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## CHINA STARCH HOLDINGS LIMITED

### 中國澱粉控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 3838)

#### PRELIMINARY ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

<b>Financial highlights:</b>			
	<b>2019</b>	<b>2018</b>	
	<b>RMB'000</b>	<b>RMB'000</b>	<b>Change</b>
Revenue	<b>6,750,401</b>	5,073,489	+33.1%
Gross profit	<b>353,004</b>	443,164	-20.3%
Operating profit	<b>105,392</b>	271,232	-61.1%
Profit for the year	<b>98,096</b>	238,035	-58.8%
Profit attributable to shareholders	<b>96,847</b>	230,897	-58.1%
Basic earnings per share (RMB)	<b>0.0162</b>	0.0385	-57.9%
Proposed final dividend per share (HK cents)	<b>0.62</b>	1.20	-48.3%

The board (the “Board”) of directors (the “Directors”) of China Starch Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2019, together with the comparative figures for the year ended 31 December 2018.

# **CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

*For the year ended 31 December 2019*

		2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
	<i>Notes</i>		
<b>Revenue</b>	2	<b>6,750,401</b>	5,073,489
Cost of sales		<u>(6,397,397)</u>	<u>(4,630,325)</u>
<b>Gross profit</b>		<b>353,004</b>	443,164
Distribution expenses		<b>(153,939)</b>	(91,425)
Administrative expenses		<b>(164,621)</b>	(148,475)
Impairment losses on financial assets	8	<b>(13,777)</b>	–
Other net income	3	<u><b>84,725</b></u>	<u>67,968</u>
<b>Operating profit</b>		<b>105,392</b>	271,232
Finance income		<b>19,540</b>	44,147
Finance expenses		<u><b>(1,661)</b></u>	<u>(444)</u>
<b>Profit before income tax</b>	4	<b>123,271</b>	314,935
Income tax expense	5	<u><b>(25,175)</b></u>	<u>(76,900)</u>
<b>Profit and total comprehensive income for the year</b>		<u><b>98,096</b></u>	<u>238,035</u>
Attributable to:			
Owners of the Company		<b>96,847</b>	230,897
Non-controlling interests		<u><b>1,249</b></u>	<u>7,138</u>
		<u><b>98,096</b></u>	<u>238,035</u>
<b>Earnings per share attributable to owners of the Company</b>			
Basic and diluted earnings per share (RMB)	6	<u><b>0.0162</b></u>	<u>0.0385</u>

# **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*As at 31 December 2019*

	<i>Notes</i>	<b>2019</b> <b><i>RMB'000</i></b>	<b>2018</b> <b><i>RMB'000</i></b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		<b>2,085,992</b>	1,781,270
Right-of-use assets		<b>400,543</b>	201,132
Deposits for acquisition of right-of-use assets		—	30,896
Deposits for acquisition of property, plant and equipment		<b>27,218</b>	119,621
Deferred tax assets		<b>79,435</b>	77,957
<b>Total non-current assets</b>		<b>2,593,188</b>	2,210,876
<b>Current assets</b>			
Inventories		<b>538,777</b>	409,822
Trade and other receivables	8	<b>841,983</b>	462,391
Pledged bank deposits		<b>5,669</b>	6,062
Fixed deposits		<b>260,000</b>	340,000
Cash and cash equivalents		<b>185,357</b>	782,904
<b>Total current assets</b>		<b>1,831,786</b>	2,001,179
<b>Total assets</b>		<b>4,424,974</b>	4,212,055
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital		<b>532,656</b>	532,656
Other reserves		<b>368,526</b>	401,491
Retained earnings		<b>1,920,058</b>	1,853,538
		<b>2,821,240</b>	2,787,685
Non-controlling interests		<b>139,907</b>	138,658
<b>Total equity</b>		<b>2,961,147</b>	2,926,343

	<i>Notes</i>	<b>2019</b> <b><i>RMB'000</i></b>	<b>2018</b> <b><i>RMB'000</i></b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income		<b>349,074</b>	342,142
Deferred tax liabilities		<b>38,104</b>	23,944
Lease liabilities		<b>1,218</b>	—
<b>Total non-current liabilities</b>		<b>388,396</b>	366,086
<b>Current liabilities</b>			
Trade and other payables	9	<b>691,914</b>	694,036
Advances from customers		<b>172,375</b>	113,294
Income tax payable		<b>35,430</b>	83,559
Borrowings		<b>151,354</b>	4,432
Employee housing deposits		<b>23,741</b>	23,768
Lease liabilities		<b>617</b>	537
<b>Total current liabilities</b>		<b>1,075,431</b>	919,626
<b>Total liabilities</b>		<b>1,463,827</b>	1,285,712
<b>Total equity and liabilities</b>		<b>4,424,974</b>	4,212,055

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

The following new amendments to standards have been adopted by the Group for the first time for the current financial year:

Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle
HK(IFRIC)-Interpretation 23	Uncertainty over Income Tax Treatments

The adoption of these new and amended standards and interpretation does not have any significant impact to the results and financial position of the Group.

### 2. REVENUE AND SEGMENT INFORMATION

The Group’s operating segments are as follows:

Upstream products	–	the manufacture and sale of cornstarch and ancillary corn-refined products
Fermented and downstream products	–	the manufacture and sale of lysine, starch-based sweetener, modified starch and other products

The operating segments are identified in accordance with the economic similarity and distinction of our products. For the purpose of assessing segment performance and allocating resources between segments, the chief operating decision maker assesses and monitors the segment revenues, margins and results attributable to each reportable segment. Inter-segment sales or provision of materials to other segments is not measured.

Interest income and expense are not included in the result for each operating segment as these are managed on a group basis and are not allocated to reportable segments.

Unallocated income and expenses mainly consist of certain government grants and corporate costs respectively which cannot be allocated to individual segments.

Sales between segments are charged at cost or with reference to the selling prices used for sales made to third parties at the then prevailing market prices. The revenue from external parties reported to the management is measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income.

	<b>Upstream products RMB'000</b>	<b>Fermented and downstream products RMB'000</b>	<b>Unallocated RMB'000</b>	<b>Total RMB'000</b>
<b>2019</b>				
Sales to external customers	<b>5,317,150</b>	<b>1,433,251</b>	–	<b>6,750,401</b>
Inter-segment sales	<b>216,700</b>	–	–	<b>216,700</b>
Reportable segment results	<b>280,915</b>	<b>51,734</b>	–	<b>332,649</b>
Unallocated income				<b>46,954</b>
Unallocated expenses				<b>(274,211)</b>
Finance income				<b>19,540</b>
Finance expenses				<b>(1,661)</b>
Profit before income tax				<b>123,271</b>
Other segment information:				
Depreciation and amortisation	<b>85,211</b>	<b>54,976</b>	<b>38,854</b>	<b>179,041</b>

	Upstream products <i>RMB '000</i>	Fermented and downstream products <i>RMB '000</i>	Unallocated <i>RMB '000</i>	Total <i>RMB '000</i>
2018				
Sales to external customers	3,558,900	1,514,589	–	5,073,489
Inter-segment sales	239,929	148	–	240,077
	<hr/>	<hr/>	<hr/>	<hr/>
Reportable segment results	279,621	167,381	–	447,002
Unallocated income				35,701
Unallocated expenses				(211,471)
Finance income				44,147
Finance expenses				(444)
				<hr/>
Profit before income tax				314,935
				<hr/> <hr/>
Other segment information:				
Depreciation and amortisation	62,262	58,696	36,208	157,166
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

During the years ended 31 December 2019 and 2018, all source of revenue are recognised at a point in time.

Based on the place of the operation of external customers, revenue attributed to the People's Republic of China (the "PRC") and other countries is RMB6,077,523,000 and RMB672,878,000 (2018: RMB4,483,086,000 and RMB590,403,000) respectively.

The Group's assets, liabilities and capital expenditures are predominately attributable to a single geographical region, which is the PRC. Therefore, no analysis by geographical regions is presented.

### 3. OTHER NET INCOME

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Amortisation of government grants	56,981	49,191
Gain on disposal of property, plant and equipment	12,570	310
Gain on sale of scrap materials	10,401	10,290
Government grants ( <i>note</i> )	2,824	4,868
Net foreign exchange loss	(1,534)	(211)
Gain on futures contracts	328	–
Others	3,155	3,520
	<b>84,725</b>	<b>67,968</b>

*Note:*

For the year ended 31 December 2019, the government grants mainly represented a subsidy of approximately RMB2,136,000 from local government for supporting business development. For the year ended 31 December 2018, the government grants mainly represented subsidies of approximately RMB4,510,000 provided by the local government for the compensation of losses incurred during the relocation of the old production plant in Shouguang.

The government grants were granted at the discretion of the government and were not recurring in nature.

### 4. PROFIT BEFORE INCOME TAX

The major expenses of the Group are as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Cost of inventories recognised as an expense	6,274,785	4,409,845
Salaries, wages and other benefits	189,099	163,003
Contributions to defined contribution retirement plans	18,725	20,179
Depreciation of property, plant and equipment	171,446	151,659
Depreciation of right-of-use assets	7,595	5,507
Research and development expenses ( <i>note</i> )	32,635	27,050
Auditor's remuneration		
– Audit service	788	715
– Non-audit service	274	254



*Note:*

Research and development costs include staff costs of employees in the research and development department, which are included in the staff costs as disclosed above.

## 5. INCOME TAX EXPENSE

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Current income tax		
– PRC Enterprises Income Tax (“EIT”)	16,397	94,499
– Over-provision in prior years	(3,904)	(2,505)
– Other PRC withholding tax	–	230
Deferred tax	12,682	(15,324)
	<u>25,175</u>	<u>76,900</u>

The Group’s major business is in the PRC. Under the law of the PRC on EIT and its Implementation Regulation, the tax rate of the PRC subsidiaries is 25% for both years. Except for one subsidiary of the Group is recognised as high technology enterprise is entitled to enjoy a preferential EIT rate of 15% (2018:15%).

No provision for Hong Kong profits tax has been made as the Group entities’ profit neither arose in nor was derived from Hong Kong during both years.

## 6. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	2019	2018
Profit attributable to owners of the Company (RMB’000)	96,847	230,897
Weighted average number of ordinary shares in issue (thousands)	<u>5,995,892</u>	<u>5,995,892</u>

The basic and diluted earnings per share for the year ended 31 December 2019 and 2018 were the same because there was no dilutive potential ordinary share.

## 7. DIVIDENDS

Dividend payable to shareholders attributable to the previous financial year, approved and paid during the year:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
2018 final dividend of HK1.20 cents per share (2017: HK1.20 cents)	<u>63,292</u>	<u>58,715</u>

Subsequent to 31 December 2019, the directors proposed a final dividend of HK0.62 cents (2018: HK1.20 cents) per share, amounting to HK\$37,175,000 (2018: HK\$71,951,000). The final dividend proposed after the end of the reporting period is subject to approval by shareholders in forthcoming general meeting and has not been recognised as a liability as at 31 December 2019.

## 8. TRADE AND OTHER RECEIVABLES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade receivables	155,904	86,565
Less: Loss allowance	<u>(13,845)</u>	<u>(9,698)</u>
	142,059	76,867
Bank acceptance bills	493,111	246,316
Prepayments and other tax receivables	204,441	137,868
Others	<u>2,372</u>	<u>1,340</u>
	<u>841,983</u>	<u>462,391</u>

The carrying amounts of trade and other receivables are mainly denominated in RMB.

The movement in the loss allowance for trade receivables during the year is as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
At 1 January	9,698	9,630
Amounts written off	(9,630)	–
Impairment losses recognised	<u>13,777</u>	<u>68</u>
At 31 December	<u>13,845</u>	<u>9,698</u>

During the year ended 31 December 2019 and 2018, the impairment losses of RMB13,777,000 and RMB68,000 were recognised in “Impairment losses on financial assets” and “Administrative expenses” respectively in profit or loss.

The Group normally grants credit period ranging from 0 to 150 days (2018: 0 to 150 days) to customers.

At the end of the reporting period, the ageing analysis of trade receivables based on the invoice date and net of loss allowance is as follows:

	<b>2019</b> <b><i>RMB'000</i></b>	2018 <i>RMB'000</i>
0 – 30 days	<b>125,634</b>	57,169
31 – 60 days	<b>11,400</b>	5,418
61 – 90 days	<b>2,274</b>	1,564
Over 90 days	<b>2,751</b>	12,716
	<hr/> <b>142,059</b> <hr/>	<hr/> 76,867 <hr/>

At the end of the reporting period, the bank acceptance bills consist of:

	<b>2019</b> <b><i>RMB'000</i></b>	2018 <i>RMB'000</i>
Bills on hand	<b>228,344</b>	47,574
Endorsed bills	<b>176,682</b>	198,742
Discounted bills	<b>88,085</b>	–
	<hr/> <b>493,111</b> <hr/>	<hr/> 246,316 <hr/>

The bank acceptance bills are normally with maturity period of 180 days (2018: 180 days). There is no recent history of default on bank acceptance bills.

As at 31 December 2019, bank acceptance bills of RMB4,100,000 (2018: RMB4,338,000) and discounted bills of RMB88,085,000 (2018: nil) were pledged to banks for securing bills payables and bank borrowings respectively.

## 9. TRADE AND OTHER PAYABLES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade payables	129,606	116,319
Bills payables	9,747	10,394
	<hr/>	<hr/>
Total trade and bills payables	139,353	126,713
Payable for construction and equipment	345,319	446,737
Accrued expenses	135,470	21,643
Payroll and welfare payables	33,035	24,729
Other tax payables	16,559	18,548
Earnest money	12,196	46,940
Sales commission	4,378	3,474
Others	5,604	5,252
	<hr/>	<hr/>
	<b>691,914</b>	<b>694,036</b>
	<hr/> <hr/>	<hr/> <hr/>

As at 31 December 2019, bills payables are secured by bank acceptance bills of RMB4,100,000 (2018: RMB4,338,000) and bank deposits of RMB5,669,000 (2018: RMB6,062,000).

The following is the ageing analysis for the trade and bills payables based on invoice date at the end of the reporting period:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
0 – 60 days	94,293	88,106
61 – 90 days	10,098	12,536
Over 90 days	34,962	26,071
	<hr/>	<hr/>
	<b>139,353</b>	<b>126,713</b>
	<hr/> <hr/>	<hr/> <hr/>

The average credit period on purchases is 80 days (2018: 80 days). The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

The carrying amounts of trade and other payables are mainly denominated in RMB.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **INDUSTRY OVERVIEW AND COMPANY DEVELOPMENT**

#### **Overview**

In 2019, the cornstarch and deep-processing industry was dually affected by the expanded production capacity and overall stagnant market demand. In addition, the widespread of African swine flu in the mainland China has weakened the demand of corn and other related products from animal feeding and breeding industry. As a result, the entire cornstarch and deep-processing industry had experienced the most stringent economic environment in the past two decades.

Certain cornstarch and lysine manufacturers suspended their production facilities during the year under review. We believe that these market players would not easily return to the market in future because of the huge setup cost involved and the loss of customer base and knowhow. This phenomenon is still in progress and is expected to continue in the next few years.

The Sino-US trade row did not affect the industry directly. It mainly affected the import of soybean as its related products, such soybean meal and soy germ, could be used as raw material in the production of animal feeds and food-grade oil respectively. Certain corn related products and soybean related products are replaceable and substitute to each other. Therefore, the soybean price movement affected domestic corn kernel price as well as certain final product's business performance, such as corn germ, corn gluten meal and lysine.

Until now, we still have strong confidence in the development of cornstarch business. With our longstanding market presence and strong financial position, we are well-prepared for the forthcoming challenges amidst the stringent market.

#### **Impact of COVID-19**

In January 2020, the mainland China recognised the outbreak of novel coronavirus ("COVID-19") which caused pneumonia. In order to stop the possibility of human-to-human transmission of this new disease, certain municipal governments restricted transportations within and between cities. In accordance with the latest assessment by our management, COVID-19 did not have material financial impact to the Group in the first quarter of 2020 because it was a typical low season, especially during the period around Chinese New Year, for the cornstarch and deep-processing industry. Our professional management team will adjust our production plan and allocate necessary resources in accordance with the development of COVID-19.

The Group has followed government's anti-epidemic advices which, inter alia, minimises unnecessary business travels and visits and requests quarantine for staff returning from affected regions.

## **BUSINESS DEVELOPMENT**

The construction of production base of Shouguang Golden Corn Biotechnology Limited (“Golden Corn Biotech”) principally met the expansion schedule. The new cornstarch production facilities have successfully progressed to mass production in the second half of 2019. Although the market demand for various products was weak, the Group could still maintain the production base’s maximum utilisation rate. At the end of 2019, the construction of new lysine production facilities was approaching to the completion stage. It is expected that the new production line will start production in the first half year of 2020. Upon completion of this new production base, the Group’s annual cornstarch and lysine production capacity is expected to increase to 2,400,000 tonnes and 300,000 tonnes respectively.

Our enterprise resources planning system’s completion target was extended to 2020. The management expected that the extension of completion time would not have any material adverse impact to the operation of the Group. In view of the latest development of COVID-19, staff and contractors’ travelling should be minimised. Staff health and well-being should be put in the first priority.

In 2020, the Group will increase the value to shareholders by (i) further strengthening the cost control measures and (ii) increasing its research and development capability on high value-added products. New biobased material is a hi-tech product which is more environmental-friendly and belongs to a niche market. We will allocate more resources of the Group to research the application of new biobased materials in the future.

## **BUSINESS REVIEW**

### **Upstream Products**

Benefited from the completion of new cornstarch production facilities in Shouguang production complex, our production capacity of cornstarch and its ancillary products increased substantially during the year under review. As a result, the total sale volume of our cornstarch and its ancillary products increased substantially as compared with last year. There was improvement in the market demand of cornstarch in the second half of 2019 while the industry’s general facilities utilisation ratio gradually increased towards the end of year. As the market demand of cornstarch generally remained to be weak, the price of cornstarch was almost customer-driven.

The market price movement of other upstream products, such as corn gluten meal and fibre, were also observed to be very sensitive to news regarding Sino-US trade war during the year under review.

### **Fermented and Downstream Products**

Fermented and downstream products consist of lysine, starch-based sweetener, modified starch, and other fermented products derived from cornstarch.

China is the biggest lysine producer in the world. In view of the problem of excessive supply of lysine as well as the lacklustre demand from domestic animal feeding industry, the Group shifted its effort on export business. This strategy successfully reduced our inventory at an optimal level. The export volume of lysine products increased by approximately 26.5% during the year under review.

Starch-based sweetener performance was also affected by the excessive supply in China. It was hard to transfer the increased cost to our customers in most of the time.

The market demand of modified starch was weak in both domestic and overseas markets.

Other fermented and downstream products represented new biobased materials which are environmental-friendly and harmless to the society. The production scale and market size of these products are smaller than other products of the Group. The Group believe the development of new biobased materials is a blue ocean.

## FINANCIAL PERFORMANCE

### Overview

During the year under review, the Group recorded a total revenue of approximately RMB6,750 million (2018: RMB5,073 million). Gross profit of the Group decreased significantly by 20.3% to approximately RMB353 million (2018: RMB443 million).

Profit after taxation decreased significantly to RMB98 million (2018: RMB238 million). Basic earnings per share of the Company was RMB0.0162 per share based on the weight average number of 5,995,892,000 ordinary shares (2018: RMB0.0385 per share based on the weight average number of 5,995,892,000 ordinary shares).

### Segment Performance

#### *Upstream products*

	<b>2019</b>	2018
	<b>RMB'000</b>	RMB'000
Revenue	<b>5,317,150</b>	3,558,900
Gross profit	<b>265,129</b>	266,560
Gross profit margin	<b>5.0%</b>	7.5%

Revenue of upstream products increased significantly by 49.4% to RMB5,317 million (2018: RMB3,559 million). The gross profit margin of this business segment decreased significantly by 2.5 percentage point to 5.0%. Benefited from the contribution of new production capacity by Golden Corn Biotech, sales volume of this business segment, including cornstarch, corn gluten meal, corn fibre and other related products, increased significantly by 39.0%. Sales volume of cornstarch increased to approximately 1,705,177 tonnes (2018: 1,153,848 tonnes). As a result of the increase in corn kernel price, the selling price of cornstarch also increased. The average selling price of corn starch increased by 1.9% to RMB2,162 (2018: RMB2,121) per tonne.

Export sales of upstream products, such as cornstarch and corn fibre, also recorded a substantial increase as a result of the increase in production capacity of the Group.

***Fermented and downstream products***

	<b>2019</b>	2018
	<b>RMB'000</b>	RMB'000
Revenue		
– Lysine	<b>748,439</b>	827,433
– Starch-based sweetener	<b>340,287</b>	322,743
– Modified starch	<b>305,423</b>	323,492
– Others	<b>39,102</b>	40,921
	<hr/>	<hr/>
Total	<b>1,433,251</b>	1,514,589
	<hr/>	<hr/>
Gross profit	<b>87,875</b>	176,604
Gross profit margin	<b>6.1%</b>	11.7%
	<hr/>	<hr/>

Although revenue of fermented and downstream products segment did not record a remarkable decrease, the gross profit of this business segment decreased enormously to RMB88 million (2018: RMB177 million).

Revenue of lysine products decreased significantly by 9.5% to approximately RMB748 million (2018: RMB827 million). Export sales of lysine products impacted inventory turnover of the Group favourably in 2019. Domestic lysine market was still lacklustre. Although the sales volume of lysine products was slightly over that of last year, the selling price was still suppressed by the poor global economic environment. The average selling price and sales volume of lysine products was about RMB4,953 (2018: RMB5,661) per tonne and 151,116 tonnes (2018: 146,153 tonnes) respectively

Revenue of starch-based sweetener was approximately RMB340 million (2018: RMB323 million). The average selling price and sales volume of starch-based sweetener was about RMB2,115 (2018: RMB2,105) per tonne and 160,868 tonnes (2018: 153,314 tonnes) respectively.

Revenue of modified starch decreased by 5.6% to RMB305 million (2018: RMB323 million). The percentage of export sales to total modified starch sales decreased sharply to 25.4% (2018: 33.3%).

Other fermented and downstream products sales represented new generation and environmental-friendly products. The production scale and the size of domestic market were comparatively smaller than other businesses of the Group. Revenue of these products was approximately RMB39 million (2018: RMB41 million).



### ***Cost of sales and gross profit***

As consistent with previous year, the major cost components for the year ended 31 December 2019 mainly consisted of corn kernel and utilities expenses, which represented about 83.9% and 7.6% (2018: 81.3% and 8.3%) of total cost of sales respectively. As the selling price of our products were not adjusted in the same pace as the increase in these major costs, the gross profit of the Group decreased significantly during the year under review.

The movement of corn kernel price in the PRC was contingent upon the market demand and was less affected by any government subsidies provided to corn refinery industries during the year under review. The average purchase price of cornstarch was RMB1,767 (2018: RMB1,633) per tonne, net of value added tax.

The Group did not enter into any forward/futures contract to hedge the price fluctuation of corn kernel during the year under review. The Group makes purchases from the spot market in accordance with its production schedule.

### **Review of Other Operations**

#### ***Distribution and administrative expenses***

Distribution expenses for the year ended 31 December 2019 increased significantly to RMB154 million (2018: RMB91 million) because of the increase in sales volume resulted from the new production capacity contributed by Golden Corn Biotech and the expanded distribution radius in the PRC.

Distribution expenses for the year ended 31 December 2019 and 2018 mainly comprised of the followings:

	<b>2019</b>	<b>2018</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Delivery and logistics	<b>134,098</b>	70,342
Marketing expenses	<b>10,346</b>	11,745
Staff costs	<b>6,620</b>	6,169
Others	<b>2,875</b>	3,169
	<b><u>153,939</u></b>	<b><u>91,425</u></b>

Administrative expenses for the year ended 31 December 2019 increased substantially to RMB165 million (2018: RMB148 million). Such increase was mainly attributable to the increase in headcount and salaries, research and development expenses and other expenses and was partly offset by certain government levies.

Administrative expenses for the year ended 31 December 2019 and 2018 mainly comprised of the followings:

	<b>2019</b> <b><i>RMB'000</i></b>	2018 <i>RMB'000</i>
Staff costs	<b>73,729</b>	67,382
Research and development costs	<b>32,635</b>	27,050
Government levies	<b>16,621</b>	22,544
Depreciation and amortisation	<b>14,959</b>	13,551
Others	<b>26,677</b>	17,948
	<b><u>164,621</u></b>	<u>148,475</u>

### ***Other net income***

Other net income increased substantially to approximately RMB85 million (2018: RMB68 million). The increase was mainly attributable to the following combined factors:

- (i) the Group recognised a gain of approximately RMB12,570,000 (2018: RMB310,000) on disposal of property, plant and equipment which located in the old Shouguang production site;
- (ii) the Group recognised an amortised deferred income on government grants of approximately RMB56,981,000 (2018: RMB 49,191,000);
- (iii) the Group received government one-off subsidies of approximately RMB2,824,000 (2018: RMB4,868,000); and
- (iv) the Group recorded exchange losses of approximately RMB1,534,000 (2018: RMB211,000).

### ***Impairment losses on financial assets***

After a review on the recoverability of our receivables for the year ended 31 December 2019, the management decided to provide a full provision for a long outstanding customer in accordance with our expected credit loss model.

## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

The Directors are of the opinion that the working capital available to the Group is sufficient for its present requirements. As at 31 December 2019, borrowings of approximately RMB124 million and RMB27 million were denominated in Renminbi and Hong Kong Dollar respectively. These borrowings were carried interest at fixed rates and with a maturity within one year. The Group's cash and cash equivalents were mostly denominated in Renminbi. The significant increase in borrowings was mainly attributable to (i) the additional working capital requirement resulted from the full operation of Golden Corn Biotech cornstarch facilities and (ii) the increase in working capital requirement of the Group.

The gearing ratio of the Group (being total borrowings divided by total assets) was 3.4% as at 31 December 2019.

## **PLEDGE OF ASSETS**

As at 31 December 2019, bills payables were secured by bank acceptance bills of RMB4,100,000 and bank deposits of approximately RMB5,669,000. As at 31 December 2019, the Group did not pledge any leasehold land and building to secure banking facilities.

## **CONTINGENT LIABILITIES**

The Group did not have any significant contingent liabilities as at 31 December 2019.

## **ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS**

The annual general meeting (the "2020 AGM") will be held on 19 May 2020. The notice of 2020 AGM, which constitutes part of the circular to the shareholders of the Company, will be sent together with the 2019 annual report. For determining the entitlement to attend and vote at the 2020 AGM, the register of members of the Company will be closed from 14 May 2020 to 19 May 2020 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the 2020 AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share register and transfer office, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on 13 May 2020.

## **FINAL DIVIDEND**

The Board is pleased to recommend the payment of a final dividend of HK0.62 cents per share for the year ended 31 December 2019 ("2019 Final Dividend"), subject to the approval of the shareholders of the Company in the 2020 AGM. The proposed final dividend is expected to be paid on or around 7 July 2020 to the shareholders whose name appear on the register of members on 4 June 2020. For determining the entitlement to 2019 Final Dividend, the register of members of the Company will be closed from 3 June 2020 to 4 June 2020 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the entitlement of 2019 Final Dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the aforementioned share registrar and transfer office by 4:30 p.m. on 2 June 2020.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

There was no purchase, sale or redemption by the Company or any of its subsidiaries, of the Company's listed securities during the year under review.

## **CORPORATE GOVERNANCE**

The Company had complied with the applicable code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and had applied the principles as laid down with the aim of achieving a high level of governance, except that Mr. Yue Kwai Wa, Ken (the chairman of the Audit Committee of the Board) did not attend the 2019 annual general meeting because of his other business engagement.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted its own Securities Dealing Code (the "Dealing Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Appendix 10 of the Listing Rules. The Dealing Code applies to all Directors and to all employees who are informed that they are subject to its provisions. The Company has made specific enquiry of all Directors and that all the Directors confirmed their compliance with the required standard set out in the Dealing Code throughout the year under review.

## **SCOPE OF WORK OF SHINEWING (HK) CPA LIMITED**

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in this announcement have been agreed by the Group's auditor, SHINEWING (HK) CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by SHINEWING (HK) CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by SHINEWING (HK) CPA Limited on this announcement.

## **REVIEW OF ANNUAL RESULTS**

The Group's audited consolidated results for the year ended 31 December 2019 have been reviewed by the audit committee of the Board.

## ANNUAL REPORT

The 2019 annual report containing all the information required by the Listing Rules will be made available on the Stock Exchange website and the Company's website ([www.chinastarch.com.hk](http://www.chinastarch.com.hk)) on or about 9 April 2020.

By order of the Board  
**CHINA STARCH HOLDINGS LIMITED**  
**Tian Qixiang**  
*Chairman*

Shouguang, The People's Republic of China, 18 March 2020

*As at the date of this announcement, the directors of the Company are:*

*Executive Directors:*

Mr. Tian Qixiang (*Chairman*)  
Mr. Gao Shijun (*Chief Executive Officer*)  
Mr. Yu Yingquan  
Mr. Liu Xianggang

*Independent non-executive Directors:*

Professor Hua Qiang  
Mr. Sun Mingdao  
Mr. Yue Kwai Wa, Ken