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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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board (the “Board”) of directors (the “Directors”) of China Starch Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2019, together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		(Unaudited)	
		Six months ended 30 June	
		2019	2018
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	2	2,872,208	2,405,631
Cost of sales		<u>(2,717,941)</u>	<u>(2,212,155)</u>
Gross profit		154,267	193,476
Distribution expenses		(70,640)	(44,768)
Administrative expenses		(79,357)	(65,344)
Impairment losses on financial assets		(5,807)	–
Other gains and losses	3	<u>37,035</u>	<u>32,309</u>
Operating profit		35,498	115,673
Finance income		11,418	18,783
Finance expenses		<u>(260)</u>	<u>(225)</u>
Profit before income tax	4	46,656	134,231
Income tax expenses	5	<u>(9,907)</u>	<u>(27,596)</u>
Profit and total comprehensive income for the period		<u><u>36,749</u></u>	<u><u>106,635</u></u>

		(Unaudited)	
		Six months ended 30 June	
		2019	2018
<i>Notes</i>		<i>RMB'000</i>	<i>RMB'000</i>
Attributable to:			
Owners of the Company		38,293	104,906
Non-controlling interests		(1,544)	1,729
		<u>36,749</u>	<u>106,635</u>
Basic and diluted earnings per share (RMB)	<i>6</i>	<u>0.0064</u>	<u>0.0175</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2019	31 December 2018
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		1,918,150	1,781,270
Right-of-use assets		403,347	201,132
Deposits for acquisition of right-of-use assets		—	30,896
Deposits for acquisition of property, plant and equipment		116,610	119,621
Deferred tax assets		74,436	77,957
		2,512,543	2,210,876
Total non-current assets		2,512,543	2,210,876
Current assets			
Inventories		609,166	409,822
Trade and other receivables	8	740,503	462,391
Pledged bank deposits		5,812	6,062
Fixed deposits		210,000	340,000
Cash and cash equivalents		168,931	782,904
		1,734,412	2,001,179
Total current assets		1,734,412	2,001,179
Total assets		4,246,955	4,212,055

		30 June 2019	31 December 2018
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
EQUITY			
Equity attributable to owners of the Company			
Share capital		532,656	532,656
Other reserves		362,122	401,491
Retained earnings		1,867,908	1,853,538
		2,762,686	2,787,685
Non-controlling interests		137,114	138,658
Total equity		2,899,800	2,926,343
LIABILITIES			
Non-current liabilities			
Deferred income		377,849	342,142
Deferred tax liabilities		29,823	23,944
Total non-current liabilities		407,672	366,086
Current liabilities			
Trade and other payables	9	609,535	694,036
Advances from customers		191,285	113,294
Income tax payable		19,651	83,559
Borrowings		31,701	4,432
Employee housing deposits		23,768	23,768
Lease liabilities		251	537
Dividend payable		63,292	—
Total current liabilities		939,483	919,626
Total liabilities		1,347,155	1,285,712
Total equity and liabilities		4,246,955	4,212,055

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated interim financial statements of China Starch Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) for the six months ended 30 June 2019 have been prepared in accordance with the disclosure requirements of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The condensed consolidated interim financial statements have been prepared in accordance with the same accounting policies adopted in the audited financial statements for the year ended 31 December 2018 (the “2018 Financial Statements”), except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. The adoption of the changes has no material financial effect on the Group’s results and financial position for the current or prior periods.

The condensed consolidated interim financial statements should be read in conjunction with the 2018 Financial Statements, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

Unless otherwise stated, these condensed consolidated interim financial statements are presented in Renminbi (“RMB”). The condensed consolidated interim financial statements have been prepared on the historical basis except for financial assets at fair value through profit or loss.

During the six months ended 30 June 2019, the Group reported net cash used in operating activities of approximately RMB318,866,000. In view of the above, the directors (the “Directors”) of the Company have reviewed the Group’s cash flow projections and the available banking facilities covering a period of twelve months from 30 June 2019. In the opinion of the Directors, the Group will have sufficient working capital to fulfill its financial obligations as and when they fall due in the coming twelve months from 30 June 2019. Accordingly, the Directors are satisfied that it is appropriate to prepare these condensed consolidated financial statements on a going concern basis.

Should the going concern assumption be inappropriate, adjustments may need to be realised at the amounts other than which they are currently recorded in the condensed consolidated statement of financial position.

2. SEGMENT INFORMATION

	Upstream products <i>RMB'000</i>	Fermented and downstream products <i>RMB'000</i>	Total <i>RMB'000</i>
2019			
Sales to external customers	2,227,610	644,598	2,872,208
Inter-segment sales	100,983	—	100,983
	<hr/>	<hr/>	<hr/>
Reportable segment results	114,121	27,545	141,666
Unallocated income			22,536
Unallocated expenses			(128,704)
Finance income			11,418
Finance expenses			(260)
			<hr/>
Profit before income tax			46,656
			<hr/> <hr/>
	Upstream products <i>RMB'000</i>	Fermented and downstream products <i>RMB'000</i>	Total <i>RMB'000</i>
2018			
Sales to external customers	1,672,371	733,260	2,405,631
Inter-segment sales	117,667	97	117,764
	<hr/>	<hr/>	<hr/>
Reportable segment results	105,019	90,162	195,181
Unallocated income			17,032
Unallocated expenses			(96,540)
Finance income			18,783
Finance expenses			(225)
			<hr/>
Profit before income tax			134,231
			<hr/> <hr/>

3. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Government grants (<i>note</i>)	2,343	4,585
Amortisation of government grants	28,206	24,333
Gain on sale of scrap materials	5,892	4,974
Gain/(loss) on disposal of property, plant and equipment	4,195	(439)
Net foreign exchange (loss)/gain	(1,322)	462
Others	(2,279)	(1,606)
	<u>37,035</u>	<u>32,309</u>

Note:

During the six month ended 30 June 2019, the government grants mainly represented a subsidy of approximately RMB2,136,000 (2018: RMB4,510,000) from local government for supporting business development.

4. PROFIT BEFORE INCOME TAX

The major expenses of the Group are as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Employee benefits expenses		
(including directors' emoluments)	96,789	86,147
Depreciation of property, plant and equipment	78,861	79,750
Depreciation of right-of-use assets	2,763	2,744
Transportation expenses	59,730	34,246
Research and development expenses (<i>note</i>)	19,101	13,951
	<u>19,101</u>	<u>13,951</u>

Note:

Research and development expenses include staff costs of employees in the Research and Development Department, which are included in the employee benefits expenses as disclosed above.

5. INCOME TAX EXPENSES

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
– PRC Enterprise Income Tax (“EIT”)	507	62,743
– Over-provision in prior years	–	(4,450)
Deferred tax	9,400	(30,697)
	<u>9,907</u>	<u>27,596</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% in normal circumstances. However, one of the subsidiaries in the PRC is recognised as high technology enterprise and obtains a preferential EIT rate of 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 periods.

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2019 is based on earnings of RMB38,293,000 (2018: RMB104,906,000) and on the weighted average number of 5,995,892,000 ordinary shares (2018: 5,995,892,000 ordinary shares) in issue.

No diluted earnings per share has been presented because no dilutive potential ordinary shares exist for both six months ended 30 June 2019 and 2018.

7. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (2018: nil).

A final dividend of HK1.20 cents per share for the year ended 31 December 2018 has been approved at the annual general meeting of the Company held on 21 May 2019.

8. TRADE AND OTHER RECEIVABLES

	30 June	31 December
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	245,453	86,565
Less: Impairment losses	(15,505)	(9,698)
	229,948	76,867
Bank acceptance bills	270,807	246,316
Prepayments and other tax receivables	223,577	137,868
Others	16,171	1,340
	740,503	462,391

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

During the six months ended 30 June 2019, impairment losses of RMB5,807,000 were recognised as expense in accordance with the expected credit loss model.

(a) Trade receivables

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

An ageing analysis of trade receivables based on the invoice date and net of impairment losses of trade receivables presented at the end of the reporting period is shown as follows:

	30 June	31 December
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
0 – 30 days	202,742	57,169
31 – 60 days	16,776	5,418
61 – 90 days	2,157	1,564
Over 90 days	8,273	12,716
	229,948	76,867

(b) **Bank acceptance bills**

	30 June 2019 RMB'000	31 December 2018 RMB'000
Endorsed bills	161,399	198,742
Bills on hand	109,408	47,574
	<hr/> 270,807 <hr/>	<hr/> 246,316 <hr/>

The bank acceptance bills are normally with maturity period of 180 days (31 December 2018: 180 days). There is no recent history of default on bank acceptance bills.

As at 30 June 2019, bank acceptance bills of RMB2,615,000 (31 December 2018: RMB4,338,000) were pledged to banks for securing bills payables.

9. TRADE AND OTHER PAYABLES

	30 June 2019 RMB'000	31 December 2018 RMB'000
Trade payables	100,226	116,319
Bills payables	8,427	10,394
	<hr/> 108,653 <hr/>	<hr/> 126,713 <hr/>
Total trade and bills payables	108,653	126,713
Payable for construction and equipment	330,683	446,737
Deposits	52,849	46,940
Accrued expenses	71,127	21,643
Payroll and welfare payables	29,266	24,729
Sales commission	5,435	3,474
Other tax payables	6,938	18,548
Others	4,584	5,252
	<hr/> 609,535 <hr/>	<hr/> 694,036 <hr/>

As at 30 June 2019, bills payables are secured by bank acceptance bills of RMB2,615,000 (31 December 2018: RMB4,338,000) (note 8(b)) and pledged bank deposits of RMB5,812,000 (31 December 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:

	30 June	31 December
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
0 – 60 days	76,144	88,106
61 – 90 days	5,435	12,536
Over 90 days	27,074	26,071
	<u>108,653</u>	<u>126,713</u>

The average credit period on purchases is 80 days (31 December 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

Although China's economy grew 6.3% in the first half of 2019 from a year earlier, the growth showed the slowest pace amongst past two decades. Cornstarch industry experienced the first industry consolidation in past few years which small scale manufacturers faded out in the market; and is now facing the second wave industry consolidation which may eliminate inefficient and financially unsound manufacturers in the market. The competition landscape has changed – the industry faces the problems of keen competition under excessive production capacity, low profit margin and high demand of working capital. In the meantime, the industry was indirectly affected by the outbreak of African swine fever (“ASF”) in China. As a result, the business performance of lysine, corn fibre and corn gluten meal (the raw materials which can be produced as animal feeds) worsened during the period under review. A stage victory has yet to come, despite the Chinese government deployment of more resources to eradicate ASF.

We believe risks and opportunity always coexist. Only the strong market players can live in this industry consolidation. As a market leader in the industry, we prepare to fight and win this long battle of industry consolidation and economic slowdown. Our long-term strategies include strengthening cost control, maintaining a healthy balance sheet and looking for opportunity to develop cornstarch-related niche market. Since always, we have positioned ourselves as a market player with sustainable and stable development in the industry.

The production base of Shouguang Golden Corn Biotechnology Limited (“Golden Corn Biotech”) has principally completed the major cornstarch production facilities during the period under review. Certain cornstarch and its related products were produced during its trial-run. It is expected that other related ancillary constructions (such as refinery workshop and warehouses) will be completed by the end of 2019. The cornstarch production scale will then be further increased to its designed annual operation capacity of 800,000 tonnes.

The upgrade of the Group's enterprise resources planning (“ERP”) system is expected to be completed in the final quarter of the year. The management expected the new ERP system will improve the Group's working efficiency and management effectiveness in future.

BUSINESS REVIEW

Upstream products

The Group successfully maintained its market presence and recorded a growth in both sales volume and amount during the period under review. The domestic demands of corn gluten meal and corn fibre were affected by stagnant animal feed and breeding market. The market demand of cornstarch was affected by the general economic environment in China. Therefore, the Group shifted its sales focus to overseas markets.

During the period under review, corn kernel price (the major raw material of cornstarch) was still increasing. In view of the current market atmosphere, the Group had to absorb and share certain cost pressure with its customers.

Fermented and downstream products

Both lysine and starch-based sweetener are now facing the excessive production capacity problem. The ordeal has come to the corn deep-processing industry. Our strategies during this industry consolidation period are to maintain an optimal inventory level and work closely with our customers in order to plan our production and delivery schedules.

In respect of the lysine products, the Group shifted its sales focus to overseas markets in order to mitigate the impact of ASF. In respect of the modified starch products, the demand in both domestic and overseas markets were weak.

FINANCIAL PERFORMANCE

OVERVIEW

Revenue of the Group increased substantially to approximately RMB2,872 million (2018: RMB2,406 million) because Golden Corn Biotech had started its trial production in the second quarter of the year. However, the cornstarch and deep-processing industry was subject to the problem of excessive supply due to expanded production capacity. In addition, the increase in corn kernel cost, the major raw material of cornstarch, also affected the profitability of the Group. During the period under review, gross profit of the Group decreased substantially by 20.3% to approximately RMB154 million (2018: RMB 193 million).

Golden Corn Biotech was still in its trial-run stage and recorded operating losses during the period under review. The management believed that the business performance of Golden Corn Biotech will not materially affect the balance sheet of the Group.

Profit after taxation also decreased substantially to approximately RMB37 million (2018: RMB107 million). Basic earnings per share of the Company was RMB0.0064 (2018: RMB0.0175) based on weighted average number of 5,995,892,000 ordinary shares.

SEGMENT PERFORMANCE

Upstream products

For the six months ended 30 June	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	2,227,610	1,672,371
Gross profit	106,392	98,488
Gross profit margin	4.8%	5.9%

Revenue of this business segment increased by significantly 33.2% to approximately RMB2,227,610,000 (2018: RMB1,672,371,000). Benefited from the trial-run of Golden Corn Biotech in the second quarter of 2019, the sale volume increased substantially to 719,823 tonnes (2018: 560,533 tonnes). The average selling price of cornstarch increased mildly by 3.5% to about RMB2,154 (2018: RMB2,082) per tonne.

Fermented and downstream products

For the six months ended 30 June	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue		
– Lysine	335,141	401,341
– Starch-based sweetener	159,784	146,209
– Modified starch	130,291	161,063
– Others	19,382	24,647
	<hr/>	<hr/>
Total	644,598	733,260
	<hr/> <hr/>	<hr/> <hr/>
Gross profit	47,875	94,988
Gross profit margin	7.4%	13.0%
	<hr/> <hr/>	<hr/> <hr/>

Revenue of this business segment decreased to approximately RMB644,598,000 (2018: RMB733,260,000).

Revenue of lysine products was approximately RMB335,141,000 (2018: RMB401,341,000). The market price of lysine was seriously affected because the animal feed and breeding market demand was weak. The average selling price of lysine products decreased substantially to approximately RMB5,032 (2018: RMB5,782) per tonne. The sales volume was approximately 66,598 tonnes (2018: 69,416 tonnes). Sales performance of lysine products was mainly affected by the increase in cost of production and the decrease in average selling price of lysine products.

Revenue of starch-based sweetener was approximately RMB159,784,000 (2018: RMB146,209,000). The average selling price and sales volume of starch-based sweetener for the period ended 30 June 2019 were approximately RMB2,070 per tonne and 77,181 tonnes (2018: RMB2,125 per tonne and 68,820 tonnes) respectively.

Revenue of modified starch decreased substantially by 19.1% to approximately RMB130,291,000 (2018: RMB161,063,000).

Cost of sales

The major cost components mainly consisted of corn kernel and utilities expenses, which represented about 83.6% and 7.7% (2018: 81.2% and 8.4%) of total cost of sales respectively.

During the period under review, the average corn kernel price in Shandong region was approximately RMB1,738 (2018: RMB1,618) per tonne. The average cost of electricity and steam was stable during the period under review.

REVIEW OF OTHER OPERATIONS

Other gains and losses

Other gains and losses increased to approximately RMB37,035,000 (2018: RMB32,309,000) during the period under review. Such increase was mainly attributable to an increase in amortisation of government grant and a gain on disposal of property, plant and machinery as well as scrap materials. The increase was partially offset by exchange losses and a decrease in the receipt of government subsidies.

Distribution and administrative expenses

An increase in distribution expenses to approximately RMB70,640,000 (2018: RMB44,768,000) during the period under review was mainly due to an increase in transportation costs, as the sales volume was substantially increased and the distribution radius was expanded.

An increase in administrative expenses to approximately RMB79,357,000 (2018: RMB65,344,000) was mainly due to the increase in (i) headcount and salary, and (ii) research and development expenses.

Liquidity, financial resources and capital structure

The key financial performance indicators are summarised as follows:

	<i>Units</i>	30 June 2019	31 December 2018
Debtors turnover	<i>days</i>	26	22
Creditors turnover	<i>days</i>	8	11
Inventories turnover	<i>days</i>	34	25
Current ratio	<i>times</i>	1.8	2.2
Quick ratio	<i>times</i>	1.2	1.7
Gearing ratio – borrowings to total assets	<i>%</i>	0.7	0.1

The Directors are of the opinion that the working capital available to the Group is sufficient for its present requirements. The Group's cash and cash equivalents were mostly denominated in Renminbi.

During the period under review, the Group obtained a bank borrowing of approximately RMB27,269,000 (denominated in Hong Kong dollar). The bank borrowing was secured by a pledged bank deposit provided by Merry Boom Group Limited (the controlling shareholder of the Company), carried at a fixed interest rate of 2.5% per annum and was payable within one year.

The Group's government loan of approximately RMB4,432,000 (denominated in Renminbi) was unsecured, interest-free, and with a maturity within one year.

Human resources and remuneration policies

As at 30 June 2019, the Group had 2,349 (2018: 2,150) staff. Total staff costs, including directors' emoluments, for the six months ended 30 June 2019 were approximately RMB97 million (2018: RMB86 million). The Company's remuneration policy has remained unchanged since our 2018 Annual Report. As at 30 June 2019, no share options have been granted under the Company's share option scheme.

Financial management, treasury policy and foreign currency exposure

The Group's financial management, treasury policy and foreign currency exposure had not been materially changed since the information disclosed in our 2018 Annual Report.

Pledge of assets

As at 30 June 2019, bills payables were secured by bank acceptance bills and bank deposits in the amount of RMB2,615,000 and RMB5,812,000 respectively.

The Group did not pledge any land use right and building to secure banking facilities as at 30 June 2019.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2019.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2019 (2018: nil).

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 period under review.

CORPORATE GOVERNANCE

During the six months ended 30 June 2019, the Company had complied with the applicable code provisions as set out in the Corporate Governance Code contained in Appendix 14 to 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.

REVIEW OF INTERIM RESULTS

The Group's condensed consolidated financial statements for the six months ended 30 June 2019 have not been audited, but have been reviewed by SHINEWING (HK) CPA Limited, the Company's external auditor, whose review report is contained in the 2019 Interim Report.

The Audit Committee has reviewed the Group's condensed consolidated financial statements for the six months ended 30 June 2019, including the accounting principles and practices adopted by the Group, in conjunction with the Company's external auditor.

INTERIM REPORT

The 2019 Interim Report will be published on the websites of The Stock Exchange of Hong Kong Limited and the Company (www.chinastarch.com.hk) on or about 6 September 2019.

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

Shouguang, The People's Republic of China, 21 August 2019

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