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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 2021

	2021	2020	Change
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	<b>11,639,315</b>	8,892,261	+30.9%
Gross profit	<b>952,211</b>	559,775	+70.1%
Operating profit	<b>510,539</b>	261,500	+95.2%
Profit for the year	<b>402,830</b>	207,039	+94.6%
Profit attributable to shareholders	<b>345,597</b>	190,120	+81.8%
Basic earnings per share (RMB)	<b>0.0577</b>	0.0317	+82.0%
Proposed final dividend per share (HK cents)	<b>0.69</b>	0.90	-23.3%

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 2021, together with the comparative figures for the year ended 31 December 2020.

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

*For the year ended 31 December 2021*

	<i>Notes</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
<b>Revenue</b>	2	<b>11,639,315</b>	8,892,261
Cost of sales		<u>(10,687,104)</u>	<u>(8,332,486)</u>
<b>Gross profit</b>		<b>952,211</b>	559,775
Distribution expenses		(164,934)	(184,229)
Administrative expenses		(192,013)	(166,018)
Research expenses		(199,648)	(28,899)
Other net income	3	<u>114,923</u>	<u>80,871</u>
<b>Operating profit</b>		<b>510,539</b>	261,500
Finance income		8,054	15,084
Finance expenses		<u>(7,105)</u>	<u>(5,346)</u>
<b>Profit before income tax</b>	4	<b>511,488</b>	271,238
Income tax expense	5	<u>(108,658)</u>	<u>(64,199)</u>
<b>Profit and total comprehensive income for the year</b>		<u><b>402,830</b></u>	<u>207,039</u>
Attributable to:			
Owners of the Company		345,597	190,120
Non-controlling interests		<u>57,233</u>	<u>16,919</u>
		<u><b>402,830</b></u>	<u>207,039</u>
<b>Earnings per share attributable to owners of the Company</b>			
Basic and diluted earnings per share (RMB)	6	<u><b>0.0577</b></u>	<u>0.0317</u>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As At 31 December 2021

	<i>Notes</i>	<b>2021</b> <b>RMB'000</b>	2020 <i>RMB'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		<b>2,004,318</b>	2,007,661
Right-of-use assets		<b>447,167</b>	429,830
Deposits for acquisition of property, plant and equipment		<b>17,555</b>	–
Investments in equities		<b>1,564</b>	1,940
Deferred tax assets		<b>50,907</b>	64,230
<b>Total non-current assets</b>		<b>2,521,511</b>	2,503,661
<b>Current assets</b>			
Inventories		<b>602,314</b>	811,107
Trade and other receivables	8	<b>594,357</b>	896,338
Security deposit for land auction		–	10,401
Pledged bank deposits		–	4,353
Cash and cash equivalents		<b>1,000,977</b>	341,632
<b>Total current assets</b>		<b>2,197,648</b>	2,063,831
<b>Total assets</b>		<b>4,719,159</b>	4,567,492
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital		<b>532,500</b>	532,500
Other reserves		<b>408,274</b>	379,221
Retained earnings		<b>2,337,189</b>	2,065,586
		<b>3,277,963</b>	2,977,307
Non-controlling interests		<b>214,059</b>	156,826
<b>Total equity</b>		<b>3,492,022</b>	3,134,133

		2021	2020
	<i>Notes</i>	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income		<b>259,411</b>	303,043
Deferred tax liabilities		<b>70,554</b>	58,311
Borrowings		<b>3,000</b>	–
Lease liabilities		<b>–</b>	497
		<hr/>	<hr/>
<b>Total non-current liabilities</b>		<b>332,965</b>	361,851
		<hr/>	<hr/>
<b>Current liabilities</b>			
Trade and other payables	<i>9</i>	<b>416,302</b>	547,742
Advances from customers		<b>269,909</b>	331,522
Income tax payable		<b>75,606</b>	40,710
Borrowings		<b>108,176</b>	126,849
Employee housing deposits		<b>23,741</b>	23,741
Derivative financial instruments		<b>–</b>	341
Lease liabilities		<b>438</b>	603
		<hr/>	<hr/>
<b>Total current liabilities</b>		<b>894,172</b>	1,071,508
		<hr/>	<hr/>
<b>Total liabilities</b>		<b>1,227,137</b>	1,433,359
		<hr/>	<hr/>
<b>Total equity and liabilities</b>		<b>4,719,159</b>	4,567,492
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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 (the “HKICPA”). 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 the historical cost convention, as modified by the revaluation of certain financial assets and 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 effective for the accounting periods beginning on or after 1 January 2021:

Amendment to HKFRS 16	COVID-19-related rent concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

The adoption of these amendments does not have any impact to the results and financial position of the Group.

## 2. REVENUE AND SEGMENT INFORMATION

	Upstream products <i>RMB'000</i>	Fermented and downstream products <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
<b>2021</b>				
Sales to external customers	8,576,482	3,062,833	–	11,639,315
Inter-segment sales	<u>220,091</u>	<u>–</u>	<u>–</u>	<u>220,091</u>
Reportable segment profit	442,997	333,072	–	776,069
Unallocated income				56,280
Unallocated expenses				(321,810)
Finance income				8,054
Finance expenses				<u>(7,105)</u>
Profit before income tax				<u><u>511,488</u></u>
Other segment information:				
Depreciation	<u>90,331</u>	<u>90,096</u>	<u>78,823</u>	<u>259,250</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>
2020				
Sales to external customers	6,738,510	2,153,751	–	8,892,261
Inter-segment sales	<u>236,911</u>	<u>–</u>	<u>–</u>	<u>236,911</u>
Reportable segment profit	436,538	109,446	–	545,984
Unallocated income				45,485
Unallocated expenses				(329,969)
Finance income				15,084
Finance expenses				<u>(5,346)</u>
Profit before income tax				<u><u>271,238</u></u>
Other segment information:				
Depreciation	<u>89,857</u>	<u>94,282</u>	<u>66,875</u>	<u>251,014</u>

During the years ended 31 December 2021 and 2020, all sources of revenue are recognised at a point in time.

Based on the place of the operation of external customers, revenue attributed to the PRC and other countries is RMB10,810,954,000 and RMB828,361,000 (2020: RMB8,119,899,000 and RMB772,362,000) 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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Amortisation of government grants	62,925	58,821
Government grants ( <i>note</i> )	36,496	1,543
Gain on sale of scrap material	17,317	11,521
Electricity and related services	610	4,348
Gain on futures contracts	333	2,524
Accounts payable written back	–	3,996
Gain/(loss) on disposals of property, plant and equipment	1,075	(1,231)
Written off of property, plant and equipment	(3,091)	–
Net foreign exchange loss	(1,958)	(4,036)
Others	1,216	3,385
	<u>114,923</u>	<u>80,871</u>

*Note:*

For the year ended 31 December 2021, the government grants mainly represented subsidies of approximately RMB12,594,000 and RMB23,310,000 from local government for supporting business development and researching activities respectively. 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.

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:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Cost of inventories	10,747,155	8,210,776
Salaries, wages and other benefits	215,122	180,065
Pension scheme contributions	14,348	10,392
Depreciation of property, plant and equipment	248,296	241,313
Depreciation of right-of-use assets	10,954	9,701
Research expenses ( <i>note</i> )	199,648	28,899
Auditor's remuneration		
– Audit service	785	766
– Non-audit service	245	271
	<u>114,923</u>	<u>80,871</u>

*Note:*

Research expenses include cost of inventories, 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

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
– PRC Enterprises Income Tax (“EIT”)	<b>90,720</b>	32,451
– Over-provision in prior years	<b>(7,763)</b>	(3,998)
– Other PRC withholding tax	<b>135</b>	334
Deferred tax	<b>25,566</b>	35,412
	<b>108,658</b>	64,199

The Group’s major business is in the PRC. Under the PRC EIT Law 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% (2020:15%).

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 Law 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 2021 and 2020.

## 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:

	2021	2020
Profit attributable to owners of the Company (RMB'000)	345,597	190,120
Weighted average number of ordinary shares in issue (thousands)	<u>5,994,132</u>	<u>5,995,591</u>

The basic and diluted earnings per share for the year ended 31 December 2021 and 2020 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:

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
2020 final dividend of HK0.90 cents per share (2019: HK0.62 cents)	<u>44,941</u>	<u>33,850</u>

Subsequent to 31 December 2021, the directors proposed a final dividend of HK0.69 cents (2020: HK0.90 cents) per share, amounting to HK\$41,360,000 (2020: HK\$53,947,000). 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 2021.

## 8. TRADE AND OTHER RECEIVABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade receivables	147,249	210,032
Less: Loss allowance	—	(13,845)
	<u>147,249</u>	<u>196,187</u>
Bank acceptance bills	204,407	374,065
Prepayments and other tax receivables	235,078	313,541
Others	7,623	12,545
	<u>594,357</u>	<u>896,338</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:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
At 1 January	13,845	13,845
Amounts written off	(13,845)	—
	<u>—</u>	<u>13,845</u>
At 31 December	<u>—</u>	<u>13,845</u>

The Group normally grants credit period ranging from 0 to 150 days (2020: 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>2021</b>	2020
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
0 – 30 days	<b>136,162</b>	153,344
31 – 60 days	<b>6,361</b>	32,072
61 – 90 days	<b>2,927</b>	6,248
Over 90 days	<b>1,799</b>	4,523
	<b><u>147,249</u></b>	<u>196,187</u>

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

	<b>2021</b>	2020
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Bills on hand	<b>124,599</b>	152,040
Endorsed bills	<b>79,808</b>	171,266
Discounted bills	<b>–</b>	50,759
	<b><u>204,407</u></b>	<u>374,065</u>

The bank acceptance bills are normally with maturity period of 180 days (2020: 180 days). There is no recent history of default on bank acceptance bills.

As at 31 December 2021, bank acceptance bills of RMB8,428,000 were pledged to banks for securing bills payables. As at 31 December 2020, bank acceptance bills of RMB4,256,000 and discounted bills of RMB50,759,000 were pledged to banks for securing bills payables and bank borrowings respectively.

## 9. TRADE AND OTHER PAYABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade payables	187,347	180,991
Bills payables	<u>8,428</u>	<u>8,574</u>
Total trade and bills payables	195,775	189,565
Payable for construction and equipment	91,715	219,969
Accrued expenses	53,300	71,518
Payroll and welfare payables	25,652	26,949
Other tax payables	18,072	13,156
Earnest money	22,504	15,429
Sales commission	3,364	4,576
Others	<u>5,920</u>	<u>6,580</u>
	<u><b>416,302</b></u>	<u><b>547,742</b></u>

As at 31 December 2021, bills payables are secured by bank acceptance bills of RMB8,428,000. As at 31 December 2020, bills payables are secured by bank acceptance bills of RMB4,256,000 and bank deposits of RMB4,353,000.

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
0 – 60 days	117,635	123,630
61 – 90 days	28,764	31,355
Over 90 days	<u>49,376</u>	<u>34,580</u>
	<u><b>195,775</b></u>	<u><b>189,565</b></u>

The average credit period on purchases is 80 days (2020: 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

Year 2021 was a year with high uncertainties, issues, and disruptions. First, the new COVID-19 variants, Delta and Omicron, dashed people's hope to end the pandemic. Second, the level of trade and political dispute between China and US became more serious. Third, the frequency of extreme weather increased and affected more areas. Although there was a small scale outbreak of COVID-19 in the second half of 2021 in China, it did not obstruct Chinese economic recovery.

With the contributions from our competent management team, the performance of the Group in 2021 was not materially affected by COVID-19. The Group strived many efforts to increase our product output ratio and production volume without compromising quality. The Group achieved a turnover of more than RMB11 billion for the first time.

Our major product, cornstarch, is a base material for the production of consumer products. Cornstarch may seem insignificant but it is hard to replace. Our other products, such as lysine, gluten meal and sweeteners, are non-reusable. Therefore, the volume of consumption of these products was not materially affected in a good time or in a bad time.

In the second half of 2021, certain Chinese provinces imposed electricity rationing mandates on different industrial sectors to meet emission targets. During the electricity rationing period, the Group did not have any material adverse financial impacts. We adjusted our production schedule to meet our sales targets. On the other hand, the customers were worried about they could still obtain enough supply from the market. During the electricity rationing period, the market atmosphere for our products was better than other times. We took this opportunity to accept more purchase orders from our customers. As a result, our inventory level was maintained at a low level during this period.

We are cautiously optimistic about the business in 2022. Many factors affect the outlook for various industries. Firstly, the carbon-neutral policy may affect the entities' operation as well as the increase in utilities expenses. Secondly, the downturn of the pork market would affect the demand for lysine products. Thirdly, the resurgence of COVID-19 variants may affect consumers' confidence. Finally, the intensifying geopolitical conflict affects food prices and shipping costs globally. The management team considers that the above factors may have both positive and negative impacts on our business. We are confident that we can turn threats into opportunities. Our competitive advantages include our large scale of production, low energy consumption ratio, having a competent team for monitoring market prices and good at market prediction. We will continue to use a robust approach to manage the business and increase our efficiency. We will also increase our commitment to product development and research abilities.

## **Business Development**

The expansion of production facilities in producing 20,000 tonnes lactic acid and 5,000 tonnes polylactic acid is still undergoing. The management team expected that the Group will start lactic acid and polylactic acid trial production in the second and fourth quarters of 2022 respectively.

We established a joint venture company (Shouguang Juneng Musashino Biotechnology Co., Ltd) with a Japanese leading lactic acid and lactic acid derivatives company (Musashino Chemical Laboratory, Ltd.) (“JV Partner”) in 2020. In view of the serious outbreak of COVID-19 in Japan in the past two years, the process of this expansion project lags behind the original timetable. Both parties are still willing to carry out this project as originally planned. As at the date of this report, we have selected some production sites for environmental impact assessment. We will work together with our JV Partner and government authorities for the selection of the appropriate production site. This expansion project is a cooperation project with an overseas investor. Policies blow cold and hot and are unpredictable under the threat of new variants of COVID-19, for example, sudden travelling restriction or COVID-19 screening. Therefore, we do not set a completion date for this expansion project at this stage.

## **BUSINESS REVIEW**

### **Upstream Products**

The business performance of upstream products, representing cornstarch and its by-products, was outstanding during the year under review. Adverse factors, such as COVID-19 and electricity rationing, did not affect our business performance. The recovery of pig-breeding activity increased demand for the raw materials for the production of animal feeds directly. Besides, the electricity rationing measures imposed by the local government affected the confidence in the stable supply of goods which caused an increase in purchase orders or early delivery requests from customers.

### **Fermented and Downstream Products**

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

Lysine is a raw material for the production of animal feeds. As explained above, the market demand for lysine increased substantially resulted from the recovery of the pig-breeding industry. During the year under review, certain large-scale overseas lysine manufacturers suspended lysine production. Chinese lysine filled the market discrepancies. Naturally, we recorded a substantial increase in export sales.

Starch-based sweetener is mainly used in the food and beverage industry and, to a certain extent, is a substitute for cane sugar. During the year under review, the Group adjusted our liquid and crystallised output ratio. The cost per unit of liquid sweetener was lower than the crystallised one because the crystallisation of sweetener consumed more energy. The percentage of liquid sweetener increased to approximately 69.4% of total starch-based sweetener sales volume (2020: 58.7%).

Looking forward, the business performances of lysine and starch-based sweetener are still subject to the industry's operating ratio and oversupply problem. Our competent management team has to monitor the market condition of each product and adjust our production schedule or product mix to maintain profitability accordingly.

The Group reduced its modified starch production target because the city's sewage treatment plant reduced its sewage treatment capacity in the second half of 2021. The sewage produced during the production of modified starch was treated in the Group's internal sewage facilities at first. The sewage was then disposed to the city's sewage treatment plant for subsequent treatment. It is expected the modified starch production will still be subject to the city's sewage treatment capacity in 2022. The Group would work together with the municipal government to achieve the sewage disposal target and our new production output target.

Other fermented and downstream products represented new biobased materials. Lactic acid and its derivative products are one of them. The turnover contribution of these products to the Group was still small as compared with other traditional products.



## FINANCIAL PERFORMANCE

### Overview

During the year under review, the Group recorded a total revenue of approximately RMB11,639,315,000 (2020: RMB8,892,261,000). Gross profit of the Group increased significantly by 70.1% to approximately RMB952,211,000 (2020: RMB559,775,000).

Profit after taxation increased significantly to RMB402,830,000 (2020: RMB207,039,000). Basic earnings per share of the Company was RMB0.0577 per share based on the weight average number of 5,994,132,000 ordinary shares (2020: RMB0.0317 per share based on the weight average number of 5,995,591,000 ordinary shares).

### Segment Performance

#### *Upstream products*

	<b>2021</b>	2020
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Revenue	<b>8,576,482</b>	6,738,510
Gross profit	<b>496,351</b>	418,556
Gross profit margin	<b>5.8%</b>	6.2%

Revenue of upstream products increased significantly by 27.3% to RMB8,576,482,000 (2020: RMB6,738,510,000). The gross profit margin of this business segment decreased by 0.4 percentage point to 5.8%. The average selling price of our upstream products was driven by both the strong demand and the increased corn kernel cost and utilities expenses during the year under review. The Group successfully passed the increased cost to our customers. The average selling price of cornstarch was about RMB2,988 (2020: RMB2,347) per tonne. The sales volume of cornstarch were approximately 1,951,074 tonnes (2020: 1,915,794 tonnes).

### ***Fermented and downstream products***

	<b>2021</b>	2020
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Revenue		
– Lysine	<b>2,224,230</b>	1,442,844
– Starch-based sweetener	<b>519,544</b>	357,781
– Modified starch	<b>267,463</b>	312,025
– Others	<b>51,596</b>	41,101
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Total	<b>3,062,833</b>	2,153,751
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Gross profit	<b>455,860</b>	141,219
Gross profit margin	<b>14.9%</b>	6.6%
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Revenue of fermented and downstream products increased substantially to RMB3,062,833,000 (2020: RMB2,153,751,000).

Revenue of lysine increased from approximately RMB1,442,844,000 to RMB2,224,230,000. The overall sales volume of lysine products increased by 16.2% to about 320,638 tonnes (2020: 275,875 tonnes). As there was strong market demand, the average selling price recorded a substantial increase by 32.6%. The average selling price of lysine products was about RMB6,937 (2020: RMB5,230) per tonne.

Revenue of starch-based sweetener was approximately RMB519,544,000 (2020: RMB357,781,000). The average selling price and sales volume of starch-based sweetener was about RMB2,650 (2020: RMB2,201) per tonne and 196,049 tonnes (2020: 162,586 tonnes) respectively.

Revenue of modified starch decreased from RMB312,025,000 to RMB267,463,000. Such decrease was mainly attributable to the reduction of production resulting from the city's sewage disposal control in the second half of the year.

Revenue of other fermented products increased by 25.5% to approximately RMB51,596,000 (2020: RMB41,101,000).

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

The major cost components for the year ended 31 December 2021 mainly consisted of corn kernel cost and utilities expenses. Our electricity and steam unit prices were adjusted in the fourth quarter of 2021 by the electricity companies because the coal price increased significantly. The corn kernel market price also increased significantly by 25.1% to RMB2,542 (2020: RMB2,032) per tonne, net of value added tax. As there was a strong market demand for all range of products, we can shift our cost burden to our customer in most of the time. The gross profit increased to approximately RMB952,211,000 (2020: RMB559,775,000).

The Group did not enter into any forward/futures contract to hedge the price fluctuation of corn kernel during the year 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 2021 decreased substantially to RMB164,934,000 (2020: RMB184,229,000) because the Group used more bulk cargo delivery which the cost was lower than other means of distributions, such as by train. In addition, the Group also promoted customers to pick up their goods from our warehouse directly.

Distribution expenses for the year ended 31 December 2021 and 2020 mainly comprised of the followings:

	<b>2021</b>	2020
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Delivery and logistics	<b>138,173</b>	160,786
Marketing expenses	<b>14,450</b>	14,279
Staff costs	<b>7,173</b>	6,384
Others	<b>5,138</b>	2,780
	<b><u>164,934</u></b>	<u>184,229</u>

Administrative expenses for the year ended 31 December 2021 increased substantially to RMB192,013,000 (2020: RMB166,018,000). The significant increase was mainly attributable to the increase in the staff costs and depreciation and amortisation expenses. Administrative expenses for the year ended 31 December 2021 and 2020 mainly comprised of the followings:

	<b>2021</b>	2020
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Staff costs	<b>101,312</b>	93,835
Depreciation and amortisation expenses	<b>37,371</b>	24,098
Government levies	<b>22,657</b>	21,145
Others	<b>30,673</b>	26,940
	<b><u>192,013</u></b>	<u>166,018</u>

### ***Research expenses***

Research expenses for the year ended 31 December 2021 increased substantially to RMB199,648,000 (2020: RMB28,899,000), which were mainly attributable to the increase in research expenses on the innovation of production technology and obtaining new knowledge for corn-derivative products. The research projects also included feasible studies on new methods of production, improving production efficiency, and reducing energy consumption.

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

The other net income increased to RMB114,923,000 (2020: RMB80,871,000). The major items of other net income are set out below:

	<b>2021</b>	2020
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Amortisation of government grants	<b>62,925</b>	58,821
Government grants (one-off)	<b>36,496</b>	1,543
Gain on sales of scrap materials	<b>17,317</b>	11,521
Electricity and related service	<b>610</b>	4,348
Gain on futures contracts	<b>333</b>	2,524
Accounts payable written back	–	3,996
Gain/(loss) on disposals of property, plant and equipment	<b>1,075</b>	(1,231)
Written off of property, plant and equipment	<b>(3,091)</b>	–
Net foreign exchange loss	<b>(1,958)</b>	(4,036)
Others	<b>1,216</b>	3,385
	<b><u>114,923</u></b>	<b><u>80,871</u></b>

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

	Units	2021	2020
Debtors turnover	days	14	25
Creditors turnover	days	7	7
Inventories turnover	days	24	30
Current ratio	times	2.5	1.9
Quick ratio	times	1.8	1.2
Gearing ratio ( <i>note 1</i> )	%	2.4	2.8
Total shareholder return ( <i>note 2</i> )	%	<u>41.7</u>	<u>13.3</u>

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 Directors are of the opinion that the working capital available to the Group is sufficient for its present requirements. As at 31 December 2021, most of borrowings of the Group are short-term borrowings. The aggregated bank borrowings and other borrowings of approximately RMB103,000,000 were denominated in Renminbi and were carried interest at fixed rates. The loan from a controlling shareholder of RMB8,176,000 was denominated in Hong Kong Dollar and was carried interest at a floating rate. 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 2021, bills payables were secured by bank acceptance bills of RMB8,428,000. As at 31 December 2021, 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 2021.

## **DISTRIBUTABLE RESERVES**

As at 31 December 2021, the Company's reserves available for distribution to shareholders amounted to approximately RMB132,569,000.

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

The annual general meeting (the "2022 AGM") will be held on 24 May 2022. The notice of 2022 AGM, which constitutes part of the circular to the shareholders of the Company, will be sent together with the 2021 annual report. For determining the entitlement to attend and vote at the 2022 AGM, the register of members of the Company will be closed from 19 May 2022 to 24 May 2022 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the 2022 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 18 May 2022.

## **FINAL DIVIDEND**

In view of the increasing infection cases of COVID-19 in many cities in the PRC, the Board considers that it may be more challenging to our business and, therefore, tends to have more conservative approach on cash management. The Board recommends the payment of a final dividend of HK0.69 cents per share for the year ended 31 December 2021 ("2021 Final Dividend"). The proposed 2021 Final Dividend is subject to the approval of the shareholders of the Company in the 2022 AGM, and is expected to be paid on or around 15 July 2022 to the shareholders whose name appear on the register of members on 9 June 2022. For determining the entitlement to 2021 Final Dividend, the register of members of the Company will be closed from 8 June 2022 to 9 June 2022 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the entitlement of 2021 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 7 June 2022.

## **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. Tian Qixiang (the chairman of the Board) did not attend the 2021 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 2021 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 2021 have been reviewed by the audit committee of the Board.

## **ANNUAL REPORT**

The 2021 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 2022.

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

Shouguang, The People's Republic of China, 18 March 2022

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