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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 2011**

**Financial highlights:**

	<b>2011</b>	<b>2010</b>	
	<b>RMB'000</b>	<b>RMB'000</b>	<b>Increase</b>
Turnover	<b>3,018,871</b>	2,504,733	20.5%
Gross profit	<b>449,808</b>	284,697	58.0%
Operating profit	<b>303,392</b>	181,985	66.7%
Profit for the year	<b>230,177</b>	163,345	40.9%
Profit attributable to shareholders	<b>228,990</b>	161,711	41.6%
Basic earnings per share (RMB)	<b>0.0396</b>	0.0284	39.4%
Proposed final dividend per share (HK cents)	<b>0.67</b>	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 2011, together with the comparative figures for the year ended 31 December 2010.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

		2011	2010
	<i>Note</i>	<b>RMB'000</b>	<b>RMB'000</b>
Turnover	2	<b>3,018,871</b>	2,504,733
Cost of goods sold		<u><b>(2,569,063)</b></u>	<u>(2,220,036)</u>
Gross profit		<b>449,808</b>	284,697
Distribution expenses		<b>(72,462)</b>	(72,041)
Administrative expenses		<b>(85,070)</b>	(60,262)
Other income	3	<u><b>11,116</b></u>	<u>29,591</u>
Operating profit		<b>303,392</b>	181,985
Finance income	4	<b>13,316</b>	8,169
Finance costs	5	<b>(512)</b>	(1,901)
Share of result of an associate		<u><b>(543)</b></u>	<u>1,727</u>
Profit before taxation	6	<b>315,653</b>	189,980
Income tax expenses	7	<u><b>(85,476)</b></u>	<u>(26,635)</u>
Profit and total comprehensive income for the year		<u><b>230,177</b></u>	<u>163,345</u>
Attributable to:			
Equity holders of the Company		<b>228,990</b>	161,711
Non-controlling interests		<u><b>1,187</b></u>	<u>1,634</u>
		<u><b>230,177</b></u>	<u>163,345</u>
Basic and diluted earnings per share (RMB)	8	<u><b>0.0396</b></u>	<u>0.0284</u>
Dividends	9	<u><b>31,393</b></u>	<u>32,951</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

	<i>Note</i>	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		537,660	540,712
Prepaid lease payments		57,570	43,338
Interest in an associate		41,135	41,251
Deposit for acquisition of prepaid lease payments		47,249	–
Deferred tax assets		–	1,689
		<u>683,614</u>	<u>626,990</u>
<b>Current assets</b>			
Inventories	10	207,065	196,833
Prepaid lease payments		1,512	1,185
Loan receivable		–	19,605
Trade and other receivables	11	293,966	361,023
Pledged bank deposits		2,683	–
Fixed deposits with maturity period over three months		450,000	300,000
Cash and cash equivalents		374,539	276,471
		<u>1,329,765</u>	<u>1,155,117</u>
<b>Total assets</b>		<u><b>2,013,379</b></u>	<u><b>1,782,107</b></u>
<b>Equity</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital		515,234	515,234
Reserves		<u>1,121,707</u>	<u>924,863</u>
Attributable to equity holders		<b>1,636,941</b>	1,440,097
Non-controlling interests		<u>19,196</u>	<u>18,009</u>
<b>Total equity</b>		<u><b>1,656,137</b></u>	<u><b>1,458,106</b></u>

	<i>Note</i>	<b>2011</b> <b>RMB'000</b>	2010 RMB'000
<b>Non-current liabilities</b>			
Deferred tax liabilities		<b>619</b>	347
Borrowings		<b>5,540</b>	6,426
Deferred income		<b>26,693</b>	23,182
		<u><b>32,852</b></u>	<u>29,955</u>
<b>Current liabilities</b>			
Trade and other payables	<i>12</i>	<b>265,999</b>	223,764
Income tax payable		<b>30,533</b>	13,271
Employee housing deposits		<b>26,307</b>	26,381
Borrowings		<b>1,551</b>	30,630
		<u><b>324,390</b></u>	<u>294,046</u>
<b>Total liabilities</b>		<u><b>357,242</b></u>	<u>324,001</u>
<b>Total equity and liabilities</b>		<u><b>2,013,379</b></u>	<u>1,782,107</u>
<b>Net current assets</b>		<u><b>1,005,375</b></u>	<u>861,071</u>
<b>Total assets less current liabilities</b>		<u><b>1,688,989</b></u>	<u>1,488,061</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 (“HKFRS”) 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 HKFRS 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 24 (Revised), “Related Party Disclosures”, during the year ended 31 December 2011. It clarifies and simplifies the definition of a related party and introduces an exemption from all of the disclosure requirements for transactions among government related entities and the government. The adoption of HKAS 24 (Revised) has no impact on the Group’s financial statements.

### 2. TURNOVER AND SEGMENTS INFORMATION

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

	2011 <i>RMB’000</i>	2010 <i>RMB’000</i>
Cornstarch and ancillary corn-refined products	2,112,086	1,848,924
Lysine and its related products	687,972	472,083
Starch-based sweetener	145,054	75,908
Electricity and steam	73,759	107,818
	<u>3,018,871</u>	<u>2,504,733</u>

The chief operating decision maker has been identified as the Board. The Board reviews the Group’s internal report in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Board considers the business segmentation from product perspective. Management assesses the performance of cornstarch, lysine, starch-based sweetener 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
Electricity and steam	–	the production and sale of electricity and steam

The Board assesses 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 that is reviewed by management. Other information provided, except as noted below, to management is measured in a manner consistent with that in the consolidated financial statements.

Total segment assets exclude deferred tax assets and total segment liabilities exclude income tax payable and deferred tax liabilities as these are managed on a central basis. These form part of the reconciliation to total assets and total liabilities per consolidated statement of financial position.

Sales between segments are charged at cost. The revenue from external parties reported to management is measured in a manner consistent with that in the consolidated statement of comprehensive income.

	<b>Cornstarch</b> <i>RMB'000</i>	<b>Lysine</b> <i>RMB'000</i>	<b>Starch- based sweetener</b> <i>RMB'000</i>	<b>Electricity and steam</b> <i>RMB'000</i>	<b>Unallocated</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>For the year ended</b>						
<b>31 December 2011</b>						
TURNOVER						
Total sales	2,112,086	687,972	145,054	251,455	-	3,196,567
Inter-segment sales	-	-	-	(177,696)	-	(177,696)
External Sales	<u>2,112,086</u>	<u>687,972</u>	<u>145,054</u>	<u>73,759</u>	<u>-</u>	<u>3,018,871</u>
Segment results	<u>194,203</u>	<u>252,201</u>	<u>5,111</u>	<u>2,835</u>	<u>(150,958)</u>	<u>303,392</u>
Depreciation and amortisation	<u>18,635</u>	<u>20,083</u>	<u>15,765</u>	<u>4,714</u>	<u>6,059</u>	<u>65,256</u>
<b>For the year ended</b>						
<b>31 December 2010</b>						
TURNOVER						
Total sales	1,848,924	472,083	75,908	275,196	-	2,672,111
Inter-segment sales	-	-	-	(167,378)	-	(167,378)
External Sales	<u>1,848,924</u>	<u>472,083</u>	<u>75,908</u>	<u>107,818</u>	<u>-</u>	<u>2,504,733</u>
Segment results	<u>189,972</u>	<u>79,198</u>	<u>(187)</u>	<u>26,949</u>	<u>(113,947)</u>	<u>181,985</u>
Depreciation and amortisation	<u>16,449</u>	<u>19,845</u>	<u>1,822</u>	<u>16,850</u>	<u>4,759</u>	<u>59,725</u>

	Cornstarch RMB'000	Lysine RMB'000	Starch- based sweetener RMB'000	Electricity and steam RMB'000	Unallocated RMB'000	Total RMB'000
<b>As at 31 December 2011</b>						
Segment assets	570,518	116,437	106,348	163,882	1,056,194	2,013,379
Including:						
Interest in an associate	-	-	-	-	41,135	41,135
Additions to property, plant and equipment and prepaid lease payments	<u>23,871</u>	<u>4,328</u>	<u>29,449</u>	<u>1,352</u>	<u>21,407</u>	<u>80,407</u>
Segment liabilities	95,995	19,589	25,106	51,803	133,597	326,090
Including:						
Borrowings	-	-	-	-	7,091	7,091
Employee housing deposits	-	-	-	-	26,307	26,307
Deferred income	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,598</u>	<u>9,095</u>	<u>26,693</u>
<b>As at 31 December 2010</b>						
Segment assets	622,503	135,893	79,977	175,712	766,333	1,780,418
Including:						
Interest in an associate	-	-	-	-	41,251	41,251
Additions to property, plant and equipment and prepaid lease payments	<u>30,137</u>	<u>2,987</u>	<u>9,559</u>	<u>3,451</u>	<u>7,002</u>	<u>53,136</u>
Segment liabilities	100,818	29,846	15,739	39,302	124,678	310,383
Including:						
Borrowings	-	-	-	-	37,056	37,056
Employee housing deposits	-	-	-	-	26,381	26,381
Deferred income	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,350</u>	<u>4,832</u>	<u>23,182</u>

A reconciliation of results of reportable segments to profit before taxation is provided as follows:

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2011</b>	<b>2010</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Results of reportable segments	<b>454,350</b>	295,932
Unallocated income	<b>6,574</b>	18,356
Unallocated expenses	<b>(157,532)</b>	(132,303)
	<hr/>	<hr/>
Total segment results	<b>303,392</b>	181,985
Finance income	<b>13,316</b>	8,169
Finance costs	<b>(512)</b>	(1,901)
Share of result of an associate	<b>(543)</b>	1,727
	<hr/>	<hr/>
Profit before taxation	<b><u>315,653</u></b>	<b><u>189,980</u></b>

*Note:* Unallocated income and expenses mainly consist of government grants and corporate costs respectively which cannot be allocated to individual segments.

The amounts provided to the Board with respect to total assets are measured in a manner consistent with that of the consolidated financial statements. These assets are allocated based on the operations of the segment.

Reportable segments' assets are reconciled to total assets as follows:

	<b>As at 31 December</b>	
	<b>2011</b>	<b>2010</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Reportable segments' assets	<b>957,185</b>	1,014,085
Unallocated:		
Prepaid lease payments	<b>59,082</b>	44,523
Deposit for acquisition of prepaid lease payments	<b>47,249</b>	–
Interest in an associate	<b>41,135</b>	41,251
Pledged bank deposits	<b>2,683</b>	–
Fixed deposits with maturity period over three months	<b>450,000</b>	300,000
Cash and cash equivalents	<b>374,539</b>	276,471
Other unallocated assets	<b>81,506</b>	104,088
	<hr/>	<hr/>
Total segment assets	<b>2,013,379</b>	1,780,418
Deferred tax assets	<b>–</b>	1,689
	<hr/>	<hr/>
Total assets as per consolidated statement of financial position	<b><u>2,013,379</u></b>	<b><u>1,782,107</u></b>



The amounts provided to the Board with respect to total liabilities are measured in a manner consistent with that of the consolidated financial statements. These liabilities are allocated based on the operations of the segment.

Reportable segments' liabilities are reconciled to total liabilities as follows:

	<b>As at 31 December</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
Reportable segments' liabilities	<b>192,493</b>	185,705
Unallocated:		
Employee housing deposits	<b>26,307</b>	26,381
Borrowings	<b>7,091</b>	37,056
Other unallocated liabilities	<b>100,199</b>	61,241
	<hr/>	<hr/>
Total segment liabilities	<b>326,090</b>	310,383
Income tax payable	<b>30,533</b>	13,271
Deferred tax liabilities	<b>619</b>	347
	<hr/>	<hr/>
Total liabilities as per consolidated statement of financial position	<b><u>357,242</u></b>	<b><u>324,001</u></b>

The result of its revenue from external customers in the People's Republic of China (the "PRC") for the year 2011 is RMB2,768,860,000 (2010: RMB2,245,328,000), and the total of its revenue from external customers from other countries is RMB250,011,000 (2010: RMB259,405,000).

As at 31 December 2011, the total of non-current assets other than interest in an associate and deferred tax assets located in the PRC is RMB642,338,000 (2010: RMB583,867,000), and the total of these non-current assets located in other countries is RMB141,000 (2010: RMB183,000).

### 3. OTHER INCOME

	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
Government grants ( <i>Note (i), (ii) and (iii)</i> )	<b>2,874</b>	13,492
Electricity capacity sales	–	5,265
Amortisation of steam connection income and government grants	<b>2,999</b>	2,682
Realised gain arising from injecting property, plant and equipment and land use right as capital to an associate	<b>427</b>	430
Gain on sales of scrap of coal and oil	<b>2,774</b>	4,670
(Loss)/gain on disposal of property, plant and equipment	<b>(2,302)</b>	21
Others	<b>4,344</b>	3,031
	<hr/>	<hr/>
	<b><u>11,116</u></b>	<b><u>29,591</u></b>

*Note:*

- (i) For the year ended 31 December 2011, the government grants mainly represented the followings:
- (a) the government subsidy of approximately RMB1,730,000 was paid by 壽光市財政局 (Shouguang City Finance Bureau) for the supply of steam to domestic households in winter.
  - (b) the government grant of approximately RMB688,000 was paid by 壽光市財政局 (Shouguang City Finance Bureau) for promoting export trading.
  - (c) the government grant of approximately RMB400,000 was paid by 臨清市財政局 (Linqing City Finance Bureau) for supporting new and advance business of the company.
- (ii) For the year ended 31 December 2010, the government grants mainly represented the followings:
- (a) the government grant of approximately RMB8,063,000 was paid by 壽光市財政局 (Shouguang City Finance Bureau) for encouraging the replacement of aged machineries, prevention of air pollution; and provision of heat supply subsidy.
  - (b) the government subsidy of approximately RMB4,200,000 was paid by 濰坊市發展和改革委員會 (Weifong Development and Reform Commission) for compensating temporary suspension of power generator.
  - (c) the government grant of approximately RMB1,220,000 was paid by 臨清市財政局 (Linqing City Finance Bureau) for promoting the use of advance technology.
- (iii) The government grants were granted at the discretion of the government and were not recurring in nature.

#### 4. FINANCE INCOME

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Interest income on bank deposits	13,191	8,134
Interest income on loan receivable	<u>125</u>	<u>35</u>
	<u><b>13,316</b></u>	<u><b>8,169</b></u>

#### 5. FINANCE COSTS

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Interest on discounted bills	<u>512</u>	<u>1,901</u>

## 6. PROFIT BEFORE TAXATION

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

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Depreciation of property, plant and equipment	63,741	58,765
Amortisation of prepaid lease payments	<u>1,515</u>	<u>960</u>
Total depreciation and amortisation	<u><u>65,256</u></u>	<u><u>59,725</u></u>
Loss/(gain) on disposal of property, plant and equipment	2,302	(21)
Net foreign exchange loss	1,176	2,671
Cost of inventories recognised as expenses	2,416,485	2,083,076
Operating lease payments	379	598
Employee benefits expense including directors' emoluments	100,919	71,915
Research and development expenses	1,165	3,778
Auditor's remuneration	<u><u>1,219</u></u>	<u><u>1,239</u></u>

## 7. 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.

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
PRC corporate income tax		
– Current year	82,889	22,033
– Under provision in prior years	626	–
Deferred tax	<u>1,961</u>	<u>4,602</u>
	<u><u>85,476</u></u>	<u><u>26,635</u></u>

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

	<b>2011</b>	2010
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Profit before taxation	<u><b>315,653</b></u>	<u>189,980</u>
Tax at the corporate income tax rate at 25% (2010: 25%)	<b>78,913</b>	47,495
Tax effect of		
– An associate’s result reported net of tax	<b>136</b>	(432)
– Different tax rate	<b>1,157</b>	1,037
– Tax holiday	–	(22,192)
– Expenses that are not deductible for tax purpose	<b>5,719</b>	3,441
– Income not subject to tax	<b>(1,075)</b>	(2,714)
– Adjustments in respect of prior years	<u><b>626</b></u>	<u>–</u>
	<u><b>85,476</b></u>	<u>26,635</u>

*Note:*

The tax holiday entitled by our indirectly wholly owned subsidiary, 山東壽光巨能金玉米開發有限公司 (Shandong Shouguang Juneng Golden Corn Development Co., Ltd.) (“Golden Corn”), was expired at the year ended 31 December 2010.

As at 31 December 2011 and 2010, no deferred tax liabilities have been recognised in respect of the tax that would be payable on the distribution of the retained earnings of the Group’s foreign-invested enterprises as the Company controls the dividend policy of these foreign-invested enterprises and it is probable that such differences will not be reversed in the foreseeable future.

## 8. EARNINGS PER SHARE

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

	<b>2011</b>	2010
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>Earnings</b>		
Earnings for the purpose of calculating basic earnings per share (Profit for the year attributable to equity holders of the Company)	<u><b>228,990</b></u>	<u>161,711</u>

	2011	2010
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u><b>5,779,680,000</b></u>	<u><b>5,687,233,000</b></u>

No diluted earnings per share has been presented because no dilutive potential ordinary shares exist for both 2011 and 2010.

## 9. DIVIDENDS

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Proposed final dividend ( <i>Note (i) and (ii)</i> ):		
HK0.67 cents (2010: HK0.67 cents) per ordinary share	<u><b>31,393</b></u>	<u><b>32,951</b></u>
Final dividend paid during the year:		
HK0.67 cents (2010: HK1.16 cents) per ordinary share	<u><b>32,146</b></u>	<u><b>29,351</b></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.

## 10. INVENTORIES

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Raw materials	<b>140,605</b>	118,013
Work in progress	<b>20,785</b>	18,238
Finished goods	<u><b>45,675</b></u>	<u>60,582</u>
	<u><b>207,065</b></u>	<u><b>196,833</b></u>

The cost of inventories recognised as expense and included in “cost of goods sold” amounted to RMB2,416,485,000 (2010: RMB2,083,076,000).

## 11. TRADE AND OTHER RECEIVABLES

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Trade receivables	126,437	175,150
Bank acceptance bills	147,160	163,860
Other receivables	20,369	22,013
	<u>293,966</u>	<u>361,023</u>

The Group normally grants credit period ranging from 0 to 60 days to customers.

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

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
0 – 30 days	89,250	145,598
31 – 60 days	21,533	20,798
61 – 90 days	6,737	1,315
Over 90 days	8,917	7,439
	<u>126,437</u>	<u>175,150</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 trade receivables balance are debtors with an aggregate carrying amount of RMB9,293,000 (2010: RMB8,800,000) 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:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
31 – 60 days	–	113
61 – 90 days	376	1,286
Over 90 days	8,917	7,401
	<u>9,293</u>	<u>8,800</u>

Included in trade receivables and other receivables are amounts due from an associate and non-controlling interests of RMB32,745,000 (2010: RMB38,556,000) and RMB12,965,000 (2010: RMB9,498,000) respectively. No impairment has been made to receivables from related companies.

### Bank acceptance bills

	<b>2011</b> <i>RMB'000</i>	2010 <i>RMB'000</i>
Discounted bills	–	29,079
Endorsed bills	<b>30,167</b>	16,541
Bills on hand	<b>116,993</b>	118,240
	<b><u>147,160</u></b>	<b><u>163,860</u></b>

The bank acceptance bills are normally with maturity period of 180 days (2010: 180 days). There is no recent history of default on bank acceptance bills.

As at 31 December 2011 and 2010, all other receivables aged between 0-30 days.

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

	<b>2011</b> <i>RMB'000</i>	2010 <i>RMB'000</i>
Hong Kong Dollars	<b>97</b>	531
United States Dollars	<b>15,290</b>	11,762
Renminbi	<b>278,579</b>	348,730
	<b><u>293,966</u></b>	<b><u>361,023</u></b>

## 12. TRADE AND OTHER PAYABLES

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Trade payables	74,181	64,511
Bills payable	4,583	–
	<hr/>	<hr/>
Total trade and bills payables	78,764	64,511
	<hr/>	<hr/>
Advances from customers	85,994	96,689
Deposits	9,747	3,327
Sales commission	2,608	2,758
Other tax payables	22,919	17,484
Accrued expenses	7,337	9,770
Payroll and welfare payables	15,231	10,207
Payable for construction and equipment	42,315	18,692
Others	1,084	326
	<hr/>	<hr/>
	187,235	159,253
	<hr/>	<hr/>
	<b>265,999</b>	<b>223,764</b>
	<hr/> <hr/>	<hr/> <hr/>

Bills payables are secured by pledged bank deposits of RMB2,683,000 and bank acceptance bills of RMB1,900,000.

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

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
0 – 60 days	56,476	50,643
61 – 90 days	3,519	5,017
Over 90 days	18,769	8,851
	<hr/>	<hr/>
	78,764	64,511
	<hr/> <hr/>	<hr/> <hr/>

The average credit period on purchases is 80 days (2010: 80 days). The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.



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

	<b>2011</b>	2010
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
United States Dollars	<b>8,748</b>	6,732
Hong Kong Dollars	<b>1,482</b>	3,698
Renminbi	<b>255,769</b>	213,334
	<b><u>265,999</u></b>	<u>223,764</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERVIEW

The Group recorded a remarkable growth in turnover, gross profit and net profit during the year under review. Turnover of the Group increased by 20.5% to approximately RMB3,018,871,000 (2010: RMB2,504,733,000) while the gross profit increased by 58.0% to approximately RMB449,808,000 (2010: RMB284,697,000). Despite the looming threat of a potential new wave of credit crisis in the United States of America and the European countries, along with the tightening liquidity policy of the PRC, market demand for our products remained strong and consistent. However, faced with the increasing inflationary pressures of corn kernel price and other raw material costs, the Directors are cautiously optimistic about the business outlook for the year 2012.

In respect of the business development of the Group in 2011, the starch-based sweetener segment started to contribute profit and a new lysine product, 70% lysine, was launched in the last quarter. In 2012, the Group will introduce crystallised starch-based sweetener and may relocate the existing production plant and facilities in Shouguang to a new production site with the same annual cornstarch and lysine production capacity of approximately 450,000 tonnes and 55,000 tonnes respectively. The Group management will closely monitor our development plan and the schedule of introduction of any new products to the market.

Profit after taxation increased by 40.9% to approximately RMB230,177,000 (2010: RMB163,345,000). The effective tax rate for the year was higher than that of previous year which resulted from the expiration of a preferential tax treatment of a 50% relief on the PRC Foreign Enterprise Income Tax of the indirectly wholly-owned subsidiary, Golden Corn.

Basic earnings per share of the Company was RMB0.0396 per share based on the weighted average number of 5,779,680,000 shares (2010: RMB0.0284 per share based on the weight average number of 5,687,233,000 shares).

## ***Business analysis***

### *Cornstarch and ancillary corn-refined products*

	<b>2011</b>	2010
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Turnover:		
Cornstarch	<b>1,491,658</b>	1,318,421
Corn gluten meal	<b>218,249</b>	194,087
Corn fibre	<b>124,296</b>	114,222
Corn germ	<b>273,746</b>	218,906
Corn slurry	<b>4,137</b>	3,288
	<b><u>2,112,086</u></b>	<u>1,848,924</u>
Gross profit	<b>194,203</b>	189,972
Gross profit margin	<b><u>9.2%</u></b>	<u>10.3%</u>

The average selling price per tonne and sales volume of cornstarch and ancillary corn-refined products are set as below:

	<b>2011</b>		2010	
	<b><i>RMB/Tonne</i></b>	<b><i>Tonnes</i></b>	<i>RMB/Tonne</i>	<i>Tonnes</i>
Cornstarch	<b>2,698</b>	<b>552,876</b>	2,407	547,857
Corn gluten meal	<b>4,107</b>	<b>53,139</b>	4,035	48,098
Corn fibre	<b>989</b>	<b>125,660</b>	1,049	108,867
Corn germ	<b>3,590</b>	<b>76,249</b>	2,987	73,292
Corn slurry	<b><u>131</u></b>	<b><u>31,540</u></b>	<u>125</u>	<u>26,393</u>

Sales of cornstarch and ancillary corn-refined products for the year ended 31 December 2011 increased by 14.2% to approximately RMB2,112,086,000 (2010: RMB1,848,924,000). This business segment represented about 70.0% (2010: 73.8%) of total turnover of the Group.

Sales of cornstarch increased by 13.1% to approximately RMB1,491,658,000 (2010: RMB1,318,421,000). The average selling price and sales volume of cornstarch was about RMB2,698 per tonne (2010: RMB2,407 per tonne) and 552,876 tonnes (2010: 547,857 tonnes) respectively. As cornstarch is of a non-reusable nature and is hard to substitute, the market demand was still strong despite the economic uncertainties in the domestic market or overseas market.

Sales of corn gluten meal and corn fibre were approximately RMB218,249,000 (2010: RMB194,087,000) and RMB124,296,000 (2010: RMB114,222,000) respectively. The demand of such products is directly affected by the global animal feed market.

Corn germ is a major raw material for the production of cooking oil. The price of corn germ was affected by price of substitute goods, e.g. soybean germ, and inflation.

Gross profit of this business segment increased slightly by 2.2% to approximately RMB194,203,000 (2010: RMB189,972,000). The price adjustment of our products was slightly lagging behind the rise in costs due to the uncertain market conditions of our customers during the second half of 2011.

*Lysine and fertilisers*

	<b>2011</b>	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover:		
Lysine	<b>671,409</b>	456,462
Fertilisers	<b>16,563</b>	15,621
	<b><u>687,972</u></b>	<u>472,083</u>
Gross profit	<b>252,201</b>	79,198
Gross profit margin	<b><u>36.7%</u></b>	<u>16.8%</u>

The average selling price per tonne and sales volume of lysine and fertilisers are set as below:

	<b>2011</b>		2010	
	<i>RMB/Tonne</i>	<i>Tonnes</i>	<i>RMB/Tonne</i>	<i>Tonnes</i>
Lysine	<b>12,261</b>	<b>54,758</b>	8,749	52,171
Fertilisers	<b><u>728</u></b>	<b><u>22,742</u></b>	<u>445</u>	<u>35,077</u>

Turnover of this business segment increased by 45.7% to approximately RMB687,972,000 (2010: RMB472,083,000), which represented about 22.8% (2010: 18.8%) of total turnover of the Group.

In respect of lysine, sales were driven by the strong demand in animal feed market. Turnover of lysine increased robustly by 47.1% to approximately RMB671,409,000 (2010: RMB456,462,000). Since November 2011, the Group had begun to utilise existing production capacity to manufacture a new product, 70% lysine. This could have a positive impact on turnover for the lysine segment because the selling price of 70% lysine was higher than that of 65% lysine. The Directors considered that this new product could encourage our customers' loyalty as a wider range of lysine products is now available to them.

*Starch-based sweetener*

	<b>2011</b>	2010
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Turnover:		
Starch-based sweetener	<b><u>145,054</u></b>	<u>75,908</u>
Gross profit/(loss)	<b>5,111</b>	(187)
Gross profit/(loss) margin	<b><u>3.5%</u></b>	<u>(0.2%)</u>

The average selling price per tonne and sales volume of starch-based sweetener are set as below:

	<b>2011</b>		2010	
	<b><i>RMB/Tonne</i></b>	<b><i>Tonnes</i></b>	<i>RMB/Tonne</i>	<i>Tonnes</i>
Starch-based sweetener	<b><u>2,483</u></b>	<b><u>58,419</u></b>	<u>2,175</u>	<u>34,906</u>

The utilisation rate of the production facilities of the starch-based sweetener increased gradually during the year under review. The demand of starch-based sweetener was closely affected by brewage and food processing sectors.

The Group will introduce crystallised starch-based sweetener with the relevant production facilities of 50,000 tonnes per annum in 2012. Pilot-run production of such new product is expected to commence in the first quarter of 2012.

During the year under review, turnover of starch-based sweetener increased by 91.1% to RMB145,054,000 (2010: RMB75,908,000), which represented 4.8% (2010: 3.0%) of total turnover of the Group.

## Electricity and steam

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Turnover:		
Electricity	2,715	35,500
Steam	<u>71,044</u>	<u>72,318</u>
	<u><b>73,759</b></u>	<u><b>107,818</b></u>
Gross (loss)/profit	(1,707)	15,714
Gross (loss)/profit margin	<u>(2.3%)</u>	<u>14.6%</u>

The contribution of revenue from sale of electricity and steam to total turnover of the Group reduced from 4.4% to 2.4%. During the year under review, the sale of electricity mainly represented the electricity supply to an associate, 壽光金遠東變性澱粉有限公司 (Shouguang Golden Far East Modified Starch Co., Ltd.) (“Golden Far East”).

## Export sales analysis

	Cornstarch <i>RMB'000</i>	Corn gluten <i>RMB'000</i>	Corn fibre <i>RMB'000</i>	Lysine <i>RMB'000</i>	Total <i>RMB'000</i>
2011					
Export sales	764	155,331	26,632	67,284	250,011
Export sales to total sales	<u>0.1%</u>	<u>5.1%</u>	<u>0.9%</u>	<u>2.2%</u>	<u>8.3%</u>
2010					
Export sales	34,919	72,826	37,961	113,699	259,405
Export sales to total sales	<u>1.4%</u>	<u>2.9%</u>	<u>1.5%</u>	<u>4.5%</u>	<u>10.3%</u>

Domestic and overseas markets are complementary to each other. In view of the economic turmoil faced by our overseas customers, the Group shifted our marketing resources to further develop and consolidate the domestic market in the PRC in the second half of the year, and as a result export sales reduced to approximately RMB250,011,000 (2010: RMB259,405,000). Export sales in the first half and the second half of the year was approximately RMB166,789,000 and RMB83,222,000 respectively.

## *Cost of goods sold analysis*

	2011		2010	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Corn kernel	1,985,337	77.3%	1,680,111	75.7%
Coal and utilities	289,953	11.3%	297,251	13.4%
Other materials	74,768	2.9%	60,356	2.7%
Direct labour	60,264	2.3%	41,531	1.9%
Manufacturing overhead	64,400	2.5%	51,318	2.3%
Depreciation	54,215	2.1%	39,801	1.8%
Others	40,126	1.6%	49,668	2.2%
	<u>2,569,063</u>	<u>100.0%</u>	<u>2,220,036</u>	<u>100.0%</u>

Corn kernel and coal were the major cost components of the Group. They contributed to about 88.6% (2010: 89.1%) to total costs of goods sold during the year under review.

Corn kernel price increased by 15.7% to approximately RMB2,025 per tonne (2010: RMB1,750 per tonne). In the meantime, coal price increased by 8.6% to RMB919 per tonne (2010: RMB846 per tonne).

## **REVIEW OF OTHER OPERATIONS**

### *Other income*

Other income mainly represented government grants, sales of scrap oil and coal and steam connection income. Other income reduced significantly because of the reduction of government subsidies in the current year and the sales of excessive electricity quota in the year of 2010.

### *Distribution and administrative expenses*

There was no material fluctuation in distribution expenses for the year under review.

Administrative expenses increased by 41.2% to approximately RMB85,070,000 (2010: RMB60,262,000). The increase was mainly attributable to the increase in salaries and government levies and charges.

### *Share of result from an associate*

The share of loss from Golden Far East was approximately RMB543,000 (2010 share of profit: RMB1,727,000) for the year ended 31 December 2011. Modified cornstarch is a tailor-made product where its demand is relatively more sensitive than general cornstarch products.

### ***Income tax***

Income tax expenses was approximately RMB85,476,000 (2010: RMB26,635,000) and the Group's effective tax rate was 27.1% (2010: 14.0%) for the year under review. The increase in the current year effective tax rate was mainly due to the expiration of a preferential tax treatment on the PRC enterprise income tax at the end of 2010.

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 2011, the Group had approximately 2,251 full time staff (2010: 2,214). Total staff costs, including Directors' emoluments, of the Group was approximately RMB100,919,000 (2010: RMB71,915,000). 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 "Scheme") with a primary purpose of motivating our employees and other eligible persons entitled under the 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 2011, no share options have been granted under the 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 was placed on short-term/fixed deposits with authorised financial institutions in Hong Kong and/or the PRC.

#### ***Foreign currency exposure***

The Directors consider that the Group has limited foreign currency exposure because our operations are mainly conducted in the PRC. Sales and purchases are mainly denominated in Renminbi and the foreign currency risk associated with export sales is not material. In view of the minimal foreign currency exchange risk, we monitored the exchange rate closely instead of entering into any foreign exchange hedging arrangement.

### *Liquidity, financial resources and capital structure*

As at 31 December 2011, the available and unutilised banking facilities of the Group amounted to approximately RMB240,000,000. The Directors are of the opinion that the working capital available to the Group is sufficient for its present requirements.

The major financial figures and key financial ratios are summarised as follows:

	<b>2011</b> <i>RMB'000</i>	2010 <i>RMB'000</i>
Borrowings:		
– Within 1 year	<b>1,551</b>	30,630
– Between 1 and 2 years	<b>886</b>	886
– Between 2 and 5 years	<b>2,659</b>	2,659
– Over 5 years	<b>1,995</b>	2,881
	<b>7,091</b>	37,056
Including:		
Fixed-rate borrowings		
– Government loan	<b>7,091</b>	7,977
– Cash advances for discounted bills	–	29,079
	<b>7,091</b>	37,056
Debtors turnover (days)	<b>37</b>	40
Creditors turnover (days)	<b>10</b>	13
Inventories turnover (days)	<b>29</b>	32
Current ratio	<b>4.1</b>	3.9
Quick ratio	<b>3.5</b>	3.3
Gearing ratio - borrowings to total assets	<b>0.4%</b>	2.1%

### *Pledge of assets and contingent liabilities*

As at 31 December 2011, bills payable were secured by bank deposits and bank acceptance bills at the amount of approximately RMB2,683,000 and RMB1,900,000 respectively. 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 2011.



### *Use of net proceeds from placing*

As at 31 December 2011, the Group utilised approximately RMB57,082,000 for the expansion of production capacity and general working capital of the Group. The unutilised net proceeds from the placing agreement entered into on 4 February 2010 was approximately RMB278,773,000.

### **FUTURE PLAN AND PROSPECT**

In 2012, the Group will introduce crystallised starch-based sweetener with the relevant production facilities of 50,000 tonnes per annum. Pilot-run production of such product is expected to start in the first quarter of 2012. The Directors believe that the production of crystallised starch-based sweetener would enhance our economy of scale by increasing the utilisation rate and sharing of existing distribution channel.

Apart from the above, as disclosed in the announcement of the Company dated on 20 January 2012, Golden Corn may relocate the whole of existing production plants and facilities located at its existing production site in Shouguang to a new production site as may be granted by the Municipal Government of Shouguang. The proposed new production site is expected to be remained in Shouguang with a site area of not less than approximately 330,000 square metres. According to the expansion plan in this stage, the proposed new production site will have annual cornstarch and lysine production capacities of approximately 450,000 tonnes and 55,000 tonnes respectively, which are the same as those of the existing production site of the Group in Shouguang which may have to be relocated. This relocation plan is a step forward for the Group's expansion plan, as an additional new production site may be granted and preferential policies may be offered to the Group in the future subsequent to the relocation of existing production plants and facilities.

The Directors are of the opinion that the relocation plan would benefit the Group, and is in line with the Company's objective of becoming one of the largest cornstarch manufacturer and suppliers in the PRC.

### **ANNUAL GENERAL MEETING**

The annual general meeting (the "AGM") will be held on 13 June 2012 (Wednesday). The notice of AGM, which constitutes part of the circular to shareholders, will be sent together with the 2011 Annual Report.

### **FINAL DIVIDEND**

The Board is pleased to recommend the payment of a final dividend of HK0.67 cents per share (2010: HK\$0.67 cents per share) for the year ended 31 December 2011, 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.

## **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 11 June 2012 (Monday)
Closure of register of members:	12 June 2012 (Tuesday) to 13 June 2012 (Wednesday) (Both days inclusive)
Record date:	13 June 2012 (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 19 June 2012 (Tuesday)
Closure of register of members:	20 June 2012 (Wednesday) to 21 June 2012 (Thursday) (Both days inclusive)
Record date:	21 June 2012 (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 for registration with the Company's branch share registrar and transfer office, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than the aforementioned latest time.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

During the year ended 31 December 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **CORPORATE GOVERNANCE**

The Directors are of the opinion that the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) throughout the year.

## **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 the Listed Issuers set out in Appendix 10 to 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 period under review.

## **AUDIT COMMITTEE**

The audit committee of the Company 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 2011.

## **ANNUAL REPORT**

The 2011 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](http://www.chinastarch.com.hk)) on or about 19 April 2012 (Thursday).

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

Hong Kong, 23 March 2012

*As at the date of this announcement, the executive Directors are Mr Tian Qixiang, Mr Gao Shijun, Mr Yu Yingquan and Mr Liu Xianggang and the independent non-executive Directors are Ms Dong Yanfeng, Mr Cao Zenggong and Mr Yue Kwai Wa, Ken.*