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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 2017

##### INTERIM RESULTS

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 2017, together with the comparative figures as follows.

##### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		(Unaudited)	
		Six months ended 30 June	
		2017	2016
	<i>Notes</i>	<i>RMB '000</i>	<i>RMB '000</i>
			(Restated)
Revenue	2	2,292,493	2,122,404
Cost of sales		<u>(1,994,359)</u>	<u>(1,903,716)</u>
Gross profit		298,134	218,688
Distribution expenses		(45,981)	(48,631)
Administrative expenses		(60,048)	(60,862)
Other gains and losses	3	<u>75,919</u>	<u>16,916</u>
Operating profit		268,024	126,111
Finance income		11,125	8,210
Finance expenses		<u>(113)</u>	<u>(1,586)</u>
Profit before income tax	4	279,036	132,735
Income tax expenses	5	<u>(73,568)</u>	<u>(34,863)</u>
Profit and total comprehensive income for the period		<u><u>205,468</u></u>	<u><u>97,872</u></u>

		<b>(Unaudited)</b>	
		<b>Six months ended 30 June</b>	
		<b>2017</b>	<b>2016</b>
		<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
			(Restated)
<i>Notes</i>			
Attributable to:			
Owners of the Company		<b>203,541</b>	94,829
Non-controlling interests		<b>1,927</b>	3,043
		<u><b>205,468</b></u>	<u>97,872</u>
Basic and diluted earnings per share ( <i>RMB</i> )	<i>6</i>	<u><b>0.0339</b></u>	<u>0.0158</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2017 <i>RMB'000</i> <b>(Unaudited)</b>	31 December 2016 <i>RMB'000</i> (Audited)
	<i>Notes</i>		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		1,159,130	1,230,397
Prepaid lease payments		208,030	210,474
Other asset		—	20,830
Deferred tax assets		5,888	7,369
		1,373,048	1,469,070
<b>Total non-current assets</b>			
<b>Current assets</b>			
Inventories		285,590	213,885
Trade and other receivables	8	428,019	336,545
Financial assets at fair value through profit or loss		—	19
Pledged bank deposits		2,514	1,063
Fixed deposits with maturity period over three months		360,000	390,000
Cash and cash equivalents		601,386	493,810
		1,677,509	1,435,322
<b>Total current assets</b>			
		3,050,557	2,904,392
<b>Total assets</b>			

		<b>30 June</b>	31 December
		<b>2017</b>	2016
		<b>RMB'000</b>	RMB'000
	<i>Notes</i>	<b>(Unaudited)</b>	(Audited)
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital		<b>532,656</b>	532,656
Other reserves		<b>379,865</b>	419,205
Retained earnings		<b>1,518,356</b>	1,314,815
		<u>2,430,877</u>	<u>2,266,676</u>
Non-controlling interests		<b>37,553</b>	35,626
		<u>2,468,430</u>	<u>2,302,302</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		<b>665</b>	1,110
Deferred income		<b>32,599</b>	33,543
Deferred tax liabilities		<b>1,000</b>	1,000
		<u>34,264</u>	<u>35,653</u>
<b>Current liabilities</b>			
Trade and other payables	9	<b>465,588</b>	496,239
Income tax payable		<b>52,233</b>	40,601
Borrowings		<b>3,767</b>	3,322
Employee housing deposits		<b>26,275</b>	26,275
		<u>547,863</u>	<u>566,437</u>
<b>Total current liabilities</b>		<u>547,863</u>	<u>566,437</u>
<b>Total liabilities</b>		<u>582,127</u>	<u>602,090</u>
<b>Total equity and liabilities</b>		<u><b>3,050,557</b></u>	<u><b>2,904,392</b></u>

Notes:

## 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 2017 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 Standard 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 2016 (the “2016 Financial Statements”), except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. The condensed consolidated interim financial statements should be read in conjunction with the 2016 Financial Statements, which have been prepared in accordance with Hong Kong Financial Reporting Standards.

These condensed consolidated interim financial statements are presented in Renminbi (“RMB”), unless otherwise stated. The condensed consolidated interim financial statements have been prepared on the historical basis except for financial assets at fair value through profit or loss.

## 2. SEGMENT INFORMATION

	Upstream products <i>RMB'000</i>	Fermented and downstream products <i>RMB'000</i>	Total <i>RMB'000</i>
<b>2017</b>			
Sales to external customers	1,548,808	743,685	2,292,493
Inter-segment sales	94,759	1,940	96,699
<b>Reportable segment results</b>	<b>103,472</b>	<b>183,526</b>	<b>286,998</b>
Unallocated income			74,534
Unallocated expenses			(93,508)
Finance income			11,125
Finance expenses			(113)
<b>Profit before income tax</b>			<b>279,036</b>

	Upstream products <i>RMB'000</i>	Fermented and downstream products <i>RMB'000</i>	Total <i>RMB'000</i>
2016 (Restated)			
Sales to external customers	1,504,814	617,590	2,122,404
Inter-segment sales	65,641	4,797	70,438
<b>Reportable segment results</b>	117,842	98,750	216,592
Unallocated income			12,059
Unallocated expenses			(102,540)
Finance income			8,210
Finance expenses			(1,586)
<b>Profit before income tax</b>			<b>132,735</b>

### 3. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2017 <i>RMB'000</i>	2016 <i>RMB'000</i> (Restated)
Government grants ( <i>note</i> )	75,072	4,123
Amortisation of government grants	944	944
Net fair value (loss)/gain on financial assets at fair value through profit or loss	(356)	5,236
(Loss)/gain on disposal of property, plant and equipment	(2,875)	5,333
Others	3,774	1,290
Net foreign exchange loss	(640)	(10)
	<b>75,919</b>	<b>16,916</b>

*Note:*

During the six months ended 30 June 2017, the government grants mainly represented a subsidy of approximately RMB74,170,000 provided by the local government for the compensation of losses incurred during the relocation of the old production plant in Shouguang. During the six months ended 30 June 2016, the government grants mainly represented subsidies of approximately RMB3,500,000 from local government for, inter alia, supporting the use of new and advance technology.

#### 4. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefits expenses (including directors' emoluments)	73,355	71,614
Depreciation of property, plant and equipment	91,623	73,214
Amortisation of prepaid lease payments	2,444	3,137
Research and development expenses ( <i>note</i> )	7,371	3,778
	<u>73,355</u>	<u>73,214</u>

*Note:*

Research and development expenses 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

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
– The People's Republic of China (the "PRC")		
Enterprise Income Tax ("EIT")	71,955	26,777
– Under/(over)-provision in prior years	132	(3,206)
Deferred tax	1,481	11,292
	<u>73,568</u>	<u>34,863</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 periods.

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.

## 6. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2017 is based on earnings of RMB203,541,000 (2016: RMB94,829,000) and on the weighted average number of 5,995,892,000 ordinary shares (2016: 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 2017 and 2016.

## 7. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2017 (2016: nil).

A final dividend of HK0.75 cents per share for the year ended 31 December 2016 has been approved at the annual general meeting of the Company held on 16 May 2017, and has been paid in June 2017.

## 8. TRADE AND OTHER RECEIVABLES

	<b>30 June 2017 RMB'000</b>	31 December 2016 RMB'000
Trade receivables	171,657	147,678
Less: Provision for impairment of trade receivables	(9,630)	(9,630)
	<u>162,027</u>	<u>138,048</u>
Bank acceptance bills	197,259	145,995
Other receivables	3,638	24,222
	<u>362,924</u>	<u>308,265</u>
Loans and receivables	65,095	28,280
Prepayment and other tax receivables	<u>428,019</u>	<u>336,545</u>
	<u><u>428,019</u></u>	<u><u>336,545</u></u>



**(a) Trade receivables**

The Group normally grants credit period ranging from 0 to 120 days (31 December 2016: 0 to 120 days) to customers.

An ageing analysis of trade receivables based on the invoice date and net of provision for impairment of trade receivables at the end of the reporting period is shown as follows:

	<b>30 June 2017 RMB'000</b>	31 December 2016 RMB'000
0–30 days	<b>144,901</b>	120,931
31–60 days	<b>11,592</b>	10,295
61–90 days	<b>4,862</b>	5,494
Over 90 days	<b>672</b>	1,328
	<u><b>162,027</b></u>	<u>138,048</u>

**(b) Bank acceptance bills**

	<b>30 June 2017 RMB'000</b>	31 December 2016 RMB'000
Endorsed bills	<b>96,159</b>	127,413
Bills on hand	<b>101,100</b>	18,582
	<u><b>197,259</b></u>	<u>145,995</u>

The bank acceptance bills are normally with maturity period of 180 days (31 December 2016: 180 days). There is no recent history of default on bank acceptance bills.

As at 30 June 2017, bank acceptance bills of approximately RMB3,700,000 (31 December 2016: RMB2,624,000) were pledged to banks for securing bills payables.

## 9. TRADE AND OTHER PAYABLES

	<b>30 June 2017 RMB'000</b>	31 December 2016 RMB'000
Trade and bills payables	<b>166,854</b>	173,931
Advances from customers	<b>182,093</b>	162,376
Others ( <i>note</i> )	<b>116,641</b>	159,932
	<b>465,588</b>	496,239

*Note:*

Others mainly represent payables for construction and equipment, accrued expenses, payroll and welfare payable, deposits from contractors and other tax payables.

As at 30 June 2017, bills payables were secured by bank acceptance bills of approximately RMB3,700,000 (31 December 2016: RMB2,624,000) and pledged bank deposits of approximately RMB2,514,000 (31 December 2016: RMB1,063,000).

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

	<b>30 June 2017 RMB'000</b>	31 December 2016 RMB'000
Trade and bills payables		
0–60 days	<b>78,764</b>	90,474
61–90 days	<b>39,343</b>	35,563
Over 90 days	<b>48,747</b>	47,894
	<b>166,854</b>	173,931

## 10. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation. The reclassification had no financial effect and included the grouping of foreign exchange difference in profit or loss under the "other gains and losses" line item in the condensed consolidated statement of profit or loss and other comprehensive income.

## MANAGEMENT DISCUSSION AND ANALYSIS

### GENERAL REVIEW AND OUTLOOK

#### Review

During the first half of 2017, the Group's sales volume increased progressively. Meanwhile, the corn kernel prices was affected by the suspension of temporary grain reserve policy in China and has hovered at a low level since the second half of last year, thus the market demand for corn-derivative products resumed its growth. During the period under review, though market demand for upstream products appeared to be stable, selling price and gross profit margin reduced gradually. For fermented and downstream products, better gross profit was recorded since the growth in the market supply was slowed down, and thereby supporting the selling price of some products of the Group. The production and sales volume of the Group still recorded a growth due to strict cost control and improvement in production efficiency, accordingly, benefit grew significantly during the first half of the year.

During the period under review, revenue of the Group increased by 8.0% to approximately RMB2,292,493,000 (2016: RMB2,122,404,000). Gross profit of the Group increased significantly by 36.3% to RMB298,134,000 (2016: RMB218,688,000). Profit after taxation also increased significantly by 109.9% to RMB205,468,000 (2016: RMB97,872,000). Basic earnings per share of the Company was RMB0.0339 (2016: RMB0.0158) based on weighted average number of 5,995,892,000 ordinary shares.

#### Outlook

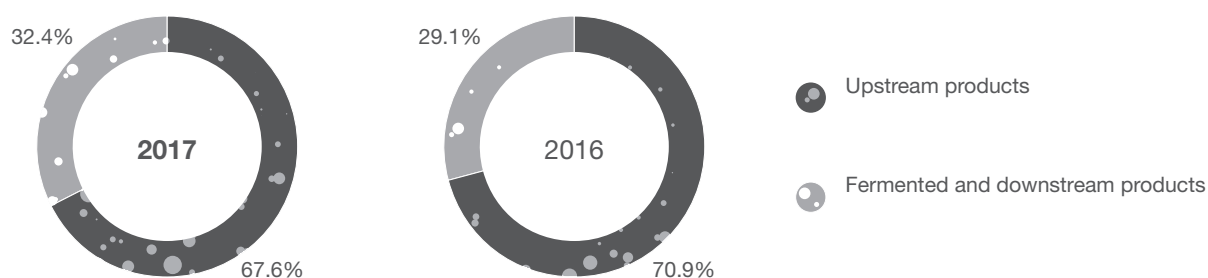
We expect the market supply and demand will gradually resume to regular competitive fluctuation in the second half of the year. The management is prudent and optimistic about the performance for the second half of the year.

As disclosed in the announcement of the Company dated 5 July 2017, Shandong Shouguang Juneng Golden Corn Development Co., Ltd.\* (山東壽光巨能金玉米開發有限公司), an indirect wholly-owned subsidiary of the Company, established a joint venture with Linqing Deneng Bio Technology Limited\* (臨清德能生物科技股份有限公司). The Group will actively participate in the preparation of the construction of a production site with production plant and facilities. Disclosure will be made by the Company in accordance with the relevant requirements under the applicable Listing Rules when there is any new development and/or definitive proposal.

\* *Unofficial name for identification only*

## Business analysis

The following charts show the contribution of (i) upstream products and (ii) fermented and downstream products to the Group's revenue for the six months ended 30 June 2017 and 2016:



## Upstream products

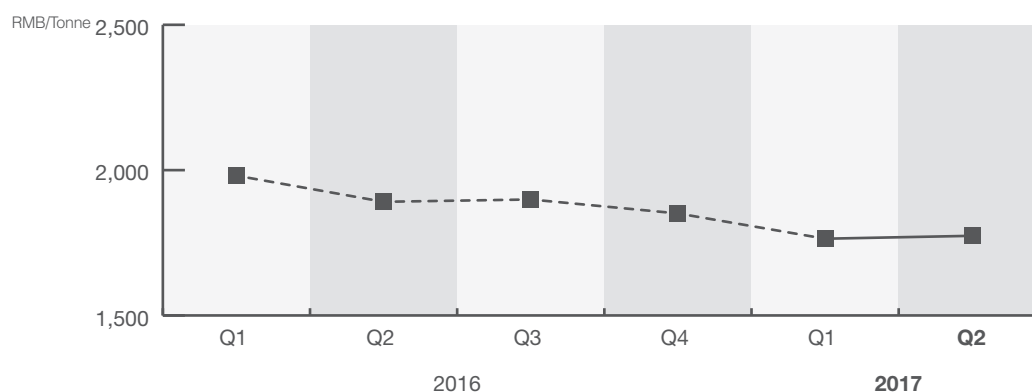
For the six months ended 30 June

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Revenue	<b>1,548,808</b>	1,504,814
Gross profit	<b>103,828</b>	112,606
Gross profit margin	<b>6.7%</b>	7.5%

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

Revenue of this business segment increased slightly by 2.9% to approximately RMB1,548,808,000 (2016: RMB1,504,814,000). As there were abundant supply of cornstarch during the first half of year 2017, the average selling price of cornstarch decreased significantly to approximately RMB1,769 (2016: RMB1,932) per tonne. Sales volume of cornstarch for the period under review was approximately 564,939 tonnes (2016: 550,395 tonnes). Gross profit margin of this business segment decreased slightly for the period under review, that was mainly attributable to the decrease in average selling price of cornstarch.

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



## Fermented and downstream products

For the six months ended 30 June	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Revenue		
– Lysine	461,072	374,890
– Starch-based sweetener	133,457	129,186
– Modified starch	135,404	99,678
– Others	13,752	13,836
	<u>743,685</u>	<u>617,590</u>
Total	<u>743,685</u>	<u>617,590</u>
Gross profit	194,306	106,082
Gross profit margin	<u>26.1%</u>	<u>17.2%</u>

Fermented and downstream products consist of lysine, starch-based sweetener, modified starch and other fermented products derived from cornstarch, the applications of which are pre-determined by customers at the time of placing orders, as well as other services. Revenue of this business segment was approximately RMB743,685,000 (2016: RMB617,590,000), an increase of 20.4%. The Group recorded a remarkable growth in gross profit margin because our management team strengthened the control on production cost and there were a substantial growth in demand for certain cornstarch-derivative products.

Revenue of lysine products was approximately RMB461,072,000 (2016: RMB374,890,000). Benefited from the strong demand from both domestic and overseas animal feed market, the average selling price of lysine products increased to approximately RMB6,074 (2016: RMB5,341) per tonne. The sales volume for the period under review was approximately 75,913 tonnes (2016: 70,193 tonnes).

Revenue of starch-based sweetener was approximately RMB133,457,000 (2016: RMB129,186,000). The average selling price of starch-based sweetener was gradually decreasing over the first half of 2017, yet, the Group still recorded a mild increase in sales volume. The average selling price and sales volume of starch-based sweetener for the period ended 30 June 2017 was approximately RMB1,949 per tonne and 68,481 tonnes (2016: RMB1,976 per tonne and 65,373 tonnes) respectively.

Revenue of modified starch increased substantially by 35.8% to approximately RMB135,404,000 (2016: RMB99,678,000). During the year under review, the export sales of starch-based sweetener represented about 27.9% (2016: 15.5%) of total modified starch sales.

## **Cost of sales**

The major cost components mainly consisted of corn kernel and utilities expenses, which represented about 80.7% and 7.7% (2016: 82.2% and 7.6%) of total cost of sales respectively.

Although the average corn kernel price for the period under review was still lower than the average price in past corresponding period (2017: RMB1,466 per tonne; 2016: RMB1,543 per tonne), there was an upward trend for corn kernel price movement. The management believe that this trend will continue until the end of the third quarter of the year.

## **REVIEW OF OTHER OPERATIONS**

### **Other gains and losses**

The net amount of other gains and losses for the period under review was approximately RMB75,919,000 (2016: RMB16,916,000). During the period under review, the Group received a government subsidy of approximately RMB74,170,000 for the compensation of losses incurred during the relocation of the old production plant in Shouguang.

### **Human Resources and Remuneration Policies**

As at 30 June 2017, the Group had 2,161 (2016: 2,178) full time staff. Total staff costs, including directors' emoluments, for the six months ended 30 June 2017 were approximately RMB73,355,000 (2016: RMB71,614,000). The Company's remuneration policy has remained unchanged since our 2016 Annual Report.

## FINANCIAL REVIEW

### Liquidity, financial resources and capital structure

The key financial ratios are summarised as follows:

	<b>30 June 2017</b>	31 December 2016
Available and undrawn banking facilities (RMB'million)	<b>790</b>	765
Borrowings (RMB'000)	<b>4,432</b>	4,432
Repayable:		
– within one year	<b>3,767</b>	3,322
– over one year	<b>665</b>	1,110
Debtors turnover (days)	<b>25</b>	26
Creditors turnover (days)	<b>15</b>	17
Inventories turnover (days)	<b>23</b>	20
Current ratio	<b>3.1</b>	2.5
Quick ratio	<b>2.5</b>	2.2
Gearing ratio – borrowings to total assets	<b>0.1%</b>	0.2%

As at 30 June 2017 and 31 December 2016, the Group did not have any bank borrowings.

The Group's borrowings as at 30 June 2017 and 31 December 2016 represented an unsecured and interest-free government loan of approximately RMB4,432,000. The Group's borrowings, cash and cash equivalents were mostly denominated in Renminbi.

The Directors are of the opinion that the working capital available to the Group is sufficient for its present requirements.

### Pledge of assets

As at 30 June 2017, bills payables were secured by bank acceptance bills and bank deposits in the amount of RMB3,700,000 and RMB2,514,000 respectively.

The Group did not pledge any leasehold land and building to secure banking facilities as at 30 June 2017.

### Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2017.

### 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 2016 Annual Report.

## **INTERIM DIVIDEND**

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2017 (2016: 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 2017, 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 2017 annual general meeting because of his other business engagement.

## **REVIEW OF INTERIM RESULTS**

The Group's condensed consolidated interim financial statements for the six months ended 30 June 2017 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 2017 Interim Report.

The Audit Committee has reviewed the Group's condensed consolidated interim financial statements for the six months ended 30 June 2017, including the accounting principles and practices adopted by the Group, in conjunction with the Company's external auditor.

## **INTERIM REPORT**

The 2017 Interim Report will be published on the websites of The Stock Exchange of Hong Kong Limited and the Company ([www.chinastarch.com.hk](http://www.chinastarch.com.hk)) on or about 28 August 2017.

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

Shouguang, The People's Republic of China, 16 August 2017

*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