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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 2020

<b>Financial highlights:</b>			
	<b>2020</b>	2019	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>Change</i>
Revenue	<b>8,892,261</b>	6,750,401	+31.7%
Gross profit	<b>559,775</b>	353,004	+58.6%
Operating profit	<b>261,500</b>	105,392	+148.1%
Profit for the year	<b>207,039</b>	98,096	+111.1%
Profit attributable to shareholders	<b>190,120</b>	96,847	+96.3%
Basic earnings per share (RMB)	<b>0.0317</b>	0.0162	+95.7%
Proposed final dividend per share (HK cents)	<b>0.90</b>	0.62	+45.2%

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 2020, together with the comparative figures for the year ended 31 December 2019.

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

*For the year ended 31 December 2020*

	<i>Notes</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<b>Revenue</b>	2	<b>8,892,261</b>	6,750,401
Cost of sales		<u>(8,332,486)</u>	<u>(6,397,397)</u>
<b>Gross profit</b>		<b>559,775</b>	353,004
Distribution expenses		<b>(184,229)</b>	(153,939)
Administrative expenses		<b>(194,917)</b>	(164,621)
Impairment losses on financial assets	8	–	(13,777)
Other net income	3	<u><b>80,871</b></u>	<u>84,725</u>
<b>Operating profit</b>		<b>261,500</b>	105,392
Finance income		<b>15,084</b>	19,540
Finance expenses		<u><b>(5,346)</b></u>	<u>(1,661)</u>
<b>Profit before income tax</b>	4	<b>271,238</b>	123,271
Income tax expense	5	<u><b>(64,199)</b></u>	<u>(25,175)</u>
<b>Profit and total comprehensive income for the year</b>		<u><b>207,039</b></u>	<u>98,096</u>
Attributable to:			
Owners of the Company		<b>190,120</b>	96,847
Non-controlling interests		<u><b>16,919</b></u>	<u>1,249</u>
		<u><b>207,039</b></u>	<u>98,096</u>
<b>Earnings per share attributable to owners of the Company</b>			
Basic and diluted earnings per share (RMB)	6	<u><b>0.0317</b></u>	<u>0.0162</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2020*

	<i>Notes</i>	<b>2020</b> <b>RMB'000</b>	2019 <i>RMB'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		2,007,661	2,085,992
Right-of-use assets		429,830	400,543
Deposits for acquisition of property, plant and equipment		–	27,218
Investments in equities		1,940	–
Deferred tax assets		64,230	79,435
		<b>2,503,661</b>	2,593,188
<b>Total non-current assets</b>			
<b>Current assets</b>			
Inventories		811,107	538,777
Trade and other receivables	8	896,338	841,983
Security deposit for land auction		10,401	–
Pledged bank deposits		4,353	5,669
Fixed deposits		–	260,000
Cash and cash equivalents		341,632	185,357
		<b>2,063,831</b>	1,831,786
<b>Total current assets</b>			
		<b>4,567,492</b>	4,424,974
<b>Total assets</b>			
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital		532,500	532,656
Other reserves		379,221	368,526
Retained earnings		2,065,586	1,920,058
		<b>2,977,307</b>	2,821,240
Non-controlling interests		<b>156,826</b>	139,907
<b>Total equity</b>			
		<b>3,134,133</b>	2,961,147

		2020	2019
	<i>Notes</i>	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income		<b>303,043</b>	349,074
Deferred tax liabilities		<b>58,311</b>	38,104
Lease liabilities		<b>497</b>	1,218
		<hr/>	<hr/>
<b>Total non-current liabilities</b>		<b>361,851</b>	388,396
		<hr/>	<hr/>
<b>Current liabilities</b>			
Trade and other payables	<i>9</i>	<b>547,742</b>	691,914
Advances from customers		<b>331,522</b>	172,375
Income tax payable		<b>40,710</b>	35,430
Borrowings		<b>126,849</b>	151,354
Employee housing deposits		<b>23,741</b>	23,741
Derivative financial instruments		<b>341</b>	–
Lease liabilities		<b>603</b>	617
		<hr/>	<hr/>
<b>Total current liabilities</b>		<b>1,071,508</b>	1,075,431
		<hr/>	<hr/>
<b>Total liabilities</b>		<b>1,433,359</b>	1,463,827
		<hr/>	<hr/>
<b>Total equity and liabilities</b>		<b>4,567,492</b>	4,424,974
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# 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 of Hong Kong Limited (the “Stock Exchange”) and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on a historical cost basis, as modified by the revaluation of certain financial assets and financial liabilities measured at fair value.

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 HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

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 <i>RMB'000</i></b>	<b>Fermented and downstream products <i>RMB'000</i></b>	<b>Unallocated <i>RMB'000</i></b>	<b>Total <i>RMB'000</i></b>
<b>2020</b>				
Sales to external customers	<b>6,738,510</b>	<b>2,153,751</b>	–	<b>8,892,261</b>
Inter-segment sales	<u>236,911</u>	<u>–</u>	<u>–</u>	<u>236,911</u>
Reportable segment results	<b>436,538</b>	<b>109,446</b>	–	<b>545,984</b>
Unallocated income				<b>45,485</b>
Unallocated expenses				<b>(329,969)</b>
Finance income				<b>15,084</b>
Finance expenses				<u><b>(5,346)</b></u>
Profit before income tax				<u><u><b>271,238</b></u></u>
Other segment information:				
Depreciation	<u><u><b>89,857</b></u></u>	<u><u><b>94,282</b></u></u>	<u><u><b>66,875</b></u></u>	<u><u><b>251,014</b></u></u>

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

During the years ended 31 December 2020 and 2019, 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 RMB8,119,899,000 and RMB772,862,000 (2019: RMB6,077,523,000 and RMB672,878,000) 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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Amortisation of government grants	58,821	56,981
Gain on sale of scrap materials	11,521	10,401
Electricity and related services	4,348	147
Accounts payable written back	3,996	–
Gain on futures contracts	2,524	328
Government grants ( <i>note</i> )	1,543	2,824
(Loss)/gain on disposals of property, plant and equipment	(1,231)	12,570
Net foreign exchange loss	(4,036)	(1,534)
Others	3,385	3,008
	<u>80,871</u>	<u>84,725</u>

*Note:*

For the year ended 31 December 2020, the government grants mainly represented a subsidy of approximately RMB1,176,000 from local government for supporting employment. 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.

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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Salaries, wages and other benefits	180,065	189,099
Pension scheme contributions	10,392	18,725
Depreciation of property, plant and equipment	241,313	171,446
Depreciation of right-of-use assets	9,701	7,595
Research and development expenses ( <i>note</i> )	28,899	32,635
Auditor's remuneration		
– Audit service	766	788
– Non-audit service	271	274
	<u>766</u>	<u>788</u>
	<u>271</u>	<u>274</u>

*Note:*

Research and development expenses include staff costs and depreciation, which are included in the above respective expenses, in the Research and Development Department of the Group.

## 5. INCOME TAX EXPENSE

	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Current income tax		
– PRC Enterprises Income Tax (“EIT”)	<b>32,451</b>	16,397
– Over-provision in prior years	<b>(3,998)</b>	(3,904)
– Other PRC withholding tax	<b>334</b>	–
Deferred tax	<b>35,412</b>	12,682
	<b><u>64,199</u></b>	<u>25,175</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 which is recognised as high technology enterprise is entitled to enjoy a preferential EIT rate of 15% (2019:15%).

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.

Pursuant to the PRC EIT and its Implementation Regulation, non-PRC resident enterprises are levied withholding tax at 10% (unless reduced by tax treaties/arrangements) on dividends receivable from PRC enterprises for profits earned since 1 January 2008. The Group adopted the 10% withholding tax rate for PRC withholding tax purposes during the year ended 31 December 2020 and 2019.

## 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:

	2020	2019
Profit attributable to owners of the Company (RMB'000)	<b>190,120</b>	96,847
Weighted average number of ordinary shares in issue (thousands)	<b><u>5,995,591</u></b>	<b><u>5,995,892</u></b>

The basic and diluted earnings per share for the years ended 31 December 2020 and 2019 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:

	2020	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
2019 final dividend of HK0.62 cents per share (2018: HK1.20 cents)	<b><u>33,850</u></b>	<b><u>63,292</u></b>

Subsequent to 31 December 2020, the Directors proposed a final dividend of HK0.90 cents (2019: HK0.62 cents) per share, amounting to HK\$53,947,000 (2019: HK\$37,175,000). 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 2020.

## 8. TRADE AND OTHER RECEIVABLES

	2020 <b>RMB'000</b>	2019 <i>RMB'000</i>
Trade receivables	<b>210,032</b>	155,904
Less: Loss allowance	<b>(13,845)</b>	(13,845)
	<b>196,187</b>	142,059
Bank acceptance bills	<b>374,065</b>	493,111
Prepayments and other tax receivables	<b>313,541</b>	204,441
Others	<b>12,545</b>	2,372
	<b>896,338</b>	841,983

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

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

	2020 <b>RMB'000</b>	2019 <i>RMB'000</i>
At 1 January	<b>13,845</b>	9,698
Amounts written off	–	(9,630)
Impairment losses recognised	–	13,777
At 31 December	<b>13,845</b>	13,845

The Group normally grants credit period ranging from 0 to 90 days (2019: 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>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
0 – 30 days	<b>153,344</b>	125,634
31 – 60 days	<b>32,072</b>	11,400
61 – 90 days	<b>6,248</b>	2,274
Over 90 days	<b>4,523</b>	2,751
	<u><b>196,187</b></u>	<u>142,059</u>

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

	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Bills on hand	<b>152,040</b>	228,344
Endorsed bills	<b>171,266</b>	176,682
Discounted bills	<b>50,759</b>	88,085
	<u><b>374,065</b></u>	<u>493,111</u>

The bank acceptance bills are normally with maturity period of 180 days (2019: 180 days). There is no recent history of default on bank acceptance bills.

As at 31 December 2020, bank acceptance bills of RMB4,256,000 (2019: RMB4,100,000) and discounted bills of RMB50,759,000 (2019: RMB88,085,000) were pledged to banks for securing bills payables and bank borrowings respectively.

## 9. TRADE AND OTHER PAYABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade payables	180,991	129,606
Bills payables	<u>8,574</u>	<u>9,747</u>
Total trade and bills payables	<b>189,565</b>	139,353
Payable for construction and equipment	219,969	345,319
Accrued expenses	71,518	135,470
Payroll and welfare payables	26,949	33,035
Other tax payables	13,156	16,559
Earnest money	15,429	12,196
Sales commission	4,576	4,378
Others	<u>6,580</u>	<u>5,604</u>
	<b><u>547,742</u></b>	<b><u>691,914</u></b>

As at 31 December 2020, bills payables are secured by bank acceptance bills of RMB4,256,000 (2019: RMB4,100,000) and bank deposits of RMB4,353,000 (2019: RMB5,669,000).

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
0 – 60 days	123,630	94,293
61 – 90 days	31,355	10,098
Over 90 days	<u>34,580</u>	<u>34,962</u>
	<b><u>189,565</u></b>	<b><u>139,353</u></b>

The average credit period on purchases is 80 days (2019: 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 Renminbi.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

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

#### **Overview**

The production capacity of the Group leapt to a new platform in 2020. Going back to 2014 and 2017, the Group announced the relocation of production site in Shouguang and the establishment of a joint venture company, Shouguang Golden Corn Biotechnology Limited (“Golden Corn Biotech”), respectively. As time passed, the above projects completed gradually in 2019 and the Group started full-scale cornstarch and lysine production in the Shouguang production complex in 2020. Our annual production capacity of cornstarch and lysine is 2,600,000 tonnes and 300,000 tonnes respectively. Thank you for the support of our staff, suppliers and customers, we have confidence to progress a flourishing future with this new platform.

As the People’s Republic of China (the “PRC”) government implemented effective measures on controlling the spread of COVID-19, the economic impact of COVID-19 in the PRC was not as much serious as the US and European countries and resumed quickly during the year under review. The cornstarch and its deep-processing industry was not materially affected by COVID-19 directly.

Our industry experienced keen competition for many years and there were many small to medium size market players left the industry. We believe that the consolidation of market participants will continue in the future. We spend much effort to improve our production efficiency in return to keep minimal production cost and increase profitability. Therefore, we could still record profit and maintain a strong balance sheet during difficult time. In the future, our expansion and development strategy will focus on the development of new products.

#### **BUSINESS DEVELOPMENT**

The Group’s enterprise resources planning system (the “ERP”) as disclosed in the 2019 annual report was about to complete at the end of 2020. The ERP was in the final adjustment stage and it would replace the existing system in the first quarter of 2021.

The Group's future expansion and development strategy will focus on the development of new products. The Group announced the establishment of a joint venture company (Shouguang Juneng Musashino Biotechnology Co., Ltd or "Juneng Musashino") with a Japanese leading lactic acid and lactic acid derivatives company (Musashino Chemical Laboratory, Ltd) in August 2020. The Group has 75% equity interest of Juneng Musashino. The principal activities of Juneng Musashino are research, development, production and sale of lactate and other related products. The first phase construction plan includes lactic production facilities of 5,000 tonnes per annum. As at the date of this announcement, the Group is still working closely with the related department of Shouguang Municipal Government for the selection of suitable production location for Juneng Musashino.

In addition, the Group has acquired two pieces of land in December 2020 and March 2021 respectively, which the area of these lands is approximately 148,000 square metres. The land will be used for the construction of lactate acid and polylactic acid production facilities. Total investment sum would be not more than RMB212 million (including the land and plant and machineries) and it will be financed by internal resources of the Group. The annual production capacity of these new facilities will include 20,000 tonnes lactic acid and 5,000 tonnes polylactic acid respectively. As at the date of this announcement, the construction of these facilities has started and we expect that it will be completed by the end of 2021. Details of the acquisition of these two pieces of land were set out in the announcements of the Company dated 12 March 2021 and 15 March 2021 respectively.

Other than the above two construction projects, in March 2020, the Group has entered into a research and development investment agreement with Tianjin Institute of Industrial Biotechnology (a non-profit national research institute established jointly by the Chinese Academy of Sciences and Tianjin Municipal Government) and became one of the investment partners in a newly established company, Tiangong Biotechnology (Tianjin) Limited ("Tiangong"). The principal activities of Tiangong are to carry out research and development of corn derivatives and transfer its research outcomes to market. The Group's capital contribution commitment to Tiangong was RMB10 million which represented 10% equity interest of the company. As at the date of this announcement, the Group has contributed capital of RMB2 million to Tingong.

## **BUSINESS REVIEW**

### **Upstream Products**

The business performance of upstream products, representing cornstarch and its by-products, was satisfactory. During the COVID-19 pandemic (especially February to May 2020), our operation was not materially affected. Our facilities were still running in full capacity despite the delivery of products between cities had a short-term influence. The market condition in the third quarter of 2020 was worse than expected. First, the corn kernel cost increased substantially during this period and, second, such cost pressure could not be shifted to our customers at the same pace. The Group took strict measures on controlling costs and adjusted production plan to maintain the profitability. The market atmosphere was improved in the fourth quarter of 2020 due to the increasing economic activities approaching to the year end and the slow increase in corn kernel price subsequent to harvest.

We are confident that we are a capable leading market player to manage different challenges. Although the cost of our corn kernel did not increase in the same pace with its selling price during the year under review, we still recorded a growth in gross profit for this business segment. In addition, our additional production capacity was fully absorbed in the market and without backlog.

### **Fermented and Downstream Products**

Fermented and downstream products refer to the products derived from cornstarch. Our fermented and downstream products can be used in the different industries, such as animal feeding and breeding, paper manufacturing, food and beverage and chemicals.

During the year under review, the new lysine production facilities operated by Golden Corn Biotech started to contribute addition lysine production capacity of 150,000 tonnes per annum. Although the animal feeding and breeding market was affected by the serious oversupply problem and COVID-19, our products were successfully absorbed in the market. The market price adjustment lagged behind the increased cost during the year under review. The Group currently does not have any expansion plan for lysine products.

Starch-based sweetener is mainly used in food and beverage industry and, to certain extent, is a substitute of cane sugar. Starch-based sweetener business performance was also affected by the excessive supply. The Group mainly monitored the production plan and adjusted the production mix throughout the year in order to maintain our profitability.

Modified starch is mainly used for manufacturing and production of paper, food and beverage and chemicals. As modified starch has many applications, the business performance is not easily affected by one single end-user market. The business performance during the year under review was relatively stable as compared with other products of the Group.

Other fermented and downstream products represented new biobased materials which are environmental-friendly and harmless to the society. The characteristic of these products is that the usage is relatively small but the market price is higher than the upstream products. The entry barrier is mainly the knowhow of production. During the year under review, the major fermented and downstream product was lactic acid. The Group, in the long run, will deploy more resources in the development of different biobased materials.

## FINANCIAL PERFORMANCE

### Overview

During the year under review, the Group recorded a total revenue of approximately RMB8,892 million (2019: RMB6,750 million). Gross profit of the Group increased significantly by 58.6% to approximately RMB560 million (2019: RMB353 million).

Profit after taxation increased significantly to RMB207 million (2019: RMB98 million). Basic earnings per share of the Company was RMB0.0317 per share based on the weight average number of 5,995,591,000 ordinary shares (2019: RMB0.0162 per share based on the weight average number of 5,995,892,000 ordinary shares).

### Segment Performance

#### *Upstream products*

	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Revenue	<b>6,738,510</b>	5,317,150
Gross profit	<b>418,556</b>	265,129
Gross profit margin	<b><u>6.2%</u></b>	<u>5.0%</u>

Revenue of upstream products increased significantly by 26.7% to RMB6,739 million (2019: RMB5,317 million). The gross profit margin of this business segment increased by 1.2 percentage point to 6.2%. Benefited from the full year operation effect contributed by Golden Corn Biotech, the sales volume of cornstarch increased to approximately 1,915,794 tonnes (2019: 1,705,177 tonnes). During the year under review, cornstarch and certain of its by-product market prices were suppressed by the poor market condition. As a result, the Group could not easily shift the increased corn kernel cost to the customers. The average selling price of corn starch was about RMB2,347 (2019: RMB2,162) per tonne.

***Fermented and downstream products***

	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Revenue		
– Lysine	<b>1,442,844</b>	748,439
– Starch-based sweetener	<b>357,781</b>	340,287
– Modified starch	<b>312,025</b>	305,423
– Others	<b>41,101</b>	39,102
	<u><b>2,153,751</b></u>	<u>1,433,251</u>
Total		
	<b>141,219</b>	87,875
Gross profit		
Gross profit margin	<b>6.6%</b>	6.1%

Revenue of fermented and downstream products increased substantially to RMB2,154million (2019: RMB1,433 million).

Benefited from the additional lysine production capacity contributed by Golden Corn Biotech, revenue of lysine products increased significantly by 92.8% to approximately RMB1,443 million (2019: RMB749 million). The sales volume for overseas and domestic market increased by 115.2% and 74.9% respectively. During the year under review, our marketing team spent much effort to develop business with new customers. The average selling price and sales volume of lysine products was about RMB5,230 (2019: RMB4,953) per tonne and 275,875 tonnes (2019: 151,116 tonnes) respectively.

Revenue of starch-based sweetener was approximately RMB358 million (2019: RMB340 million). The average selling price and sales volume of starch-based sweetener was about RMB2,201 (2019: RMB2,115) per tonne and 162,586 tonnes (2019: 160,868 tonnes) respectively.

Revenue of modified starch was RMB312 million (2019: RMB305 million).

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 RMB41 million (2019: RMB39 million).

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

As consistent with previous year, the major cost components for the year ended 31 December 2020 mainly consisted of corn kernel and utilities expenses. As the corn kernel market price increased significantly during the year under review, the percentage of corn kernel cost to total cost of sales increased to about 87.3% (2019: 83.9%). The average purchase price of cornstarch was RMB2,032 (2019: RMB1,767) 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 2020 increased significantly because of the increase in sales volume.

The following tables showed the major expenses in distribution and administrative expenses respectively.

	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Distribution expenses:		
Delivery and logistics	<b>160,786</b>	134,098
Marketing expenses	<b>14,279</b>	10,346
Staff costs	<b>6,384</b>	6,620
Others	<b>2,780</b>	2,875
	<u><b>184,229</b></u>	<u>153,939</u>

	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Administrative expenses:		
Staff costs	<b>93,835</b>	73,729
Research and development costs	<b>28,899</b>	32,635
Depreciation and amortisation expenses	<b>24,098</b>	14,959
Government levies	<b>21,145</b>	16,621
Others	<b>26,940</b>	26,677
	<u><b>194,917</b></u>	<u>164,621</u>

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

The other net income decreased to RMB81 million (2019: RMB85 million). The major items of other net income are set out below:

	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Amortisation of government grants	<b>58,821</b>	56,981
Gain on sales of scrap materials	<b>11,521</b>	10,401
Electricity and related service	<b>4,348</b>	147
Accounts payable written back	<b>3,996</b>	–
Gain on futures contracts	<b>2,524</b>	328
Government grants (one-off)	<b>1,543</b>	2,824
(Loss)/gain on disposals of property, plant and equipment	<b>(1,231)</b>	12,570
Net foreign exchange loss	<b>(4,036)</b>	(1,534)
Others	<b>3,385</b>	3,008
	<b><u>80,871</u></b>	<u>84,725</u>

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

The key financial performance indicators of the Group for the year ended 31 December are set out below:

	<b>Units</b>	<b>2020</b>	2019
Debtors turnover	days	<b>25</b>	26
Creditors turnover	days	<b>7</b>	8
Inventories turnover	days	<b>30</b>	27
Current ratio	times	<b>1.9</b>	1.7
Quick ratio	times	<b>1.2</b>	1.2
Gearing ratio ( <i>note 1</i> )	%	<b>2.8</b>	3.4
Total shareholder return ( <i>note 2</i> )	%	<b>13.3</b>	-8.3

*Notes:*

- (1) Gearing ratio is calculated as the borrowings to total assets.
- (2) Total shareholder return combines share price appreciation and dividends paid to show the total return to shareholders.

The Group recorded a significant increase in advances from customers as at 31 December 2020. The Group has strict credit control on the accounts of customers. Most of our customers are required to provide down payments before delivery. As our production capacity increased significantly as compared with last year, advances from customers also increased.

The Directors are of the opinion that the working capital available to the Group is sufficient for its present requirements. As at 31 December 2020, borrowings of approximately RMB101 million and RMB26 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 decrease in borrowings was mainly attributable to the improved profitability during the year under review.

## **PLEDGE OF ASSETS**

As at 31 December 2020, bills payables were secured by bank acceptance bills of RMB4,256,000 and bank deposits of approximately RMB4,353,000. As at 31 December 2020, 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 2020.

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

The annual general meeting (the "2021 AGM") will be held on 18 May 2021. The notice of 2021 AGM, which constitutes part of the circular to the shareholders of the Company, will be sent together with the 2020 annual report. For determining the entitlement to attend and vote at the 2021 AGM, the register of members of the Company will be closed from 13 May 2021 to 18 May 2021 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the 2021 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 12 May 2021.

## FINAL DIVIDEND

The Board is pleased to recommend the payment of a final dividend of HK0.90 cents per share for the year ended 31 December 2020 (“2020 Final Dividend”), subject to the approval of the shareholders of the Company in the 2021 AGM. The proposed final dividend is expected to be paid on or around 14 July 2021 to the shareholders whose names appear on the register of members on 10 June 2021. For determining the entitlement to 2020 Final Dividend, the register of members of the Company will be closed from 9 June 2021 to 10 June 2021 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the entitlement of 2020 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 8 June 2021.

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

During the year ended 31 December 2020, the Company repurchased 1,760,000 shares of the Company on the Stock Exchange. These repurchased shares were cancelled prior to 31 December 2020 and the total number of shares of the Company in issue has been reduced accordingly. Details of the repurchases were as follows:

2020	Number of shares	Price per share		Aggregate price paid <i>HK\$’000</i>
		Highest <i>HK\$</i>	Lowest <i>HK\$</i>	
September	235,000	0.150	0.148	35
October	200,000	0.134	0.134	27
November	<u>1,325,000</u>	0.131	0.127	<u>171</u>
	<u><u>1,760,000</u></u>			<u><u>233</u></u>

The Directors considered that the repurchases could lead to an enhancement of the Company’s earnings per share. Save as disclosed above, at no time during the year ended 31 December 2020 was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company’s shares.

## **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. Tian Qixiang (the chairman of the Board) did not attend the 2020 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 2020 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 2020 have been reviewed by the audit committee of the Board.

## ANNUAL REPORT

The 2020 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 14 April 2021.

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

Shouguang, The People's Republic of China, 19 March 2021

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