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 2018

Financial highlights:

	2018	2017	
	RMB'000	*RMB'000*	*Change*
Revenue	**5,073,489**	4,694,541	+8.1%
Gross profit	**443,164**	619,543	-28.5%
Operating profit	**271,232**	496,453	-45.4%
Profit for the year	**238,035**	394,061	-39.6%
Profit attributable to shareholders	**230,897**	388,167	-40.5%
Basic earnings per share (RMB)	**0.0385**	0.0647	-40.5%
Proposed final dividend per share (HK cents)	**1.20**	1.20	–

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 2018, together with the comparative figures for the year ended 31 December 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	3	**5,073,489**	4,694,541
Cost of sales		**(4,630,325)**	(4,074,998)
Gross profit		**443,164**	619,543
Distribution expenses		**(91,425)**	(96,664)
Administrative expenses		**(148,475)**	(132,294)
Other gains and losses	4	**67,968**	105,868
Operating profit		**271,232**	496,453
Finance income		**44,147**	32,424
Finance expenses		**(444)**	(290)
Profit before income tax	5	**314,935**	528,587
Income tax expenses	6	**(76,900)**	(134,526)
Profit and total comprehensive income for the year		**238,035**	394,061
Attributable to:			
Owners of the Company		**230,897**	388,167
Non-controlling interests		**7,138**	5,894
		238,035	394,061
Earnings per share attributable to owners of the Company			
Basic and diluted earnings per share (RMB)	7	**0.0385**	0.0647

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**1,781,270**	1,131,849
Right-of-use assets		**201,132**	–
Prepaid lease payments		**–**	205,587
Deposits for acquisition of right-of-use assets		**30,896**	–
Deposits for acquisition of property, plant and equipment		**119,621**	21,759
Deferred tax assets		**77,957**	48,527
Total non-current assets		**2,210,876**	1,407,722
Current assets			
Inventories		**409,822**	224,532
Trade and other receivables	*9*	**462,391**	409,692
Pledged bank deposits		**6,062**	3,000
Fixed deposits		**340,000**	390,000
Cash and cash equivalents		**782,904**	1,103,160
Total current assets		**2,001,179**	2,130,384
Total assets		**4,212,055**	3,538,106
EQUITY			
Equity attributable to owners of the Company			
Share capital		**532,656**	532,656
Other reserves		**401,491**	423,560
Retained earnings		**1,853,538**	1,659,287
		2,787,685	2,615,503
Non-controlling interests		**138,658**	131,520
Total equity		**2,926,343**	2,747,023

	Notes	**2018** **RMB'000**	2017 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowing		**–**	224
Deferred income		**342,142**	220,183
Deferred tax liabilities		**23,944**	9,838
Total non-current liabilities		**366,086**	230,245
Current liabilities			
Trade and other payables	*10*	**694,036**	287,205
Advances from customers		**113,294**	157,355
Income tax payable		**83,559**	88,302
Borrowing		**4,432**	4,208
Employee housing deposits		**23,768**	23,768
Lease liabilities		**537**	–
Total current liabilities		**919,626**	560,838
Total liabilities		**1,285,712**	791,083
Total equity and liabilities		**4,212,055**	3,538,106

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

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

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

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKAS 28	As part of Annual Improvements to HKFRSs 2014 – 2016 Cycle

The Group has elected to early adopt HKFRS 16 "Leases" in the current financial year.

The Group had to change its accounting policies and make certain retrospective adjustments following the early adoption of HKFRS 16. The other new standards and amendments listed above did not have any significant impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2. CHANGES IN ACCOUNTING POLICIES

The following summaries are the major changes of accounting policies adopted during the year. Details of these accounting policies are set out in the 2018 annual report.

Effect of HKFRS 9, Financial Instruments

HKFRS 9 replaced HKAS 39 "Financial Instruments, Recognition and Measurement".

The major changes of HKFRS 9 are the classification and its corresponding accounting treatment of each type of financial assets and liabilities. The following table shows the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets and liabilities as at 1 January 2018.

	Original classification under HKAS39	**New classification under HKFRS 9**
Assets:		
Trade receivables, bank acceptance bills and other receivables (excluding prepayments and other tax receivables)	Loans and receivables – measured at amortised cost using the effective interest method, with "incurred loss" impairment model	Amortised cost – measured by using the effective interest method, with "expected credit loss" (the "ECL") impairment model
Cash and cash equivalents, pledged bank deposits and fixed deposits		
Futures contracts	Fair value through profit or loss – a gain or loss from a change in fair value of a financial asset shall be recognised in profit or loss	Same as HKAS 39
Liabilities:		
Borrowing	Amortised cost	Same as HKAS 39
Trade and other payables (excluding other tax payables)		
Employee housing deposits		

Determining the ECL requires judgements, the Group applies the simplified approach to providing loss allowance at an amount equal to lifetime ECLs for its financial assets at initial recognition and through its life of the asset. It is measured to reflect an unbiased and probability-weighted amount of a range of possible outcomes, time value of money and certain information that is available without undue cost or effort at the reporting date.

Effect of HKFRS 15, Revenue from Contracts with Customers

HKFRS 15 replaces HKAS 18 "Revenue" which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction Contracts, which specified the accounting for construction contracts and related interpretations.

The Group has elected to use the modified retrospective approach with the effect of initially applying this standard recognised at the date of initial application. The adoption of HKFRS 15 does not have material impact on the accounting policies as compared with the existing one adopted under HKAS 18.

Details are explained below.

Key areas under HKFRS 15	**Particulars**
Sales of goods	Revenue from sale of upstream products and fermented and downstream products is recognised when goods are delivered to the customers, which is taken to be the point in time when the Group transfers control over the products to the customers.
Financing component	The Group does not expect to have any contract where the period between the transfer of goods to the customer and the payment by the customer exceeds one year. As a result, the Group does not adjust any of the transaction prices for the time value of money.

Effect of HKFRS 16, Leases

The Group has opted for the early adoption of HKFRS 16 in the current financial year.

HKFRS 16 introduces a single, on-balance sheet lease accounting model for leases. HKFRS 16 requires a lessee to recognise almost all leases on the statement of financial position which will reflect their "right-of-use" for a period of time and their associated liability for payments. There are recognition exemptions for short-term leases and leases of low-value items.

The Group applies the practical expedient to grandfather the definition of a lease on transition. This means that it will apply HKFRS 16 to contracts that were previously identified as leases under HKAS 17 "Leases" and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease".

The Group has transitioned to HKFRS 16 in accordance with the modified retrospective approach and, therefore, the information presented for 2017 has not been restated. The right-of-use asset for property lease was measured at the amount equal to the lease liability, adjusted by the amount of any prepayments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2017.

Depreciation on right-of-use assets and interest of lease liabilities are recognised in the profit or loss under HKFRS 16.

The reconciliation of operating lease commitment to lease liabilities is set out below:

	RMB'000
Operating lease commitment at 31 December 2017	1,117
Lease of short-term and low-value assets	(145)
Estimated dismantling cost	116
Gross lease liabilities at 1 January 2018	1,088
Discounting	(36)
Lease liabilities at 1 January 2018	1,052

The lease liabilities were discounted at an incremental borrowing rate at 1 January 2018.

Prepaid lease payment in respect of the land use right in the People's Republic of China (the "PRC") is currently reclassified and recognised as right-of-use assets under HKFRS 16.

Adjustment of Opening Balances

The adjustments of the opening balances (affected items only) below resulted from the initial application of HKFRS 16 as at 1 January 2018. The prior-year amounts were not adjusted.

	31 December 2017	**HKFRS 16 Reclassification**	**HKFRS 16 Contract capitalisation**	**1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets:				
Prepaid lease payment	205,587	(205,587)	–	–
Right-of-use assets	–	205,587	1,052	206,639
Liabilities:				
Lease liabilities	–	–	1,052	1,052

3. REVENUE AND SEGMENTS 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.

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

	Upstream products *RMB'000*	Fermented and downstream products *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
2017				
Sales to external customers	3,177,310	1,517,231	–	4,694,541
Inter-segment sales	185,285	2,341	–	187,626
Reportable segment results	278,433	389,454	–	667,887
Unallocated income				30,897
Unallocated expenses				(202,331)
Finance income				32,424
Finance expenses				(290)
Profit before income tax				528,587
Other segment information:				
Depreciation and amortisation	68,490	48,321	38,979	155,790

During the years ended 31 December 2018 and 2017, 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 PRC and other countries is RMB4,483,086,000 and RMB590,403,000 (2017: RMB4,234,310,000 and RMB460,231,000) respectively.

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

4. OTHER GAINS AND LOSSES

	2018	2017
	RMB'000	*RMB'000*
Amortisation of government grants	**49,191**	13,484
Government grants *(note)*	**4,868**	98,499
Gain on sale of scrap materials	**10,290**	6,143
Gain/(loss) on disposal of property, plant and equipment	**310**	(11,191)
Net foreign exchange loss	**(211)**	(1,374)
Net fair value loss on financial assets at fair value through profit or loss	**–**	(337)
Others	**3,520**	644
	67,968	105,868

Note:

For the year ended 31 December 2018, the government grants mainly represented a subsidy of approximately RMB4,510,000 from local government for supporting business development. For the year ended 31 December 2017, the government grants mainly represented subsidies of approximately RMB97,046,000 provided by the local government for the compensation of losses incurred during the relocation of the old production plant in Shouguang.

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

5. PROFIT BEFORE INCOME TAX

The major expenses of the Group are as follows:

	2018	2017
	RMB'000	*RMB'000*
Cost of inventories recognised as an expense	**4,409,845**	3,902,009
Employee benefits expense (including directors' emoluments)	**183,182**	167,320
Depreciation of property, plant and equipment	**151,659**	150,903
Depreciation of right-of-use assets	**5,507**	–
Amortisation of prepaid lease payments	**–**	4,887
Operating lease expenses in respect of short-term leases	**475**	–
Research and development expenses *(note)*	**27,050**	20,610
Minimum lease payments paid under operating lease in respect of premises	**–**	1,079
Auditor's remuneration	**715**	721

Note:

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

6. INCOME TAX EXPENSES

	2018	2017
	RMB'000	*RMB'000*
Current income tax		
– PRC Enterprises Income Tax ("EIT")	**94,499**	166,728
– Over-provision in prior years	**(2,505)**	(476)
– PRC withholding tax	**230**	594
Deferred tax	**(15,324)**	(32,320)
	76,900	134,526

The Group's major business is in the PRC. Under the law of the PRC on EIT and its Implementation Regulation, the tax rate of the PRC subsidiaries is 25% for both years. Except for one subsidiary of the Group is recognised as high technology enterprise is entitled to enjoy a preferential EIT rate of 15% (2017: 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.

7. EARNINGS PER SHARE

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

	2018	2017
Profit attributable to owners of the Company *(RMB'000)*	**230,897**	388,167
Weighted average number of ordinary shares in issue *(thousands)*	**5,995,892**	5,995,892

The basic and diluted earnings per share for the year ended 31 December 2018 and 2017 were the same because there was no dilutive potential ordinary share.

8. DIVIDENDS

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

	2018	2017
	RMB'000	*RMB'000*
2017 final dividend of HK1.20 cents per share (2016: HK0.75 cents)	**58,715**	39,340

Subsequent to 31 December 2018, the directors proposed a final dividend of HK1.20 cents (2017: HK1.20 cents) per share, amounting to HK$71,951,000 (2017: HK$71,951,000). The final dividend proposed after the end of the reporting period is subject to approval by shareholders in forthcoming general meeting and has not been recognised as a liability as at 31 December 2018.

9. TRADE AND OTHER RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**86,565**	135,346
Less: Loss allowance	**(9,698)**	(9,630)
	76,867	125,716
Bank acceptance bills	**246,316**	169,090
Prepayment to a non-controlling interest	**–**	44,600
Prepayments and other tax receivables	**137,868**	68,037
Others	**1,340**	2,249
	462,391	409,692

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:

	2018	2017
	RMB'000	*RMB'000*
At 1 January	**9,630**	9,630
Impairment loss recognised	**68**	–
At 31 December	**9,698**	9,630

The Group normally grants credit period ranging from 0 to 150 days (2017: 0 to 120 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:

	2018	2017
	RMB'000	*RMB'000*
0 – 30 days	**57,169**	111,761
31 – 60 days	**5,418**	6,992
61 – 90 days	**1,564**	6,597
Over 90 days	**12,716**	366
	76,867	125,716

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

	2018	2017
	RMB'000	RMB'000
Endorsed bills	**198,742**	117,631
Bills on hand	**47,574**	51,459
	246,316	169,090

The bank acceptance bills are normally with maturity period of 180 days (2017: 180 days). There is no recent history of default on bank acceptance bills.

As at 31 December 2018, bank acceptance bills of RMB4,338,000 (2017: RMB2,000,000) were pledged to banks for securing bills payables.

10. TRADE AND OTHER PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**116,319**	139,182
Bills payables	**10,394**	5,000
Total trade and bills payables	**126,713**	144,182
Payable for construction and equipment	**446,737**	46,705
Deposits	**46,940**	25,343
Accrued expenses	**21,643**	19,077
Payroll and welfare payables	**24,729**	17,590
Sales commission	**3,474**	2,757
Other tax payables	**18,548**	24,434
Others	**5,252**	7,117
	694,036	287,205

As at 31 December 2018, bills payables are secured by bank acceptance bills of RMB4,338,000 (2017: RMB2,000,000) and pledged bank deposits of RMB6,062,000 (2017: RMB3,000,000).

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

	2018	2017
	RMB'000	*RMB'000*
0 – 60 days	**88,106**	78,810
61 – 90 days	**12,536**	24,019
Over 90 days	**26,071**	41,353
	126,713	144,182

The average credit period on purchases is 80 days (2017: 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

GENERAL REVIEW AND OUTLOOK

INDUSTRY OVERVIEW AND COMPANY DEVELOPMENT

Overview

China's economic development encountered unprecedented challenges in 2018. Sino-US trade row continues to escalate, and the relations between the countries continue to run hot and cold. Growth in China's domestic demand has slowed down and the growth has been interrupted. The lack of consumer confidence has made "consumption downgrade" to become one of the trendy expressions in 2018. It is hard for Chinese enterprises to make investment decisions during such a difficult period.

The Group has been engaging in the manufacture and sale of cornstarch and other refined products for more than two decades. Despite the challenges facing by the industry, our management still has confident about the future of the industry. Our major product is cornstarch, which is a base material for other industries, thus the market demand is relatively stable comparing with other industries. On the other hand, we source most of our corn kernel, which is our raw material, from Shandong Province and its nearby provinces, thus is not directly affected by the import tariff measures. Although the earnings performance of cornstarch and other refinery industries in 2018 were worse than that of 2017, we are still in an industry-leading position in terms of profitability and energy consumption indicator.

As the government in the Northeast region ceased to subsidise corn refinery industries during the year under review, the market has returned to its normal development and competitive status. We expect that the market will slow down in 2019, combined with the substantial increase in production capacity for the cornstarch and other refinery industries, there will be another round of elimination and integration for the industries.

BUSINESS DEVELOPMENT

The production base of Shouguang Golden Corn Biotechnology Limited ("Golden Corn Biotech", a joint venture of the Company) was still under construction in 2018. Although the construction progress is slightly behind schedule, we are still targeting to commence operation by the end of 2019. Upon the completion, Golden Corn Biotech will engage in the production of cornstarch and lysine. If the market environment allows, we will explore markets for other new amino acid products.

In respect of our production capability, should Golden Corn Biotech has duly commenced production, the production capacity of cornstarch and lysine of the Group will be increased to 2,400,000 tonnes and 300,000 tonnes per annum respectively.

On the other hand, we continue to invest in upgrading our production equipment and bringing in more advanced automated machinery. We plan to upgrade the enterprise resources planning (ERP) system of the Group in 2019, with an aim to improve our analysis ability in sales, tender management, storage management and financial issues, thus enhancing our management efficiency. Fees on the system upgrade will be funded by internal resources of the Group.

With our strong financial position and our leading production level, we will have greater influence in the industry once we have finished upgrading our production capacity.

BUSINESS REVIEW

Upstream products

Upstream products represent cornstarch and ancillary corn-refined products, which have a variety of application potentials depending on our customers' industry sectors.

During the year under review, the overall demand of cornstarch was still stable. The market price movement between cornstarch and corn kernel was almost correlated in most time.

Soybean was one of the affected commodities in Sino-US trade war, and as a result, the supply and market price of soybean related products, such as soybean meal, were also affected. Corn germ and corn germ meal are one of the materials replaceable with soybean and soybean meal. Corn germ and soybean can be used for oil extraction. Corn germ meal and soybean meal, which are the remaining materials after oil extraction, can be further produced as animal feeds. The selling prices of corn germ meal and corn fibre in the market started to go up in the second half of the year and resulted in the improvement of profitability in this business segment.

Fermented and downstream products

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

China is the biggest lysine producer in the world. This position will likely remain the same in the following years. The production capacity of lysine could comfortably exceed the domestic demand. As there was abundant supply of lysine, the selling price of lysine was deeply suppressed during the year under review. In order to maintain a suitable inventory level and profitability of lysine products, the Group spent much effort to expand its sales appearance in overseas market.

The business and sales performance of other products, such as starch-based sweetener and modified starch, were better than the lysine products during the year under review. As there were abundant supply in the market, the selling prices could still be adjusted but at a lower speed than the costs.

FINANCIAL PERFORMANCE

Overview

During the year under review, the Group recorded a total revenue of approximately RMB5,073 million (2017: RMB4,695 million). Gross profit of the Group decreased significantly by 28.5% to approximately RMB443 million (2017: RMB620 million).

Profit after taxation decreased significantly to RMB238 million (2017: RMB394 million). Basic earnings per share of the Company was RMB0.0385 per share based on the weight average number of 5,995,892,000 ordinary shares (2017: RMB0.0647 per share based on the weight average number of 5,995,892,000 ordinary shares).

Segment performance

Upstream products

	2018	2017
	RMB'000	*RMB'000*
Revenue	**3,558,900**	3,177,310
Gross profit	**266,560**	254,970
Gross profit margin	**7.5%**	8.0%

Revenue of upstream products increased significantly by 12.0% to RMB3,558,900,000 (2017: RMB3,177,310,000). The gross profit margin of this business segment decreased by 0.5 percentage point to 7.5%. During the year under review, sales volume of cornstarch increased to approximately 1,153,848 tonnes (2017: 1,141,913 tonnes). As a result of the increase in corn kernel price, the selling price of cornstarch also increased. The average selling price of corn starch increased by 13.5% to RMB2,121 (2017: RMB1,868) per tonne.

Fermented and downstream products

	2018	2017
	RMB'000	*RMB'000*
Revenue		
– Lysine	**827,433**	941,098
– Starch-based sweetener	**322,743**	271,853
– Modified starch	**323,492**	275,627
– Others	**40,921**	28,653
Total	**1,514,589**	1,517,231
Gross profit	**176,604**	364,573
Gross profit margin	**11.7%**	24.0%

Although the revenue of fermented and downstream products segment decreased slightly to RMB1,514,589,000 (2017: RMB1,517,231,000), the gross profit of this business segment decreased significantly to RMB176,604,000 (2017: RMB364,573,000).

Both the sales volume and selling price of lysine products recorded a substantial decrease in 2018. The average selling price of lysine products decreased to RMB5,661 (2017: RMB5,977) per tonne, whilst the sales volume decreased to 146,153 tonnes (2017: 157,456 tonnes). Export sales of lysine products increased to approximately RMB247,230,000 (2017: RMB209,324,000).

Revenue of starch-based sweetener increased significantly by 18.7% to approximately RMB322,743,000 (2017: RMB271,853,000). The average selling price and sales volume of starch-based sweetener was about RMB2,105 (2017: RMB1,956) per tonne and 153,314 tonnes (2017: 138,975 tonnes) respectively.

Revenue of modified starch increased significantly by 17.4% to RMB323,492,000 (2017: RMB275,627,000). The percentage of export sales to total modified starch sales increased to about 33.3% (2017: 27.3%).

Other fermented and downstream products sales represented new generation and environmental-friendly products. The production scale and the size of domestic market were comparatively smaller than other businesses of the Group. Revenue of these product was approximately RMB40,921,000 (2017: RMB28,653,000).

Cost of sales and gross profit

The major cost components mainly consisted of corn kernel and utilities expenses, which represented about 81.3% and 8.3% (2017: 80.8% and 7.8%) of total cost of sales respectively. During the year under review, the cost of corn kernel, electricity and steam increased by about 9.6%, 35.1% and 13.8% respectively. As the selling price of our products were not adjusted in the same pace as the increase in these major costs, the gross profit of the Group decreased significantly during the year under review.

The 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

Other gains and losses

The other gains and losses decreased substantially to approximately RMB67,968,000 (2017: RMB105,868,000). The decrease was mainly attributable to the following factors:

(i) the Group did not receive any government subsidy (2017: RMB97 million) for the compensation of losses during the relocation of Shouguang production site;

(ii) the Group recognised the deferred income of approximately RMB49 million (2017: RMB13 million) which represented the government grants received from the local governments in previous years;

(iii) the Group recognised a gain of approximately RMB310,000 on disposal of properties, plants and equipment as compared with a loss of approximately RMB11 million in 2017; and

(iv) the Group recorded a gain of approximately RMB10 million (2017: RMB6 million) on sales of scrap materials.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Directors are of the opinion that the working capital available to the Group is sufficient for its present requirements. The Group's borrowing, cash and cash equivalents were mostly denominated in Renminbi. As at 31 December 2018, the borrowing was approximately RMB4,432,000 (2017: RMB4,432,000) and interest-free. In addition, the borrowing was with a maturity within one year.

The gearing ratio of the Group (being total borrowing divided by total assets) was 0.1% as at 31 December 2018.

PLEDGE OF ASSETS

As at 31 December 2018, bills payables were secured by bank acceptance bills of RMB4,338,000 and bank deposits of approximately RMB6,062,000. As at 31 December 2018, 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 2018.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting (the "AGM") will be held on 21 May 2019. The notice of AGM, which constitutes part of the circular to the shareholders of the Company, will be sent together with the 2018 annual report. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from 16 May 2019 to 21 May 2019 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the 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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on 15 May 2019.

FINAL DIVIDEND

The Board is pleased to recommend the payment of a final dividend of HK1.20 cents per share for the year ended 31 December 2018 ("2018 Final Dividend"), subject to the approval of the shareholders of the Company in the AGM. The proposed final divided is expected to be paid on or around 9 July 2019 to the shareholders whose name appear on the register of members on 6 June 2019. For determining the entitlement to 2018 Final Dividend, the register of members of the Company will be closed from 5 June 2019 to 6 June 2019 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the entitlement of 2018 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 4 June 2019.

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 2018 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 2018 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 2018 have been reviewed by the audit committee of the Board.

ANNUAL REPORT

The 2018 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) on or about 12 April 2019.

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

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