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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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

Financial highlights:	2013	2012	Change
	RMB'000	RMB'000	
Turnover	3,422,033	3,301,498	3.7%
Gross profit	300,352	388,282	(22.6%)
Operating profit	141,361	258,796	(45.4%)
Profit for the year	124,161	221,921	(44.1%)
Profit attributable to shareholders	122,198	219,647	(44.4%)
Basic earnings per share (RMB)	0.0206	0.0377	(45.4%)
Proposed final dividend per share (HK cents)	0.67	0.67	–

The board (the “Board”) of directors (the “Directors”) of China Starch Holdings Limited (the “Company”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2013, together with the comparative figures for the year ended 31 December 2012.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

		2013	2012
	Note	RMB'000	RMB'000
Turnover	2	3,422,033	3,301,498
Cost of sales		<u>(3,121,681)</u>	<u>(2,913,216)</u>
Gross profit		300,352	388,282
Distribution expenses		(86,666)	(78,184)
Administrative expenses		(92,716)	(82,152)
Other income and gains, net	3	<u>20,391</u>	<u>30,850</u>
Operating profit		141,361	258,796
Finance income		29,356	32,563
Finance expenses		(7,881)	(318)
Share of result of an associate		<u>–</u>	<u>(2,465)</u>
Profit before taxation		162,836	288,576
Income tax expenses	4	<u>(38,675)</u>	<u>(66,655)</u>
Profit and total comprehensive income for the year		<u><u>124,161</u></u>	<u><u>221,921</u></u>
Attributable to:			
Owners of the Company		122,198	219,647
Non-controlling interests		<u>1,963</u>	<u>2,274</u>
		<u><u>124,161</u></u>	<u><u>221,921</u></u>
Basic and diluted earnings per share (RMB)	5	<u><u>0.0206</u></u>	<u><u>0.0377</u></u>
Dividends	6	<u><u>31,565</u></u>	<u><u>31,961</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	<i>Note</i>	2013 RMB'000	2012 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment		1,208,295	778,319
Prepaid lease payments		148,452	103,259
Deposits for acquisition of prepaid lease payments		60,945	80,000
Deposits for acquisition of property, plant and equipment		29,684	103,977
Deferred tax assets		1,091	1,254
		<u>1,448,467</u>	<u>1,066,809</u>
Current assets			
Prepaid lease payments		3,467	2,500
Inventories		384,881	182,506
Trade and other receivables	7	523,574	387,188
Income tax recoverable		–	1,043
Pledged bank deposits		10,000	2,500
Fixed deposits with maturity period over three months		480,000	340,000
Cash and cash equivalents		155,200	459,266
		<u>1,557,122</u>	<u>1,375,003</u>
Total assets		<u>3,005,589</u>	<u>2,441,812</u>
Equity			
Equity attributable to owners of the Company			
Share capital		532,357	523,670
Reserves		1,423,016	1,321,160
		1,955,373	1,844,830
Non-controlling interests		23,433	21,470
Total equity		<u>1,978,806</u>	<u>1,866,300</u>

	<i>Note</i>	2013 RMB'000	2012 RMB'000
Non-current liabilities			
Borrowings		3,768	4,654
Deferred income		37,845	26,630
		<u>41,613</u>	<u>31,284</u>
Current liabilities			
Trade and other payables	8	510,656	495,989
Income tax payable		21,314	19,495
Borrowings		426,921	2,437
Employee housing deposits		26,279	26,307
		<u>985,170</u>	<u>544,228</u>
Total liabilities		<u>1,026,783</u>	<u>575,512</u>
Total equity and liabilities		<u>3,005,589</u>	<u>2,441,812</u>
Net current assets		<u>571,952</u>	<u>830,775</u>
Total assets less current liabilities		<u>2,020,419</u>	<u>1,897,584</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants. The consolidated financial statements have been prepared under the historical cost convention.

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 standards, new interpretations and amendments to existing standards are mandatory for accounting periods beginning on or after 1 January 2013:

HKAS 1 (amendment)	Presentation of financial statements on other comprehensive income
HKAS 19 (amendment)	Employee benefits
HKAS 27 (revised 2011)	Separate financial statements
HKFRS 1 (amendment)	First time adoption — government loans
HKFRS 7 (amendment)	Financial instruments: disclosures — offsetting financial assets and financial liabilities
HKFRS 10	Consolidated financial statements
HKFRS 10, HKFRS 11 and HKFRS 12 (amendments)	Transition guidance
HKFRS 12	Disclosures of interests in other entities
HKFRS 13	Fair value measurements
HKFRSs	Annual improvements to HKFRS 2011

The adoption of these new standards, new interpretations and amendments to existing standards does not have material impact on the Group’s results and financial position nor any substantial changes to the Group’s accounting policies and presentation of the consolidated financial statements.

2. TURNOVER AND SEGMENTS INFORMATION

An analysis of the Group's turnover for the year is as follows:

	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Cornstarch and ancillary corn-refined products	2,395,323	2,435,829
Lysine and its related products	516,418	569,462
Starch-based sweetener	217,336	208,862
Modified starch	235,269	21,167
Electricity and steam	57,687	66,178
	<u>3,422,033</u>	<u>3,301,498</u>

The chief operating decision maker of the Group has been identified as the executive directors of the Company (the "Executive Directors"). The Executive Directors review the Group's internal report in order to assess performance of and allocate resources to the operating segments. Management has determined the operating segments based on these reports.

The Executive Directors consider the business segmentation from product perspective. Management assesses the performance of cornstarch, lysine, starch-based sweetener, modified starch and electricity and steam.

Cornstarch	—	the manufacture and sale of cornstarch and ancillary corn-refined products
Lysine	—	the manufacture and sale of lysine and its related products
Starch-based sweetener	—	the manufacture and sale of starch-based sweetener
Modified starch	—	the manufacture and sale of modified starch
Electricity and steam	—	the production and sale of electricity and steam

The Executive Directors assess the performance of the operating segments based on a measure of adjusted operating profit. This measurement basis excludes the effects of non-recurring expenditure from the operating segments, such as impairments when the impairment is the result of an isolated, non-recurring event.

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 comprehensive income.

2013	Cornstarch <i>RMB'000</i>	Lysine <i>RMB'000</i>	Starch-based sweetener <i>RMB'000</i>	Modified starch <i>RMB'000</i>	Electricity and steam <i>RMB'000</i>	Total <i>RMB'000</i>
Sales to external customers	2,395,323	516,418	217,336	235,269	57,687	3,422,033
Inter-segment sales	174,431	370	136	–	110,220	285,157
Reportable segment results	149,585	85,770	9,768	27,335	16,062	288,520
Unallocated income						13,330
Unallocated expenses						(160,489)
Finance income						29,356
Finance expenses						(7,881)
Profit before taxation						162,836
Other segment information: Depreciation and amortisation	<u>31,288</u>	<u>23,485</u>	<u>9,187</u>	<u>688</u>	<u>13,247</u>	<u>77,895</u>
2012	Cornstarch <i>RMB'000</i>	Lysine <i>RMB'000</i>	Starch-based sweetener <i>RMB'000</i>	Modified starch <i>RMB'000</i>	Electricity and steam <i>RMB'000</i>	Total <i>RMB'000</i>
Sales to external customers	2,435,829	569,462	208,862	21,167	66,178	3,301,498
Inter-segment sales	13,227	–	–	–	147,379	160,606
Reportable segment results	185,906	183,828	8,705	4,714	10,010	393,163
Unallocated income						30,073
Unallocated expenses						(164,440)
Finance income						32,563
Finance expenses						(318)
Share of result of an associate						(2,465)
Profit before taxation						288,576
Other segment information: Depreciation and amortisation	<u>20,906</u>	<u>20,305</u>	<u>5,827</u>	<u>54</u>	<u>15,916</u>	<u>63,008</u>

The revenue from external customers in the People's Republic of China (the "PRC") for the year ended 31 December 2013 is RMB2,992,667,000 (2012: RMB2,999,644,000), and the revenue from external customers from other countries is RMB429,366,000 (2012: RMB301,854,000).

Given the manufacturing processes of the Group's business are in a form of vertical integration, the chief operating decision maker considered segment assets and liabilities information was not relevant in assessing performance of and allocating resources to the operating segments. In the second half of 2013, such information was not reviewed by the chief operating decision maker. Accordingly, no segment assets and liabilities are presented.

3. OTHER INCOME AND GAINS, NET

	2013	2012
	RMB'000	RMB'000
Government grants (note)	4,734	4,152
Amortisation of steam connection income and government grants	3,742	3,205
Realised gain arising from injecting property, plant and equipment and land use right as capital to an associate	–	379
Gain on sales of scrap coal and oil	2,572	3,443
Gain on disposal of property, plant and equipment	238	214
Loss on re-measurement of previously held equity interest upon step acquisition of a subsidiary	–	(4,012)
Gain on a bargain purchase of a subsidiary	–	15,833
Others	9,105	7,636
	20,391	30,850

Note: For the year ended 31 December 2013, the government grants mainly represented the government subsidy or grant from local government in connection to the Group's business for, inter alia, the supply of steam to domestic households in winter and for supporting domestic business of the Group. The government grants were granted at the discretion of the government and were not recurring in nature.

4. INCOME TAX EXPENSES

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. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2013	2012
	RMB'000	RMB'000
PRC corporate income tax		
— Current year	39,772	68,367
— (Over)/under provision in prior years	(1,260)	161
Deferred taxation	163	(1,873)
	38,675	66,655

The tax expense for the year can be reconciled to the profit before taxation as follows:

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Profit before taxation	<u>162,836</u>	<u>288,576</u>
Tax at the corporate income tax rate at 25% (2012: 25%)	40,709	72,144
Tax effects of		
— An associate's result reported net of tax	–	616
— Different tax rate	422	(956)
— Expenses that are not deductible for tax purpose	1,640	1,883
— Income not subject to tax	(2,755)	(6,391)
— Utilisation of previously unrecognised tax losses	(476)	(802)
— Temporary difference not recognised	395	–
— Adjustments in respect of prior years	<u>(1,260)</u>	<u>161</u>
	<u>38,675</u>	<u>66,655</u>

As at 31 December 2013, deferred tax liabilities of RMB44,212,000 (2012: RMB39,056,000) have not been recognised in respect of the tax that would be payable on the distribution of the retained profits of the Company's PRC subsidiaries as the Company controls the dividend policy of these PRC subsidiaries and it is probable that such differences will not be reversed in the foreseeable future.

5. EARNINGS PER SHARE

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

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Earnings		
Earnings for the purpose of calculating basic earnings per share (Profit for the year attributable to owners of the Company)	<u>122,198</u>	<u>219,647</u>
	2013 <i>'000</i>	2012 <i>'000</i>
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>5,941,049</u>	<u>5,825,455</u>

No diluted earnings per share has been presented because no dilutive potential ordinary shares exist for both 2013 and 2012.

6. DIVIDENDS

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Proposed final dividend (<i>note (i) and (ii)</i>):		
HK0.67 cents (2012: HK0.67 cents) per ordinary share	<u>31,565</u>	<u>31,961</u>
Final dividend paid during the year:		
HK0.67 cents (2012: HK0.67 cents) per ordinary share	<u>31,496</u>	<u>31,582</u>

Note:

- (i) A final dividend of HK0.67 cents per share has been proposed by the Directors and is subject to approval by the shareholders at the forthcoming annual general meeting.
- (ii) The final dividend proposed after the end of the year has not been recognised as a liability as at the end of the reporting period.

7. TRADE AND OTHER RECEIVABLES

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Trade receivables	165,181	142,925
Bank acceptance bills	308,461	220,353
Other receivables and prepayments	<u>49,932</u>	<u>23,910</u>
	<u>523,574</u>	<u>387,188</u>

The Group normally grants credit period ranging from 0 to 120 days (2012: 0 to 60 days) to customers.

An ageing analysis of trade receivables at the end of the reporting period is shown as follows:

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
0 – 30 days	110,794	109,230
31 – 60 days	21,314	9,387
61 – 90 days	12,478	10,862
Over 90 days	<u>20,595</u>	<u>13,446</u>
	<u>165,181</u>	<u>142,925</u>

Before accepting any new customer, the Group assesses the creditability of each of the potential customer and defines their respective credit limits accordingly. Credit limit of each customer is reviewed monthly. Credit qualities of trade receivables neither past due nor impaired have been assessed with reference to historical information on the default rates, based on which no impairment provision is considered to be necessary.

Included in the Group's trade receivables balance are debtors with an aggregate carrying amount of RMB28,068,000 (2012: RMB33,695,000) which are past due but not impaired. These relate to a number of independent customers of whom there is no recent history of default.

Ageing analysis of trade receivables which are past due but not impaired is shown as follows:

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
1 – 30 days	15,143	9,387
31 – 60 days	2,817	10,862
61 – 90 days	1,928	5,036
Over 90 days	8,180	8,410
	<u>28,068</u>	<u>33,695</u>

Included in the other receivables and prepayments is an amount due from non-controlling interests of RMB11,833,000 (2012: RMB12,284,000). No impairment has been made to receivables from related companies.

Bank acceptance bills

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Endorsed bills	123,970	186,784
Bills on hand	140,458	33,569
Discounted bills	44,033	–
	<u>308,461</u>	<u>220,353</u>

The bank acceptance bills are normally with maturity period of 180 days (2012: 180 days). There is no recent history of default on bank acceptance bills. As at 31 December 2013, bank acceptance bills of RMB9,000,000 (2012: nil) and of RMB44,033,000 (2012: nil) were pledged to banks for securing bills payables and cash advances for discounted bills respectively.

As at 31 December 2013 and 2012, all other receivables aged between 0–30 days.

The carrying amounts of trade and other receivables are denominated in the following currencies:

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Renminbi	518,040	361,049
United States Dollars	5,037	26,042
Hong Kong Dollars	497	97
	<u>523,574</u>	<u>387,188</u>

8. TRADE AND OTHER PAYABLES

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Trade payables	89,784	83,162
Bills payables	9,000	2,500
	<u>98,784</u>	<u>85,662</u>
Total trade and bills payables	<u>98,784</u>	<u>85,662</u>
Advances from customers	63,430	106,555
Deposits	11,458	15,229
Sales commission	2,327	2,165
Other tax payables	16,129	26,285
Accrued expenses	13,540	7,190
Payroll and welfare payables	9,101	11,028
Payable for construction and equipment	292,403	209,980
Others	3,484	31,895
	<u>411,872</u>	<u>410,327</u>
	<u>510,656</u>	<u>495,989</u>

As at 31 December 2013, bills payables are secured by bank acceptance bills of RMB9,000,000 (note 7). As at 31 December 2012, bills payables were secured by pledged bank deposits of RMB2,500,000.

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

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
0 – 60 days	81,427	64,899
61 – 90 days	2,555	3,809
Over 90 days	14,802	16,954
	<u>98,784</u>	<u>85,662</u>

The average credit period on purchases is 80 days (2012: 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 the Group's trade and other payables are denominated in the following currencies:

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Renminbi	496,806	467,206
United States Dollars	13,041	27,231
Hong Kong Dollars	809	1,552
	<u>510,656</u>	<u>495,989</u>

MANAGEMENT DISCUSSION AND ANALYSIS

GENERAL REVIEW AND OUTLOOK

Review

The manufacturing sector in China has been affected by stagnant demand and manufacturing contraction. As the Group's operation is primarily located in China, our performance this year was inevitably affected by the poor economic atmosphere.

Our management team endeavored to maintain long-term profitability and growth, unfortunately under current economic environment, turnover of the Group increased slightly by 3.7% to approximately RMB3,422,033,000 (2012: RMB3,301,498,000), while gross profit of the Group decreased substantially by 22.6% to approximately RMB300,352,000 (2012: RMB388,282,000). During the year under review, the Group recorded a remarkable growth in term of sales volume, which was attributable to an increase in sales of lysine and the introduction of the new modified starch business segment. However, gross profit margin decreased even the cost of corn kernel remained relatively stable, as the overall selling price of our other products was substantially lower than that of the previous year, due to the stagnant market condition in China. Profit for the year also decreased significantly by 44.1% to approximately RMB124,161,000 (2012: RMB221,921,000).

Basic earnings per share of the Company was RMB0.0206 per share based on the weighted average number of 5,941,049,000 shares (2012: RMB0.0377 per share based on the weighted average number of 5,825,455,000 shares).

Future plan and prospect

Although there is a lot of uncertainty in the present Chinese economic environment, the Group, being one of the leading cornstarch manufacturers in China, is generally optimistic about the future. In order to enhance competitiveness, the Group's strategy is to maintain a high level of sales volume which enables the Group to enjoy the advantage of economies of scale and to support it to sell its core products at competitive cost for a period of time. As product price is being pushed down in the industry, this becomes a natural barrier for new entrants and an obstacle for expansion in this industry. With strong financial background, the Group considers this as an opportunity to consolidate our leading position during the recession.

The Group entered into two transfer contracts with the Shouguang Provincial Department of Land and Resources in November 2013 for the acquisition, at a total consideration of RMB47,340,000, of the land use right of two pieces of industrial land with a total site area of approximately 133,333 square metres (the "Lands"). The Lands are adjacent to each other and both situated next to the land which was acquired by the Group in October 2012 (the "Existing Land"). As disclosed in the announcement dated 31 October 2012, the Group may relocate the whole of its production plants and facilities at the existing Shouguang production complex to a new production site as may be granted by the Municipal Government of Shouguang to facilitate and in furtherance of the Group's expansion plan.

The Board plans to develop the Lands together with the Existing Land as the Group's new production site, which is expected to include production facilities with annual cornstarch, lysine and modified starch production capacities of approximately 450,000 tonnes, 55,000 tonnes and 100,000 tonnes respectively.

For the avoidance of doubt, the acquisition of the Lands did not constitute any notifiable transaction of the Company under Chapter 14 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as all the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) are less than 5%.

The Group is still negotiating with the Municipal Government of Shouguang for the possible grant of additional land use rights of land in Shouguang for the further development of the Group's new production site. It is expected that the expansion will be funded by the internal resources of the Group.

Apart from the expansion of the Shouguang production site, the Group has also launched a project to upgrade the cornstarch production facilities with annual production capacity to increase from 500,000 tonnes to 600,000 tonnes in the Linqing plant. During the process of facilities upgrade, the production of cornstarch and starch-based sweetener will be carried out as usual. It is expected that the project will be completed by the end of 2014.

BUSINESS REVIEW

Cornstarch and ancillary corn-refined products

	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	2,395,323	2,435,829
Gross profit	149,585	185,906
Gross profit margin	6.2%	7.6%

Turnover of cornstarch and ancillary corn-refined products decreased slightly by 1.7% to approximately RMB2,395,323,000 (2012: RMB2,435,829,000). This business segment represented about 70.0% (2012: 73.8%) of total turnover of the Group for year under review.

As the cornstarch domestic market was sluggish in 2013, both the sales volume and selling price were lower than those of the previous year. The average selling price of cornstarch was approximately RMB2,494 per tonne (2012: RMB2,624 per tonne), decreased by 5%. Cost of corn kernel was stable over these two years, which was approximately RMB2,028 per tonne (2012: RMB2,042 per tonne).

The Board regards that the global economic environment has slowed down the pace of recovery in China, hence the domestic demand of cornstarch will take a longer period of time to resume than it originally expected at the beginning of the year. In the foreseeable future, the selling price of cornstarch is expected to be maintained at the current level with a minimal

operating profit margin. To take a positive view on the challenge to the cornstarch industry in China, it is an opportunity for the Group to consolidate the market position and increase our future profitability by leveraging up operation efficiency. We have confidence in the cornstarch industry because cornstarch is of a wide application with low substitutability, and is non-reusable. It is part of modern prosperous life.

The decrease in gross profit margin of this business segment was mainly attributable to the reduction of selling price of cornstarch.

Lysine and fertilisers

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Turnover	516,418	569,462
Gross profit	85,770	183,828
Gross profit margin	16.6%	32.3%

Turnover of lysine and fertilisers decreased by 9.3% to approximately RMB516,418,000 (2012: RMB569,462,000). This business segment represented about 15.1% (2012: 17.2%) of total turnover of the Group for year under review.

Given the domestic demand of lysine products was deeply affected by the new bird flu strain in China throughout the year, our marketing team concentrated on putting more effort in developing overseas markets. During the year under review, the sales volume of lysine increased significantly by 26.1% to approximately 71,182 tonnes (2012: 56,461 tonnes). The average selling price of lysine, however, decreased significantly by 27.9% to RMB7,219 per tonne (2012: RMB10,006 per tonne), which outweighed the benefit of the increase in sales volume. The percentage of export sales of lysine products represented about 32.4% (2012: 19.8%) of turnover in this segment.

The decrease in gross profit margin in this segment was mainly due to the decrease in selling price of lysine products resulted from the slackening domestic demand and keen competition in export sales.

Starch-based sweetener

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Turnover	217,336	208,862
Gross profit	7,691	8,706
Gross profit margin	3.5%	4.2%

Turnover of starch-based sweetener increased slightly by 4.1% to approximately RMB217,336,000 (2012: RMB208,862,000). This business segment represented about 6.4% (2012: 6.3%) of total turnover of the Group for year under review.

During the year under review, the operation of the Linqing plant, which is the production plant of starch-based sweetener, was temporarily suspended in April and May due to the regular repair and maintenance work in, as well as the accidental failures in the supplies of steam and electricity to the Linqing plant. The operation of Linqing plant was resumed and returned to its normal production capacity subsequently.

The average selling price and sales volume of starch-based sweetener were approximately RMB2,336 per tonne (2012: RMB2,426 per tonne) and 93,055 tonnes (2012: 86,801 tonnes) respectively. The increase in turnover and sales volume of starch-based sweetener was mainly attributable to the increase in ability of changing product mix of starch-based sweetener during the year under review.

Modified starch

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Turnover	235,269	21,167
Gross profit	46,269	4,607
Gross profit margin	19.7%	21.8%

During the year under review, the Group's turnover was benefited from the acquisition of the modified starch business, through the acquisition of Golden Far East Modified Starch Co., Ltd ("Golden Far East"), completion of which took place in November 2012. Turnover of modified starch was approximately RMB235,269,000 (2012: RMB21,167,000), which represented about 6.8% (2012: 0.7%) of total turnover of the Group. In addition, most of the customers of modified starch were originated from overseas. This acquisition of Golden Far East provided an opportunity for the Group to consolidate the sales team and distribution network.

Electricity and steam

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Turnover	57,687	66,178
Gross profit	11,037	5,235
Gross profit margin	19.1%	7.9%

Turnover of electricity and steam decreased by 12.8% to approximately RMB57,687,000 (2012: RMB66,178,000). This business segment represented about 1.7% (2012: 2.0%) of total turnover of the Group for year under review.

The operation of this business segment was affected by a combination of the following factors during the year under review:

- (i) Turnover contributed by Golden Far East was eliminated in the Group's consolidated accounts subsequent to the completion of the acquisition of Golden Far East at the end of November 2012.
- (ii) Turnover of electricity increased due to the reconnection of power supply to the Shouguang local electricity union network since August 2013.
- (iii) The industrial demand of steam decreased significantly in the area around the existing Shouguang production site.

The increase in gross profit margin in this business segment was mainly due to the decrease in coal price during the year under review.

REVIEW OF OTHER OPERATIONS

Other income and gains

Other income and gains mainly represented government grants, sales of scrap materials and steam connection income. Other income and gains decreased substantially during the year under review because the Group recognised a one-off gain on bargain purchase and loss on re-measurement of previously held equity interest upon the acquisition of Golden Far East in 2012.

Distribution and administrative expenses

During the year under review, the increase in distribution and administration expenses was mainly due to the full year expenditure effect subsequent to the completion of the acquisition of Golden Far East in November 2012.

Besides, the increase in distribution expenses was attributable to the increase in marketing expenses and wages and its related expenses. In the meantime, the increase in administrative expenses was attributable to the increase in staff costs, research and development expenses, depreciation and exchange difference.

Income tax

Income tax expenses was approximately RMB38,675,000 (2012: RMB66,655,000) and the Group's effective tax rate was 23.8% (2012: 23.1%) for the year under review.

We were not liable for income tax in Hong Kong as we did not have any assessable income arising in/derived from Hong Kong.

Human resources and remuneration policies

As at 31 December 2013, the Group had approximately 2,284 full time staff (2012: 2,407). Total staff costs, including Directors' emoluments, of the Group were approximately RMB119,616,000 (2012: RMB96,641,000). The Group considers the experience, responsibility, and performance of the Directors and employees of the Group in order to determine their respective remuneration packages. The Company has also adopted a share option scheme (the "Share Option Scheme") with a primary purpose of motivating our employees and other eligible persons entitled under the Share Option Scheme to optimise their contributions to the Group and to reward them for their contribution to the Group. In addition, a remuneration committee is delegated by the Board to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management.

As at 31 December 2013, no share options have been granted under the Share Option Scheme.

FINANCIAL REVIEW

Financial management and treasury policy

The Group adopts a conservative approach for cash management and investment on uncommitted funds. Any unused fund is intended to place on short term/fixed deposits with authorised financial institutions in Hong Kong and/or the PRC.

Foreign currency exposure

The Directors do not consider the exposure to foreign exchange risk is significant to the Group's operation as the Group operated mainly in the PRC and most of the Group's transactions, assets and liabilities were denominated in Renminbi. Foreign currencies were however received from export sales and bank loan. Such proceeds were subject to foreign exchange risk before converting into Renminbi. The foreign currencies received from export sales were converted into Renminbi upon receipt from overseas customers. The Group manages foreign exchange risk by monitoring the exchange rates closely instead of entering into any foreign exchange hedging arrangement.

Liquidity, financial resources and capital structure

As at 31 December 2013, the available and unutilised banking facilities of the Group amounted to approximately RMB1,290 million and RMB866 million respectively. The Directors are of the opinion that the working capital available to the Group is sufficient to meet its present requirements. The major financial figures and key financial ratios are summarised as follows:

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Cash advances for discounted bills, secured	44,033	–
Bank loan, secured	60,000	–
Bank loan, unsecured	319,565	–
Government loan, interest-free and unsecured	7,091	7,091
	430,689	7,091
Carrying amount payables:		
Within 1 year	426,921	2,437
1 to 2 years	886	886
2 to 5 years	2,659	2,659
Over 5 years	223	1,109
	430,689	7,091
Debtors turnover (days)	45	35
Creditors turnover (days)	11	10
Inventories turnover (days)	33	24
Current ratio	1.6	2.5
Quick ratio	1.2	2.2
Gearing ratio — borrowings to total assets	14.3%	0.3%

The bank loans carried interest at fixed rates ranging from 5.3% to 6.3% per annum, of which the bank loans amounting to approximately RMB79,565,000 were denominated in United States dollar. The cash advances for discounted bills and bank loan were secured by bank acceptance bills and pledged bank deposits in the amount of approximately RMB44,033,000 and RMB10,000,000 respectively.

Pledge of assets and contingent liabilities

As at 31 December 2013, bills payables were secured by bank acceptance bills in the amount of RMB9,000,000. Save as disclosed above, the Group did not pledge any leasehold land and building to secure banking facilities and did not have any material contingent liabilities as at 31 December 2013.

ANNUAL GENERAL MEETING

The annual general meeting (the “AGM”) will be held on 20 May 2014 (Tuesday). The notice of AGM, which constitutes part of the circular to the shareholders of the Company, will be sent together with the 2013 annual report.

FINAL DIVIDEND

The Board is pleased to recommend the payment of a final dividend of HK0.67 cents per share (2012: HK0.67 cents per share) for the year ended 31 December 2013, subject to the approval of the shareholders of the Company in the AGM. The shareholders of the Company will be given an option to elect to receive wholly or partly an allotment and issue of shares of the Company credited as fully paid in lieu of cash in respect of the proposed final dividend.

CHANGE OF ADDRESS OF THE HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

With effect from 31 March 2014, the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited (the “Branch Share Registrar”), will change its address from 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong to Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong. All telephone and facsimile numbers of the Branch Share Registrar will remain unchanged.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining shareholders’ eligibility to attend and vote at the AGM, and entitlement to the final dividend, the register of members will be closed. Details of such closures are set out below:

(i) For determining eligibility to attend and vote at the AGM:

Latest time to lodge transfer documents for registration:	By no later than 4:30 p.m. on 15 May 2014 (Thursday)
Closure of register of members:	16 May 2014 (Friday) to 20 May 2014 (Tuesday) (both days inclusive)
Record date:	20 May 2014 (Tuesday)

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration:	By no later than 4:30 p.m. on 23 May 2014 (Friday)
Closure of register of members:	26 May 2014 (Monday) to 27 May 2014 (Tuesday) (both days inclusive)
Record date:	27 May 2014 (Tuesday)

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the AGM, and to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Branch Share Registrar at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong (which will be relocated to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014) for registration no later than the aforementioned latest time.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2013, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules during the year under review and has 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 2013 annual general meeting of the Company because of his other business engagement.

During the year under review, the Company has the following major developments in corporate governance which are necessary to bring the Company to comply with the code provisions:

In August 2013, the Company adopted the Board Diversity Policy. The purpose of the Board Diversity Policy aims to set out the approach to achieve diversity of the Board.

In September 2013, the Company arranged an insurance cover in respect of legal action against the directors and officers of the Company and its subsidiaries.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own code of conduct governing securities transactions by the Directors of the Company (the "Securities Dealing Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules. The Securities Dealing Code applies to all Directors and to all employees to whom it is given and who are informed that they are subject to its code provisions. Having made specific enquiry by the Company, all Directors confirmed that they have complied with the required standard set out in the Securities Dealing Code throughout the year under review.

AUDIT COMMITTEE

The audit committee of the Board comprises all independent non-executive Directors. The audit committee has reviewed and discussed with the management and the external auditor, PricewaterhouseCoopers, regarding the consolidated financial statements of the Group for the year ended 31 December 2013.

ANNUAL REPORT

The 2013 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 10 April 2014 (Thursday).

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

Shouguang, the People's Republic of China, 21 March 2014

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:

Mr. Yue Kwai Wa, Ken
Mr. Chen Zhijun
Mr. Sun Mingdao