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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 2020

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 2020, together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 June	
		2020	2019
	Notes	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	3	3,850,007	2,872,208
Cost of sales		<u>(3,564,808)</u>	<u>(2,717,941)</u>
Gross profit		285,199	154,267
Distribution expenses		(93,469)	(70,640)
Administrative expenses		(99,252)	(79,357)
Impairment losses on financial assets		—	(5,807)
Other net income	4	<u>41,893</u>	<u>37,035</u>
Operating profit		134,371	35,498
Finance income		8,195	11,418
Finance expenses		<u>(3,638)</u>	<u>(260)</u>
Profit before income tax	5	138,928	46,656
Income tax expenses	6	<u>(26,572)</u>	<u>(9,907)</u>
Profit and total comprehensive income for the period		<u><u>112,356</u></u>	<u><u>36,749</u></u>

	<i>Notes</i>	Six months ended 30 June	
		2020	2019
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Attributable to:			
Owners of the Company		102,728	38,293
Non-controlling interests		9,628	(1,544)
		<u>112,356</u>	<u>36,749</u>
Basic and diluted earnings per share (RMB)	7	<u>0.0171</u>	<u>0.0064</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June	31 December
	2020	2019
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
ASSETS		
Non-current assets		
Property, plant and equipment	2,180,267	2,085,992
Right-of-use assets	395,693	400,543
Deposits for acquisition of property, plant and equipment	3,444	27,218
Investments in equities	2,000	–
Deferred tax assets	71,280	79,435
	2,652,684	2,593,188
Total non-current assets	2,652,684	2,593,188
Current assets		
Inventories	722,769	538,777
Trade and other receivables	9 764,719	841,983
Pledged bank deposits	5,729	5,669
Fixed deposits	210,000	260,000
Cash and cash equivalents	233,607	185,357
	1,936,824	1,831,786
Total current assets	1,936,824	1,831,786
Total assets	4,589,508	4,424,974

		30 June	31 December
		2020	2019
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
EQUITY			
Equity attributable to owners of the Company			
Share capital		532,656	532,656
Other reserves		368,526	368,526
Retained earnings		1,988,936	1,920,058
		2,890,118	2,821,240
Non-controlling interests		149,535	139,907
Total equity		3,039,653	2,961,147
LIABILITIES			
Non-current liabilities			
Deferred income		320,770	349,074
Deferred tax liabilities		49,657	38,104
Lease liabilities		893	1,218
Total non-current liabilities		371,320	388,396
Current liabilities			
Trade and other payables	<i>10</i>	761,078	691,914
Advances from customers		152,090	172,375
Borrowings		184,764	151,354
Dividend payable		33,850	—
Income tax payable		22,372	35,430
Employee housing deposits		23,741	23,741
Lease liabilities		640	617
Total current liabilities		1,178,535	1,075,431
Total liabilities		1,549,855	1,463,827
Total equity and liabilities		4,589,508	4,424,974

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 2020 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 and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. 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 2019 (the “2019 Financial Statements”), except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. The condensed consolidated interim financial statements should be read in conjunction with the 2019 Financial Statements, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

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 cost convention except for certain financial assets measured at fair value.

2. ADOPTION OF NEW/REVISED HKFRSs

In 2020, the Group has adopted the following amendments to HKFRSs which are pertinent of the Group’s operations and effective for accounting periods beginning on or after 1 January 2020:

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 amendments did not have any financial impact on the Group.

3. SEGMENT INFORMATION

	Six months ended 30 June 2020		
	Upstream products <i>RMB'000</i>	Fermented and downstream products <i>RMB'000</i>	Total <i>RMB'000</i>
Sales to external customers	2,980,713	869,294	3,850,007
Inter-segment sales	136,941	–	136,941
	<hr/>	<hr/>	<hr/>
Reportable segment results	212,863	69,905	282,768
Unallocated income			24,251
Unallocated expenses			(172,648)
Finance income			8,195
Finance expenses			(3,638)
			<hr/>
Profit before income tax			138,928
			<hr/> <hr/>
	Six months ended 30 June 2019		
	Upstream products <i>RMB'000</i>	Fermented and downstream products <i>RMB'000</i>	Total <i>RMB'000</i>
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/>

4. OTHER NET INCOME

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Amortisation of government grants	29,104	28,206
Gain on sales of scrap material	5,249	5,892
Accounts payable written back	3,795	—
Gain on disposal of property, plant and equipment	467	4,195
Government grants (note)	511	2,343
Net foreign exchange loss	(1,043)	(1,322)
Others	3,810	(2,279)
	<u>41,893</u>	<u>37,035</u>

Note:

During the six months ended 30 June 2020, the government grants mainly represented subsidies from local governments for supporting employment. During the six months ended 30 June 2019, the government grants mainly represented subsidies of approximately RMB2,136,000 from local governments for supporting business development.

5. PROFIT BEFORE INCOME TAX

The major expenses of the Group are as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Salaries, wages and other benefits	96,991	96,789
Depreciation of property, plant and equipment	117,202	78,861
Depreciation of right-of-use assets	4,850	2,763
Delivery and logistics	81,827	59,730
Research and development expenses (note)	13,111	19,101
	<u>13,111</u>	<u>19,101</u>

Note:

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

6. INCOME TAX EXPENSES

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
– PRC Enterprise Income Tax (“EIT”)	7,164	507
– Over-provision in prior years	(300)	–
Deferred tax	19,708	9,400
	<u>26,572</u>	<u>9,907</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.

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2020 is based on earnings of RMB102,728,000 (2019: RMB38,293,000) and on the weighted average number of 5,995,892,000 ordinary shares (2019: 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 2020 and 2019.

8. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (2019: nil).

A final dividend of HK0.62 cents per share for the year ended 31 December 2019 has been approved at the annual general meeting of the Company held on 19 May 2020.

9. TRADE AND OTHER RECEIVABLES

	30 June 2020 RMB'000	31 December 2019 RMB'000
Trade receivables	201,102	155,904
Less: Loss allowance	(13,845)	(13,845)
	187,257	142,059
Bank acceptance bills	326,746	493,111
Prepayments and other tax receivables	246,374	204,441
Others	4,342	2,372
	764,719	841,983

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

(a) Trade receivables

The Group normally grants credit period ranging from 0 to 90 days (2019: 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 2020 RMB'000	31 December 2019 RMB'000
0 – 30 days	163,763	125,634
31 – 60 days	17,039	11,400
61 – 90 days	4,143	2,274
Over 90 days	2,312	2,751
	187,257	142,059

(b) **Bank acceptance bills**

	30 June 2020 RMB'000	31 December 2019 RMB'000
Bills on hand	58,221	228,344
Endorsed bills	224,013	176,682
Discounted bills	44,512	88,085
	<u>326,746</u>	<u>493,111</u>

The bank acceptance bills are normally with maturity period of 180 days (31 December 2019: 180 days). There is no recent history of default on bank acceptance bills.

As at 30 June 2020, bank acceptance bills of RMB2,671,000 (31 December 2019: RMB4,100,000) were pledged to banks for securing bills payables.

10. TRADE AND OTHER PAYABLES

	30 June 2020 RMB'000	31 December 2019 RMB'000
Trade payables	144,244	129,606
Bills payables	6,500	9,747
	<u>150,744</u>	<u>139,353</u>
Total trade and bills payables	150,744	139,353
Payable for construction and equipment	357,775	345,319
Accrued expenses	170,564	135,470
Payroll and welfare payables	43,194	33,035
Earnest money	20,514	12,196
Other tax payables	8,277	16,559
Sales commission	4,471	4,378
Others	5,539	5,604
	<u>761,078</u>	<u>691,914</u>

As at 30 June 2020, bills payables were secured by bank acceptance bills of RMB2,671,000 (31 December 2019: RMB4,100,000) (note 9(b)) and bank deposits of RMB5,729,000 (31 December 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:

	30 June	31 December
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
0 – 60 days	96,473	94,293
61 – 90 days	11,816	10,098
Over 90 days	42,455	34,962
	<u>150,744</u>	<u>139,353</u>

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

11. EVENT AFTER THE REPORTING PERIOD

As disclosed in the announcement of the Company dated 25 August 2020, Shouguang Golden Far East Modified Starch Company Limited (“Golden Far East”), an indirectly wholly-owned subsidiary of the Company, entered into a joint venture agreement with Musashino Chemical Laboratory Ltd (“Musashino Chemical”) for the formation of Shouguang Juneng Musashino Biotechnology Co., Ltd (“Juneng Musashino”). The registered capital of Juneng Musashino is RMB 100 million, of which will be contributed as to RMB75 million by Golden Far East and as to the remaining RMB25 million by Musashino Chemical by way of cash. The total investment of Juneng Musashino amounted to RMB150 million. Juneng Masahino is principally engaged in research, development, production and sale of lactate and other related products.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW AND COMPANY DEVELOPMENT

The cornstarch and deep-processing industry has been facing various challenges, such as swine flu, serious excessive production capacity, the Sino-US trade war and COVID-19 pandemic. The above adverse factors give the industry players unprecedentedly challenges. The possibility of recovery amongst the industry in the second half of 2020 is highly uncertain and is highly dependent on the result of the control measure of COVID-19.

The Group is principally engaged in the manufacture and sales of cornstarch, lysine, starch-based sweetener, biobased materials as well as other related products. The overall demand for our products, in the long run, is not easily affected because the cornstarch derived products are daily consumed goods having the characteristic of being non-replaceable and non-reusable. Since the outbreak of COVID-19 pandemic, the Group has implemented measures to minimise the risk of its impact on the Group's operation and put the health and well-being of our staff at the first priority. Our production facilities are still running in full operation scale during the period under review. In addition, the construction of new lysine production facilities in Shouguang Golden Corn Biotechnology Limited ("Golden Corn Biotech") has completed and gradually progressed to mass production in the first half of 2020.

The management has a cautiously optimistic view in the second half of 2020. For example, corn kernel market price keeps breaking high-records. COVID-19 pandemic occurs repeatedly and unpredictably in different regions. The excessive production capacity problem in the industry would not be solved in the foreseeable future. As a leading market player, we are confident to overcome the challenges with a strong balance sheet, possession of advanced production knowhow, high utilisation rate of facilities and the most important talent assets.

As disclosed in the announcement of the Company dated 25 August 2020, the Group entered into a joint venture agreement with Musashino Chemical Laboratory Ltd ("Musashino Chemical") for the formation of Shouguang Juneng Musashino Biotechnology Co., Ltd ("Juneng Musashino"). The Board believes that the business cooperation with Musashino Chemical would enhance our innovation capability and expand our market presence to lactate acid downstream market. We have established a workgroup seeking for a suitable production site and preparing the incorporation. The registered capital to Juneng Musashino will be financed by internal resources of the Group.

BUSINESS REVIEW

Upstream products

In 2020, we recorded a substantial growth in production and sales volume of cornstarch and its related ancillary products. It was the full-year effect as the new cornstarch production facilities of Golden Corn Biotech started its production and sale in April 2019.

The cornstarch selling price could not be easily adjusted during the period under review because of the serious excessive supply problem in the People's Republic of China (the "PRC").

The demand of cornstarch by-products, such as corn germ, corn fibre and corn gluten meal, was not affected because the overall demand from animal feed and breeding industry remained strong and the raw materials imported from overseas were delayed resulted from other countries' lockdown. As a result, the selling prices of these by-products were adjusted to compensate for the increase in the Group's cost in material in purchasing corn kernel.

Fermented and downstream products

The PRC is the largest lysine manufacturer in the world. The excessive supply problem suppressed the cost transferring ability to customers. Under the excessive supply problem, other industry players still keep expanding their production facilities because of the market presence issue. Our new lysine production facilities of Golden Corn Biotech started trial production in the first quarter of 2020 and successfully progressed to mass production in the second quarter of 2020.

Starch-based sweetener performance was also affected by the problem of excessive supply and stagnant market demand during the period under review.

Other fermented and downstream products performance were relatively stable during the period under review. We will adjust our production schedule in accordance with the market demand.

FINANCIAL PERFORMANCE

Overview

Revenue of the Group increased substantially to approximately RMB3,850 million (2019: RMB2,872 million) because of the full-year operation effect contributed by Golden Corn Biotech. In the meantime, the Group used advanced facilities which reduced the unit cost effectively. As a result, our gross profit margin increased by 2 percentage point to 7.4% (2019: 5.4%). Gross profit of the Group increased substantially to approximately RMB285 million (2019: RMB154 million).

Profit after taxation increased substantially to approximately RMB112 million (2019: RMB37 million). Basic earnings per share of the Company was RMB0.0171 (2019: RMB0.0064) based on weighted average number of 5,995,892,000 ordinary shares.

SEGMENT PERFORMANCE

Upstream products

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	2,980,713	2,227,610
Gross profit	205,120	106,392
Gross profit margin	6.9%	4.8%

Revenue of this business segment increased significantly by 33.8% to approximately RMB2,981 million (2019: RMB2,228 million). Sales volume of cornstarch increased substantially to 910,863 tonnes (2019: 719,823 tonnes). The average selling price of cornstarch increased mildly by 0.7% to about RMB2,170 (2019: RMB2,154) per tonne.

Fermented and downstream products

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Revenue		
– Lysine	543,375	335,141
– Starch-based sweetener	159,586	159,784
– Modified starch	146,241	130,291
– Others	20,092	19,382
	<hr/>	<hr/>
Total	869,294	644,598
	<hr/> <hr/>	<hr/> <hr/>
Gross profit	80,079	47,875
Gross profit margin	9.2%	7.4%
	<hr/> <hr/>	<hr/> <hr/>

Revenue of this business segment increased to approximately RMB869 million (2019: RMB645 million).

Revenue of lysine products was approximately RMB543 million (2019: RMB335 million). 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 increased slightly to approximately RMB5,097 (2019: RMB5,032) per tonne. Benefited from the new production facilities contributed by Golden Corn Biotech, the sales volume of lysine products increased substantially to approximately 106,606 tonnes (2019: 66,598 tonnes).

Revenue of starch-based sweetener was approximately RMB160 million (2019: RMB160 million). The average selling price and sales volume of starch-based sweetener for the period ended 30 June 2020 was approximately RMB2,127 per tonne and 75,013 tonnes (2019: RMB2,070 per tonne and 77,181 tonnes) respectively.

Revenue of modified starch increased by 12.3% to approximately RMB146 million (2019: RMB130 million).

Revenue of other fermented and downstream products was approximately RMB20 million (2019: RMB19 million).

Cost of sales

The major cost components mainly consisted of corn kernel and utilities expenses, which represented about 86.1% and 7.3% (2019: 83.6% and 7.7%) of total cost of sales respectively.

During the period under review, the average corn kernel price in Shandong region was approximately RMB1,842 (2019: RMB1,738) per tonne. The average cost of electricity and steam was stable during the period under review.

The Group did not enter into any forward/futures contract to hedge the price fluctuation of corn kernel during the period under review.

REVIEW OF OTHER OPERATIONS

Distribution and administrative expenses

Distribution and administrative expenses increased substantially during the period under review because of the increase in production capacity of the Group. In addition, certain expenses were grouped into administrative expenses to reflect the change of function in the departments.

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

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Distribution expenses:		
Delivery and logistic	81,827	59,730
Marketing expenses	7,212	5,939
Staff costs	2,951	3,219
Others	1,479	1,752
	93,469	70,640

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Administrative expenses:		
Staff costs	48,398	38,127
Depreciation and amortisation	13,300	4,737
Research and development costs	13,111	19,101
Government levies	11,221	8,777
Others	13,222	8,615
	99,252	79,357

Other net income

Other gains and losses increased to approximately RMB42 million (2019: RMB37 million) during the period under review. The major items of other net income are set out below:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Amortisation of government grants	29,104	28,206
Government grants (one-off)	511	2,343
Accounts payable written back	3,795	–
Gain on sales of scrap materials	5,249	5,892
Gain on disposals of property, plant and equipment	467	4,195
Net foreign exchange loss	(1,043)	(1,322)
Others	3,810	(2,279)
	<u>41,893</u>	<u>37,035</u>

Liquidity, financial resources and capital structure

The key financial performance indicators are summarised as follows:

		30 June	31 December
	Units	2020	2019
Debtors turnover	days	27	26
Creditors turnover	days	7	8
Inventories turnover	days	32	27
Current ratio	times	1.6	1.7
Quick ratio	times	1.0	1.2
Gearing ratio – borrowings to total assets	%	<u>4.0</u>	<u>3.4</u>

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.

As at 30 June 2020, borrowings of approximately RMB157 million and RMB28 million were denominated in Renminbi and Hong Kong Dollar (“HKD”) respectively. These bank borrowings were carried interest at fixed rates and with a maturity within one year. The bank borrowing denominated in HKD was secured by bank deposit provided by Merry Boom Group Limited (the controlling shareholder of the Company).

Human resources and remuneration policies

As at 30 June 2020, the Group had 2,321 (2019: 2,349) staff. Total staff costs, including directors' emoluments, for the six months ended 30 June 2020 were approximately RMB97 million (2019: RMB97 million). The Company's remuneration policy has remained unchanged since our 2019 Annual Report. As at 30 June 2020, 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 2019 Annual Report.

Pledge of assets

As at 30 June 2020, bills payables were secured by bank acceptance bills and bank deposits in the amount of RMB2,671,000 and RMB5,729,000 respectively.

The Group did not pledge any land use right and building to secure banking facilities as at 30 June 2020.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2020.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2020 (2019: 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 2020, 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. Tian Qixiang (the chairman of the Board) did not attend the 2020 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 2020 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 2020 Interim Report.

The Audit Committee has reviewed the Group's condensed consolidated financial statements for the six months ended 30 June 2020, including the accounting principles and practices adopted by the Group, in conjunction with the Company's external auditor.

INTERIM REPORT

The 2020 Interim Report will be published on the websites of The Stock Exchange of Hong Kong Limited and the Company (www.chinastarch.com.hk) by the end of September 2020.

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

Shouguang, The People's Republic of China, 26 August 2020

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

Executive Directors:

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

Independent non-executive Directors:

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