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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)

PRELIMINARY ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

Financial highlights:	2014	2013	Change
	RMB'000	RMB'000	
Revenue	4,169,785	3,422,033	21.9%
Gross profit	363,519	300,352	21.0%
Operating profit	67,969	141,361	(51.9%)
Profit for the year	66,345	124,161	(46.6%)
Profit attributable to shareholders	62,725	122,198	(48.7%)
Basic earnings per share (RMB)	0.0105	0.0206	(49.0%)
Proposed final dividend per share (HK cents)	0.69	0.67	3.0%

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 2014, together with the comparative figures for the year ended 31 December 2013.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

		2014	2013
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	2	4,169,785	3,422,033
Cost of sales		(3,806,266)	(3,121,681)
Gross profit		363,519	300,352
Distribution expenses		(110,953)	(86,666)
Administrative expenses		(117,164)	(92,716)
Other income and gains, net	3	19,004	20,391
Provision for impairment losses of property, plant and equipment	8	(86,437)	–
Operating profit		67,969	141,361
Finance income		38,184	29,356
Finance expenses		(22,196)	(7,881)
Profit before taxation	4	83,957	162,836
Income tax expenses	5	(17,612)	(38,675)
Profit and total comprehensive income for the year		66,345	124,161
Attributable to:			
Owners of the Company		62,725	122,198
Non-controlling interests		3,620	1,963
		66,345	124,161
Basic and diluted earnings per share (RMB)	6	0.0105	0.0206

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	<i>Note</i>	2014 RMB'000	2013 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment		1,263,365	1,208,295
Prepaid lease payments		215,253	148,452
Deposits for acquisition of prepaid lease payments		20,830	60,945
Deposits for acquisition of property, plant and equipment		39,779	29,684
Deferred tax assets		22,537	1,091
		<u>1,561,764</u>	<u>1,448,467</u>
Current assets			
Prepaid lease payments		4,917	3,467
Inventories		276,679	384,881
Trade and other receivables	9	381,268	523,574
Pledged bank deposits		6,000	10,000
Fixed deposits with maturity period over three months		430,000	480,000
Cash and cash equivalents		184,568	155,200
		<u>1,283,432</u>	<u>1,557,122</u>
Total assets		<u>2,845,196</u>	<u>3,005,589</u>
Equity			
Equity attributable to owners of the Company			
Share capital		532,656	532,357
Reserves		1,454,128	1,423,016
		<u>1,986,784</u>	<u>1,955,373</u>
Non-controlling interests		27,053	23,433
Total equity		<u>2,013,837</u>	<u>1,978,806</u>

	<i>Note</i>	2014 RMB'000	2013 <i>RMB'000</i>
Non-current liabilities			
Borrowings		2,882	3,768
Deferred income		34,067	37,845
		36,949	41,613
Current liabilities			
Trade and other payables	<i>10</i>	465,609	510,656
Income tax payable		20,972	21,314
Borrowings		281,550	426,921
Employee housing deposits		26,279	26,279
		794,410	985,170
Total liabilities		831,359	1,026,783
Total equity and liabilities		2,845,196	3,005,589
Net current assets		489,022	571,952
Total assets less current liabilities		2,050,786	2,020,419

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 Group has adopted HKAS 36 (amendment), “Impairment of assets on the recoverable amount disclosures” for non-financial assets. This amendment removed certain disclosures of the recoverable amount of cash generating units which had been included in HKAS 36 by the issue of HKFRS 13.

The adoption of HKAS 36 (amendment) to 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.

Other new standards, new interpretations and amendments for existing standards which are effective for the financial year beginning on 1 January 2014 have no material impact to the Group.

In addition, the requirements of Part 9 “Accounts and Audit” of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company’s first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

2. REVENUE AND SEGMENT INFORMATION

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

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Cornstarch and ancillary corn-refined products	2,971,862	2,395,323
Lysine and its related products	671,206	516,418
Starch-based sweetener	253,025	217,336
Modified starch	218,123	235,269
Electricity and steam	55,569	57,687
	<u>4,169,785</u>	<u>3,422,033</u>

The Executive Directors, being the chief operating decision maker of the Group, consider the business segmentation from product perspective. The Executive Directors assess the performance of operating segments based on a measure of adjusted operating profit. The Group's operating segments are as follows:

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

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.

	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>
2014						
Sales to external customers	2,971,862	671,206	253,025	218,123	55,569	4,169,785
Inter-segment sales	147,149	11,601	–	–	47,582	206,332
Reportable segment results	232,542	27,682	21,194	18,617	(21,987)	278,048
Unallocated income						15,723
Unallocated expenses (<i>note</i>)						(225,802)
Finance income						38,184
Finance expenses						(22,196)
Profit before taxation						83,957
Other segment information:						
Depreciation and amortisation	42,995	31,970	9,228	2,113	13,544	99,850
Provision for impairment losses of property, plant and equipment	20,306	15,605	–	4,907	28,053	68,871
2013						
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 (<i>note</i>)						(160,489)
Finance income						29,356
Finance expenses						(7,881)
Profit before taxation						162,836
Other segment information:						
Depreciation and amortisation	31,288	23,485	9,187	688	13,247	77,895

Note: The unallocated expenses for the year ended 31 December 2014 include unallocated provision for impairment losses of property, plant and equipment of RMB17,566,000 (2013: nil) and unallocated depreciation and amortisation charges of RMB21,444,000 (2013: RMB16,213,000).

The revenue from external customers in the People's Republic of China (the "PRC") for the year ended 31 December 2014 is RMB3,609,279,000 (2013: RMB2,992,667,000), and the revenue from external customers from other countries is RMB560,506,000 (2013: RMB429,366,000).

3. OTHER INCOME AND GAINS, NET

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Government grants (<i>note</i>)	8,102	4,734
Amortisation of steam connection income and government grants	3,778	3,742
Gain on sales of scrap materials	4,324	2,572
(Losses)/gains on disposals of property, plant and equipment	(6,142)	238
Others	8,942	9,105
	<u>19,004</u>	<u>20,391</u>

Note: For the year ended 31 December 2014, the government grants mainly represented the government subsidy from local government for, inter alia, supporting the application of energy-saving technology and domestic business of the Group. The government grants were granted at the discretion of the government and were not recurring in nature.

4 PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging/(crediting) the following items:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Depreciation of property, plant and equipment	117,474	91,485
Amortisation of prepaid lease payments	3,820	2,623
Total depreciation and amortisation	<u>121,294</u>	<u>94,108</u>
Provision for impairment losses of property, plant and equipment	86,437	–
Losses/(gains) on disposals of property, plant and equipment	6,142	(238)
Net foreign exchange (gains)/losses	(69)	4,258
Cost of inventories recognised as expenses	3,751,919	2,914,034
Operating lease payments	659	567
Employee benefits expense (including directors' emoluments)	130,225	119,616
Research and development expenses (<i>note</i>)	10,215	6,927
Auditor's remuneration		
— Audit services	1,162	1,080
— Non-audit services	38	24

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.

5. INCOME TAX EXPENSES

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
PRC Enterprise Income Tax (“EIT”)		
— Current year	42,821	39,772
— Over-provision in prior years	(3,763)	(1,260)
Deferred income tax	(21,446)	163
	<u>17,612</u>	<u>38,675</u>

The Group’s major business is in the PRC. Under the law of the PRC on EIT and its Implementation Regulation, the tax rate of the PRC subsidiaries is 25% for both years.

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.

6. EARNINGS PER SHARE

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

	2014 <i>RMB'000</i>	2013 <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>62,725</u>	<u>122,198</u>
	2014 '000	2013 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>5,994,109</u>	<u>5,941,049</u>

No diluted earnings per share has been presented because no dilutive potential ordinary shares exist for both 2014 and 2013.

7. DIVIDENDS

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Proposed final dividend of HK0.69 cents (2013: HK0.67 cents) per share	<u>32,638</u>	<u>31,565</u>
Final dividend in respect of year ended 31 December 2013, approved and paid during the year, of HK0.67 cents (2012: HK0.67 cents) per share	<u>31,882</u>	<u>31,496</u>

A final dividend of HK0.69 cents per share has been proposed by the Directors and is subject to approval by the shareholders at the forthcoming annual general meeting. 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.

8. PROVISION FOR IMPAIRMENT LOSSES OF PROPERTY, PLANT AND EQUIPMENT

Due to the cessation of manufacturing operations of the previous production base located in Shouguang and relocation of the production to the new production base during the second half of 2014, the management carried out an impairment review on the manufacturing plant, machinery and other equipment remained in the previous production base. The recoverable amounts of these assets are determined as (i) their fair value less cost of disposal or (ii) their value in use, whichever is higher. These assets include manufacturing plant, machinery and other equipment that are unmovable (amounted to RMB68,872,000 as to manufacturing assets and RMB17,565,000 as to non-manufacturing assets respectively). Considering (i) the physical condition of these unmovable machinery and other equipment and (ii) the fact that the land on which the manufacturing plant is situated is not going to be used for industrial purpose, according to the future development plan of the region in which the previous production base was located, the management considered the fair value less cost of disposal of these assets immaterial and made a full provision of RMB86,437,000.

9. TRADE AND OTHER RECEIVABLES

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Trade receivables	147,116	165,181
Bank acceptance bills	185,503	308,461
Other receivables and prepayments	48,649	49,932
	<u>381,268</u>	<u>523,574</u>

The Group normally grants credit period ranging from 0 to 120 days (2013: 0 to 120 days) to customers.

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

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
0–30 days	102,828	110,794
31–60 days	21,621	21,314
61–90 days	6,711	12,478
Over 90 days	15,956	20,595
	<u>147,116</u>	<u>165,181</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 RMB25,992,000 (2013: RMB28,068,000) 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:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
1–30 days	13,916	15,143
31–60 days	2,229	2,817
61–90 days	1,560	1,928
Over 90 days	8,287	8,180
	25,992	28,068
	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Endorsed bills	131,055	123,970
Bills on hand	54,448	140,458
Discounted bills	–	44,033
	185,503	308,461

The bank acceptance bills are normally with maturity period of 180 days (2013: 180 days). There is no recent history of default on bank acceptance bills.

As at 31 December 2014, bank acceptance bills of RMB4,692,000 were pledged to banks for securing bills payables. As at 31 December 2013, bank acceptance bills of RMB9,000,000 and RMB44,033,000 were pledged to banks for securing bills payables and cash advances for discounted bills respectively.

As at 31 December 2014 and 2013, all other receivables aged between 0–30 days.

10. TRADE AND OTHER PAYABLES

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Trade payables	113,801	89,784
Bills payables	10,692	9,000
	<hr/>	<hr/>
Total trade and bills payables	124,493	98,784
	<hr/>	<hr/>
Advances from customers	51,813	63,430
Deposits	11,742	11,458
Sales commission	2,358	2,327
Other tax payables	22,676	16,129
Accrued expenses	13,170	13,540
Payroll and welfare payables	6,709	9,101
Payable for construction and equipment	230,328	292,403
Others	2,320	3,484
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	341,116	411,872
	<hr/>	<hr/>
	465,609	510,656
	<hr/> <hr/>	<hr/> <hr/>

As at 31 December 2014, bills payables are secured by bank acceptance bills of RMB4,692,000 (2013: RMB9,000,000) (note 9) and pledged bank deposits of RMB6,000,000 (2013: nil).

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

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
0–60 days	77,520	81,427
61–90 days	22,963	2,555
Over 90 days	24,010	14,802
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	124,493	98,784
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The average credit period on purchases is 80 days (2013: 80 days). The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

MANAGEMENT DISCUSSION AND ANALYSIS

GENERAL REVIEW AND OUTLOOK

Review

The Chinese Government sets a gross domestic product (“GDP”) growth target at around 7% for 2015, which is the lowest growth rate in two decades in China and becomes a “new normal” under the economic reforms. A year ago, the GDP growth target was set at 7.5% and turned out to be 7.4%. Under this “new normal” economic situation, the growth is expected to be achieved with certain market correction policies implemented by the Chinese Government in order to sustain a healthier economic development in the future. As it is a sharp decline from last year’s GDP target, it is not difficult to imagine that the adjustment period of Chinese economy would take a slower pace than expected. The current slowdown accelerates industry consolidation, fades out inefficient market players and offers more opportunities of the reallocation of resources amongst the industry.

The Group is a witness of the consolidation of Chinese corn-refinery industry. During the year under review, many market players have quitted the industry due to several negative impacts caused by the economic recession, such as losing competitiveness, continuous operating losses and serious financial difficulties. As a result, only resilient market players can survive in this long haul economic recession.

This year is full of challenges. As the Group’s business is mainly carried out in the People’s Republic of China (the “PRC”), the profitability of the Group was inevitably affected by the economic slowdown. With the effort of our management team, the Group’s revenue had benefited from the increase in sales volume, but the profitability had decreased to a lower rate as compared with that in last year.

During the year under review, revenue recorded a remarkable growth of 21.9% to approximately RMB4,169,785,000 (2013: RMB3,422,033,000). Gross profit margin of the Group decreased marginally from 8.8 percentage point to 8.7 percentage point. An impairment provision of approximately RMB86,437,000 was provided for idle production facilities and buildings as a result of cessation of production lines in the old production plant, details of which are set out in the paragraph headed “Relocation of production site in Shouguang”. Therefore, profit for the year decreased significantly from approximately RMB124,161,000 to RMB66,345,000. Basic earnings per share of the Company was RMB0.0105 per share based on the weighted average number of 5,994,109,000 ordinary shares (2013: RMB0.0206 per share based on the weighted average number of 5,941,049,000 ordinary shares).

LATEST DEVELOPMENT AND OUTLOOK

To become one of the leading cornstarch manufacturers in the PRC, we are committed to expand our businesses by using cornstarch as raw material and to produce our products at competitive prices. During the year under review, we have completed the relocation (the “Relocation”) of the production plants and facilities (the “Old Plant”) located in Shouguang to the new production site (the “New Plant”) as granted by the Municipal Government of Shouguang (the “Shouguang Government”). In addition, we have also substantially completed the upgrade of cornstarch production facilities and cost improvement project in Linqing plant.

Relocation of production site in Shouguang

As at the date of this announcement, the New Plant has an annual cornstarch, lysine and modified starch production capacities of approximately 450,000 tonnes, 55,000 tonnes and 100,000 tonnes respectively, which are the same as the production capacities of the Old Plant. The production facilities located in the Old Plant will be demolished or relocated to other production site depending on their conditions and our future development plan from time to time.

The land on which the Old Plant is located will be resumed by the Shouguang Government with a subsidy to be provided by the latter to the Group as a result of or in connection with the Relocation. The amount of subsidy is to be principally determined by the final sale price of the land at its listing-for-sale by the Shouguang Land Reserve Centre, a third party independent of the Group.

As at the date of this announcement, the management does not have and has not committed to any plan to sell any asset located in the Old Plant (other than those arising from the ordinary course of business).

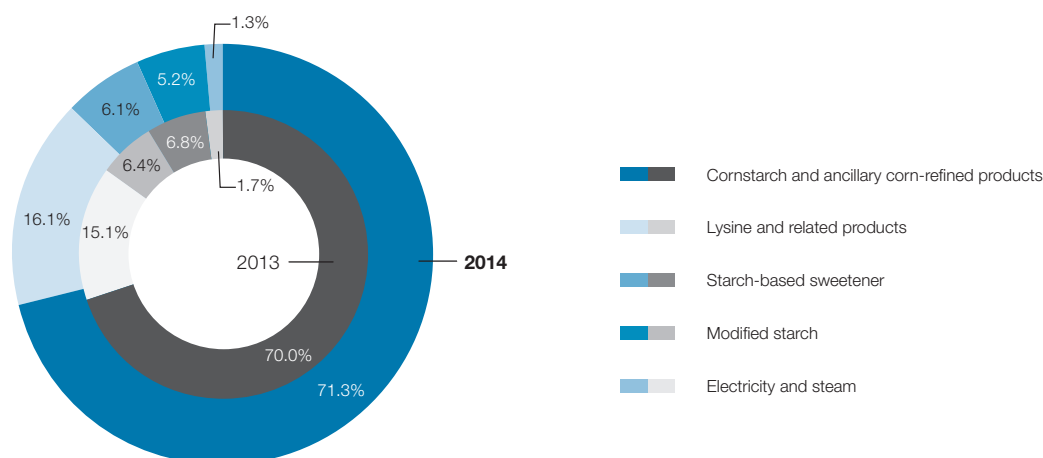
Upgrade of production facilities in Linqing

The Group has substantially completed the upgrade of the cornstarch production facilities in the Linqing plant by the end of 2014. The annual cornstarch production capacity has increased from 400,000 to 600,000 tonnes. It is expected that the benefit of the production facilities upgrade in the Linqing plant will be crystallised in 2015.

Besides, the Group has completed certain improvement on reducing production overheads of starch-based sweetener. It is expected the unit cost of starch-based sweetener would be reduced in future if other costs remain unchanged.

BUSINESS ANALYSIS

The following chart shows the contribution of each of our business segments to the Group's revenue in the past two years:



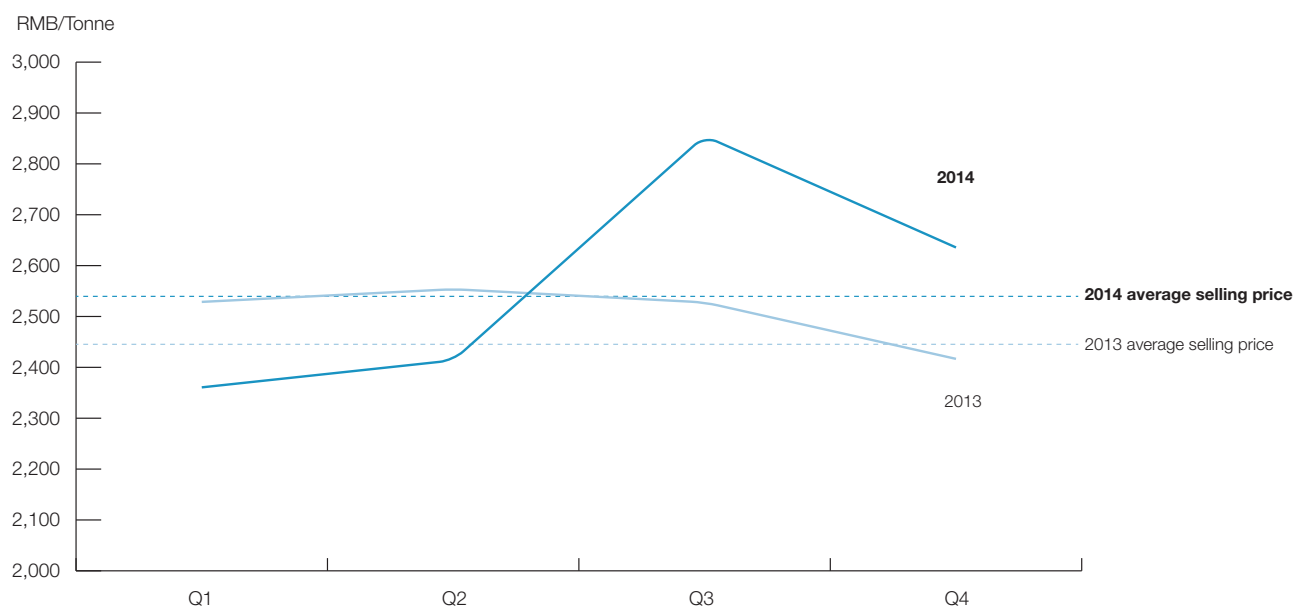
Cornstarch and ancillary corn-refined products

	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	2,971,862	2,395,323
Gross profit	252,848	149,585
Gross profit margin	8.5%	6.2%

Cornstarch and ancillary corn-refined products include cornstarch (a major component of corn kernel), corn gluten meal, corn fibre, corn germ and corn slurry. The application of cornstarch is widely spread in different industries. Corn gluten meal and corn fibre can be produced as animal feeds.

Revenue of this business segment increased substantially by 24.1% to approximately RMB2,971,862,000 (2013: RMB2,395,323,000). Sales volume of cornstarch increased by 23.2% to approximately 773,099 tonnes (2013: 627,603 tonnes). The increase in sales volume was mainly attributable to an increase in sales orders from customers during the year under review. The Group had relocated the production facilities located in the Old Plant to the New Plant in July 2014.

Gross profit margin of this business segment increased from 6.2% in 2013 to 8.5% in 2014. The increase in gross profit margin was due to (i) an increase in average selling price of cornstarch, and (ii) the reduction of production costs resulted from the use of modern production facilities and automatic machineries in the New Plant.



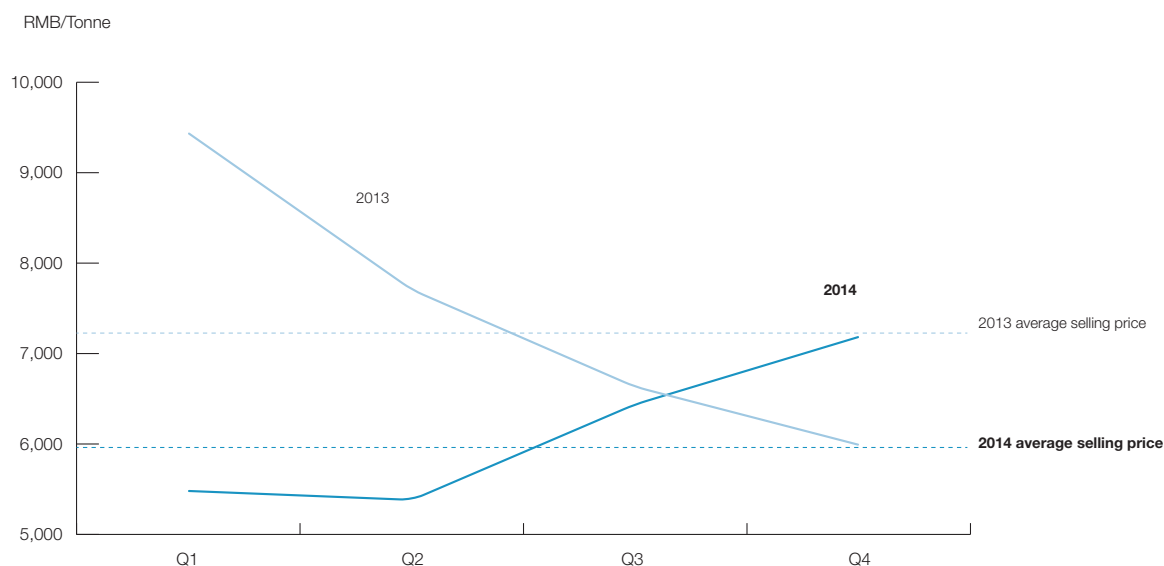
Cornstarch selling price movement (net of value-added tax)

Lysine and related products

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Revenue	671,206	516,418
Gross profit	43,287	85,770
Gross profit margin	6.4%	16.6%

The products of this business segment include lysine, fertilisers and other deep-processing products. Revenue of this segment increased substantially by 30.0% to approximately RMB671,206,000 (2013: RMB516,418,000). The sales performance was disappointing in the first half of 2014 due to the overcapacity of lysine and the depressed animal feed market leading to significant decrease in the selling prices of lysine products. Some of the market players had even suspended their operations during the slump which subsequently led to a decrease in supply in the market. Owing to this, the average selling price of lysine started to pick up from the downward trend since mid-2014.

The Group recorded a substantial growth in lysine products from 71,182 tonnes to 112,351 tonnes. The increase was mainly attributable to an increase in sales orders from customers during the year under review, in line with the continuous exploration of the overseas markets.



Lysine selling price movement (net of value-added tax)

Starch-based sweetener

	2014 RMB'000	2013 <i>RMB'000</i>
Revenue	253,025	217,336
Gross profit	21,194	7,691
Gross profit margin	8.4%	3.5%

Starch-based sweetener consists of various liquid and crystallised sweeteners. These products are mainly used in food and beverage industries, which can provide a synergy effect through our existing distribution network and extend the value chain of the Group. This is a good business development because we can diversify our high value products by using cornstarch as raw material. Revenue increased by 16.4% to approximately RMB253,025,000 (2013: RMB217,336,000). Gross profit margin set a new record of 8.4% (2013: 3.5%) in this business segment's trading history. A diversified clientele and a strong distribution network have been established by our Linqing production plant over years.

Modified starch

	2014 RMB'000	2013 <i>RMB'000</i>
Revenue	218,123	235,269
Gross profit	43,442	46,269
Gross profit margin	19.9%	19.7%

Revenue for the year under review was approximately RMB218,123,000 (2013: RMB235,269,000). The production facilities of modified starch in the Old Plant had ceased since July 2014 because of the Relocation. The construction of the production facilities in the New Plant was completed in late September 2014. By the end of 2014, the production of modified starch in the New Plant had resumed at its normal capacity.

Electricity and steam

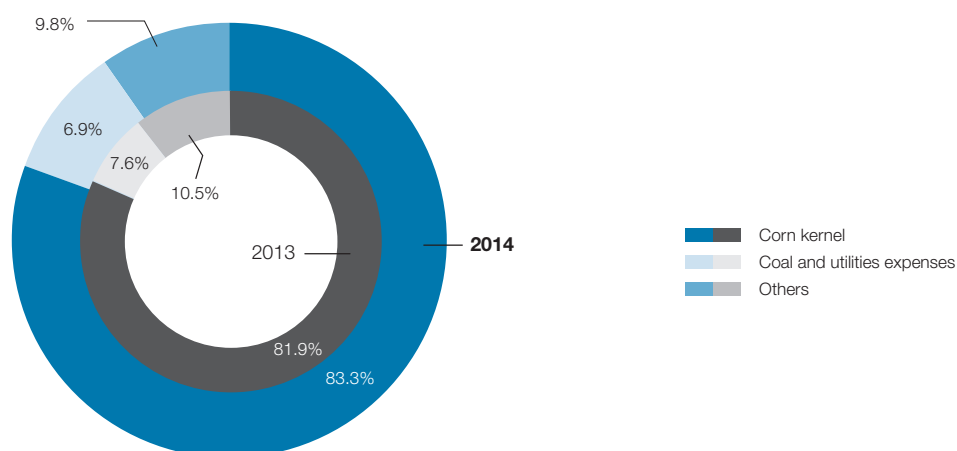
	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Revenue	55,569	57,687
Gross profit	2,748	11,037
Gross profit margin	4.9%	19.1%

Revenue of electricity and steam decreased by 3.7% to approximately RMB55,569,000 (2013: RMB57,687,000). As a result of the Relocation, the production and sale of electricity and steam had ceased since July and December 2014 respectively. Gross profit decreased significantly because the fixed production overheads of this business segment were still incurring subsequent to the cessation.

Cost of sales

The major cost components of cost of sales are corn kernel, coal and utilities expenses. Costs of sales increased in line with revenue by 21.9% to approximately RMB3,806,266,000 (2013: RMB3,121,681,000). The increase in cost of sales was mainly attributable to an increase in sales volume during the year under review. The average corn kernel price in 2014 was approximately RMB2,051/tonne (2013: RMB2,028/tonne). Instead of entering into any forward contract to hedge the price fluctuation of corn kernel, the Group makes bulk purchases from the spot market when the management considers the price of corn kernel is low.

Coal was mainly used for generating electricity and steam for internal usage in the past two years. Subsequent to the completion of Relocation, we have stopped purchasing coal to generate electricity and steam in the Old Plant. Our New Plant has been consuming electricity and steam from a nearby power plant, which is a third party independent of the Group.



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. 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.

Finance expenses

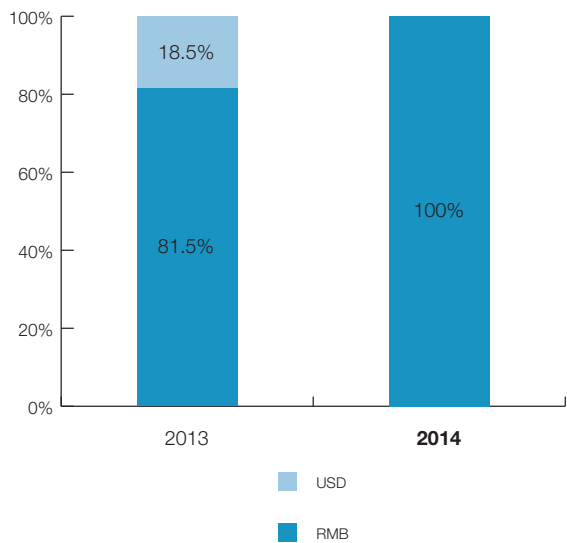
As a result of an increase in average borrowings during the year under review, finance expenses increased significantly from approximately RMB7,881,000 to RMB22,196,000. Therefore, the interest cover (which equals profit before income tax and interest divided by the sum of interest charges) was approximately 5 times (2013: 22 times).

Liquidity, financial resources and capital structure

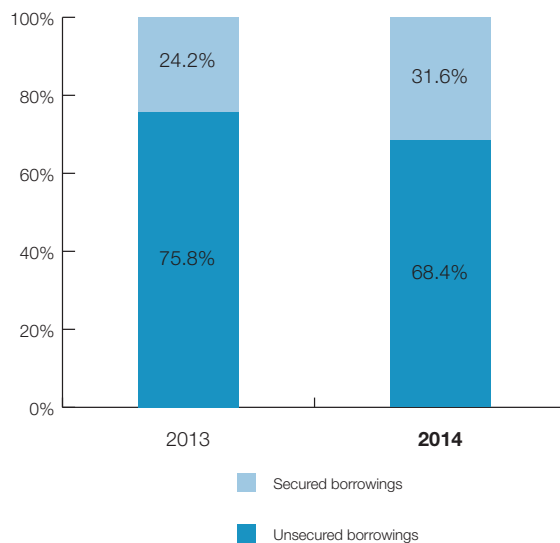
The Directors are of the opinion that the working capital available to the Group is sufficient for its present requirements. As at 31 December 2014, the borrowings were approximately RMB284 million (2013: RMB431 million) and carried interest at fixed rates.

The portfolio of borrowings and key financial ratios are summarised as follows:

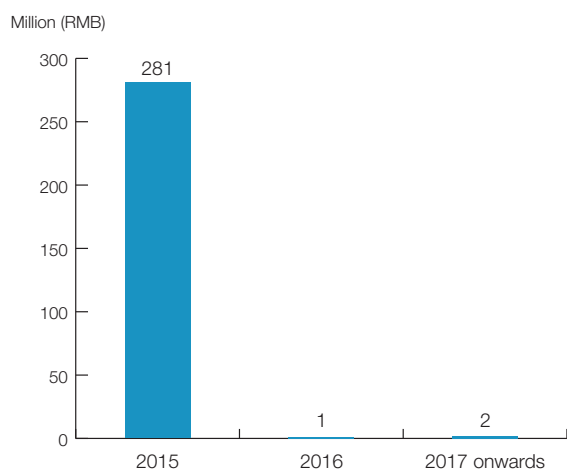
Currency of borrowings



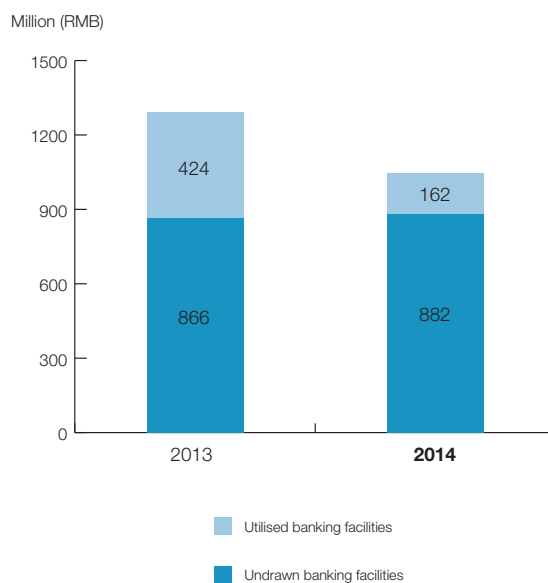
Secured and unsecured borrowings



Maturity profile of borrowings as at 31 December 2014



Banking facilities



	2014	2013
Borrowings (RMB'000)	284,432	430,689
Debtors turnover (days)	35	45
Creditors turnover (days)	13	11
Inventories turnover (days)	32	33
Current ratio	1.6	1.6
Quick ratio	1.3	1.2
Gearing ratio — borrowings to total assets	10.0%	14.3%

Pledge of Assets

As at 31 December 2014, bills payables were secured by bank acceptance bills and bank deposits in the amounts of RMB4,692,000 and RMB6,000,000 respectively. As at 31 December 2013, bills payables were secured by bank acceptance bills in the amount of RMB9,000,000. The Group did not pledge any leasehold land and building to secure banking facilities as at 31 December 2014.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2014.

ANNUAL GENERAL MEETING

The annual general meeting (the “AGM”) will be held on 20 May 2015 (Wednesday). The notice of AGM, which constitutes part of the circular to the shareholders of the Company, will be sent together with the 2014 annual report.

FINAL DIVIDEND

The Board is pleased to recommend the payment of a final dividend of HK0.69 cents per share (2013: HK0.67 cents per share) for the year ended 31 December 2014, subject to the approval of the shareholders of the Company in the AGM.

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 2015 (Friday)
Closure of register of members:	18 May 2015 (Monday) to 20 May 2015 (Wednesday) (both days inclusive)
Record date:	20 May 2015 (Wednesday)

(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 26 May 2015 (Tuesday)
Closure of register of members:	27 May 2015 (Wednesday) to 28 May 2015 (Thursday) (both days inclusive)
Record date:	28 May 2015 (Thursday)

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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than the aforementioned latest time.

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 ended 31 December 2014.

CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions as set out in the Corporate Governance 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 2014 annual general meeting of the Company 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.

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 2014.

ANNUAL REPORT

The 2014 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 16 April 2015 (Thursday).

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

Shouguang, the People’s Republic of China, 12 March 2015

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