

China Star Food records higher revenue in the second half FY2021 amid the ongoing global pandemic

- Group to strengthen comprehensive value chain capabilities to ride on the growth trend of snack foods in China

Key Financial Highlights:

For year ended 31 March (RMB'000)	FY2021	FY2020	YoY Change
Revenue	287,388	323,141	- 11.1%
Gross profit	69,616	70,159	- 0.8%
Gross margin	24.2%	21.7%	+ 2.5 pp
(Loss) before tax	(13,002)	(10,590)	+ 22.8%
(Loss) after tax ¹	(12,676)	(6,467)	+ 96.0%

** pp denotes percentage points

¹ (Loss) after tax attributable to owners of the Company

For Immediate Release

SINGAPORE, 28 May 2021 – China Star Food Group Limited 中国之星食品集团 (“China Star Food” or the “Company” and together with its subsidiaries, the “Group”), a leading snack food company in China, registered a 96.0% year-on-year decrease in earnings to post a net loss after tax of approximately RMB 12.7 million on the back of an 11.1% year-on-year decline in revenue for the financial year ended 31 March 2021 (“FY2021”). The financial performance was undermined by the adverse impact of the COVID-19 outbreak as cities in China went into lockdown since early February 2020, and only gradually resumed business activities from March 2020. Strict precautionary measures continue to be in place to minimize the risk of COVID-19 transmission. Despite this, the quick adoption of e-commerce and online marketing strategies to complement the Group’s traditional marketing and distribution campaigns resulted in higher sales in the second half of FY2021, increasing by approximately RMB 33.6 million or 26.8% as compared to the second half of the financial year ended 31 March 2020 (“FY2020”).

Gross profit decreased marginally by 0.8% year-on-year from RMB 70.2 million in FY2020 to RMB 69.6 million in FY2021 in tandem with lower revenue. Notwithstanding, the Group’s gross profit margin increased from approximately 21.7% in FY2020 to 24.2% in FY2021. This was due mainly to lower cost of sales incurred on the back of cheaper raw materials as the impact on the global supply chain due to

the COVID-19 pandemic stabilises, the absence of one-off discounts extended to the Group's distributors for FY2021, as well as higher production efficiency.

Operating expenses comprising marketing and distribution costs and administrative expenses, increased marginally by 1.8% year-on-year from approximately RMB 80.0 million in FY2020 to RMB 81.4 million in FY2021. The increase was mainly due to an increase in research and development expenses, impairment on property, plant and equipment, consultancy fees, and nursery fees (cultivation of own seedlings), which was partially offset by a decrease in employee benefit expenses, professional fees, entertainment expenses, office expenses, rental expenses, audit fee and marketing and distribution expenses incurred as the pandemic prohibited travels and large-scale marketing and promotional events, among others.

While the Group widened its loss after tax of RMB 6.5 million in FY2020 to RMB 12.7 million in FY2021, it recorded a net cash flow from operating activities of RMB 89.4 million in FY2021. This was a reversal from a net cash flow used in operating activities of RMB 6.2 million in FY2020.

Said Mr Liang Chengwang (梁承旺), the Executive Chairman and CEO of China Star Food, **“The pandemic has quickened our transformation into an efficient agri-tech operator, infusing technology throughout our value chain. While the financial performance has yet to reflect our efforts in the past year, we believe these improvements place the Group in a better position to deliver long-term value to our stakeholders. We will continue building towards our sustainable growth in healthy snack foods with our mainstay – sweet potatoes, and leverage on our established marketing and distribution networks to expand our product portfolio. This, together with our commitment in the construction of new facilities for high-tech manufacturing and research capabilities, will continue to broaden our earnings base.**

The investments in cultivating our sweet potato seedlings and developing in-house cultivation methods are prioritised to ensure food safety and a consistent supply of high-quality sweet potatoes to support our proprietary brands of fresh sweet potatoes as well as snack food products. With improved harvest yields and better quality fresh sweet potatoes, we believe our cultivation solutions relating to soil improvement, fertilisers, seedlings could also be marketed and sold to assist other individual farmers. This could potentially become an additional income stream for the Group.”

The Group has cultivated its seedlings in its dedicated area of 300mu (approximately 200,000m²) and supplied them to its contracted farmland of 8,268.6mu (approximately 5,512,427.6m²) to grow and produce its chosen varieties of sweet potatoes. These seedlings cultivated during FY2021 have since

been planted in the contracted farmland from March 2021 and the crops are expected to be ready for harvest by September 2021 (“1H FY2022”).

The Group remains focused on strengthening a comprehensive value chain in its three core business segments as a foundation through (i) **cultivation and supply** – sweet potato seedlings cultivation base and fresh sweet potatoes supply (优质紫薯苗研发与栽培基地以提高收成率和供应), (ii) **product innovation and snacks production** – sweet potato snacks product innovation and production of broad categories of snacks (采用技术开发新薯类以及健康的优良食品, 扩大食品种类), and (iii) **brand building, marketing and distribution** – the building of proprietary brands of healthier snacks through targeted marketing campaigns and various distribution platforms (traditional and e-commerce) throughout China (通过传统和电子商务平台培养对自主健康食品和品牌的认知和需求).

Business Outlook

While the Chinese economy continues its recovery from the abrupt halt of business activities last year, the brisk expansion recorded in the first quarter of this calendar year is expected to moderate for the remainder of the year¹.

The Group remains cautiously optimistic as consumer spending continues to rise in China, and in particular, the snack food segment. According to Research and Markets, the combination of consumption upgrades, healthy savoury snacks, and distribution channels created an aggregate output value of US\$90.7 billion in 2020, and the snack food segment in China is expected to grow with a compounded annual growth rate of 6.7% from 2020 to 2027 with an approximate value of US\$142.9 billion by 2027².

“The Group is well-positioned to ride on this growth trend in China’s snack food segment as we continue to expand healthy and nutritional snack food products through our established marketing and distribution networks,” added Mr Liang.

Source:

- 1 <https://www.reuters.com/world/china/chinas-q1-gdp-grows-record-pace-recovery-speeds-up-2021-04-16/>
- 2 <https://www.globenewswire.com/en/news-release/2021/04/30/2220618/28124/en/China-Snacks-Food-Market-2021-Market-is-Expected-to-be-142-9-Billion-by-2027-The-Industry-is-Entering-the-Fast-Growth-Lane.html#:~:text=China%20Snack%20Food%20Market%20is,US%24%2090.7%20Billion%20in%202020>

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This news release is to be read in conjunction with the Company’s unaudited full-year financial results announcement posted on the SGX website on 28 May 2021.

China Star Food Group Limited 中国之星食品集团

(Stock codes – SGX: 42W | Bloomberg: CSFG SP | Reuters: CHIA.SI)

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

The Group aims to be one of the global leaders in sweet potato focused snacks, leveraging on smart ecological agriculture, utilising hi-tech techniques in product innovation to produce healthier snacks, and deploying modern marketing and distribution methods for better market reach.

To ensure a consistent supply of high-quality sweet potatoes, the Group has established an upstream sweet potato cultivation division, Liancheng Dizhongbao Modern Agricultural Development Co., Ltd., that has identified specific sweet potato varieties for its cultivation bases. Through continual analysis and research and development, the Group has developed comprehensive cultivation solutions including soil improvement, fertilizers, and seedlings, to assist farmers to increase crop yields and produce high-quality raw sweet potatoes. The Group has implemented the cultivation scheme in its existing farmlands, which it has leased through Liancheng County Cooperative in Fujian, China. The Group believes that its sweet potato cultivation solutions can also be provided to other potato farmers in China, which could potentially broaden its earnings base.

The Group has also adopted modern marketing and distribution approaches such as online and retail e-commerce sales channels to complement its traditional wholesalers and distributors, to promote its proprietary brands and range of healthier sweet potato snacks.

Please visit the Company’s website at www.zixinshuye.com for more information.

Issued for and on behalf of **China Star Food Group Limited** by:



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*This media release has been reviewed by the Company’s sponsor, Novus Corporate Finance Pte. Ltd. (the “**Sponsor**”) in compliance with Rule 226(2) of the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) Listing Manual Section B: Rules of Catalist.*

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