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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 2021

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 2021, together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 June	
		2021	2020
	Notes	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	3	5,699,494	3,850,007
Cost of sales		<u>(5,306,279)</u>	<u>(3,564,808)</u>
Gross profit		393,215	285,199
Distribution expenses		(91,532)	(93,469)
Administrative expenses		(120,541)	(99,252)
Other net income	4	<u>42,509</u>	<u>41,893</u>

		Six months ended 30 June	
		2021	2020
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Operating profit		223,651	134,371
Finance income		1,664	8,195
Finance expenses		(5,600)	(3,638)
		<hr/>	<hr/>
Profit before income tax	5	219,715	138,928
Income tax	6	(45,008)	(26,572)
		<hr/>	<hr/>
Profit and total comprehensive income for the period		174,707	112,356
		<hr/> <hr/>	<hr/> <hr/>
Attributable to:			
Owners of the Company		149,223	102,728
Non-controlling interests		25,484	9,628
		<hr/>	<hr/>
		174,707	112,356
		<hr/> <hr/>	<hr/> <hr/>
Basic and diluted earnings per share (RMB)	7	0.0249	0.0171
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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June	31 December
	2021	2020
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
ASSETS		
Non-current assets		
Property, plant and equipment	1,974,089	2,007,661
Right-of-use assets	452,690	429,830
Deposit for acquisition of property, plant and equipment	4,309	–
Investments in equities	1,940	1,940
Deferred tax assets	57,559	64,230
Total non-current assets	2,490,587	2,503,661
Current assets		
Inventories	1,199,090	811,107
Trade and other receivables	9 1,025,417	896,338
Security deposit for land auction	–	10,401
Pledged bank deposits	–	4,353
Cash and cash equivalents	176,243	341,632
Total current assets	2,400,750	2,063,831
Total assets	4,891,337	4,567,492

		30 June	31 December
		2021	2020
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
EQUITY			
Equity attributable to owners of the Company			
Share capital		532,500	532,500
Other reserves		379,221	379,221
Retained earnings		2,169,868	2,065,586
		3,081,589	2,977,307
Non-controlling interests		182,310	156,826
Total equity		3,263,899	3,134,133
LIABILITIES			
Non-current liabilities			
Deferred income		290,994	303,043
Deferred tax liabilities		64,539	58,311
Borrowings		3,000	–
Lease liabilities		165	497
Total non-current liabilities		358,698	361,851
Current liabilities			
Trade and other payables	<i>10</i>	508,424	547,742
Advances from customers		254,085	331,522
Borrowings		395,758	126,849
Dividend payable		44,941	–
Income tax payable		41,187	40,710
Employee housing deposits		23,741	23,741
Derivative financial instruments		–	341
Lease liabilities		604	603
Total current liabilities		1,268,740	1,071,508
Total liabilities		1,627,438	1,433,359
Total equity and liabilities		4,891,337	4,567,492

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 2021 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 Standards (“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 2020 (the “2020 Financial Statements”), except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements. The condensed consolidated interim financial statements should be read in conjunction with the 2020 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, as modified by the revaluation of certain financial assets and financial liabilities measured at fair value.

2. ADOPTION OF NEW/REVISED HKFRSs

In 2021, the Group has adopted the following amendments to HKFRSs which are pertinent to the Group’s operations and effective for accounting periods beginning on or after 1 January 2021:

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest rate benchmark reform – phase 2
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The adoption of these amendments does not have any impact to the results and financial position of the Group.

3. SEGMENT INFORMATION

	Six months ended 30 June 2021		
	Upstream	Fermented and downstream	Total
	products <i>RMB'000</i>	products <i>RMB'000</i>	
Sales to external customers	4,265,468	1,434,026	5,699,494
Inter-segment sales	<u>151,880</u>	<u>–</u>	<u>151,880</u>
Reportable segment results	238,945	141,953	380,898
Unallocated income			24,914
Unallocated expenses			(182,161)
Finance income			1,664
Finance expenses			<u>(5,600)</u>
Profit before income tax			<u><u>219,715</u></u>

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

4. OTHER NET INCOME

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Amortisation of government grants	31,949	29,104
Gain on sales of scrap material	8,520	5,249
Accounts payable written back	–	3,795
Gain on disposal of property, plant and equipment	59	467
Government grants (<i>note</i>)	2,164	511
Net foreign exchange loss	(1,123)	(1,043)
Others	940	3,810
	<u>42,509</u>	<u>41,893</u>

Note:

During the six months ended 30 June 2021, the government grants mainly represented subsidies from local governments for business development. During the six months ended 30 June 2020, the government grants mainly represented subsidies from local governments for supporting employment.

5. PROFIT BEFORE INCOME TAX

The major expenses of the Group are as follows:

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, wages and other benefits	109,981	96,991
Depreciation of property, plant and equipment	123,752	117,202
Depreciation of right-of-use assets	5,431	4,850
Delivery and logistics	79,985	81,827
Research and development expenses (<i>note</i>)	22,607	13,111
	<u>22,607</u>	<u>13,111</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 of the Group.

6. INCOME TAX

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
– PRC Enterprise Income Tax (“EIT”)	32,079	7,164
– Under/(over) –provision in prior years	30	(300)
Deferred tax	12,899	19,708
	45,008	26,572

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 2021 is based on earnings of RMB149,223,000 (2020: RMB102,728,000) and on the weighted average number of 5,994,132,000 ordinary shares (2020: 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 2021 and 2020.

8. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2021 (2020: nil).

On 18 May 2021, the shareholders of the Company approved to declare a final dividend of HK0.90 cents per share for 2020 (HK0.62 cents for 2019).

9. TRADE AND OTHER RECEIVABLES

	30 June 2021 RMB'000	31 December 2020 RMB'000
Trade receivables	214,077	210,032
<i>Less: Loss allowance</i>	<u>(13,845)</u>	<u>(13,845)</u>
	200,232	196,187
Bank acceptance bills	428,304	374,065
Prepayments and other tax receivables	357,597	313,541
Others	<u>39,284</u>	<u>12,545</u>
	<u>1,025,417</u>	<u>896,338</u>

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 150 days (2020: 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 2021 RMB'000	31 December 2020 RMB'000
0 – 30 days	151,292	153,344
31 – 60 days	37,709	32,072
61 – 90 days	5,911	6,248
Over 90 days	<u>5,320</u>	<u>4,523</u>
	<u>200,232</u>	<u>196,187</u>

(b) **Bank acceptance bills**

	30 June 2021 RMB'000	31 December 2020 RMB'000
Bills on hand	53,318	152,040
Endorsed bills	207,463	171,266
Discounted bills	167,523	50,759
	428,304	374,065

The bank acceptance bills are normally with maturity period of 180 days (31 December 2020: 180 days). There is no recent history of default on bank acceptance bills.

As at 30 June 2021, bank acceptance bills of RMB4,000,000 (31 December 2020: RMB4,256,000) were pledged to banks for securing bills payables.

10. TRADE AND OTHER PAYABLES

	30 June 2021 RMB'000	31 December 2020 RMB'000
Trade payables	244,587	180,991
Bills payables	4,000	8,574
Total trade and bills payables	248,587	189,565
Payable for construction and equipment	88,783	219,969
Accrued expenses	97,572	71,518
Payroll and welfare payables	30,206	26,949
Earnest money	25,412	15,429
Other tax payables	10,989	13,156
Sales commission	6,182	4,576
Others	693	6,580
	508,424	547,742

As at 30 June 2021, bills payables were secured by bank acceptance bills of RMB4,000,000 (note 9(b)). As at 31 December 2020, bills payables were secured by bank acceptance bills of RMB4,256,000 (note 9(b)) 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:

	30 June 2021 RMB'000	31 December 2020 RMB'000
0 – 60 days	105,774	123,630
61 – 90 days	22,796	31,355
Over 90 days	120,017	34,580
	<u>248,587</u>	<u>189,565</u>

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

The COVID-19 pandemic lasts for over one and half years and people are still waiting for a complete and effective curing solution. The Chinese government has strict epidemic control measures to help businesses return to normal, which is evidenced by the strong growth in Chinese economy as shown in the first half year's China General Manufacturing Purchasing Managers' Index.

The Chinese government stopped the provision of grains, including corn kernels, to the market from the nation's grain reserves last year. In the meantime, the pig farming industry was relieved from the swine flu. These positive factors helped boost the demand and price of corn kernels and lysine products. On one hand, due to the reduction of supply in raw materials, the price of agricultural products increased; on the other hand, given there was a strong market demand, the price of finished goods also increased. Notwithstanding the above, the Group adjusted all selling prices and successfully passed the increased corn kernel cost to our customers.

In addition, the resumption of business activities helped the commodity market in China. The Group benefited from the restoration of economic activities and recorded a substantial increase in sales volume, particularly lysine and starch-based sweetener, during the period under review.

The COVID-19 epidemic did not affect our business development. As we mentioned in the 2020 Annual Report, the Group acquired two connected land parcels in December 2020 and March 2021 respectively for the development of our new lactic acid and polylactic acid production facilities. Currently, the construction of these new production facilities is undergoing as planned. It is expected the new production facilities will trial-run in the fourth quarter of this year.

We have maintained full production capacity during the period under review. Our product demand was not affected or even recorded an increase during the epidemic. Economies of scales achieved upon the full operation of Shouguang Golden Corn Biotechnology Limited, an indirect non-wholly owned subsidiary of the Company, in March 2020. The increase in revenue was mainly attributed to the increase in sales volume and passing costs to our customers. The market demand for certain products, such as lysine and starch-based sweetener, was strong but in a short cycle. Therefore, our sales team had to monitor the market trend closely and adjust our sales plan accordingly. Our management team shows our excellent management skills from production, sales to working capital management.

Looking forward to the second half of 2021, the management team has a cautiously optimistic outlook. The industry enjoyed fruitful results from the second half of 2020 to the first half of 2021. However, the industry presently returns to an excessive supply dilemma and is facing keen competition. We will continue to monitor the market condition closely. Regarding fierce market fluctuations and competition, the Group has always maintained a stable operation and sustainable development strategy. As a leading market player in the cornstarch and its derivative industry, we have confidence in this business in the long run.

BUSINESS REVIEW

Upstream products

During the period under review, we recorded a substantial growth in production and sales volume of cornstarch and its related ancillary products. The Chinese government implemented strict control measures on COVID-19 and helped the recovery of business activities in different provinces. The reduction of supply of corn kernel by the nation's grain reserve and the strong market demand from the pig-farming industry supported the price of corn kernel and its derivative products. As a result, the Group adjusted the selling price of our products to reflect the increase in corn kernel costs.

Cornstarch market price was substantially higher than its substitute product, tapioca, during the period under review. This trend affected the product competition in overseas markets, of which cornstarch was mainly distributed in the domestic market. Corn gluten meal was benefited by strong demand in both overseas and international markets. The Group recorded a significant increase in export sales of corn gluten meal during the period under review.

Fermented and downstream products

The business performance of this business sector was positively affected by (i) the recovery of economic activities domestically, (ii) the strong demand for lysine products resulted from the pig-farming industry, and (iii) the restock of starch-based sweetener from food and beverage industries. The demand for these products is easily subject to market influence and required complicated skills to monitor and predict their market demand.

As a result of the above, the business performance of modified starch was stable and the business performance of biobased material was satisfactory during the period under review.

FINANCIAL PERFORMANCE

Overview

Revenue of the Group increased substantially by 48.0% to approximately RMB5,699,494,000 (2020: RMB3,850,007,000) during the period under review. Gross profit also increased substantially to approximately RMB393,215,000 from RMB285,199,000, however, gross profit margin reduced slightly by 0.5 percentage point to 6.9% (2020: 7.4%).

Profit before taxation increased substantially by 58.2% to approximately RMB219,715,000 (2020: RMB138,928,000). Profit after taxation increased substantially by 55.5% to approximately RMB174,707,000 (2020: RMB112,356,000). Basic earnings per share of the Company for the period ended 30 June 2021 was RMB0.0249 per share based on the weighted average number of 5,994,132,000 ordinary shares (2020: RMB0.0171 per share based on the weighted average number of 5,995,892,000 ordinary shares).

SEGMENT PERFORMANCE

Upstream products

	For the six months ended 30 June	
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Revenue	4,265,468	2,980,713
Gross profit	230,999	205,120
Gross profit margin	<u>5.4%</u>	<u>6.9%</u>

Revenue of this business segment increased significantly by 43.1% to approximately RMB4,265,468,000 (2020: RMB2,980,713,000). Sales volume of cornstarch increased substantially to 949,916 tonnes (2020: 910,863 tonnes). The average selling price of cornstarch increased substantially by 39.6% to about RMB3,029 (2020: RMB2,170) per tonne.

Fermented and downstream products

	For the six months ended 30 June	
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Revenue		
– Lysine	972,379	543,375
– Starch-based sweetener	251,770	159,586
– Modified starch	185,335	146,241
– Others	<u>24,542</u>	<u>20,092</u>
Total	<u>1,434,026</u>	<u>869,294</u>
Gross profit	162,216	80,079
Gross profit margin	<u>11.3%</u>	<u>9.2%</u>

Revenue of this business segment increased to approximately RMB1,434,026,000 (2020: RMB869,294,000).

Revenue of lysine products was approximately RMB972,379,000 (2020: RMB543,375,000). Benefited from the recovery of demand from the pig-farming industry, the Group recorded a substantial increase in both selling price and sales volume. The average selling price of lysine products increased substantially to approximately RMB6,762 (2020: RMB5,097) per tonne. Sales volume for lysine products was about 143,803 tonnes (2020: 106,606 tonnes).

Revenue of starch-based sweetener was approximately RMB251,770,000 (2020: RMB159,586,000). The average selling price and sales volume of starch-based sweetener for the period ended 30 June 2021 was approximately RMB2,821 per tonne and 89,233 tonnes (2020: RMB2,127 per tonne and 75,013 tonnes) respectively.

Revenue of modified starch increased by 26.7% to approximately RMB185,335,000 (2020: RMB146,241,000).

Revenue of other fermented and downstream products was approximately RMB24,542,000 (2020: RMB20,092,000).

Cost of sales

The cost of kernel increased significantly during the period under review. The average corn kernel cost increased by 41.9% to RMB2,613 per tonne (2020: RMB1,842 per tonne) (net of value added tax). Therefore, the major cost component was still corn kernel, which represented about 90.3% (2020: 86.1%) of the total cost of sales.

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

During the period under review, distribution expenses reduced slightly to approximately RMB91,532,000 from RMB93,469,000. Such decrease was mainly attributable to the decrease in domestic bulk cargo freight expenses.

	For the six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Distribution expenses:		
Delivery and logistic	79,985	81,827
Marketing expenses	6,906	7,212
Staff costs	3,367	2,951
Others	1,274	1,479
	<hr/>	<hr/>
	91,532	93,469
	<hr/> <hr/>	<hr/> <hr/>

During the period under review, administrative expenses increased significantly to approximately RMB120,541,000 from RMB99,252,000. The increase was mainly attributable to the increase in research and development projects.

**For the six months
ended 30 June**

2021 2020
RMB'000 *RMB'000*

Administrative expenses:

Staff costs	51,585	48,398
Research and development costs	22,607	13,111
Depreciation and amortisation	16,204	13,300
Government levies	11,774	11,221
Others	18,371	13,222
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	120,541	99,252
	<hr/> <hr/>	<hr/> <hr/>

Other net income

Other net income increased slightly to approximately RMB42,509,000 (2020: RMB41,893,000) during the period under review. The major items of other net income are set out below:

**For the six months
ended 30 June**

2021 2020
RMB'000 *RMB'000*

Amortisation of government grants	31,949	29,104
Gain on sales of scrap materials	8,520	5,249
Accounts payable written back	–	3,795
Government grants (one-off)	2,164	511
Gain on disposals of property, plant and equipment	59	467
Net foreign exchange loss	(1,123)	(1,043)
Others	940	3,810
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	42,509	41,893
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Liquidity, financial resources and capital structure

The key financial performance indicators are summarised as follows:

	Units	30 June 2021	31 December 2020
Debtors turnover	days	19	25
Creditors turnover	days	7	7
Inventories turnover	days	34	30
Current ratio	times	1.9	1.9
Quick ratio	times	0.9	1.2
Gearing ratio – borrowings to total assets	%	<u>8.2</u>	<u>2.8</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.

The borrowings of the Group are denominated in the following currencies:

	30 June 2021 <i>RMB'000</i>	31 December 2020 <i>RMB'000</i>
Short term borrowings, floating interest		
– Renminbi	395,758	100,759
– Hong Kong Dollar	–	26,090
	<u>395,758</u>	<u>126,849</u>
Long term borrowings, fixed interest		
– Renminbi	<u>3,000</u>	–

Human resources and remuneration policies

As at 30 June 2021, the Group had 2,327 (2020: 2,321) staff. Total staff costs, including directors' emoluments, for the six months ended 30 June 2021 were approximately RMB109,981,000 (2020: RMB96,991,000). The Company's remuneration policy has remained unchanged since our 2020 Annual Report. As at 30 June 2021, 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 2020 Annual Report.

Pledge of assets

As at 30 June 2021, bills payables were secured by bank acceptance bills of RMB4,000,000.

The Group did not pledge any land use rights and building to secure banking facilities as at 30 June 2021.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2021.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2021 (2020: 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 2021, 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 2021 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 2021 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 2021 Interim Report.

The Audit Committee has reviewed the Group's condensed consolidated financial statements for the six months ended 30 June 2021, including the accounting principles and practices adopted by the Group, in conjunction with the Company's external auditor.

INTERIM REPORT

The 2021 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 2021.

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

Shouguang, The People's Republic of China, 20 August 2021

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

Executive Directors:

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

Independent non-executive Directors:

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