienced personnel

The AC is satisfied that the appointed internal auditors are adequately qualified (given, *inter alia*, its adherence to standards set by internationally recognized professional bodies) and resourced, and has the appropriate standing in the Company to discharge its duties effectively (given, *inter alia*, involvement in certain AC meetings and its unfettered access to all the Group's documents, records, properties and personnel, including direct access to the AC).

Guideline 13.4 of the Code: Internal auditor should meet standards set by internationally recognized professional bodies

Guideline 13.5 of the Code: AC to ensure adequacy and effectiveness of the internal audit function

IV. SHAREHOLDERS RIGHTS AND RESPONSIBILITIES

Principle 14: Shareholders Rights
Principle 15: Communication with Shareholders
Principle 16: Conduct of Shareholder Meetings

The Board recognizes that it is accountable to shareholders for the Group's performance, believes in transparency and strives towards timeliness in the dissemination of material information to the Company's shareholders and the public. The information, including a review of the Group's performance and prospects in the quarterly and full-year results announcements, is disseminated to shareholders through the SGXNET.

Guideline 14.1 of the Code: To facilitate the exercise of ownership rights by all shareholders

Corporate Governance Report

The Company encourages shareholders' participation during the general meetings. Shareholders are able to engage the Board and Management on the Group's business activities, financial performance and other business-related matters during the general meetings. Resolutions are passed through a process of voting and shareholders are entitled to vote in accordance with established voting rules and procedures.

Guideline 14.2 of the Code: Company to ensure the shareholders have the opportunity to participate effectively in and vote at general meetings

The Company's Constitution allows any shareholder, who is unable to attend the general meetings in person, to appoint not more than two proxies to attend and vote in his/her place at the general meetings via proxy forms submitted in advance (i.e. not less than forty-eight (48) hours before the time appointed for holding the general meeting). The proxy form is sent with the notice of general meetings to all shareholders.

Guideline 14.3 of the Code: Company to allow certain corporations to appoint more than two proxies

In line with the Group's disclosure obligations pursuant to the Catalist Rules and the Companies Act, Chapter 50 of Singapore, the Board's policy is that all shareholders should be informed simultaneously in an accurate and comprehensive manner for all material developments that impact the Group through SGXNET on an immediate basis.

Guidelines 15.1 and 15.2 of the Code: Company to devise an effective investor relations policy to regularly convey pertinent information to shareholders and disclose information on a timely basis through SGXNET

Copies of the Annual Report and the Notice of the AGM and/or Extraordinary General Meetings, where applicable, are sent to every shareholder of the Company. The Notices of the general meetings are also advertised in the newspapers and released via SGXNET.

The Company does not practice selective disclosure of material information. The Group makes all necessary disclosures to the public via SGXNET.

Before and after every general meeting, the Chairman and other members of the Board will engage in dialogue with shareholders, to gather views or inputs, and address shareholders' concerns.

Guideline 15.3 of the Code: Company to establish and maintain regular dialogue with shareholders

The Company also solicits the views of the shareholders through analyst briefings and meetings with investors and fund managers. The Company is open to meetings with investors and analysts, and in conducting such meetings, the Company is mindful of the need to ensure fair disclosure.

Guideline 15.4 of the Code: Steps that the Company takes to solicit and understand the views of the shareholders

The Company does not have a fixed dividend policy. The Company may, by ordinary resolution of the shareholders, declare dividends at a general meeting, but the Company may not pay dividends in excess of the amount recommended by the Directors. The declaration and payment of dividends will be determined at the sole discretion of the Directors subject to the approval of the shareholders of the Company. The Directors may also declare an interim dividend without the approval of the shareholders. The form, frequency and amount of dividends will depend on the Group's earnings, financial position, results or operations, capital needs, plans for expansion, and other factors as the Board may deem appropriate.

Guideline 15.5 of the Code: Companies are encouraged to have a dividend policy

The Board has not declared or recommended dividends for FY2018 in view of the recent resumption in productions and its impact on the Company's financial performance. The Board wants to ensure there are adequate resources for the Company's operations/expansion plans and to respond to any adverse changes in the industry and/or macroeconomic environment.

For the time being, the Board is of the view that authentication of shareholder identity information and other related security issues continue to be a concern and is not proposing to amend its Constitution to allow votes in absentia.

Guideline 16.1 of the Code: Shareholders should be allowed to vote in absentia

Separate resolutions on each distinct issue are tabled at general meetings and voting on each resolution by poll is carried out systematically with proper recording of votes cast and the resolution passed. "Bundling" of resolutions are kept to a minimum and are done only where the resolutions are interdependent so as to form one significant proposal and only where there are reasons and material implications justifying the same.

Guideline 16.2 of the Code: Company should avoid "bundling" resolutions

The Board, the Chairmen of the Board Committees, Management and the external auditors are available at general meetings to address any questions the shareholders may have concerning the Group.

Guideline 16.3 of the Code: Committee Chairman and external auditors to be present at AGM

The Company records minutes of all general meetings and questions and comments from shareholders together with the responses of the Board and Management. These are available to shareholders at their request.

Guideline 16.4 of the Code: Minutes to be available to shareholders

All resolutions will be voted by way of poll and the Company will announce the detailed results showing the number of votes cast for and against each resolution and the respective percentages via the SGXNET after the conclusion of the general meeting. An independent voting agent is appointed by the Company for general meetings who will explain the rules, including the voting procedures, that govern the general meetings of shareholders.

Guideline 16.5 of the Code: Company to put all resolutions to vote by poll

DEALINGS IN SECURITIES

The Company has adopted an internal policy on dealings in the securities to provide guidance to its Directors and officers with regard to dealings in the Company's securities.

The Company, its Directors and officers are prohibited from dealing in the Company's securities during the period commencing two weeks and one month before the date of announcement of the Company's quarterly and full-year financial results respectively and ending on the date of announcement of the relevant results, or when they are in possession of the unpublished price sensitive information of the Group. Notifications of the 'closed window' periods are sent to all Directors and officers concerned.

The Directors are also required to notify the Company of any dealings in the Company's securities within two (2) days of the transaction and to submit an annual confirmation on their compliance with the internal policy.

In addition, the Company, its Directors and officers are discouraged from dealing in the Company's securities on short-term considerations.

INTERESTED PERSON TRANSACTIONS

The Company has established internal control procedures to ensure the transactions with interested persons are properly reviewed and approved by the AC and conducted at arm's length basis, on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders.

The Company does not have a general mandate for Interested Person Transactions ("IPTs").

The Company has not had any IPTs with value more than S$100,000 transacted in FY2018.

MATERIAL CONTRACTS

There were no material contracts entered into by the Group involving the interest of the CEO, any Director or controlling shareholder, which are either still subsisting at the end of FY2018, or if not then subsisting, entered into since the end of the previous financial year.

USE OF PROCEEDS

As at the date of this announcement, the Company raised S$165,000 from the conversion of warrants ("Warrant Proceeds"). As at the date of this announcement, the Company has fully utilised the Warrant Proceeds towards working capital for the corporate office in Singapore.

As at the date of this announcement, the Company raised approximately S$2,586,000 in net proceeds from the placement of 40,000,000 new ordinary shares in the Company completed on 9 April 2018 (the "Placement Proceeds"). The status on the use of Placement Proceeds is as follows:

Item	Amount (S$)
Net Proceeds	2,586,000
Less:	
Working capital (Corporate office expenses)	(918,000)
Balance	1,668,000

The use of proceeds is in line with that previously announced on 12 March 2018.

NON-SPONSOR FEES

In FY2018, the Company paid to its sponsor, PrimePartners Corporate Finance Pte. Ltd., non-sponsor fees of S$22,596.

STATUS UPDATE ON SUSTAINABILITY REPORTING

We have started our journey towards sustainability reporting and are working towards finalising our inaugural report by 31 March 2019.

Statement by Directors

The directors of the Company are pleased to present the accompanying audited consolidated financial statements of China Star Food Group Limited (the "Company") and its subsidiaries (the "Group") and the statement of financial position and statement of changes in equity of the Company for the financial year ended 31 March 2018.

1. Opinion of the directors

In the opinion of the directors,

(a) the accompanying consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 March 2018 and of the financial performance, changes in equity and cash flows of the Group, and statement of changes in equity of the Company for the financial year ended on that date; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The board of directors approved and authorised these financial statements for issue.

2. Directors

The directors of the Company in office at the date of this statement are:

Mr Liang Chengwang	Executive Chairman and Chief Executive Officer
Mr Luo Jiachang	Executive Director (Appointed on 1 February 2018)
Mr Leow Yong Kin	Lead Independent Director (Appointed on 6 February 2018)
Ms He Jing	Independent Director
Mr Ng Poh Khoon	Independent Director (Appointed on 31 May 2018)

3. Directors' interests in shares and debentures

The directors of the Company holding office at the end of the financial year had no interests in shares in or debentures of the Company or other related body corporate as recorded in the register of directors' shareholdings kept by the Company under section 164 of the Singapore Companies Act, Chapter 50 (the "Act") except as follows:

	Direct Interest	
Name of directors and Company in which interests are held	**At beginning of the financial year**	**At end of the financial year**
The Company	**Number of shares of no par value**	
Mr Liang Chengwang	80,283,000	80,283,000

The director interests as at 21 April 2018 were same as those as at the end of the financial year.

By virtue of section 7 of the Act, Mr Liang Chengwang is deemed to have an interest in all the related body corporates of the Company.

4. **Arrangements to enable directors to acquire benefits by means of the acquisition of shares and debentures**

Neither at the end of the reporting year nor at any time during the reporting year did there subsist arrangements to which the Company is a party, being arrangements whose objects are, or one of whose objects is, to enable directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate except as disclosed in Paragraph 5 in this statement.

5. **Share options and performance shares**

Share options

During the reporting year, no option to take up unissued shares of the Company or other body corporate in the Group was granted.

At the end of the reporting year, there were no unissued shares of the Company or other body corporate in the Group under option.

China Star Employee Share Option Scheme

The China Star Employee Share Option Scheme (the "Scheme") was approved by the shareholders of the Company at an extraordinary general meeting held on 20 July 2015.

The Scheme shall continue to be in force at the discretion of the Remuneration Committee ("RC"), subject to a maximum period of 10 years commencing on the date the Scheme was adopted by the Company in the general meeting i.e. 20 July 2015, provided always that the Scheme may continue beyond the above stipulated period with the approval of shareholders by an ordinary resolution in a general meeting and any relevant authorities which may then be required.

The Scheme may be terminated at any time by the RC or by a resolution of the Company in a general meeting subject to all relevant approvals, which may be required, and if the Scheme is terminated, no further option shall be offered by the Company.

The Scheme provides for the grant of ordinary shares of the Company to employees, executive directors, non-executive directors (including independent directors) of the Company and its subsidiaries, including those who may be the controlling shareholders.

The Scheme is administered by the RC comprising three directors, namely, Ms He Jing, Mr Leow Yong Kin and Mr Ng Poh Khoon in its absolute discretion with such powers and duties as may be conferred on it by the board of directors of the Company, which will determine the terms and conditions of the grant of the options. Where a member of the RC is also a proposed participant, he/she will not be involved in the deliberations and decisions of the RC in respect of the options granted, or to be granted, to him/her or his/her associate(s).

The aggregate number of new shares that may be allotted and issued from time to time upon the exercise of the options granted pursuant to the Scheme ("Option Shares") over which the RC may grant options on any date (including the number of Option Shares which have been and are to be issued upon the exercise of the options in respect of all options granted under the Scheme and any other share scheme then in force) shall not exceed 15% of the total number of shares (excluding treasury shares and subsidiary holdings) on the day preceding that date.

5. **Share options and performance shares (cont'd)**

<u>China Star Employee Share Option Scheme</u> (cont'd)

The aggregate number of Option Shares over which options may be granted under the Scheme to controlling shareholders and/or their associates shall not exceed 25% of the Option Shares available under the Scheme, and the number of Option Shares over which an option may be granted under the Scheme to each controlling shareholder or his/her associate shall not exceed 10% of the Option Shares available under the Scheme.

Subject to any adjustment pursuant to Rule 10 of the Rules of the Scheme, the exercise price for each share in respect of which an option is exercisable shall be payable upon the exercise of the option and shall be determined by the RC in its absolute discretion, on the date of grant, and fixed by the RC at:

(a) the market price; or

(b) a price which is set at a discount to the market price, provided that:

  (i) the maximum discount shall not exceed 20% of the market price. The RC shall have the sole and absolute discretion to determine the exact amount of discount to each participant; and

  (ii) the shareholders in a general meeting shall have authorised, in a separate resolution, the making of offers and grants of options under the Scheme at a discount not exceeding the maximum discount as aforesaid.

Options granted with the exercise price set at market price shall only be exercisable, in whole or in part (provided that an option may be exercised in part only in respect of 100 shares or any multiple thereof), by a participant after the first anniversary of the date of grant of that option, and options granted with the exercise price set at a discount to market price shall only be exercisable by a participant after 2 years from the date of grant of that option.

Group employees (including executive directors) who are granted options must exercise their options before the 10th anniversary from the date of grant and Group non-executive directors (including independent directors) who are granted Options must exercise their options before the 5th anniversary from the date of grant, failing which all unexercised options shall immediately lapse and become null and void and a participant shall have no claim against the Company.

Since the approval of the Scheme by the shareholders of the Company, no option was granted.

<u>China Star Performance Share Plan</u>

The China Star Performance Share Plan (the "Plan") was approved by the shareholders of the Company at an extraordinary general meeting held on 20 July 2015.

The Plan shall continue to be in force at the discretion of the RC, subject to a maximum period of 10 years commencing on the date the Plan was adopted by the Company in the general meeting i.e. 20 July 2015, provided always that the Plan may continue beyond the above stipulated period with the approval of shareholders by an ordinary resolution in a general meeting and any relevant authorities which may then be required.

The Plan may be terminated at any time by the RC or by resolution of the Company in general meeting subject to all relevant approvals, which may be required, and if the Plan is terminated, no further award shall be vested in the Company.

5. **Share options and performance shares (cont'd)**

China Star Performance Share Plan (cont'd)

The Plan is administered by the RC comprising three directors, namely, Ms He Jing, Mr Leow Yong Kin and Mr Ng Poh Khoon in its absolute discretion with such powers and duties as may be conferred on it by the board of directors of the Company, which will determine the terms and conditions of the grant of the awards. Where a member of the RC is also a proposed participant, he/she will not be involved in the deliberations and decisions of the RC in respect of the awards granted, or to be granted, to him/her or his/her associate(s).

The Company will be delivering shares pursuant to the award granted under the Plan in the form of existing shares held as treasury shares and/or an issue of new shares that may be allotted and issued from time to time upon the vesting of an award granted pursuant to the Plan. The performance shares issued under the Plan, when added to all awards granted under any other share option, share incentive, performance share or restructured share plan implemented by the Company and for the time being in force, shall not exceed 15% of the issued share capital of the Company from time to time.

In determining whether to issue performance share or to purchase existing shares for delivery to participants upon vesting of their award, the Company will take into account factors such as (but not limited to) the number of shares to be delivered, the prevailing market price of the shares and the financial effect on the Company of either issuing performance shares or purchasing existing shares.

Insofar as in relation to the number of treasury shares that may be held pursuant to the Act as amended by the Companies (Amendment) Act 2014, such a method is not subject to any further limit under prevailing legislation and Singapore Exchange Securities Trading Limited ("SGX-ST") guidelines as it does not involve the issuance of any performance shares.

An award letter confirming the award and specifying, *inter alia*, in relation to the award, the prescribed performance target(s), the performance period during which the prescribed performance target(s) are to be satisfied and the date by which the award shall be vested, will be sent to each participant as soon as reasonably practicable after the award is finalised. Notwithstanding that a participant may have met his/her performance targets, no award shall vest in a participant in the following circumstances:

(a) upon the bankruptcy of a participant or the happening of any other event which results in his/her being deprived of the legal or beneficial ownership of such award;

(b) in the event of any misconduct of a participant as determined by the RC in its discretion;

(c) in the event that the RC shall, in its discretion, deems it appropriate that such award shall so lapse on the grounds that any of the objectives of the Plan have not been met; or

(d) in the event that the participant ceases to be employed by the Company before vesting of the award to him/her.

The intention is to award shares based on pre-determined dollar amounts such that the quantum of shares comprised in award is dependent on the closing price of shares transacted on the market day the award is vested. The RC will also monitor the grant of award carefully to ensure that the size of the Plan complies with the relevant rules of the SGX-ST.

Since the approval of the Plan by the shareholders of the Company, no award was granted.

5. Share options and performance shares (cont'd)

Warrants

On 18 April 2016, the Company issued 50,500,000 warrants pursuant to the compliance placement on the basis of two warrants for every placement share subscribed. Each Warrant carries the right to subscribe for one new ordinary share in the capital of the Company at the exercise price of $0.33 for each ordinary share payable in cash. Each warrant may be exercised at any time during the period of two years commencing on and including the date of issue of the warrants and expiring on the date immediately preceding the second anniversary of the date of issue of the warrants. The warrants which have not been exercised after the exercise period shall lapse and cease to be valid for any purpose.

The movements of the warrants during the reporting year and the unissued ordinary shares in the Company under warrants at the end of the reporting year were as follows:

Date of issue	Exercise price	No. of warrants on date of issue	Warrants exercised	No. of warrants on 31.3.2018	Expiry date
18 April 2016	$0.33	50,500,000	(500,000)	50,000,000	17 April 2018

On 17 April 2018, the Warrants was expired and de-listed from the Official List of the SGX-ST.

6. Report of audit committee

The members of the audit committee at the date of this report are as follows:

Mr Leow Yong Kin Chairman
Ms He Jing
Mr Ng Poh Khoon

The audit committee performs the functions specified by section 201B(5) of the Act. Among other functions, it performed the following:

(a) reviewed with the independent external auditors their audit plan;

(b) reviewed with the independent external auditors their evaluation of the Company's internal accounting controls that are relevant to their statutory audit, their report on the financial statements and the assistance given by the management to them;

(c) reviewed with the internal auditors their scope and results of the internal audit procedures (including those relating to financial, operational, compliance and information technology controls and risk management) and the assistance given by management to them;

(d) reviewed the financial statements of the Group and the Company prior to their submission to the board of directors of the Company for adoption; and

(e) reviewed the interested person transactions (as defined in Chapter 9 of the SGX-ST Listing Manual Section B: Rule of Catalist).

Other functions performed by the audit committee are described in the Corporate Governance Report included in the Annual Report of the Company. It also includes an explanation of how independent auditors' objectivity and independence is safeguarded where the independent auditors provide non-audit services.

6. **Report of audit committee (cont'd)**

The audit committee has recommended to the board of directors that the independent auditor, RT LLP, be nominated for re-appointment as the independent auditors at the next annual general meeting of the Company.

7. **Independent auditor**

RT LLP has expressed willingness to accept re-appointment.

8. **Subsequent developments**

There are no significant developments subsequent to the release of the Group's and the Company's preliminary financial statements, as announced on 30 May 2018, which would materially affect the Group's and the Company's operating and financial performance as of the date of this report.

On behalf of the directors

Liang Chengwang Director	Leow Yong Kin Director

6 July 2018

Independent Auditor's Report to The Members of China Star Food Group Limited

(Registration No: 200718683N)

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of China Star Food Group Limited (the "Company") and its subsidiaries (collectively the "Group"), which comprise the statement of financial position of the Group and the statement of financial position of the Company as at 31 March 2018, and the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the Group, and statement of changes in equity of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs") 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 2018 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.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the *auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current reporting year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters (cont'd)

Key Audit Matters	How the matter was addressed in the audit
Impairment assessment of non-current assets As in more fully disclosed in Note 1.2, the Group has halted its production from January 2017 to September 2017 under the general directive of local government requiring sweet potato factories within Liancheng County that did not meet pollution control requirements. Therefore, there are indications of probable impairment loss on the non-current assets of the Group and of the Company. As at 31 March 2018, the carrying amount of the property, plant and equipment, intangible assets and investment in subsidiaries are approximatively RMB111,285,000, RMB39,994,000 and RMB803,636,000 respectively. Management has utilised the value-in-use (discounted cash flow) method to determine the recoverable amount of the abovementioned non-current assets. The recoverable amount is determined based on estimates of forecast revenue, profit margins, long term growth rates and discount rate. Management's impairment test showed that the value-in-use was higher than the total carrying amount of the abovementioned non-current assets. Consequently, no impairment loss was recognised. The key assumptions to the impairment assessment of non-current assets are disclosed in Note 2B.	Our audit procedures focused on evaluating management's impairment assessment on non-current assets. These procedures include: ● Challenged the discounted cash flow used by management with respect to the assumptions; ● Evaluated the growth rates and discount rates used in the discounted cash flow and assesses the accuracy of the computation of the discounted cash flow; ● Assessed the accuracy of the computation of the discounted cash flow; and ● Considered the financial position of all subsidiaries of the Company.

Information other than the financial statements and auditor's report thereon

Management is responsible for the other information. The other information comprises the information included in the directors' statement (but does not include the financial statements of the Group and out auditor's report thereon), which we obtained prior to the date of this auditor's report, and the remaining parts of the annual report which are expected to be made available to us after that date. Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Information other than the financial statements and auditor's report thereon (cont'd)

When we read the remaining parts of the annual report, if we concluded that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with SSAs.

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Auditor's responsibilities for the audit of the financial statements (cont'd)

(d) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by a subsidiary corporation incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Su Chun Keat.

RT LLP
Public Accountants and
Chartered Accountants
Singapore

6 July 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the financial year ended 31 March 2018

	Notes	2018	2017
		RMB'000	RMB'000
Revenue	5	221,334	392,722
Cost of sales		(161,462)	(234,461)
Gross profit		59,872	158,261
Interest income	6	2,790	3,521
Other income		70	1
Marketing and distribution costs	7	(15,025)	(77,220)
Administrative expenses	8	(31,109)	(37,278)
Other losses	9	(170)	(14,520)
Finance costs	10	(1,070)	(808)
Profit before income tax		15,358	31,957
Income tax expense	12	(2,883)	(10,382)
Profit for the year, net of tax		12,475	21,575
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		85	(29)
Total comprehensive income for the year		12,560	21,546

	Notes	2018	2017
		RMB cents	RMB cents
Earnings per share			
Basic and diluted earnings per share	13	4.86	8.44

The accompanying notes form an integral part of these financial statements.

Statements of Financial Position

As at 31 March 2018

		Group			Company	
		2018	2017	1.4.2017	2018	2017
	Notes	RMB'000	RMB'000 (Restated)	RMB'000 (Restated)	RMB'000	RMB'000
ASSETS						
Non-current assets						
Property, plant and equipment	14	111,285	108,531	94,096	–	–
Intangible assets	15	39,994	42,686	46,184	–	–
Investments in subsidiaries	16	–	–	–	803,636	803,636
Other receivables, non-current	17	6,051	11,312	15,887	–	–
Other assets, non-current	18	81,938	64,176	560	–	–
Deferred tax assets	12	7,162	8,011	–	–	–
Total non-current assets		246,430	234,716	156,727	803,636	803,636
Current assets						
Inventories	19	1,720	–	6,521	–	–
Trade and other receivables	20	45,792	14,861	25,822	12,259	12,577
Other assets, current	21	29,059	5,319	15,002	193	148
Cash and cash equivalents	22	126,578	145,098	184,122	200	946
Total current assets		203,149	165,278	231,467	12,652	13,671
Total assets		449,579	399,994	388,194	816,288	817,307
EQUITY AND LIABILITIES						
Equity						
Share capital	23	113,154	113,154	88,109	812,578	812,578
Retained earnings/ (accumulated losses)		224,599	213,288	202,950	(52,945)	(44,605)
Other reserves	24	41,297	40,048	26,024	45,876	46,163
Total equity		379,050	366,490	317,083	805,509	814,136
Non-current liability						
Deferred tax liability	12	451	451	362	–	–
Total non-current liability		451	451	362	–	–
Current liabilities						
Income tax payable		1,397	–	7,226	–	–
Trade and other payables	25	46,181	19,612	48,963	6,079	2,530
Other financial liabilities	26	22,500	13,441	13,000	4,700	641
Other liabilities		–	–	1,560	–	–
Total current liabilities		70,078	33,053	70,749	10,779	3,171
Total liabilities		70,529	33,504	71,111	10,779	3,171
Total equity and liabilities		449,579	399,994	388,194	816,288	817,307

The accompanying notes form an integral part of these financial statements.

Statements of Changes in Equity

For the financial year ended 31 March 2018

Group:	Total equity	Share capital	Other reserves	Retained earnings
	RMB'000	RMB'000	RMB'000	RMB'000
Opening balance at 1 April 2016	317,083	88,109	26,024	202,950
Total comprehensive income for the year				
Profit for the year	21,575	–	–	21,575
Other comprehensive income (Note 24C)	(29)	–	(29)	–
Total comprehensive income for the year	21,546	–	(29)	21,575
Transactions with owners, recognised directly in equity				
Issuance of new shares (Note 23)	24,978	24,978	–	–
Issuance of warrants (Note 24A)	2,844	–	2,844	–
Conversion of warrants (Note 23 and Note 24A)	782	810	(28)	–
Expenses on issuance of new shares (Note 23)	(743)	(743)	–	–
Transferred from retained earnings (Note 24B)	–	–	11,237	(11,237)
Total transactions with owners	27,861	25,045	14,053	(11,237)
Closing balance at 31 March 2017	366,490	113,154	40,048	213,288
Opening balance at 1 April 2017	366,490	113,154	40,048	213,288
Total comprehensive income for the year				
Profit for the year	12,475	–	–	12,475
Other comprehensive income (Note 24C)	85	–	85	–
Total comprehensive income for the year	12,560	–	85	12,475
Transactions with owners, recognised directly in equity				
Transfer from retained earnings (Note 24B)	–	–	1,164	(1,164)
Closing balance at 31 March 2018	379,050	113,154	41,297	224,599

The accompanying notes form an integral part of these financial statements.

Statements of Changes in Equity

For the financial year ended 31 March 2018

Company:	Total equity	Share capital	Other reserves	Accumulated losses
	RMB'000	RMB'000	RMB'000	RMB'000
Opening balance at 1 April 2016	793,293	787,533	42,948	(37,188)
Total comprehensive loss for the year				
Loss for the year	(7,417)	–	–	(7,417)
Other comprehensive income (Note 24C)	399	–	399	–
Total comprehensive loss for the year	(7,018)	–	399	(7,417)
Transactions with owners, recognised directly in equity				
Issuance of new shares (Note 23)	24,978	24,978	–	–
Issuance of warrants (Note 24A)	2,844	–	2,844	–
Conversion of warrants (Note 23 and Note 24A)	782	810	(28)	–
Expenses on issuance of new shares (Note 23)	(743)	(743)	–	–
Total transactions with owners	27,861	25,045	2,816	–
Closing balance at 31 March 2017	814,136	812,578	46,163	(44,605)
Opening balance at 1 April 2017	814,136	812,578	46,163	(44,605)
Total comprehensive loss for the year				
Loss for the year	(8,340)	–	–	(8,340)
Other comprehensive loss (Note 24C)	(287)	–	(287)	–
Total comprehensive loss for the year	(8,627)	–	(287)	(8,340)
Closing balance at 31 March 2018	805,509	812,578	45,876	(52,945)

The accompanying notes form an integral part of these financial statements.

Consolidated Statements of Cash Flows

For the financial year ended 31 March 2018

	2018	2017
	RMB'000	RMB'000
		(Restated)
Cash flows from operating activities		
Profit before income tax	15,358	31,957
Interest income	(2,790)	(3,521)
Interest expense	1,070	808
Depreciation of property, plant and equipment	7,222	4,902
Amortisation of intangible assets	3,513	3,498
Loss on disposal of property, plant and equipment	–	5,562
Exchange differences on translating functional to presentation currency	85	(30)
Operating cash flows before changes in working capital	24,458	43,176
Inventories	(1,720)	6,521
Trade and other receivables	(23,287)	18,517
Other assets	26,381	9,899
Trade and other payables	26,429	(29,289)
Other liabilities	–	(1,560)
Net cash flows from operations	52,261	47,264
Income taxes paid	(637)	(25,530)
Net cash flows from operating activities	51,624	21,734
Cash flows from investing activities		
Additions to property, plant and equipment	(10,089)	(28,831)
Advance payment for supplies of sweet potatoes	(67,882)	(63,833)
Additions to land use rights	(821)	–
Proceeds from disposal of property, plant and equipment	113	3,932
Interest income received	407	542
Net cash flows used in investing activities	(78,272)	(88,190)
Cash flows from financing activities		
Proceeds from issuance of shares and warrants	–	27,051
Proceeds from conversion of warrants	–	810
Proceeds from new bank loans	17,800	12,800
Repayment of bank loans	(12,800)	(13,000)
Proceeds of loan from director and shareholder	4,059	641
Repayment of payables to director and shareholder	–	(62)
Interest expense paid	(931)	(808)
Net cash flows from financing activities	8,128	27,432
Net decrease in cash and cash equivalents	(18,520)	(39,024)
Cash and cash equivalents, beginning balance	145,098	184,122
Cash and cash equivalents, ending balance (Note 22)	126,578	145,098

The accompanying notes form an integral part of these financial statements.

Notes to The Financial Statements

For the financial year ended 31 March 2018

1. General

1.1 The Company

China Star Food Group Limited (the "Company") is incorporated in Singapore with limited liability. It is listed on the Catalist of the Singapore Exchange Securities Trading Limited.

The financial statements for the reporting year ended 31 March 2018 comprise those of the Company and its subsidiaries (collectively, the "Group"). All financial information presented in Chinese Renminbi have been rounded to the nearest thousand ("RMB'000"), unless when otherwise indicated.

The financial statements were approved and authorised for issue by the board of directors on the date of statement by directors.

The principal activities of the Company are those of an investment holding company. The principal activities of the Company's subsidiaries are disclosed in Note 16 to the financial statements below.

The registered office of the Company is located at 24 Raffles Place #19-05 Clifford Centre Singapore 048621. The principal place of business of the Company is located at 20 Collyer Quay, #09-04, Singapore 049319.

During the financial year ended 31 March 2016, the Company acquired Zixin International Pte Ltd (formerly known as China Star Food Holdings Pte Ltd) in a reverse takeover exercise.

1.2 Temporary halts of the Group's production facilities

In January 2017, the Group received a local government general directive requiring sweet potato factories within the Liancheng County that did not meet pollution control requirements to halt production. The Group is affected by the general directive and had halted the production in its current factories, namely, the Hengming Factory and the Henggang Factory, since January 2017.

Management believes that the directive to halt production is due to the increased awareness in the need to reduce environmental pollution, to which the government of the People's Republic of China has implemented a series of rules and regulations and begin enforcing them rigorously. In light of the general directive, management has decided not to restart production but accelerate the relocation of all production operations to the new Zilaohu Factory.

Since management decided not to restart production at the Group's Hengming Factory and the Henggang Factory, the Group sold the plant and machinery in these two factories that are not suitable for use in the Zilaohu Factory to a former employee in a subsidiary.

Management also did not renew the lease of Henggang Factory which is owned by the wife of Mr Liang Chengwang, the Group's Chief Executive Officer, and laid off majority of the employees in the Hengming Factory and the Henggang Factory.

The Group's Zilaohu Factory was granted its operating license on 13 March 2017 and commenced the production in April 2017. However, the Group received an order from the Liancheng County government in May 2017 to halt its production operations at the Zilaohu Factory. The Liancheng County government also stipulates that the commercial production could only commence after the completion of Liancheng County's centralised waste water treatment facility. Management expects the waste water treatment facility to be completed by the third quarter of 2017 based on the scheduled timeline provided by the contractor awarded by the Liancheng County government.

1. General (cont'd)

1.2 Temporary halts of the Group's production facilities (cont'd)

As the construction of centralised waste water treatment plant is being exclusively handled by a third party independent contractor appointed by the Liancheng County government, the Group cautions that it has no control over the construction progress of the waste water treatment plant and there is no assurance and certainty that the plant will be completed by the third quarter of 2017 based on the scheduled timeline provided by the awarded contractor.

Subsequently, the Company was informed that Liancheng County's centralised waste water treatment facility is expected to commence operations in August 2018 which is a delay from the previously announced completion schedule by the third quarter of 2017.

As announced in the Company's announcement on 13 November 2017 in relation to the Group's unaudited financial statements for the period ended 30 September 2017, the local authorities had put in place interim measures in relation to waste water disposal and treatment arrangement and the Group's production facilities had since September 2017 been utilising the interim waste water disposal and treatment arrangement, pending commencement of operations of the centralised waste water treatment facility.

As at the date of this Annual Report, the Zilaohu factory is currently operating at 35% capacity and is expected to reach an optimal level of approximately 80% capacity by the end of the financial period ending 31 December 2018.

1.3 Accounting convention

The financial statements have been prepared in accordance with the Financial Reporting Standards in Singapore ("FRS") and the related Interpretations to FRS ("INT FRS") as issued by the Singapore Accounting Standards Council and the Singapore Companies Act, Chapter 50. The financial statements are prepared on a going concern basis under the historical cost convention except where a FRS requires an alternative treatment (such as fair values) as disclosed where appropriate in these financial statements. Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in the profit or loss, as required or permitted by FRS. Reclassification adjustments are amounts reclassified to profit or loss in the current reporting year that were recognised in other comprehensive income in the current or previous reporting years.

1.4 Basis of preparation of the financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates. The estimates and assumptions are reviewed on an ongoing basis. Apart from those involving estimations, management has made judgments in the process of applying the entity's accounting policies. The areas requiring management's most difficult, subjective or complex judgments, or areas where assumptions and estimates are significant to the financial statements, are disclosed at Note 2B below, where applicable.

1. General (cont'd)

1.5 Basis of presentation

The consolidated financial statements include the financial statements made up to the end of the reporting year of the Company and all of its subsidiaries. The consolidated financial statements are the financial statements of the Group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity and are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intragroup balances and transactions, including income, expenses and cash flows are eliminated on consolidation. Subsidiaries are consolidated from the date the reporting entity obtains control of the investee and cease when the reporting entity loses control of the investee. Control exists when the Group has the power to govern the financial and operating policies so as to gain benefits from its activities.

Changes in the Group's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity as transactions with owners in their capacity as owners. The carrying amounts of the Group's and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. When the Group loses control of a subsidiary it derecognises the assets and liabilities and related equity components of the former subsidiary. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at fair value at the date when control is lost and is subsequently accounted as available-for-sale financial assets in accordance with FRS 39.

The Company's separate financial statements have been prepared on the same basis, and as permitted by the Singapore Companies Act, Chapter 50, the Company's separate statement of profit or loss and other comprehensive income is not presented.

2. Significant accounting policies and other explanatory information

2A. Significant accounting policies

Foreign currency transactions

The functional currency of the Company is the Singapore Dollars ("S$") as it reflects the primary economic environment in which the Company operates. Transactions in foreign currencies are recorded in the functional currency at the rates ruling at the dates of the transactions. At each end of the reporting year, recorded monetary balances and balances measured at fair value that are denominated in non-functional currencies are reported at the rates ruling at the end of the reporting year and fair value measurement dates respectively. All realised and unrealised exchange adjustment gains and losses are dealt with in profit or loss.

The presentation currency of the Company's financial statements is Chinese Renminbi ("RMB"). For the RMB financial statements, assets and liabilities are translated at year end exchange rates and the income and expense items, and other comprehensive income or loss in the statement of comprehensive income are translated at average exchange rates for the reporting year. The resulting translation differences (if any) are recognised in other comprehensive income and accumulated in a separate component of equity.

2. Significant accounting policies and other explanatory information (cont'd)

2A. Significant accounting policies (cont'd)

Translation of financial statements of other entities

Each entity in the Group determines the appropriate functional currency as it reflects the primary economic environment in which the entity operates. In translating the financial statements of an investee for incorporation in the consolidated financial statements in the presentation currency the assets and liabilities denominated in other currencies are translated at end of the reporting year rates of exchange and the profit or loss items are translated at average rates of exchange for the reporting year. The resulting translation adjustments (if any) are recognised in other comprehensive income and accumulated in a separate component of equity until the disposal of that investee.

Segment reporting

The Group discloses financial and descriptive information about its consolidated reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

Revenue recognition

The revenue amount is the fair value of the consideration received or receivable from the gross inflow of economic benefits during the reporting year arising from the course of the ordinary activities of the entity and it is shown net of any related sales taxes, estimated returns, discounts and volume rebates. Revenue from sale of goods are recognised upon the transfer of significant risk and rewards of ownership of the goods to the customers, which generally coincides with delivery and acceptance of the goods sold. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods. Interest income is recognised on accrual basis using the effective interest method.

Employee benefits

Contributions to a defined contribution retirement benefit plan are recorded as an expense as they fall due. The Group's legal or constructive obligation is limited to the amount that it is obligated to contribute for the Singapore employees to an independently administered fund (such as the Central Provident Fund in Singapore, a government managed defined contribution retirement benefit plan).

The Group also contributes to a local pension scheme in the People's Republic of China, under which the Group pays fixed contributions into a defined contribution retirement scheme organised by the local municipal government for eligible employees, and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Contributions to the scheme are charged to profit or loss as they fall due.

For employee leave entitlement the expected cost of short-term employee benefits in the form of compensated absences is recognised in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences; and in the case of non-accumulating compensated absences, when the absences occur. A liability for bonuses is recognised where the entity is contractually obliged or where there is constructive obligation based on past practice.

2. Significant accounting policies and other explanatory information (cont'd)

2A. Significant accounting policies (cont'd)

Share-based compensation

For the equity-settled share-based compensation transactions, the fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed on a straight-line basis over the vesting period is measured by reference to the fair value of the options granted ignoring the effect of non-market conditions such as profitability and sales growth targets. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable.

The fair value is measured using a relevant option pricing model. The expected lives used in the model are adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. At each end of the reporting year, a revision is made of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in profit or loss with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised. Cancellations of grants of equity instruments during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied) are accounted for as an acceleration of vesting, therefore any amount unrecognised that would otherwise have been charged is recognised immediately in profit or loss.

Benefits to employees are also provided in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions"). The fair value of the employee services rendered is measured by reference to the fair value of the shares awarded or rights granted, excluding the impact of any non-market vesting conditions. These are fair valued based on the market price of the entity's shares (or an estimated market price, if the entity's shares are not publicly traded). This fair value amount is charged to profit or loss over the vesting period of the share-based payment scheme, with the corresponding increase in equity. The value of the charge is adjusted in profit or loss over the remainder of the vesting period to reflect expected and actual quantities vesting, with the corresponding adjustment made in equity. Cancellations of grants of equity instruments during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied) are accounted for as an acceleration of vesting, therefore any amount unrecognised that would otherwise have been charged is recognised immediately in profit or loss.

Borrowing costs

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. Interest expense is calculated using the effective interest rate method. Borrowing costs are recognised as an expense in the period in which they are incurred except that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that necessarily take a substantial period of time to get ready for their intended use or sale are capitalised as part of the cost of that asset until substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

2. Significant accounting policies and other explanatory information (cont'd)

2A. Significant accounting policies (cont'd)

Income tax

The income taxes are accounted using the asset and liability method that requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequence of events that have been recognised in the financial statements or tax returns. The measurements of current and deferred tax liabilities and assets are based on provisions of the enacted or substantially enacted tax laws by the end of the reporting year; the effects of future changes in tax laws or rates are not anticipated. Tax expense (tax income) is the aggregate amount included in the determination of profit or loss for the reporting year in respect of current tax and deferred tax. Current and deferred income taxes are recognised as income or as an expense in profit or loss unless the tax relates to items that are recognised in the same or a different period outside profit or loss. For such items recognised outside profit or loss the current tax and deferred tax are recognised (a) in other comprehensive income if the tax is related to an item recognised in other comprehensive income and (b) directly in equity if the tax is related to an item recognised directly in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same income tax authority. The carrying amount of deferred tax assets is reviewed at the end of each reporting year and is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realised. A deferred tax amount is recognised for all temporary differences, unless the deferred tax amount arises from the initial recognition of an asset or liability in a transaction which (i) is not a business combination; and (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). A deferred tax liability or asset is recognised for all taxable temporary differences associated with investments in subsidiaries except where the financial entity is able to control the timing of the reversal of the taxable temporary difference and it is probable that the taxable temporary difference will not reverse in the foreseeable future or for deductible temporary differences, they will not reverse in the foreseeable future and they cannot be utilised against taxable profits.

Property, plant and equipment

Property, plant and equipment are carried at cost on initial recognition and after initial recognition at cost less any accumulated depreciation and any accumulated impairment losses. The gain or loss arising from the derecognition of an item of property, plant and equipment is measured as the difference between the net disposal proceeds, if any, and the carrying amount of the item and is recognised in profit or loss. The residual value and the useful life of an asset is reviewed at least at each end of the reporting year and, if expectations differ significantly from previous estimates, the changes are accounted for as a change in an accounting estimate, and the depreciation charge for the current and future periods are adjusted.

Cost also includes acquisition cost, borrowing cost capitalised and any cost directly attributable to bringing the asset or component to the location and condition necessary for it to be capable of operating in the manner intended by management. Subsequent costs are recognised as an asset only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss when they are incurred.

2. Significant accounting policies and other explanatory information (cont'd)

2A. Significant accounting policies (cont'd)

Property, plant and equipment (cont'd)

Depreciation is provided on a straight-line basis to allocate the gross carrying amounts of the assets less their residual values over their estimated useful lives of each part of an item of these assets. The annual rates of depreciation are as follows:

Leasehold buildings	-	3.33% - 5%
Renovation	-	33.33%
Plant and machinery	-	10%
Office equipment	-	20%
Research & production equipment	-	20%
Motor vehicles	-	25%

An asset is depreciated when it is available for use until it is derecognised even if during that period the item is idle. Fully depreciated assets still in use are retained in the financial statements.

Construction work-in-progress is carried at cost, less any recognised impairment loss until construction is completed.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. The amortisation expense on intangible assets with finite lives is recognised in the profit and loss. Intangible assets with indefinite useful lives are tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the useful life assessment continues to be supportable.

Land use rights

Cost of acquisition of land use rights is capitalised and amortised on a straight-line basis over the lease terms of the land use rights of between 46 and 50 years.

Manufacturing patents

Cost of acquisition of patents is capitalised and amortised on a straight-line basis over the useful lives of 10 years.

Software

Cost of acquisition of software is capitalised and amortised on a straight-line basis over the useful lives of 5 years.

2. Significant accounting policies and other explanatory information (cont'd)

2A. Significant accounting policies (cont'd)

Intangible assets (cont'd)

Favourable supply contracts

Favourable supply contracts acquired are initially recognised at cost and are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised on a straight-line basis over 5 years.

Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are individually identified and separately recognised. Goodwill is recognised as of the acquisition date measured as the excess of (a) over (b) whereby (a) being the aggregate of (i) the consideration transferred measured at acquisition date fair value; (ii) the amount of any non-controlling interests in the acquiree measured either at fair value or at the non-controlling interests' proportionate share of the acquiree's net identifiable assets; and (iii) in a business combination achieved in stages, the acquisition date fair value of the acquirer's previously held equity interests in the acquiree; and (b) being the net of the identifiable assets acquired and the liabilities assumed measured at acquisition date fair values in accordance with FRS 103 - Business Combinations.

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised. Irrespective of whether there is any indication of impairment, goodwill is tested for impairment at least annually. Impairment on goodwill is not reversed in any circumstances.

Subsidiaries

A subsidiary is an entity including unincorporated and special purpose entity that is controlled by the Company and the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The existence and effect of substantive potential voting rights that the Company has the practical ability to exercise (that is, substantive rights) are considered when assessing whether the Company controls another entity.

In the Company's separate financial statements, an investment in a subsidiary is accounted for at cost less any allowance for impairment in value. Impairment loss recognised in profit or loss for a subsidiary is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying value and the net book value of the investment in a subsidiary are not necessarily indicative of the amount that would be realised in a current market exchange.

2. Significant accounting policies and other explanatory information (cont'd)

2A. Significant accounting policies (cont'd)

Impairment of non-financial assets

The carrying amount of non-financial assets is reviewed at the end of each reporting year for indications of impairment and where an asset is impaired, it is written down through profit or loss to its estimated recoverable amount. The impairment loss is the excess of the carrying amount over the recoverable amount and is recognised in profit or loss. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). At the end of each reporting year, non-financial assets with impairment loss recognised in prior periods are assessed for possible reversal of the impairment. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been measured, net of depreciation or amortisation, if no impairment loss had been recognised.

Inventories

Inventories are measured at the lower of cost (weighted average method) and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. A write down on cost is made for where the cost is not recoverable or if the selling prices have declined. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of manufactured inventories and work-in-progress, cost includes an appropriate share of overheads based on normal operating capacity.

Financial assets

Initial recognition, measurement and derecognition:

A financial asset is recognised on the statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument. The initial recognition of financial assets is at fair value normally represented by the transaction price. The transaction price for financial asset not classified at fair value through profit or loss includes the transaction costs that are directly attributable to the acquisition or issue of the financial asset. Transaction costs incurred on the acquisition or issue of financial assets classified at fair value through profit or loss are expensed immediately. The transactions are recorded at the trade date. When the settlement date accounting is applied, any change in the fair value of the asset to be received during the period between the trade date and the settlement date is recognised in net profit or loss for assets classified as trading.

Irrespective of the legal form of the transactions performed, financial assets are derecognised when they pass the "substance over form" based on the derecognition test prescribed by FRS 39 relating to the transfer of risks and rewards of ownership and the transfer of control. Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

2. Significant accounting policies and other explanatory information (cont'd)

2A. Significant accounting policies (cont'd)

Financial assets (cont'd)

Subsequent measurement:

Subsequent measurement based on the classification of the financial assets in one of the following categories under FRS 39 is as follows:

#1. Financial assets at fair value through profit or loss: As at end of the reporting year, there were no financial assets classified in this category.

#2. Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets that are for sale immediately or in the near term are not classified in this category. These assets are carried at amortised costs using the effective interest method (except that short-duration receivables with no stated interest rate are normally measured at original invoice amount unless the effect of imputing interest would be significant) minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility. Impairment charges are provided only when there is objective evidence that an impairment loss has been incurred as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The methodology ensures that an impairment loss is not recognised on the initial recognition of an asset. Losses expected as a result of future events, no matter how likely, are not recognised. For impairment, the carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. Typically the trade and other receivables are classified in this category.

#3. Held-to-maturity financial assets: As at end of the reporting year, there were no financial assets classified in this category.

#4. Available-for-sale financial assets: As at end of the reporting year, there were no financial assets classified in this category.

Cash and cash equivalents

Cash and cash equivalents include bank and cash balances. For the consolidated statement of cash flows, the item includes cash and cash equivalents less cash subject to restriction, if any.

2. Significant accounting policies and other explanatory information (cont'd)

2A. Significant accounting policies (cont'd)

Financial liabilities

Initial recognition, measurement and derecognition:

A financial liability is recognised on the statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument and it is derecognised when the obligation specified in the contract is discharged or cancelled or expires. The initial recognition of financial liability is at fair value normally represented by the transaction price. The transaction price for financial liability not classified at fair value through profit or loss includes the transaction costs that are directly attributable to the acquisition or issue of the financial liability. Transaction costs incurred on the acquisition or issue of financial liability classified at fair value through profit or loss are expensed immediately. The transactions are recorded at the trade date.

Subsequent measurement:

Subsequent measurement based on the classification of the financial liabilities in one of the following two categories under FRS 39 is as follows:

#1. Liabilities at fair value through profit or loss: As at the end of the reporting year, there were no financial liabilities classified in this category.

#2. Other financial liabilities: All liabilities, which have not been classified as in the previous category fall into this residual category. These liabilities are carried at amortised cost using the effective interest method.

Fair value measurement

Fair value is taken to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (that is, an exit price). It is a market-based measurement, not an entity-specific measurement. When measuring fair value, management uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The entity's intention to hold an asset or to settle or otherwise fulfil a liability is not taken into account as relevant when measuring fair value. In making the fair value measurement, management determines the following: (a) the particular asset or liability being measured (these are identified and disclosed in the relevant notes below); (b) for a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis; (c) the market in which an orderly transaction would take place for the asset or liability; and (d) the appropriate valuation techniques to use when measuring fair value. The valuation techniques used maximise the use of relevant observable inputs and minimise unobservable inputs. These inputs are consistent with the inputs a market participant may use when pricing the asset or liability.

2. Significant accounting policies and other explanatory information (cont'd)

2A. Significant accounting policies (cont'd)

Fair value measurement (cont'd)

The fair value measurements and related disclosures categorise the inputs to valuation techniques used to measure fair value by using a fair value hierarchy of three levels. These are recurring fair value measurements unless stated otherwise in the relevant notes to the financial statements. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. The level is measured on the basis of the lowest level input that is significant to the fair value measurement in its entirety. Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting year. If a financial instrument measured at fair value has a bid price and an ask price, the price within the bid-ask spread or mid-market pricing that is most representative of fair value in the circumstances is used to measure fair value regardless of where the input is categorised within the fair value hierarchy. If there is no market, or the markets available are not active, the fair value is established by using an acceptable valuation technique.

The carrying values of current financial instruments approximate their fair values due to the short-term maturity of these instruments and the disclosures of fair value are not made when the carrying amount of current financial instruments is a reasonable approximation of the fair value. The fair values of non-current financial instruments may not be disclosed separately unless there are significant differences at the end of the reporting year and in the event the fair values are disclosed in the relevant notes to the financial statements.

Provisions

A liability or provision is recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are made using best estimates of the amount required in settlement and where the effect of the time value of money is material, the amount recognised is the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense. Changes in estimates are reflected in the profit or loss in the reporting year they occur.

Leases

#1. <u>When the Group is the lessee.</u>

The Group leases office and factory buildings under operating leases from non-related parties.

Leases where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in profit or loss on a straight-line basis over the period of the lease.

Contingent rents are recognised as an expense in profit or loss when incurred.

2. Significant accounting policies and other explanatory information (cont'd)

2A. Significant accounting policies (cont'd)

Leases (cont'd)

#2. When the Group is the lessor.

The Group leases factory building and portions of office under operating leases to non-related parties.

Leases of investment properties where the Group retains substantially all risks and rewards incidental to ownership are classified as operating leases. Rental income from operating leases (net of any incentives given to the lessees) is recognised in profit or loss on a straight-line basis over the lease term.

Initial direct costs incurred by the Group in negotiating and arranging operating leases are added to the carrying amount of the leased assets and recognised as an expense in profit or loss over the lease term on the same basis as the lease income.

Contingent rents are recognised as income in profit or loss when earned.

2B. Critical judgments, assumptions and estimation uncertainties

The critical judgments made in the process of applying the accounting policies that have the most significant effect on the amounts recognised in the financial statements and the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting year, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting year are discussed below. These estimates and assumptions are periodically monitored to make sure they incorporate all relevant information available at the date when financial statements are prepared. However, this does not prevent actual figures differing from estimates.

Measurement of impairment of subsidiary:
Where an investee has halted its production temporarily (see Note 1.2), a test is made whether the investment in the investee has suffered any impairment. This measurement requires significant judgement. An estimate is made of the future profitability of the investee, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, and operational and financing cash flow. It is reasonably possible, based on existing knowledge, that outcomes within the next reporting year that are different from assumptions could require a material adjustment to the carrying amount of the asset affected. The carrying amount of the Company's investments in subsidiaries is disclosed in Note 16.

Property, plant and equipment:
An assessment is made for the reporting year whether there is any indication that the asset may be impaired. If any such indication exists, an estimate is made of the recoverable amount of the asset. The recoverable amounts of cash-generating units if applicable is measured based on the fair value less costs of disposal or value-in-use calculations. It is reasonably possible, based on existing knowledge, that outcomes within the next reporting year that are different from assumptions could require a material adjustment to the carrying amount of the balances affected. The carrying amounts of property, plant and equipment of the Group are disclosed in Note 14.

2. Significant accounting policies and other explanatory information (cont'd)

2B. Critical judgments, assumptions and estimation uncertainties (cont'd)

Intangible assets:
An assessment is made for the reporting year whether there is any indication that the asset may be impaired. If any such indication exists, an estimate is made of the recoverable amount of the asset. The recoverable amounts of cash-generating units if applicable is measured based on the fair value less costs of disposal or value-in-use calculations. It is reasonably possible, based on existing knowledge, that outcomes within the next reporting year that are different from assumptions could require a material adjustment to the carrying amount of the balances affected. The carrying amounts of intangible assets of the Group are disclosed in Note 15.

Income tax amounts:
The entity recognises tax liabilities and tax assets based on an estimation of the likely taxes due, which requires significant judgment as to the ultimate tax determination of certain items. Where the actual amount arising from these issues differs from these estimates, such differences will have an impact on income tax and deferred tax amounts in the period when such determination is made. In addition management judgment is required in determining the amount of current and deferred tax recognised and the extent to which amounts should or can be recognised. A deferred tax asset is recognised for unused tax losses if it is probable that the entity will earn sufficient taxable profit in future periods to benefit from a reduction in tax payments. This involves the management making assumptions within its overall tax planning activities and periodically reassessing them in order to reflect changed circumstances as well as tax regulations. Moreover, the measurement of a deferred tax asset or liability reflects the manner in which the entity expects to recover the asset's carrying value or settle the liability. As a result, due to their inherent nature assessments of likelihood are judgmental and not susceptible to precise determination. The income tax amounts are disclosed in the Note 12 on income tax.

3. Related party relationships and transactions

FRS 24 on related party disclosures requires the reporting entity to disclose: (a) transactions with its related parties; and (b) relationships between parents and subsidiaries irrespective of whether there have been transactions between those related parties. A party is related to a party if the party controls, or is controlled by, or can significantly influence or is significantly influenced by the other party.

The ultimate controlling party is Mr Liang Chengwang.

3A. Related companies

Related companies in these financial statements relate to the Company's subsidiaries.

There are transactions and arrangements between the Company and its related companies and the effects of these on the basis determined between the companies are reflected in these financial statements. The related company balances are unsecured without fixed repayment terms and interest unless stated otherwise.

Intra-group transactions and balances that have been eliminated in these consolidated financial statements are not disclosed as related party transactions and balances below.

3. Related party relationships and transactions (cont'd)

3B. Other related parties

Related parties in the financial statements refer to entities controlled by Mr Liang Chengwang or his immediate families.

There are transactions and arrangements between the Company and its related parties and the effects of these on the basis determined between the parties are reflected in these financial statements. The related party balances are unsecured without fixed repayment terms and interest unless stated otherwise. No interest or charge is imposed on financial guarantees unless stated otherwise.

In addition to the transactions and balances disclosed elsewhere in the notes to the consolidated financial statements, this item includes the following:

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Rental expense	–	1,484

Also see note 1.2.

3C. Key management compensation

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Salaries and other short-term employee benefits	2,618	2,737
Contributions to defined benefits plans	69	125

The above amount is included under employee benefits expense. Included in the above amount are the following items:

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Remuneration of directors	1,340	1,508

Further information about the remuneration of individual directors is provided in the report on corporate governance.

Key management personnel are directors and those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

3. Related party relationships and transactions (cont'd)

3D. Other payables and other financial liabilities to related parties

The trade transactions and the trade receivables and payables balances arising from sales and purchases of goods and services are disclosed elsewhere in the notes to the consolidated financial statements.

The movements in other payables to related parties are as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Director/shareholder:				
Balance at beginning of the year	964	621	964	621
Repayments	(964)	(621)	(964)	(621)
Salary payables	1,432	964	1,432	964
Balance at end of the year (Note 25)	1,432	964	1,432	964

The movements in other financial liabilities payable to related parties are as follows:

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Directors/shareholders:		
Balance at beginning of the year	641	–
Advances from a shareholder	2,474	641
Advances from a director	1,585	–
Balance at end of the year (Note 26)	4,700	641

4. Financial information by segment

4A. Primary analysis by business segment

For management purposes, the focus is on one operating segment, that is, sweet potato foods. Sweet potato foods segment includes research, production and distribution of sweet potato food products.

4B. Geographical information

As the business activities of the Group are mainly conducted in the People's Republic of China, the reporting format by geographical segment is not presented.

4C. Information about major customers

There are no customers with revenue transactions of over 10% of the Group's revenue.

5. Revenue

	Group	
	2018	2017
	RMB'000	RMB'000
Sale of goods	221,334	392,722

6. Interest income

	Group	
	2018	2017
	RMB'000	RMB'000
Interest income from banks	407	542
Unwinding of discount on other receivables from a supplier (Note 15C)	2,383	2,979
	2,790	3,521

7. Marketing and distribution costs

The major components include the following:

	Group	
	2018	2017
	RMB'000	RMB'000
Advertisement cost	7,519	46,786
Delivery charges	2,936	21,884
Publicity expenses	1,054	2,859
Sales and promotional expenses	–	128
Employee benefits expense (Note 11)	1,836	3,911

8. Administrative expenses

The major components include the following:

	Group	
	2018	2017
	RMB'000	RMB'000
Amortisation of intangible assets (Note 15)	3,513	3,498
Depreciation of property, plant and equipment (Note 14)	5,709	3,426
Research and development expenses	1,626	285
Employee benefits expense (Note 11)	9,484	10,656

9. Other losses

	Group 2018 RMB'000	Group 2017 RMB'000
Loss on disposal of property, plant and equipment	–	(5,562)
Inventories written-off	–	(2,472)
Value-added tax expenses	–	(4,226)
Donation	(170)	(2,260)
	(170)	(14,520)

10. Finance costs

	Group 2018 RMB'000	Group 2017 RMB'000
Interest expense	1,070	808

11. Employee benefits expense

	Group 2018 RMB'000	Group 2017 RMB'000
Salaries, bonuses and other employees' benefits	19,915	31,814
Contributions to defined contribution plans	1,740	4,058
Other benefits	651	1,251
	22,306	37,123

The employee benefits expenses are charged as follows:

	2018	2017
Cost of sales	10,986	22,556
Marketing and distribution costs (Note 7)	1,836	3,911
Administrative expenses (Note 8)	9,484	10,656
	22,306	37,123

12. Income tax

12A. Components of income tax expense recognised in profit or loss

	Group	
	2018	2017
	RMB'000	RMB'000 (Restated)
Current tax expense:		
Current tax expense	2,246	17,919
Under adjustments in respect of prior years	637	385
	2,883	18,304
Deferred tax credit	–	(7,922)
Total income tax expense	2,883	10,382

The reconciliation of income taxes below is determined by applying the People's Republic of China corporate income tax rate, where the main operations of the Group take place. The income tax in profit or loss varied from the amount of income tax amount determined by applying the People's Republic of China corporate income tax rate of 25% (2017: 25%) to profit before income tax as a result of the following differences:

	Group	
	2018	2017
	RMB'000	RMB'000
Profit before income tax	15,358	31,957
Income tax expense at the above rate	3,840	7,989
Effect of different tax rates in different countries	673	613
Non-deductible items	1,477	2,332
Under adjustments to current tax in respect of prior years	637	385
Utilisation of previously unrecognised tax losses	(1,765)	–
Income exempted	(1,979)	(1,026)
Withholding tax expense	–	89
Total income tax expense	2,883	10,382

There are no income tax consequences of dividends to owners of the Company.

The amount of income tax payable outstanding as at end of the reporting year was RMB1,397,000 (2017: RMBNil). Such an amount is net of tax advances, which, according to the tax rules in the People's Republic of China, were paid before the end of the financial year.

According to the prevailing tax rules and regulation in the People's Republic of China, one of the subsidiaries, Liancheng Dizhongbao Modern Agriculture Development Co., Ltd, is exempted from enterprise income tax for taxable profit from its agricultural business activities in the People's Republic of China.

12. Income tax (cont'd)

12B. Deferred tax (credit)/expense recognised in profit or loss

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Deferred tax assets		
Unutilised tax losses	–	(8,011)
Deferred tax liabilities		
Withholding tax on potential dividends from a wholly-owned subsidiary in the People's Republic of China	–	89

12C. Deferred tax liabilities balance in the statement of financial position

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Withholding tax on potential dividends from a wholly-owned subsidiary in the People's Republic of China	451	451

There is no movement in deferred tax liabilities balance during the financial year.

The wholly-owned subsidiaries, Fujian Zixin Biological Potato Co., Ltd and Fujian Zilaohu Food Co., Ltd., have undistributed profits of RMB295,180,000 and RMB4,431,000 respectively (2017: RMB293,391,000 and RMBNil) as at the end of the financial year. In the event these profits are distributed as dividends, a withholding tax of 5% is payable to the tax authority in the People's Republic of China. The Group did not recognise deferred liabilities related to potential withholding tax payable on undistributed profits of RMB286,160,000 and RMB4,431,000 (2017: RMB284,371,000 and RMBNil) amounting to RMB14,759,000 and RMB221,000 respectively (2017: RMB14,219,000 and RMBNil) in these financial statements as the directors of the Company have determined that these undistributed profits are intended for reinvestment purposes and will not to be distributed as dividends in the foreseeable future. In addition, the Company is able to control the timing of the dividend distributions of these subsidiaries.

12D. Deferred tax assets balance in the statement of financial position

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
		(Restated)
Unutilised tax losses	7,162	8,011

The Group has tax losses of RMB28,647,000 (2017: RMB32,043,000) at the end of financial year which can be carried forward and used to offset against future taxable income subject to meeting certain statutory requirements. The Group has recognised deferred tax assets on the basis that there are sufficient estimated future taxable profits and taxable temporary differences against which the tax benefits can be utilised, based on the management projection of surplus from operations.

12. Income tax (cont'd)

12D. Deferred tax assets balance in the statement of financial position (cont'd)

	Group	
	2018	2017
	RMB'000	RMB'000
Balance at beginning of the year	8,011	–
Unutilised tax losses recognised in profit or loss	–	8,011
Utilisation of previously recognised tax losses	(849)	–
Balance at end of the year	7,162	8,011

13. Earnings per share

The following table illustrates the numerators and denominators used to calculate basic and diluted earnings per share:

	Group	
	2018	2017
	RMB'000	RMB'000
Profit, net of tax attributable to owners of the Company	12,475	21,575

	No of shares	
	2018	2017
Weighted average number of equity shares	256,909,000	255,660,374

In the previous reporting year, the number of ordinary shares outstanding from the beginning of the previous reporting year to the reverse acquisition date for purpose of calculating the weighted average number of ordinary shares is deemed to be the number of ordinary shares issued by the Company to the former shareholders of China Star Food Group Limited, and the number of ordinary shares outstanding from the reverse acquisition date to the end of the year is the actual number of ordinary shares of the Company outstanding during the prior reporting year, taking into consideration the effect of the share consolidation on 22 December 2015 (Note 23).

Basic earnings per share are calculated by dividing profit, net of tax attributable to owners of the parent by the weighted average number of ordinary shares outstanding during each reporting year.

There is no dilutive effect from the warrants as they are anti-dilutive because the exercise price of the warrants were higher than the average market price of ordinary shares during the reporting year.

On 9 April 2018, placement of 40,000,000 new ordinary shares in the capital of the Company at S$0.09 (approximately RMB0.43) was completed. The number of ordinary shares outstanding at end of the reporting period will be increased from 256,909,000 to 296,909,000 shares if the placement has occurred before end of the reporting period.

14. Property, plant and equipment

Group:	Leasehold buildings	Renovation	Office equipment	Plant and machinery	Research & production equipment	Motor vehicles	Construction work-in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:								
At 1 April 2016 (Restated)	54,752	1,022	923	14,418	5,761	496	26,147	103,519
Additions	410	2,600	320	13,923	169	–	11,409	28,831
Written-off	–	–	(362)	(8,535)	(5,772)	(224)	–	(14,893)
Reclassification	21,631	–	–	–	–	–	(21,631)	–
At 31 March 2017 (Restated)	76,793	3,622	881	19,806	158	272	15,925	117,457
Additions	–	5,918	–	3,072	–	–	1,099	10,089
Disposal	–	–	–	(122)	–	–	–	(122)
Reclassification	426	1,000	–	–	–	–	(1,426)	–
At 31 March 2018	77,219	10,540	881	22,756	158	272	15,598	127,424
Accumulated depreciation:								
At 1 April 2016 (Restated)	4,919	113	356	2,149	1,601	285	–	9,423
Depreciation for the year	2,135	991	222	968	534	52	–	4,902
Written-off	–	–	(320)	(2,739)	(2,127)	(213)	–	(5,399)
At 31 March 2017 (Restated)	7,054	1,104	258	378	8	124	–	8,926
Depreciation for the year	2,634	2,257	166	2,082	31	52	–	7,222
Disposal	–	–	–	(9)	–	–	–	(9)
At 31 March 2018	9,688	3,361	424	2,451	39	176	–	16,139
Carrying amount:								
At 1 April 2016 (Restated)	49,833	909	567	12,269	4,160	211	26,147	94,096
At 31 March 2017 (Restated)	69,739	2,518	623	19,428	150	148	15,925	108,531
At 31 March 2018	67,531	7,179	457	20,305	119	96	15,598	111,285

As at 31 March 2018, the leasehold building and construction work-in-progress of the group with carrying amount of RMB59,744,000 (2017: RMB61,440,000) are mortgaged as securities for bank loans (See Note 26B).

14. Property, plant and equipment (cont'd)

The depreciation expense is charged as follows:

	Group	
	2018	2017
	RMB'000	RMB'000 (Restated)
Cost of sales	1,513	1,467
Marketing and distribution costs	–	9
Administrative expenses (Note 8)	5,709	3,426
	7,222	4,902

Due to the production halts as disclosed in Note 1.2 above, the recoverable amounts of the Group's property, plant and equipment were determined by discounting the future cash flows generated by the subsidiaries. The key assumptions used are disclosed in Note 16.

Based on the assessment, no impairment loss was required as the recoverable amounts of the Group's property, plant and equipment were higher than their carrying amounts as at 31 March 2018.

15. Intangible assets

Group:	Land use rights (Note 15A)	Manufacturing patents	Software	Favourable supply contracts (Note 15C)	Goodwill (Note 15B)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 April 2016 and 1 April 2017	35,410	1,562	338	12,822	36,660	86,792
Additions	821	–	–	–	–	821
At 31 March 2018	36,231	1,562	338	12,822	36,660	87,613
Accumulated amortisation:						
At 1 April 2016	958	414	11	2,565	–	3,948
Amortisation for the year	709	157	68	2,564	–	3,498
At 31 March 2017	1,667	571	79	5,129	–	7,446
Amortisation for the year	724	157	68	2,564	–	3,513
At 31 March 2018	2,391	728	147	7,693	–	10,959
Accumulated impairment:						
At 1 April 2016 and 1 April 2017	–	–	–	–	36,660	36,660
Impairment for the year	–	–	–	–	–	–
At 31 March 2018	–	–	–	–	36,660	36,660
Carrying amount:						
At 1 April 2016	34,452	1,148	327	10,257	–	46,184
At 31 March 2017	33,743	991	259	7,693	–	42,686
At 31 March 2018	33,840	834	191	5,129	–	39,994

Amortisation expenses are charged under administrative expense.

15. Intangible assets (cont'd)

15A. Land use rights

The land use rights are for three parcels of land located in Liancheng County of Fujian Province, the People's Republic of China.

As at 31 March 2018, the land use rights of the Group for a parcel of land with carrying amount of RMB6,553,000 (2017: RMB6,696,000) is mortgaged for bank loan (See Note 26B).

Due to the production halts as disclosed in Note 1.2 above, the recoverable amounts of the Group's land use rights were determined by discounting the future cash flows generated by the Group subsidiaries. The key assumptions used are disclosed in Note 16.

Based on the assessment, no impairment loss was required as the recoverable amounts of the Group's land use rights were higher than their carrying amounts as at 31 March 2018.

15B. Goodwill arising on consolidation

In the previous reporting year, a determination of the recoverable amount of goodwill subsequent to the RTO revealed a shortfall of RMB36,660,000 in future cash flow to support the purchase consideration paid of RMB36,661,000 as the Company did not have operation or subsidiaries at the time when the reverse acquisition was completed. Accordingly, an impairment charge of RMB36,660,000 was recorded against goodwill and disclosed under "other expenses" in the consolidated statement of profit or loss and other comprehensive income for the reporting year ended 31 March 2016.

15C. Favourable supply contracts

In January 2014, the subsidiary, Liancheng Dizhongbao Modern Agriculture Development Co, Ltd. ("Dizhongbao") signed lease agreements with several farmers to lease their farmland for 16 years as part of the Group's business strategy to secure supplies of sweet potatoes. Under the terms of the lease agreements, Dizhongbao had made upfront full payments of the leases. The advance payments for leasing of farmland were amortised as an expense in profit or loss on a straight-line basis over the term of the relevant leases.

In April 2015, Dizhongbao entered into Land Use Rights Transfer Agreements (the "Agreements") with a third party sweet potatoes supplier (the "Supplier") and the farmers to transfer all rights and obligations relating to the usage of the farmland to the Supplier (the "Disposal").

In return, the Supplier agreed to pay Dizhongbao a sum of RMB34,790,500, which Dizhongbao will receive in 5 equal yearly installments payable before 31 December every year and the first installment was due on 31 December 2015. In addition, the Supplier also agreed to sell all the harvested sweet potatoes from the transferred farmland exclusively to the Dizhongbao with the first right of refusal at 30% discount of the prevailing market price at the point of sale for 5 years (collectively, the "Consideration").

The Agreements also states that in the event of default/delay of repayments of installments of more than one month or non-compliance with any specified clauses in the Agreements, Dizhongbao has the right to resume usage of the farmland or re-assign its rights and responsibilities to another party.

15. Intangible assets (cont'd)

15C. Favourable supply contracts

Management measured and recognised the fair value of the Consideration using the following parameters:

(a) the rate used for the discounting of receivable from the Supplier and future benefits arising from the favourable supply contracts is 15%; and

(b) the supply of sweet potatoes from the transferred farmland is 5,000 tons per year.

The carrying amounts of the assets and impact to profit or loss resulting from the Disposal are as follows:

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Other receivables, non-current (Note 17)	6,051	11,312
Other receivables, current (Note 20)	5,262	4,575
Intangible asset - favourable supply contracts (Note 15)	5,129	7,693
Impact to profit or loss:		
Amortisation of intangible asset (Note 15)	(2,564)	(2,564)
Unwinding of discount on other receivable (Note 6)	2,383	2,979

Management has used the value-in-use (discounted cash flow) method to determine the recoverable amount of the favourable supply contracts. The recoverable amount is determined based on estimates of forecast cash inflows from discount receivable and discounted to present value at 15%. No impairment loss was required as the recoverable amount was higher than the carrying amount as at 31 March 2018.

16. Investments in subsidiaries

	Company	
	2018	**2017**
	RMB'000	**RMB'000**
Unquoted equity shares, at cost	803,636	803,636

16. Investments in subsidiaries (cont'd)

The subsidiaries held by the Company are listed below:

Names of subsidiaries, country of incorporation, place of operations and principal activities	**Cost**		**Effective equity held**	
	2018	**2017**	**2018**	**2017**
	RMB'000	**RMB'000**	**%**	**%**
Held through the Company:				
Zixin International Pte Ltd (formerly known as China Star Food Holdings Pte Ltd) [a] Singapore Investment holdings	803,636	803,636	100	100
Held through Zixin International Pte Ltd:				
福建紫心生物薯业有限公司 Fujian Zixin Biological Potato Co., Ltd [b] People's Republic of China Research, production and distribution of sweet potato food products			100	100
Held through Fujian Zixin Biological Potato Co., Ltd:				
福建紫老虎食品有限公司 Fujian Zilaohu Food Co., Ltd. [b] People's Republic of China Research, production and distribution of sweet potato food products			100	100
连城县地中宝现代农业发展有限公司 Liancheng Dizhongbao Modern Agriculture Development Co., Ltd. [b] People's Republic of China Cultivation, processing and sale of sweet potatoes			100	100
福建星派食品有限公司 Fujian Xingpai Food Co., Ltd. [b] People's Republic of China Sale of sweet potato food products			100	100

(a) Audited by RTLLP.

(b) Audited by Pan-China for consolidation purpose.

16. Investments in subsidiaries (cont'd)

Due to the production halts as disclosed in Note 1.2 above, management performed an assessment as at the end of the reporting year to determine the recoverable amount of the Company's investment in Zixin International Pte Ltd ("ZIPL"). The recoverable amount was estimated based on its value-in-use that was determined by discounting the estimated pre-tax future cash flows to be generated from the subsidiaries of ZIPL. Management has also exercised significant judgement in assuming production would resume in the third quarter of 2017.

The value-in-use (Level 3) was determined by discounting the future cash flows generated by the Group's subsidiaries. The key assumptions used are as follows:

Unobservable inputs:

Estimated discount rates using pre-tax rates that reflect current market assessments at the risks specific to the CGU:	15%
Cash flow forecasts derived from the most recent financial budgets:	5 years

Relationship of unobservable inputs to value-in-use:

Discount rate - the higher the discount rate, the lower the value-in-use.

Based on impairment testing performed as of 31 March 2018, no impairment loss in investment in subsidiaries is required.

17. Other receivables, non-current

	Group	
	2018	2017
	RMB'000	RMB'000 (Restated)
Other receivables from a supplier (Note 15C)	6,051	11,312
Presented in the statement of financial position as:		
Non-current	6,051	11,312
Current (Note 20)	5,262	4,575
	11,313	15,887

18. Other assets, non-current

	Group	
	2018	2017
	RMB'000	RMB'000
Advance payments for supplies of sweet potatoes	81,812	63,833
Deferred expenses	126	343
	81,938	64,176
Advance payment for suppliers of sweet pototaes presented in the statement of financial position as:		
Non-current	81,812	63,833
Current (Note 21)	25,630	–
	107,442	63,833

18. Other assets, non-current (cont'd)

In October 2016, Liangcheng Dizhongbao Modern Agriculture Development Co., Ltd ("Dizhongbao"), a subsidiary in the Group, entered into lease agreements and potatoes plantation management agreements (collectively, the "Agreements") with two third party sweet potato suppliers (the "Suppliers"). Under the Agreements, Dizhongbao paid a total sum of RMB63,833,000 to these Suppliers.

In June 2017, Dizhongbao and the Suppliers cancelled the Agreements and signed new raw sweet potatoes purchase contracts ("Purchase Contracts") with the Suppliers. Under the Purchase Contracts, each of the Suppliers will supply Dizhongbao with 2,300 tons of raw sweet potatoes yearly over a period of 5 years at quality and prices stipulated in the Purchase Contracts.

The Purchase Contracts require Dizhongbao to make upfront payments of RMB52,500,000 and RMB55,000,000 respectively to the Suppliers, subject to meeting certain conditions by the Suppliers. The amount of RMB63,833,000 paid by Dizhongbao in the reporting year ended 31 March 2017 is used as partial payments under the Purchase Contracts.

In September 2017, Dizhongbao entered into a new purchase contract with a new supplier. The supplier will supply Dizhongbao with 2,300 tons of raw sweet potatoes yearly over a period of 5 years at quality and prices stipulated in the Purchase Contracts. Under the Agreements, Dizhongbao paid a total sum of RMB24,612,000 to the Supplier.

Management has entered into the abovementioned agreements/contracts to secure the supply of quality raw sweet potatoes at reasonable prices.

19. Inventories

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Finished goods	213	–
Work-in-process	175	–
Raw materials	1,322	–
	1,720	–
Changes in inventories of finished goods	213	(429)
The amounts of inventories included in cost of goods sold	147,798	208,625

There were no inventories pledged as security for liabilities.

20. Trade and other receivables

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables:				
Outside parties	38,890	5,652	–	–
Other receivables:				
Subsidiary	–	–	12,111	12,425
Deposits to secure goods and services	1,640	4,634	148	152
Other receivables from a supplier (Note 17)	5,262	4,575	–	–
Subtotal	6,902	9,209	12,259	12,577
Total	45,792	14,861	12,259	12,577

21. Other assets, current

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Prepaid expenses	2,872	4,754	193	148
Advance payments for supplies of sweet potatoes (Note 18)	25,630	–	–	–
Others	557	565	–	–
	29,059	5,319	193	148

22. Cash and cash equivalents

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Cash on hand	92	71	3	–
Cash at bank	91,361	145,027	197	946
Fixed deposit	35,125	–	–	–
Cash and cash equivalents	126,578	145,098	200	946

Cash at bank bears weighted average effective interest rate of 0.30% (2017: 0.30%) per annum during the financial year.

The fixed deposit earned interest at 1.43% (2017: Nil) per annum have maturity of 3 months.

22. Cash and cash equivalents (cont'd)

Cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Singapore dollar	216	71	200	945
Renminbi	126,362	145,027	–	–
	126,578	145,098	200	945

23. Share capital

	Group		Company	
	Number of shares issued	**Share capital**	**Number of shares issued**	**Share capital**
	'000	**RMB'000**	**'000**	**RMB'000**
Ordinary shares of no par value:				
Balance at 1 April 2016	231,159	88,109	231,159	787,533
Issuance of compliance placement shares	25,250	24,978	25,250	24,978
Conversion of warrants	500	810	500	810
Expenses on issuance of new shares	–	(743)	–	(743)
Balance at 31 March 2017 and 31 March 2018	256,909	113,154	256,909	812,578

The ordinary shares of no par value are fully paid, carry one vote each and have no right to fixed income. The Company is not subject to any externally imposed capital requirements.

(a) On 18 April 2016, the Company completed a compliance placement exercise and issued 25,250,000 new ordinary shares with 50,500,000 free warrants at $0.23 per share for total cash consideration of $5,807,500. The fair value of warrants was determined by management to be $577,000 (RMB2,844,000, Note 24A).

(b) During the financial year ended 31 March 2017, 500,000 warrants were converted into 500,000 new ordinary shares.

Capital management:

The objectives when managing capital are: to safeguard the financial entity's ability to continue as a going concern, so that it can continue to provide returns for owners and benefits for other stakeholders, and to provide an adequate return to owners by pricing the sales commensurately with the level of risk. The management sets the amount of capital to meet its requirements and the risk taken. There were no changes in the approach to capital management during the reporting year. The management manages the capital structure and makes adjustments to it where necessary or possible in the light of changes in conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the management may adjust the amount of dividends paid to owners, return capital to owners, issue new shares, or sell assets to reduce debt.

23. Share capital (cont'd)

The Group's cash as at 31 March 2018 and 31 March 2017 exceeded its borrowing as of these dates. Therefore, the debt-to-adjusted capital ratio does not provide a meaningful indicator of the risk of borrowings.

In order to maintain its listing on the Singapore Exchange, the Company has to have share capital with a public float of at least 10% of the shares. The Company met the capital requirement on its listing and the rules limiting treasury share purchases mean it will continue to satisfy that requirement, as it did throughout the reporting year. Management receives a report from the share registrars frequently on substantial share interests showing the non-free float to ensure continuing compliance with the 10% limit throughout the reporting year.

23A. China Star Food Employee Share Option Scheme

The China Star Food Employee Share Option Scheme (the "Scheme") was approved by the shareholders of the Company at an extraordinary general meeting held on 20 July 2015.

The Scheme shall continue to be in force at the discretion of the Remuneration Committee ("RC"), subject to a maximum period of 10 years commencing on the date the Scheme was adopted by the Company in general meeting i.e. 20 July 2015, provided always that the Scheme may continue beyond the above stipulated period with the approval of shareholders by ordinary resolution in general meeting and any relevant authorities which may then be required.

The Scheme may be terminated at any time by the RC or by resolution of the Company in general meeting subject to all relevant approvals, which may be required, and if the Scheme is terminated, no further option shall be offered by the Company.

The Scheme provides for the grant of ordinary shares of the Company to employees, executive directors, non-executive directors (including independent directors) of the Company and its subsidiaries, including those who may be the controlling shareholders.

The Scheme is administered by the RC of the Company in its absolute discretion with such powers and duties as may be conferred on it by the board of directors of the Company, which will determine the terms and conditions of the grant of the options. Where a member of the RC is also a proposed participant, he/she will not be involved in the deliberations and decisions of the RC in respect of the options granted, or to be granted, to him/her or his/her associate(s).

The aggregate number of new shares that may be allotted and issued from time to time upon the exercise of the options granted pursuant to the Scheme ("Option Shares") over which the RC may grant options on any date (including the number of Option Shares which have been and are to be issued upon the exercise of the options in respect of all options granted under the Scheme and any other share scheme then in force) shall not exceed 15% of the total number of shares (excluding treasury shares) on the day preceding that date.

The aggregate number of Option Shares over which options may be granted under the Scheme to controlling shareholders and/or their associates shall not exceed 25% of the Option Shares available under the Scheme, and the number of Option Shares over which an option may be granted under the Scheme to each controlling shareholder or his/her associate shall not exceed 10% of the Option Shares available under the Scheme.

23. Share capital (cont'd)

23A. China Star Food Employee Share Option Scheme (cont'd)

Subject to any adjustment pursuant to Rule 10 of the Rules of the Scheme, the exercise price for each share in respect of which an option is exercisable shall be payable upon the exercise of the option and shall be determined by the RC in its absolute discretion, on the date of grant, and fixed by the RC at:

(a) the market price; or

(b) a price which is set at a discount to the market price, provided that:

(i) the maximum discount shall not exceed 20% of the market price. The RC shall have the sole and absolute discretion to determine the exact amount of discount to each participant; and

(ii) the shareholders in a general meeting shall have authorised, in a separate resolution, the making of offers and grants of options under the Scheme at a discount not exceeding the maximum discount as aforesaid.

Options granted with the exercise price set at market price shall only be exercisable, in whole or in part (provided that an option may be exercised in part only in respect of 100 shares or any multiple thereof), by a participant after the first anniversary of the date of grant of that option, and options granted with the exercise price set at a discount to market price shall only be exercisable by a participant after 2 years from the date of grant of that option.

Group employees (including executive directors) who are granted options must exercise their options before the 10th anniversary from the date of grant and Group non-executive directors (including independent directors) who are granted Options must exercise their options before the 5th anniversary from the date of grant, failing which all unexercised options shall immediately lapse and become null and void and a Participant shall have no claim against the Company.

Since the approval of the Scheme by the shareholders of the Company, no option was granted.

23B. China Star Performance Share Plan

The China Star Performance Share Plan (the "Plan") was approved by the shareholders of the Company at an extraordinary general meeting held on 20 July 2015.

The Plan shall continue to be in force at the discretion of the RC, subject to a maximum period of 10 years commencing on the date the Plan was adopted by the Company in general meeting i.e. 20 July 2015, provided always that the Plan may continue beyond the above stipulated period with the approval of shareholders by ordinary resolution in general meeting and any relevant authorities which may then be required.

The Plan may be terminated at any time by the RC or by resolution of the Company in general meeting subject to all relevant approvals, which may be required, and if the Plan is terminated, no further award shall be vested in the Company.

23. Share capital (cont'd)

23B. China Star Performance Share Plan (cont'd)

The Plan is administered by the RC comprising three directors, namely, He Jing, Leow Yong Kin and Ng Poh Khoon in its absolute discretion with such powers and duties as may be conferred on it by the board of directors of the Company, which will determine the terms and conditions of the grant of the awards. Where a member of the RC is also a proposed participant, he/she will not be involved in the deliberations and decisions of the RC in respect of the awards granted, or to be granted, to him/her or his/her associate(s).

The Company will be delivering shares pursuant to the award granted under the Plan in the form of existing shares held as treasury shares and/or an issue of new shares that may be allotted and issued from time to time upon the vesting of an award granted pursuant to the Plan. The performance shares issued under the Plan, when added to all awards granted under any other share option, share incentive, performance share or restructured share plan implemented by the Company and for the time being in force, shall not exceed 15% of the issued share capital of the Company from time to time.

In determining whether to issue performance share or to purchase existing shares for delivery to participants upon vesting of their award, the Company will take into account factors such as (but not limited to) the number of shares to be delivered, the prevailing market price of the shares and the financial effect on the Company of either issuing performance share or purchasing existing shares.

Insofar as in relation to the number of treasury shares that may be held pursuant to the Act as amended by the Companies Amendment Act, such a method is not subject to any further limit under prevailing legislation and Singapore Exchange Securities Trading Limited ("SGX-ST") guidelines as it does not involve the issuance of any performance shares.

An award letter confirming the award and specifying, inter alia, in relation to the award, the prescribed performance target(s), the performance period during which the prescribed performance target(s) are to be satisfied and the date by which the award shall be vested, will be sent to each participant as soon as reasonably practicable after the award is finalised. Notwithstanding that a participant may have met his/her performance targets, no award shall vest in a participant in the following circumstances:

(a) upon the bankruptcy of a participant or the happening of any other event which results in his/her being deprived of the legal or beneficial ownership of such award;

(b) in the event of any misconduct of a participant as determined by the RC in its discretion;

(c) in the event that the RC shall, in its discretion, deems it appropriate that such award shall so lapse on the grounds that any of the objectives of the Plan have not been met; or

(d) in the event that the participant ceases to be employed by the Company before vesting of the award to him/her.

The intention is to award shares based on pre-determined dollar amounts such that the quantum of shares comprised in award is dependent on the closing price of shares transacted on the market day the award is vested. The RC will also monitor the grant of award carefully to ensure that the size of the Plan complies with the relevant rules of the SGX-ST.

Since the approval of the Plan by the shareholders of the Company, no award was granted.

23. Share capital (cont'd)

23C. Warrants

On 18 April 2016, the Company issued 50,500,000 warrants pursuant to the compliance placement on the basis of two warrants for every placement share subscribed. Each warrant carries the right to subscribe for one new ordinary share in the capital of the Company at the exercise price of $0.33 for each ordinary share payable in cash. Each warrant may be exercised at any time during the period of two years commencing on and including the date of issue of the warrants and expiring on the date immediately preceding the second anniversary of the date of issue of the warrants. The warrants which have not been exercised after the exercise period shall lapse and cease to be valid for any purpose.

The movements of the warrants during the reporting year and the unissued ordinary shares in the Company under warrants at the end of the reporting year were as follows:

Date of issue	Exercise price	No. of warrants on date of issue	Warrants exercised	No. of warrants on 31.3.2018	Expiry date
18 April 2016	$0.33	50,500,000	(500,000)	50,000,000	17 April 2018

On 17 April 2018, the Warrants was expired and de-listed from the Official List of the SGX-ST.

24. Other reserves

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Warrant reserve (Note 24A)	2,816	2,816	2,816	2,816
Statutory common reserve (Note 24B)	36,851	35,687	–	–
Foreign currency translation reserve (Note 24C)	1,630	1,545	43,060	43,347
	41,297	40,048	45,876	46,163

24A. Warrant reserve

	Group and Company	
	2018	2017
	RMB'000	RMB'000
Balance at beginning of the year	2,816	–
Arising from issuance of warrants (Note 23)	–	2,844
Conversion of warrants	–	(28)
Balance at end of the year	2,816	2,816

24. Other reserves (cont'd)

24B. Statutory common reserve

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Balance at beginning of the year	35,687	24,450
Transferred from retained earnings	1,164	11,237
Balance at end of the year	36,851	35,687

Under the regulations in People's Republic of China, the Company's subsidiaries are required to set up a statutory reserve which represents a non-distributable reserve made at a rate of at least 10% of net profit after tax until the reserve reaches 50% of the registered paid up capital in accordance with their Articles of Association. The transfer to this reserve must be made before the payment of dividends to shareholders.

The statutory common reserve can only be used to set off against losses, to expand the entities' production operations or to increase its share capital. The Company and its subsidiaries may convert its statutory common reserve into share capital provided that the remaining balance of such reserve is not less than 25% of the share capital.

The subsidiaries may transfer a portion of its net profit to the statutory welfare reserve in accordance with their Articles of Association, as recommended by directors and approved by shareholders.

The statutory welfare reserve can only be used for the collective welfare of the employees of the subsidiaries.

24C. Foreign currency translation reserve

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Balance at beginning of the year	1,545	1,574	43,347	42,948
Exchange differences on translating functional to presentation currency	85	(29)	(287)	399
Balance at end of the year	1,630	1,545	43,060	43,347

The foreign currency translation reserve represents exchange differences arising from the translation of presentation currency from Singapore Dollars to Chinese Renminbi and it is not distributable.

25. Trade and other payables

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Trade payables:				
Outside parties	34,427	8,871	–	–
Other payables:				
Outside parties	8,236	3,926	4,647	1,255
Salary payable	2,086	5,851	–	311
Director/shareholder (Note 3D)	1,432	964	1,432	964
Subtotal	11,754	10,741	6,079	2,530
Total trade and other payables	46,181	19,612	6,079	2,530

26. Other financial liabilities

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loan A (unsecured) (Note 26A)	3,000	3,000	–	–
Bank loan B (secured) (Note 26B)	9,800	9,800	–	–
Bank loan C (unsecured) (Note 26A)	3,500	–	–	–
Bank loan D (unsecured) (Note 26A)	1,500	–	–	–
Loan from director and shareholder (unsecured) (Note 26C)	4,700	641	4,700	641
	22,500	13,441	4,700	641

26A. Bank loan A, C and D

The bank loans A, C and D are repayable within 12 months and renewable annually. The bank loans' fixed interest rate were 6.34% (2017: 6.34%), 6.34% and 6.34% per annum respectively and are repayable within 12 months.

The bank loans are unsecured, guaranteed by a local credit guarantee company and one of the Company's directors.

26B. Bank loan B

The loan is secured by mortgages of a leasehold building and land use rights of the Group (see Notes 14 and 15A) and guaranteed by one of the Company's directors. It bears fixed interest rate at 5.89% (2017: 5.66%) per annum and is repayable within 12 months.

26C. Loan from director and shareholder

The loans from director and shareholder are unsecured, bear interest rate of 5% per annum and are repayable on demand.

26. Other financial liabilities (cont'd)

26D. Reconciliation of liabilities arising from financing activities

			Non- cash changes		
	At beginning of the financial year	Cash flows	Interest payable	Interest expense	At end of the financial year
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans	12,800	4,069	–	931	17,800
Loan from director and shareholder	641	4,059	(139)	139	4,700
	13,441	8,128	(139)	1,070	22,500

27. Financial instruments: information on financial risks

27A. Categories of financial assets and liabilities

The following table categorises the carrying amount of financial assets and liabilities recorded at the end of the reporting year:

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets:				
Cash and cash equivalents	126,578	145,098	200	946
Loans and receivables	55,272	31,493	12,259	12,577
	181,850	176,591	12,459	13,523
Financial liabilities:				
At amortised cost:-				
- Trade and other payables	46,181	19,612	6,079	2,530
- Other financial liabilities	22,500	13,441	4,700	641
	68,681	33,053	10,779	3,171

Further quantitative disclosures are included throughout these financial statements.

27B. Fair values of financial instruments

The analyses of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 are disclosed in the relevant notes to the financial statements. These include the significant financial instruments stated at amortised cost and at fair value in the statement of financial position. The carrying values of current financial instruments approximate their fair values due to the short-term maturity of these instruments and the disclosures of fair value are not made when the carrying amount of current financial instruments is a reasonable approximation of the fair value.

27. Financial instruments: information on financial risks (cont'd)

27C. Financial risk management

The main purpose for holding or issuing financial instruments is to raise and manage the finances for the entity's operating, investing and financing activities. There are exposures to the financial risks on the financial instruments such as credit risk, liquidity risk and market risk comprising interest rate, currency risk and price risk exposures. Management has certain practices for the management of financial risks. The following guidelines are followed: All financial risk management activities are carried out and monitored by senior management staff. All financial risk management activities are carried out following acceptable market practices.

There have been no changes to the exposures to risk, the objectives, policies and processes for managing the risk and the methods used to measure the risk.

27D. Credit risk on financial assets

Financial assets that are potentially subject to concentrations of credit risk and failures by counterparties to discharge their obligations in full or in a timely manner consist principally of cash balances with banks and receivables. The maximum exposure to credit risk is: the total of the fair value of the financial assets; the maximum amount the entity could have to pay if the guarantee is called on; and the full amount of any payable commitment at the end of the reporting year. Credit risk on cash balances with banks is limited because the counterparties are entities with acceptable credit ratings. For credit risk on receivables, an ongoing credit evaluation is performed on the financial condition of the debtors and a loss from impairment is recognised in profit or loss. The exposure to credit risk is controlled by requisition of advance payment from customers and these are disseminated to the relevant persons concerned and compliance is monitored by management.

Note 22 disclosed the maturity of the cash and cash equivalents balances.

As part of the process of setting customer credit limits, different credit terms are used. The average credit period generally granted to trade receivable customers is about 45 to 90 days (2017: 45 to 90 days). But some customers take a longer period to settle the amounts.

As at the end of the reporting year, no trade receivable amounts were past due nor impaired.

Other receivables are normally with no fixed terms and therefore there is no maturity.

Except as disclosed above, there is no significant concentration of credit risk, as the exposure is spread over a large number of counter-parties and customers.

27. Financial instruments: information on financial risks (cont'd)

27E. Liquidity risk

Liquidity risks refer to the risks in which the Group encounters difficulties in meeting its short-term obligations. Liquidity risks are managed by matching the payment and receipt cycle.

The following table details the Group's remaining contractual maturity for its non-derivative financial instruments. The table has been drawn up based on undiscounted cash flows of financial instruments based on the earlier of the contractual date or when the Group is expected to receive or (pay). The table includes both interest and principal cash flows.

	Less than 1 year
Group	**RMB'000**
Financial assets	
Trade and other receivables	45,792
Cash and cash equivalents	126,578
As at 31 March 2018	172,370
Trade and other receivables	14,861
Cash and cash equivalents	145,098
As at 31 March 2017(Restated)	159,959
Financial liabilities	
Trade and other payables	46,181
Other financial liabilities	22,500
As at 31 March 2018	68,681
Trade and other payables	19,612
Other financial liabilities	13,441
As at 31 March 2017(Restated)	33,053
Total net financial assets/ (liabilities)	
At 31 March 2018	103,689
At 31 March 2017 (Restated)	126,906

27. Financial instruments: information on financial risks (cont'd)

27E. Liquidity risk (cont'd)

Company	Less than 1 year RMB'000
Financial assets	
Trade and other receivables	12,259
Cash and cash equivalents	200
As at 31 March 2018	12,459
Trade and other receivables	12,577
Cash and cash equivalents	946
As at 31 March 2017 (Restated)	13,523
Financial liabilities	
Trade and other payables	6,079
Other financial liabilities	4,700
As at 31 March 2018	10,779
Trade and other payables	2,530
Other financial liabilities	641
As at 31 March 2017(Restated)	3,171
Total net financial assets/ (liabilities)	
At 31 March 2018	1,680
At 31 March 2017 (Restated)	10,352

The Group's operations are financed mainly through equity, retained earnings and bank borrowings. Adequate lines of credits are maintained to ensure the necessary liquidity is available when required. The ability of the Group to meet current obligations is also highly dependent on the ability of the Group to realise cash flows from the trade receivables and inventories.

27F. Interest rate risk

The interest rate risk exposure is from changes in fixed rate and floating interest rates and it mainly concerns financial liabilities which are both fixed rate and floating rate. The interest from financial assets including cash balances is not significant.

27. Financial instruments: information on financial risks (cont'd)

27F. Interest rate risk (cont'd)

The following table analyses the breakdown of the significant financial instruments by type of interest rate:

	Group	
	2018	2017
	RMB'000	RMB'000
<u>Financial assets</u>:		
Fixed rate	126,578	145,098
<u>Financial liabilities</u>:		
Fixed rate	22,500	12,800

The interest rates are disclosed in the respective notes.

Sensitivity analysis: The effect on pre-tax profit is not significant.

27G. Foreign currency risk

The Company and its subsidiaries are not exposed to significant foreign currency risk as their business are transacted in functional currencies, which are Singapore Dollars and Chinese Renminbi.

28. Commitments

28A. Operating lease commitments - as lessee

At the end of the reporting year, future minimum lease payment commitments under non-cancellable operating leases are as follows:

	Group	
	2018	2017
	RMB'000	RMB'000
Not later than one year	440	806
Later than one year and not later than five years	–	445
Rental expense for the year	587	1,885

Operating lease payments are for rentals payable for office and factory buildings. The lease from the owner is renewable every May of the year.

28. Commitments (cont'd)

28B. Operating lease commitments - as lessor

The Group rents out factory building and portions of office under non-cancellable operating leases.

At the end of the financial year, the Group has the following future minimum lease receipts:

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Not later than one year	882	–
Later than one year and not later than five years	–	–
Rental income for the year	43	–

28C. Capital commitments

Estimated amounts committed at the end of the reporting year for future capital expenditure but not recognised in the financial statements are as follows:

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Purchase of plant and equipment	2,153	1,654
Construction of new factory buildings	–	3,681
Payment for supply of sweet potatoes	–	43,667
Research & development expenditures	1,155	–
Others	–	124
	3,308	49,126

29. Contingent liabilities

On 3 November 2016, a shareholder of the Company commenced legal suit against the Company for breaches of a Sales and Purchase Agreement dated 5 November 2014 (the "SPA") alleging the Company has breached certain clauses in the SPA and this cause a loss to the shareholder of $2,544,696 (approximately RMB12,371,000). The shareholder's application for specific discovery of documents have been heard by the Court in Singapore and the Court has disallowed the shareholder's application save in respect of one document. The legal suit has been fixed for a 3-day trial in June 2018. The case has been heard in high court and is awaiting judgement.

Based on the facts and evidences made available to them, the Company's external legal counsel has advised that the Company has reasonably good prospects of successfully defending the legal suit brought by this shareholder. Accordingly, no provision for any liability has been made in these financial statements in respect of the legal suit.

30. Changes and adoption of financial reporting standards

In the current financial year, the Group has adopted all the new and revised FRS and INT FRS that are relevant to its operations and effective for the current financial year. The adoption of these new/ revised FRS and INT FRS did not result in changes to the Group's accounting policies and has no material effect on the amounts reported for the current or prior years except for the following:

FRS 7 Statement of cash flows

The amendments to FRS 7 Statement of cash flows (Disclosure initiative) sets out required disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has included the additional required disclosures in Note 26D.

31. Adoption of a new financial reporting framework in 2018

In December 2017, the Accounting Standards Council (ASC) has issued a new financial reporting framework – Singapore Financial Reporting Standards (International) (SFRS(I)), which is to be adopted by Singapore-incorporated companies listed on the Singapore Exchange (SGX), for annual periods beginning on or after 1 January 2018. SFRS(I) is identical to the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The Group and the Company will be adopting the new framework for the first time for financial year ending 31 March 2019 and SFRS(I) 1 First-time Adoption of Singapore Financial Reporting Standards (International) will be applied in the first set of SFRS(I) financial statements.

SFRS(I) 1 First-time Adoption of Singapore Financial Reporting Standards (International)

As a first-time adopter, the Group and the Company are to apply retrospectively, accounting policies based on each SFRS(I) effective as at end of the first SFRS(I) reporting period (31 March 2019), except for areas of exceptions and optional exemptions set out in SFRS(I) 1. In the first set of SFRS(I) financial statements for the financial year ending 31 March 2019, an additional opening statement of financial position as at date of transition (1 April 2017) will be presented, together with related notes. Reconciliation statements from previously reported FRS amounts and explanatory notes on transition adjustments are required for equity as at date of transition (1 April 2017) and as at end of last financial period under FRS (31 March 2018), and for total comprehensive income and cash flows reported for the last financial period under FRS (for the year ended 31 March 2018). Additional disclosures may also be required for specific transition adjustments if applicable.

Management has performed an analysis of the transition options and other requirements of SFRS(I) and does not expect any change to the Group's and the Company's current accounting policies under FRS or material adjustments on the initial transition to the new framework, other than those that may arise from implementing certain new SFRS(I) pronouncements effective at the same time. As SFRS(I) requires a first-time adopter to apply accounting policies based on each SFRS(I) effective at end of the first SFRS(I) reporting period (31 March 2019), it is not possible to know all possible effects as at date of authorisation of current year's financial statements. If there are any subsequent pronouncements on SFRS(I) that are effective as at 31 March 2019, they may impact the disclosures of estimated effects described below.

31. Adoption of a new financial reporting framework in 2018 (cont'd)

The following SFRS(I) pronouncements are expected to have an impact to the Group and the Company in the periods of their initial application under the new SFRS(I) framework:

Effective for annual periods beginning on or after 1 January 2018

- SFRS(I) 9 Financial Instruments
- SFRS(I) 15 Revenue from Contracts with Customers

Effective for annual periods beginning on or after 1 January 2017

- SFRS(I) 16 Leases

Management anticipates that the adoption of the above SFRS(I) pronouncements in future periods will not have a material impact on the financial statements of the Group and the Company in the period of their initial adoption except for SFRS(I) 9, SFRS(I) 15 and SFRS(I) 16. Management is currently in the process of assessing the impact of SFRS(I) 9, SFRS(I) 15 and SFRS(I) 16 in the period of their initial adoption.

32. Events after the reporting period

On 12 March 2018, the Company announced that it has proposed subscription of 40,000,000 new ordinary shares in the capital of the Company (each a "Subscription Shares" and collectively the "Subscription Shares") at S$0.09 (the "Subcription Price") for each Subscription Share, amounting to an aggregate sum of S$3,600,000 (the "Placement").

On 29 March 2018, the Company has announced that they have received the listing and quotation notice (the "LQN") from the SGX-ST for the listing and quotation of the Subscription Shares on the Catalist Board of the SGX-ST.

Further to the Placement Announcements, the Board has announced that the Placement was completed on 9 April 2018, and the Subscription Shares were allotted and issued to each of the respective Subscribers in accordance with the terms and conditions of the Subscription Agreements.

Following the allotment and issuance of the Subscription Shares, the issued and paid-up share capital of the Company has increased from S$180,172,501 comprising 256,909,000 shares to S$183,772,501 comprising 296,909,000 shares.

33. Prior period restatements

(i) Reclassification of renovation expenditure

In 2017, renovation expenditures classified under other assets – prepaid expenses. The Group reclassified the renovation cost and the related amortisation expenses to property, plant and equipment and depreciation of property, plant and equipment.

The effects of the reclassification are as below:

	2017	1.4.2017
Group	**RMB'000**	**RMB'000**
Non-current assets		
Property, plant and equipment	2,518	909
Current assets		
Other assets, current	(2,518)	(909)

(ii) Reclassification of deferred tax assets

In 2017, the Group classified deferred tax assets as income tax recoverable under current asset when it should have been classified as deferred tax assets under non-current assets. A reclassification entry to reclass deferred tax assets from current assets – income tax recoverable to non-current assets – deferred tax assets was posted.

The effects of the reclassification are as below:

	2017	1.4.2017
Group	**RMB'000**	**RMB'000**
Non-current assets		
Deferred tax assets	8,011	–
Current assets		
Other assets, current	(8,011)	–

(iii) Reclassification of other payables

In 2017, the following reclassifications have been made by the Group to reclass value-added tax payable from trade payable to other payable.

The effects of the reclassification are as below:

	2017	1.4.2017
Group	**RMB'000**	**RMB'000**
Current liabilities	(1,087)	(3,721)
Trade payable		
Other payable	1,087	3,721

Statistics of Shareholdings

As at 11 June 2018

Class of Shares	Number of issued shares excluding treasury shares	Voting Rights
Ordinary Shares	296,909,050	One vote per share

There are no treasury shares and subsidiary holdings held in the issued share capital of the Company

DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	Number of Shareholders	%	Number of Shares	%
1 - 99	5	0.87	250	0.00
100 - 1,000	25	4.35	13,425	0.01
1,001 - 10,000	99	17.22	577,000	0.19
10,001 - 1,000,000	423	73.56	47,473,100	15.99
1,000,001 AND ABOVE	23	4.00	248,845,275	83.81
TOTAL	**575**	**100.00**	**296,909,050**	**100.00**

SUBSTANTIAL SHAREHOLDERS
(As recorded in the Register of Substantial Shareholders)

	Direct interest	%	Deemed interest	%
Liang Chengwang	80,283,000	27.00	–	–
Zhang Haibo(1)	–	–	29,687,400	10.00
Yu Lei(2)	–	–	29,687,400	10.00
PTS Capital Pte. Ltd.	24,503,600	8.25	–	–
Xue Congyan	15,000,000	5.10	–	–

1) As Zhang Haibo owns more than 20% of the voting rights in PTS Capital Pte. Ltd., Zhang Haibo is deemed to have an interest in the shares in the Company held by PTS Capital Pte. Ltd. Zhang Haibo also owns more than 20% of the voting rights in Panoramic Results Limited, which is an existing shareholder of the Company.

2) As Yu Lei owns more than 20% of the voting rights in PTS Capital Pte. Ltd., Yu Lei is deemed to have an interest in the shares in the Company held by PTS Capital Pte. Ltd. Yu Lei also owns more than 20% of the voting rights in Panoramic Results Limited, which is an existing shareholder of the Company.

Statistics of Shareholdings

As at 11 June 2018

TWENTY LARGEST SHAREHOLDERS

No.	Name of Shareholders	Number of Shares	%
1	CGS-CIMB SECURITIES (SINGAPORE) PTE. LTD.	89,479,450	30.14
2	KGI SECURITIES (SINGAPORE) PTE. LTD.	48,998,100	16.50
3	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	27,503,600	9.26
4	RAFFLES NOMINEES (PTE) LIMITED	22,031,550	7.42
5	XUE CONGYAN	15,000,000	5.05
6	SHANE THAM FOOK WAI	6,050,000	2.04
7	UOB KAY HIAN PRIVATE LIMITED	4,680,000	1.58
8	CHEONG CHEE HWA	4,158,000	1.40
9	PHILLIP SECURITIES PTE LTD	3,569,450	1.20
10	DBS NOMINEES (PRIVATE) LIMITED	2,957,500	1.00
11	YEK SIEW LIONG	2,907,500	0.98
12	ERIC TANN KAH HUAT	2,547,000	0.86
13	OCBC SECURITIES PRIVATE LIMITED	2,500,525	0.84
14	CITIBANK NOMINEES SINGAPORE PTE LTD	2,259,200	0.76
15	ABN AMRO CLEARING BANK N.V.	2,045,700	0.69
16	HAN SOON JUAN	1,920,000	0.65
17	NG SENG HONG	1,760,200	0.59
18	CHIAR CHOON TECK	1,568,000	0.53
19	KIU CHONG PONG @ KIU CHIONG HOON	1,500,000	0.51
20	NG CHENG CHOH	1,500,000	0.51
	TOTAL	**244,935,775**	**82.51**

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

Approximately 59.65% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual Section B: Rules of Catalist of the Singapore Exchange Securities Trading Limited.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting ("**AGM**") of China Star Food Group Limited (the "**Company**") will be held at Room 330, Level 3, Suntec Singapore Convention & Exhibition Centre, 1 Raffles Boulevard, Suntec City, Singapore 039593 on Monday, 30 July 2018, at 10.00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Statement and the Audited Financial Statements of the Company for the financial year ended 31 March 2018 together with the Auditors' Report thereon. *Resolution 1*

2. To re-elect the following Directors of the Company retiring pursuant to Articles 99 and 100 of the Constitution of the Company:

   Ms He Jing (retiring under Article 99) *Resolution 2*

   Mr Leow Yong Kin (retiring under Article 100) *Resolution 3*

   Mr Luo Jiachang (retiring under Article 100) *Resolution 4*

   *Ms He Jing will, upon re-election as Director of the Company, remain as the Chairman of the Remuneration Committee and a member of the Audit Committee and Nominating Committee. The Board considers Ms He Jing to be independent pursuant to Rule 704(7) of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") Listing Manual Section B: Rules of Catalist (the "**Catalist Rules**").*

   Mr Leow Yong Kin will, upon re-election as Director of the Company, remain as the Chairman of the Audit Committee, Chairman of the Nominating Committee and a member of the Remuneration Committee. The Board considers Mr Leow Yong Kin to be independent pursuant to Rule 704(7) of the Catalist Rules.

3. To approve the payment of Directors' fees of S$110,000 for the financial year ending 31 March 2019, payable annually in arrears (FY2018: S$140,000). *Resolution 5*

4. To re-appoint RT LLP as the Auditors of the Company and to authorise the Directors to fix their remuneration. *Resolution 6*

5. To transact any other ordinary business which may properly be transacted at an AGM.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

6. **Authority to issue and allot shares**

   That pursuant to Section 161 of the Companies Act, Chapter 50 of Singapore (the "**Companies Act**") and Rule 806 of the Catalist Rules, the Directors of the Company be authorised and empowered to:

   (a) (i) issue shares in the Company ("**shares**") whether by way of rights, bonus or otherwise; and/or

(ii) make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares

(b) at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and

(notwithstanding the authority conferred by this resolution may have ceased to be in force) issue shares in pursuance of any Instruments made or granted by the Directors of the Company while this resolution was in force

provided that:

(1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments, made or granted pursuant to this resolution) to be issued pursuant to this resolution shall not exceed one hundred per centum (100%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a pro-rata basis to shareholders of the Company 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 (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (1) above, the total number of issued shares (excluding treasury shares and subsidiary holdings) shall be based on the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time of the passing of this resolution, after adjusting for:

    (a) new shares arising from the conversion or exercise of any convertible securities;

    (b) new shares arising from exercising share options or vesting of share awards which are outstanding or subsisting at the time of the passing of this resolution; and

    (c) any subsequent bonus issue, consolidation or subdivision of shares;

(3) in exercising the authority conferred by this resolution, the Company shall comply with the provisions of the Catalist Rules for the time being in force (unless such compliance has been waived by the SGX-ST) and the Constitution of the Company;

(4) unless revoked or varied by the Company in a general meeting, such authority shall continue in force until the conclusion of the next AGM of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (i)] *Resolution 7*

7. **Authority to allot and issue shares under the China Star Employee Share Option Scheme**

That pursuant to Section 161 of the Companies Act, authority be and is hereby given to the Directors of the Company to:

(a) offer and grant options ("**Options**") from time to time in accordance with the rule of China Star Employee Share Option Scheme ("**China Star ESOS**"); and

(b) allot and issue from time to time such number of Shares as may be required to be issued pursuant to the exercise of options granted under the China Star ESOS,

provided always that aggregate number of Shares to be issued and issuable pursuant to the China Star ESOS, China Star Performance Share Plan and any other share based incentive schemes of the Company, shall not exceed fifteen percent (15%) of the total number of issued Shares (excluding treasury shares and subsidiary holdings), on the day immediately preceding the date on which an offer to grant an Option is made and that the grant of Options can be made at any time and from time to time and that such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next AGM of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (ii)] *Resolution 8*

8. **Authority to allot and issue shares under the China Star Performance Share Plan**

That pursuant to Section 161 of the Companies Act, authority be and is hereby given to the Directors of the Company to:

(i) offer and grant awards ("**Awards**") from time to time in accordance with the rule of China Star Performance Share Plan ("**China Star PSP**"); and

(ii) allot and issue from time to time such number of shares as may be required to be issued pursuant to the vesting of Awards granted under the China Star PSP,

provided always that aggregate number of shares to be issued and issuable pursuant to the China Star ESOS, China Star PSP and any other share based incentive schemes of the Company, shall not exceed fifteen percent (15%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) from time to time and that such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next AGM of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (ii)] *Resolution 9*

By Order of the Board

Lim Kok Meng
Company Secretary
Singapore, 11 July 2018

Notice of Annual General Meeting

Explanatory Notes:

i) The Ordinary Resolution 7 in item 6 above, if passed, will empower the Directors, effective until the conclusion of the next AGM of the Company, or the date by which the next AGM of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant Instruments convertible into shares and to issue shares pursuant to such Instruments, up to a number not exceeding, in total, 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 up to fifty percent (50%) may be issued other than on a pro-rata basis to shareholders.

ii) The Ordinary Resolutions 8 and 9 in items 7 and 8 above, if passed, will empower the Directors of the Company, to allot and issue shares pursuant to the exercise of Options and vesting of Awards under the China Star ESOS and China Star PSP, provided that the aggregate number of shares to be issued pursuant to the China Star ESOS and China Star PSP, when aggregated with the number of shares issued and issuable or transferred and to be transferred under any other share based incentive schemes of the Company shall not exceed fifteen percent (15%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) of the Company from time to time.

Notes:

1. (a) A member who is not a relevant intermediary, is entitled to appoint one or two proxies to attend and vote at the AGM.

   (b) A member who is a relevant intermediary, is entitled to appoint more than two proxies to attend and vote at the AGM, but each proxy must be appointed to exercise the rights attached to a different Share or Shares held by such member.

   "**Relevant intermediary**" has the meaning ascribed to it in Section 181 of the Companies Act.

2. A proxy need not be a member of the Company.

3. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company's Share Registrar, Boardroom Corporate & Advisory Services Pte Ltd at 50 Raffles Place #32-01 Singapore Land Tower Singapore 048623 not less than forty-eight (48) hours before the time appointed for holding the AGM.

Personal data privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

CHINA STAR FOOD GROUP LIMITED

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

IMPORTANT:

1. A relevant intermediary may appoint more than two proxies to attend the Annual General Meeting and vote (please see note 4 for the definition of "**relevant intermediary**").
2. For investors who have used their CPF monies to buy the Company's shares, this Annual Report is forwarded to them at the request of their CPF Approved Nominees and is sent solely **FOR INFORMATION ONLY**.
3. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

PROXY FORM

(Please see notes overleaf before completing this Form)

I/We, ______________________________ (full name in capital letters)

NRIC No./Passport No./Company No. ______________________________

of ______________________________ (full address)

being a member/members of **CHINA STAR FOOD GROUP LIMITED** (the "**Company**"), hereby appoint:

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

and/or (delete as appropriate)

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

or failing the person, or either or both of the persons, referred to above, the Chairman of the Annual General Meeting (the "**Meeting**") of the Company as my/our proxy/proxies to vote for me/us on my/our behalf at the Meeting to be held on Monday, 30 July 2018 at 10.00 a.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given, the proxy/ proxies will vote or abstain from voting at his/her/their discretion, as he/she/they will on any other matter arising at the Meeting and at any adjournment thereof.

The resolutions put to vote at the Meeting shall be decided by poll.

No.	Resolutions relating to:	Number of Votes For(1)	Number of Votes Against(1)
1	Adoption of the Directors' Statement and the Audited Financial Statements of the Company for the fi nancial year ended 31 March 2018 together with the Auditors' Report thereon		
2	Re-election of Ms He Jing as a Director of the Company		
3	Re-election of Mr Leow Yong Kin as a Director of the Company		
4	Re-election of Mr Luo Jiachang as a Director of the Company		
5	Approval of Directors' fees amounting to S$110,000 for the financial year ending 31 March 2019, payable annually in arrears		
6	Re-appointment of RT LLP as Auditors of the Company and to authorise the Directors to fix their remuneration		
7	Authority to allot and issue new shares		
8	Authority to issue shares under the China Star Employee Share Option Scheme		
9	Authority to issue shares under the China Star Performance Share Plan		

(1) If you wish to exercise all your votes "For" or "Against", please tick within the box provided. Alternatively, please indicate the number of votes as appropriate.

Dated this ________ day of ________________ 2018

Total number of Shares in:	No. of Shares
(a) CDP Register	
(b) Register of Members	

____

Signature of Shareholder(s)
or, Common Seal of Corporate Shareholder

Notes:

1. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, (Cap. 289), you should insert that number of shares. If you have shares registered in your name in the Register of Members, you should insert that number of shares. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number of shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the shares held by you.

2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.

3. Where a member appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.

4. A member who is a relevant intermediary entitled to attend the meeting and vote is entitled to appoint more than two proxies to attend and vote instead of the member, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member appoints more than two proxies, the appointments shall be invalid unless the member specifies the number of shares in relation to which each proxy has been appointed.

   "Relevant intermediary" means:

   (a) a banking corporation licensed under the Banking Act (Cap. 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity;

   (b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Cap. 289) and who holds shares in that capacity; or

   (c) the Central Provident Fund Board established by the Central Provident Fund Act (Cap. 36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

5. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.

6. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company's Share Registrar, Boardroom Corporate & Advisory Services Pte Ltd at 50 Raffles Place #32-01 Singapore Land Tower Singapore 048623 not less than forty-eight (48) hours before the time appointed for the Meeting.

7. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his/her attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.

8. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, (Cap. 50).

PERSONAL DATA PRIVACY:

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 11 July 2018.

General:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible, or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have shares entered against his/her name in the Depository Register as at seventy-two (72) hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.