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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 2012**

<b>Financial highlights:</b>	<b>2012</b>	<b>2011</b>	
	<b>RMB'000</b>	<b>RMB'000</b>	<b>Change</b>
Turnover	<b>3,301,498</b>	3,018,871	9.4%
Gross profit	<b>388,282</b>	449,808	(13.7%)
Operating profit	<b>258,796</b>	303,392	(14.7%)
Profit for the year	<b>221,921</b>	230,177	(3.6%)
Profit attributable to shareholders	<b>219,647</b>	228,990	(4.1%)
Basic earnings per share (RMB)	<b>0.0377</b>	0.0396	(4.8%)
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 2012, together with the comparative figures for the year ended 31 December 2011.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Turnover	2	3,301,498	3,018,871
Cost of goods sold		<u>(2,913,216)</u>	<u>(2,569,063)</u>
Gross profit		388,282	449,808
Distribution expenses		(78,184)	(72,462)
Administrative expenses		(82,152)	(85,070)
Other income and gains	3	<u>30,850</u>	<u>11,116</u>
Operating profit		258,796	303,392
Finance income		32,563	13,316
Finance costs		(318)	(512)
Share of result of an associate		<u>(2,465)</u>	<u>(543)</u>
Profit before taxation		288,576	315,653
Income tax expenses	4	<u>(66,655)</u>	<u>(85,476)</u>
Profit and total comprehensive income for the year		<u><u>221,921</u></u>	<u><u>230,177</u></u>
Attributable to:			
Equity holders of the Company		219,647	228,990
Non-controlling interests		<u>2,274</u>	<u>1,187</u>
		<u><u>221,921</u></u>	<u><u>230,177</u></u>
Basic and diluted earnings per share (RMB)	5	<u><u>0.0377</u></u>	<u><u>0.0396</u></u>
Dividends	6	<u><u>31,961</u></u>	<u><u>31,393</u></u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	<i>Note</i>	<b>2012</b> <i>RMB'000</i>	2011 <i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>778,319</b>	537,660
Prepaid lease payments		<b>103,259</b>	57,570
Interest in an associate	7	–	41,135
Deposit for acquisition of prepaid lease payments		<b>80,000</b>	47,249
Deposit for acquisition of property, plant and equipment		<b>103,977</b>	–
Deferred tax assets		<b>1,254</b>	–
		<u><b>1,066,809</b></u>	<u>683,614</u>
<b>Current assets</b>			
Inventories		<b>182,506</b>	207,065
Prepaid lease payments		<b>2,500</b>	1,512
Trade and other receivables	8	<b>387,188</b>	293,966
Income tax recoverable		<b>1,043</b>	–
Pledged bank deposits		<b>2,500</b>	2,683
Fixed deposits with maturity period over three months		<b>340,000</b>	450,000
Cash and cash equivalents		<b>459,266</b>	374,539
		<u><b>1,375,003</b></u>	<u>1,329,765</u>
<b>Total assets</b>		<u><b>2,441,812</b></u>	<u>2,013,379</u>
<b>Equity</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital		<b>523,670</b>	515,234
Reserves		<b>1,321,160</b>	1,121,707
		<u><b>1,844,830</b></u>	<u>1,636,941</u>
Attributable to equity holders		<b>1,844,830</b>	1,636,941
Non-controlling interests		<b>21,470</b>	19,196
		<u><b>1,866,300</b></u>	<u>1,656,137</u>
<b>Total equity</b>		<u><b>1,866,300</b></u>	<u>1,656,137</u>

	<i>Note</i>	<b>2012</b> <b>RMB'000</b>	2011 RMB'000
<b>Non-current liabilities</b>			
Deferred tax liabilities		–	619
Borrowings		<b>4,654</b>	5,540
Deferred income		<b>26,630</b>	26,693
		<u><b>31,284</b></u>	<u>32,852</u>
<b>Current liabilities</b>			
Trade and other payables	9	<b>495,989</b>	265,999
Income tax payable		<b>19,495</b>	30,533
Employee housing deposits		<b>26,307</b>	26,307
Borrowings		<b>2,437</b>	1,551
		<u><b>544,228</b></u>	<u>324,390</u>
<b>Total liabilities</b>		<u><b>575,512</b></u>	<u>357,242</u>
<b>Total equity and liabilities</b>		<u><b>2,441,812</b></u>	<u>2,013,379</u>
<b>Net current assets</b>		<u><b>830,775</b></u>	<u>1,005,375</u>
<b>Total assets less current liabilities</b>		<u><b>1,897,584</b></u>	<u>1,688,989</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

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

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

The Group has adopted HKAS 12 (amendment), “Deferred tax — recovery of underlying assets” during the year ended 31 December 2012, it requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in HKAS 40 Investment Property. Hence this amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, HK(SIC) 21, ‘Income taxes — recovery of revalued non-depreciable assets’, would no longer apply to investment properties carried at fair value. The amendments also incorporate into HKAS 12 the remaining guidance previously contained in HK(SIC) 21, which is accordingly withdrawn.

The adoption of HKAS 12 (amendment) does not have material impact on the Group’s results and financial position nor any substantial changes to the Group’s accounting policies and presentation of the consolidated financial statements.

### 2. TURNOVER AND SEGMENTS INFORMATION

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

	<b>2012</b>	2011
	<b><i>RMB’000</i></b>	<i>RMB’000</i>
Cornstarch and ancillary corn-refined products	<b>2,435,829</b>	2,112,086
Lysine and its related products	<b>569,462</b>	687,972
Starch-based sweetener	<b>208,862</b>	145,054
Electricity and steam	<b>66,178</b>	73,759
Modified starch	<b>21,167</b>	–
	<b><u>3,301,498</u></b>	<u>3,018,871</u>

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

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

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
Modified starch	—	the manufacture and sale of modified starch

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

Total segment assets exclude income tax recoverable and 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 carried out on an arm's length basis. 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>	Electricity and steam <i>RMB'000</i>	Modified starch <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
<b>For the year ended</b>							
<b>31 December 2012</b>							
TURNOVER							
Total sales	2,449,056	569,462	208,862	213,557	21,167	—	3,462,104
Inter-segment sales	(13,227)	—	—	(147,379)	—	—	(160,606)
External sales	<u>2,435,829</u>	<u>569,462</u>	<u>208,862</u>	<u>66,178</u>	<u>21,167</u>	<u>—</u>	<u>3,301,498</u>
Segment results	<u>185,906</u>	<u>183,828</u>	<u>8,705</u>	<u>10,010</u>	<u>4,714</u>	<u>(134,367)</u>	<u>258,796</u>
Depreciation and amortisation	<u>20,906</u>	<u>20,305</u>	<u>5,827</u>	<u>15,916</u>	<u>54</u>	<u>6,129</u>	<u>69,137</u>
<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>—</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>—</u>	<u>(150,958)</u>	<u>303,392</u>
Depreciation and amortisation	<u>18,635</u>	<u>20,083</u>	<u>4,714</u>	<u>15,765</u>	<u>—</u>	<u>6,059</u>	<u>65,256</u>

	Cornstarch <i>RMB'000</i>	Lysine <i>RMB'000</i>	Starch- based sweetener <i>RMB'000</i>	Electricity and steam <i>RMB'000</i>	Modified starch <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
<b>As at 31 December 2012</b>							
Segment assets	743,912	167,827	119,146	128,580	79,311	1,200,739	2,439,515
Including:							
Interest in an associate	-	-	-	-	-	-	-
Additions to property, plant and equipment and prepaid lease payments	<u>150,798</u>	<u>39,982</u>	<u>20,178</u>	<u>1,664</u>	<u>13,954</u>	<u>131,220</u>	<u>357,796</u>
Segment liabilities	155,654	15,761	14,925	31,844	15,229	322,604	556,017
Including:							
Borrowings	-	-	-	-	-	7,091	7,091
Employee housing deposits	-	-	-	-	-	26,307	26,307
Deferred income	-	-	-	17,722	-	8,908	26,630
	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,722</u>	<u>-</u>	<u>8,908</u>	<u>26,630</u>
<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>-</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	-	-	-	17,598	-	9,095	26,693
	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,598</u>	<u>-</u>	<u>9,095</u>	<u>26,693</u>

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

	<b>For the year ended 31 December</b>	
	<b>2012</b>	<b>2011</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Results of reportable segments	393,163	454,350
Unallocated income	30,073	6,574
Unallocated expenses	<u>(164,440)</u>	<u>(157,532)</u>
Total segment results	258,796	303,392
Finance income	32,563	13,316
Finance costs	(318)	(512)
Share of result of an associate	<u>(2,465)</u>	<u>(543)</u>
Profit before taxation	<u>288,576</u>	<u>315,653</u>

*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>2012</b>	2011
	<b>RMB'000</b>	<i>RMB'000</i>
Reportable segments' assets	<b>1,238,776</b>	957,185
Unallocated:		
Prepaid lease payments	<b>99,971</b>	59,082
Deposit for acquisition of prepaid lease payments	<b>80,000</b>	47,249
Deposit for acquisition of property, plant and equipment	<b>21,699</b>	–
Interest in an associate	–	41,135
Pledged bank deposits	<b>2,500</b>	2,683
Fixed deposits with maturity period over three months	<b>340,000</b>	450,000
Cash and cash equivalents	<b>459,266</b>	374,539
Other unallocated assets	<b>197,303</b>	81,506
	<hr/>	<hr/>
Total segment assets	<b>2,439,515</b>	2,013,379
Income tax recoverable	<b>1,043</b>	–
Deferred tax assets	<b>1,254</b>	–
	<hr/>	<hr/>
Total assets as per consolidated statement of financial position	<b><u>2,441,812</u></b>	<u>2,013,379</u>

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>2012</b>	2011
	<b>RMB'000</b>	<i>RMB'000</i>
Reportable segments' liabilities	<b>233,413</b>	192,493
Unallocated:		
Employee housing deposits	<b>26,307</b>	26,307
Borrowings	<b>7,091</b>	7,091
Other unallocated liabilities	<b>289,206</b>	100,199
	<hr/>	<hr/>
Total segment liabilities	<b>556,017</b>	326,090
Income tax payable	<b>19,495</b>	30,533
Deferred tax liabilities	–	619
	<hr/>	<hr/>
Total liabilities as per consolidated statement of financial position	<b><u>575,512</u></b>	<u>357,242</u>

The revenue from external customers in the People's Republic of China ("PRC") for the year ended 31 December 2012 is RMB2,999,644,000 (2011: RMB2,768,860,000), and the revenue from external customers from other countries is RMB301,854,000 (2011: RMB250,011,000).

As at 31 December 2012, the total of non-current assets other than interest in an associate and deferred tax assets located in the PRC is RMB1,065,456,000 (2011: RMB642,338,000), and the total of these non-current assets located in other countries is RMB99,000 (2011: RMB141,000).



### 3. OTHER INCOME AND GAINS

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Government grants ( <i>note (i), (ii) and (iii)</i> )	4,152	2,874
Amortisation of steam connection income and government grants	3,205	2,999
Realised gain arising on injecting property, plant and equipment and land use right as capital to an associate	379	427
Gain on sales of scrap coal and oil	3,443	2,774
Gain/(loss) on disposal of property, plant and equipment	214	(2,302)
Loss on re-measurement of previously held equity interest upon step acquisition of a subsidiary ( <i>note 10</i> )	(4,012)	–
Gain on a bargain purchase of a subsidiary ( <i>note 10</i> )	15,833	–
Others	7,636	4,344
	<u>30,850</u>	<u>11,116</u>

*Note:*

- (i) For the year ended 31 December 2012, the government grants mainly represented the followings:
- (a) the government subsidy of approximately RMB1,757,000 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 RMB1,459,000 was paid by 臨清市財政局 (Linqing City Finance Bureau) for supporting domestic business of the Group.
  - (c) the government grant of approximately RMB830,000 was paid by 臨清市財政局 (Linqing City Finance Bureau) for the promotion of power-saving equipment of the Group.
- (ii) 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 Group.
- (iii) The above government grants were granted at the discretion of the government and were not recurring in nature.

#### 4. INCOME TAX EXPENSES

No provision for Hong Kong profits tax has been made as the Group entities' profit neither arose in nor was derived from Hong Kong during both years. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
PRC corporate income tax		
— Current year	68,367	82,889
— Under provision in prior years	161	626
Deferred tax	<u>(1,873)</u>	<u>1,961</u>
	<u><b>66,655</b></u>	<u><b>85,476</b></u>

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

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Profit before taxation	<u><b>288,576</b></u>	<u><b>315,653</b></u>
Tax at the corporate income tax rate at 25% (2011: 25%)	72,144	78,913
Tax effect of:		
— An associate's result reported net of tax	616	136
— Different tax rate	(956)	1,157
— Expenses that are not deductible for tax purpose	1,883	5,719
— Income not subject to tax	(6,391)	(1,075)
— Utilisation of previously unrecognised tax losses	(802)	—
— Adjustments in respect of prior years	<u>161</u>	<u>626</u>
	<u><b>66,655</b></u>	<u><b>85,476</b></u>

As at 31 December 2012 and 2011, no deferred tax liabilities have been recognised in respect of the tax that would be payable on the distribution of the retained profits 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.

#### 5. 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:

	2012 <i>RMB'000</i>	2011 <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>219,647</b></u>	<u><b>228,990</b></u>
	<b>2012</b> <b>'000</b>	<b>2011</b> <b>'000</b>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u><b>5,825,455</b></u>	<u><b>5,779,680</b></u>

No diluted earnings per share has been presented because no dilutive potential ordinary shares exist for both 2012 and 2011.

## 6. DIVIDENDS

	<b>2012</b> <b>RMB'000</b>	2011 <b>RMB'000</b>
Proposed final dividend ( <i>note (i) and (ii)</i> ):		
HK0.67 cents (2011: HK0.67 cents) per ordinary share	<u><b>31,961</b></u>	<u>31,393</u>
Final dividend paid during the year:		
HK0.67 cents (2011: HK0.67 cents) per ordinary share	<u><b>31,582</b></u>	<u>32,146</u>

*Notes:*

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

## 7. INTEREST IN AN ASSOCIATE

	<b>2012</b> <b>RMB'000</b>	2011 <b>RMB'000</b>
Unlisted investment, at cost	–	38,186
Less: Unrealised gain arising on injecting property, plant and equipment and land use right as capital contribution	–	(1,846)
Share of post-acquisition profits	–	4,795
	<u>–</u>	<u>41,135</u>
	<b>2012</b> <b>RMB'000</b>	2011 <b>RMB'000</b>
Carrying value as at 1 January	<b>41,135</b>	41,251
Share of losses	<b>(2,465)</b>	(543)
Realised gain arising on injecting property, plant and equipment and land use right as capital contribution	<b>379</b>	427
Disposal upon step acquisition of a subsidiary	<b>(39,049)</b>	–
Carrying value as at 31 December	<u>–</u>	<u>41,135</u>

The registered capital of Shouguang Golden Far East Modified Starch Company Ltd (“Golden Far East”) was originally owned as to 49% by Shandong Shouguang Juneng Golden Corn Development Co., Ltd. (“Golden Corn”) (an indirect wholly-owned subsidiary of the Company) and 51% by the joint venture partner, Ingredion Incorporated. On 25 October 2012, China Starch Group Limited (“China Starch Group”) (a wholly-owned subsidiary of the Company) entered into an equity transfer agreement with the joint venture partner to acquire its 51% registered capital of Golden Far East. As Golden Corn and China Starch Group are both wholly-owned subsidiaries of the Company, immediately upon completion of the acquisition, the Group holds 100% interest in the registered capital of Golden Far East. The acquisition was completed on 21 November 2012.

Summarised financial information of the Group's associate is as follows:

	<b>2012</b> <i>RMB'000</i>	2011 <i>RMB'000</i>
Total assets	–	133,598
Total liabilities	–	(45,882)
Revenue	<b>169,326</b>	194,273
Loss for the year	<b>(5,030)</b>	(1,108)

## 8. TRADE AND OTHER RECEIVABLES

	<b>2012</b> <i>RMB'000</i>	2011 <i>RMB'000</i>
Trade receivables	<b>142,925</b>	126,437
Bank acceptance bills	<b>220,353</b>	147,160
Other receivables	<b>23,910</b>	20,369
	<b>387,188</b>	293,966

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:

	<b>2012</b> <i>RMB'000</i>	2011 <i>RMB'000</i>
0 – 30 days	<b>109,230</b>	89,250
31 – 60 days	<b>9,387</b>	21,533
61 – 90 days	<b>10,862</b>	6,737
Over 90 days	<b>13,446</b>	8,917
	<b>142,925</b>	126,437

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 RMB33,695,000 (2011: RMB9,293,000) 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:

	<b>2012</b> <i>RMB'000</i>	2011 <i>RMB'000</i>
1 – 30 days	<b>9,387</b>	–
31 – 60 days	<b>10,862</b>	–
61 – 90 days	<b>5,036</b>	376
Over 90 days	<b>8,410</b>	8,917
	<b>33,695</b>	9,293

Included in the other receivables is an amount due from non-controlling interests of RMB12,284,000 (2011: RMB12,965,000). As at 31 December 2011, trade receivables also included an amount due from an associate of RMB32,745,000. No impairment has been made to receivables from related companies.

### Bank acceptance bills

	<b>2012</b> <i>RMB'000</i>	2011 <i>RMB'000</i>
Endorsed bills	<b>186,784</b>	30,167
Bills on hand	<b>33,569</b>	116,993
	<b><u>220,353</u></b>	<u>147,160</u>

The bank acceptance bills are normally with maturity period of 180 days (2011: 180 days). There is no recent history of default on bank acceptance bills. As at 31 December 2012, no bank acceptance bills (2011: RMB1,900,000) were pledged to banks for securing bills payables.

As at 31 December 2012 and 2011, all other receivables aged between 0–30 days.

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

	<b>2012</b> <i>RMB'000</i>	2011 <i>RMB'000</i>
Hong Kong Dollars	<b>97</b>	97
United States Dollars	<b>26,042</b>	15,290
Renminbi	<b>361,049</b>	278,579
	<b><u>387,188</u></b>	<u>293,966</u>

## 9. TRADE AND OTHER PAYABLES

	<b>2012</b> <i>RMB'000</i>	2011 <i>RMB'000</i>
Trade payables	<b>83,162</b>	74,181
Bills payable	<b>2,500</b>	4,583
Total trade and bills payables	<b><u>85,662</u></b>	<u>78,764</u>
Advances from customers	<b>106,555</b>	85,994
Deposits	<b>15,229</b>	9,747
Sales commission	<b>2,165</b>	2,608
Other tax payables	<b>26,285</b>	22,919
Accrued expenses	<b>7,190</b>	7,337
Payroll and welfare payables	<b>11,028</b>	15,231
Payable for construction and equipment	<b>209,980</b>	42,315
Others	<b>31,895</b>	1,084
	<b><u>410,327</u></b>	<u>187,235</u>
	<b><u>495,989</u></b>	<u>265,999</u>

As at 31 December 2012, bills payable are secured by pledged bank deposits of RMB2,500,000. As at 31 December 2011, bills payable were secured by pledged bank deposits of RMB2,683,000 and bank acceptance bills of RMB1,900,000 respectively.

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

	<b>2012</b> <i>RMB'000</i>	2011 <i>RMB'000</i>
0 – 60 days	<b>64,899</b>	56,476
61 – 90 days	<b>3,809</b>	3,519
Over 90 days	<b>16,954</b>	18,769
	<u><b>85,662</b></u>	<u>78,764</u>

The average credit period on purchases is 80 days (2011: 80 days). The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

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

	<b>2012</b> <i>RMB'000</i>	2011 <i>RMB'000</i>
United States Dollars	<b>27,231</b>	8,748
Hong Kong Dollars	<b>1,552</b>	1,482
Renminbi	<b>467,206</b>	255,769
	<u><b>495,989</b></u>	<u>265,999</u>

## 10. BUSINESS COMBINATION

On 25 October 2012, China Starch Group (a wholly-owned subsidiary of the Company) entered into an equity transfer agreement with the joint venture partner, Ingredion Incorporated, to acquire its 51% registered capital of Golden Far East. Prior to the acquisition, the registered capital of Golden Far East was owned as to 49% by Golden Corn (an indirect wholly-owned subsidiary of the Company) and 51% by the joint venture partner. The acquisition was completed on 21 November 2012. Subsequent to the completion of acquisition, the Group holds 100% interest in the registered capital of Golden Far East. Golden Far East is principally engaged in the research and development, manufacture and sale of modified starch and related products.

The acquisition is expected to enhance the Group's competitiveness and strengthen the Group's distribution network in the PRC.

Details of the acquisition are as follows:

	<i>RMB'000</i>
Equity interest previously held by the Group	39,049
Loss on re-measuring the equity interest to fair value included in other income and gains	<u>(4,012)</u>
Fair value of the previously held equity interest at the acquisition date	<u><u>35,037</u></u>
Purchase consideration:	
Cash paid	20,633
Fair value of the previously held equity interest	<u>35,037</u>
Total purchase consideration	<u><u>55,670</u></u>
Cash flow arising on acquisition:	
Cash consideration paid	20,633
Cash and cash equivalents acquired	<u>(11,242)</u>
Net cash outflow on acquisition	<u><u>9,391</u></u>
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	8,154
Prepaid lease payments	5,800
Inventories	7,100
Trade and other receivables	49,432
Cash and cash equivalents	11,242
Income tax recoverable	1,043
Trade and other payables	<u>(11,268)</u>
Total identifiable net assets	71,503
Gain on a bargain purchase of a subsidiary	<u>(15,833)</u>
	<u><u>55,670</u></u>

No contingent consideration arrangements or contingent liabilities were identified upon step acquisition.

The acquired business contributed turnover of approximately RMB21,167,000 and net profit after tax of approximately RMB3,602,000 to the Group for the period from 21 November 2012 to 31 December 2012. If the acquisition had occurred on 1 January 2012, the contributed turnover and net loss after tax for the year ended 31 December 2012 would have been approximately RMB190,493,000 and RMB1,428,000 respectively.

The Group recognised a loss on re-measurement of previously held equity interest and a gain on a bargain purchase of approximately RMB4,012,000 and RMB15,833,000 respectively in the consolidated statement of comprehensive income for the year ended 31 December 2012. The gain on a bargain purchase is mainly attributable to the immediate exit opportunity offered to the vendor and the consideration that was mutually agreed between the parties, with reference to the residual value of Golden Far East.

Acquisition-related costs of RMB82,000 are included in administrative expenses in the consolidated statement of comprehensive income.

## MANAGEMENT DISCUSSION AND ANALYSIS

### GENERAL REVIEW

In year 2012, the Group had two important developments. First, we had a breakthrough for the relocation and expansion plan in Shouguang city. A piece of land in Shouguang for industrial use with a total site area of approximately 133,333 square metres was acquired and the construction of new production facilities on the land goes full steam ahead. Second, we acquired the remaining 51% equity interest in Golden Far East. This important step allows us to consolidate our resources in future. The Directors are confident that we can improve our production efficiency by using advanced equipment and the consolidation of resources of the Group, and can transfer these advantages to long term profitability.

Turnover of the Group increased by 9.4% to approximately RMB3,301,498,000 (2011: RMB3,018,871,000). Gross profit for the year under review decreased to approximately RMB388,282,000 (2011: RMB449,808,000). Profit after taxation decreased by 3.6% to approximately RMB221,921,000 (2011: RMB 230,177,000).

Basic earnings per share of the Company was RMB0.0377 per share based on the weighted average number of 5,825,455,000 shares (2011: RMB0.0396 per share based on the weighted average number of 5,779,680,000 shares).

### BUSINESS REVIEW

#### Business segment analysis

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

	<b>2012</b>	2011
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<i>Turnover:</i>		
Cornstarch	<b>1,688,218</b>	1,491,658
Corn gluten meal	<b>244,764</b>	218,249
Corn fibre	<b>170,815</b>	124,296
Corn germ	<b>325,247</b>	273,746
Corn slurry	<b>6,785</b>	4,137
	<hr/>	<hr/>
Total	<b>2,435,829</b>	2,112,086
	<hr/>	<hr/>
Gross profit	<b>185,906</b>	194,203
Gross profit margin	<b>7.6%</b>	9.2%
	<hr/>	<hr/>



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

	2012		2011	
	<i>RMB/Tonne</i>	<i>Tonnes</i>	<i>RMB/Tonne</i>	<i>Tonnes</i>
Cornstarch	<b>2,624</b>	<b>643,285</b>	2,698	552,876
Corn gluten meal	<b>4,011</b>	<b>61,021</b>	4,107	53,139
Corn fibre	<b>1,255</b>	<b>136,135</b>	989	125,660
Corn germ	<b>3,576</b>	<b>90,943</b>	3,590	76,249
Corn slurry	<b>148</b>	<b>45,753</b>	131	31,540

Sales of cornstarch and ancillary corn-refined products for the year ended 31 December 2012 increased by 15.3% to approximately RMB2,435,829,000 (2011: RMB2,112,086,000). This business segment represented about 73.8% (2011: 70.0%) of total turnover of the Group.

Sales of cornstarch increased by 13.2% to approximately RMB1,688,218,000 (2011: RMB1,491,658,000). The increase in sales of cornstarch was mainly attributable to the increasing demand during the year under review. The utilisation rate of cornstarch production facilities in Shouguang and Linqing achieved the management decided level.

Sales of corn gluten meal and corn fibre were approximately RMB244,764,000 (2011: RMB218,249,000) and RMB170,815,000 (2011: RMB124,296,000) respectively. The demand and selling prices of such products are directly affected by the global animal feed market.

The average selling price of corn germ was stable over the year. Increase in sales of corn germ was mainly attributable to the increase in the product output ratio.

This business segment performance was mainly affected by the decrease in cornstarch selling price and the increase in corn kernel cost, gross profit decreased by 4.3% to approximately RMB185,906,000 (2011: RMB194,203,000).

#### *Lysine and fertilisers*

	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
<i>Turnover:</i>		
Lysine	<b>564,968</b>	671,409
Fertilisers	<b>4,494</b>	16,563
Total	<b>569,462</b>	687,972
Gross profit	<b>183,828</b>	252,201
Gross profit margin	<b>32.3%</b>	36.7%

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

	2012		2011	
	<i>RMB/Tonne</i>	<i>Tonnes</i>	<i>RMB/Tonne</i>	<i>Tonnes</i>
Lysine	<b>10,006</b>	<b>56,461</b>	12,261	54,758
Fertilisers	<b>189</b>	<b>23,758</b>	728	22,742

Turnover of this business segment decreased by 17.2% to approximately RMB569,462,000 (2011: RMB687,972,000), which represented about 17.2% (2011: 22.8%) of total turnover of the Group.

The Directors believe that the average selling price of lysine reached the peak in 2011 and returned to a more reasonable level in 2012.

The decrease in gross profit margin was resulted from the decrease in average selling price of lysine products and the increase in corn kernel cost.

*Starch-based sweetener*

	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
<i>Turnover:</i>		
Starch-based sweetener	<b>208,862</b>	145,054
Gross profit	<b>8,706</b>	5,111
Gross profit margin	<b>4.2%</b>	3.5%

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

	2012		2011	
	<i>RMB/Tonne</i>	<i>Tonnes</i>	<i>RMB/Tonne</i>	<i>Tonnes</i>
Starch-based sweetener	<b>2,426</b>	<b>86,081</b>	2,483	58,419

Turnover of starch-based sweetener increased significantly by 44.0% to RMB208,862,000 (2011: RMB145,054,000), which represented 6.3% (2011: 4.8%) of total turnover of the Group. Benefited from the introduction of crystallised starch-based sweetener in 2012, the overall output ratio and the utilisation rate recorded a significant improvement.

## Electricity and steam

	<b>2012</b>	2011
	<b>RMB'000</b>	RMB'000
<i>Turnover:</i>		
Electricity	<b>2,625</b>	2,715
Steam	<b>63,553</b>	71,044
	<b>66,178</b>	73,759
Gross profit	<b>5,235</b>	(1,707)
Gross profit/(loss) margin	<b>7.9%</b>	(2.3%)

Turnover of electricity and steam represented about 2.0% (2011: 2.4%) of total turnover of the Group. As the coal price decreased by 20.2%, the Group recorded a gross profit of approximately RMB5,235,000 (2011: gross loss of RMB1,707,000) during the year under review.

## Modified starch

Modified starch is a high-value added product which is produced in accordance with customer's specification. This business segment was undertaken by Golden Far East and formed part of the Group's activities subsequent to the completion of the acquisition of Golden Far East at the end of November 2012. Turnover of modified starch amounted to approximately RMB21,167,000, which mainly represented Golden Far East's sales in December 2012 and amounted to 0.7% of total turnover of the Group.

## Export sales analysis

	Cornstarch	Corn gluten meal	Corn fibre	Lysine	Modified Starch	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>2012</b>						
Export sales	<b>688</b>	<b>109,076</b>	<b>66,681</b>	<b>112,996</b>	<b>12,413</b>	<b>301,854</b>
Export sales to total sales	<b>0.1%</b>	<b>3.3%</b>	<b>2.0%</b>	<b>3.4%</b>	<b>0.4%</b>	<b>9.2%</b>
<b>2011</b>						
Export sales	764	155,331	26,632	67,284	–	250,011
Export sales to total sales	0.1%	5.1%	0.9%	2.2%	–	8.3%

Export sales, save for cornstarch, rebounded in the second half of the year. Export sales in the first half and second half of 2012 was approximately RMB82,734,000 and RMB219,120,000 respectively. Export of cornstarch was still affected by the sluggish international market.

## **REVIEW OF OTHER OPERATIONS**

### **Other income and gains**

Other income mainly represented government grants, sales of scrap materials and steam connection income. The increase in other income was attributable to the increase in government subsidies and the sales of scrap materials.

Gains for the year under review mainly represented the gain on a bargain purchase and the loss on re-measurement of previously held equity interest upon step acquisition of a subsidiary. As disclosed in the announcement of the Company dated 26 October 2012, the Group acquired the remaining 51% equity interest in Golden Far East. Subsequent to this acquisition, Golden Far East changed from an associate company to an indirect wholly-owned subsidiary of the Company. The gain on a bargain purchase and the loss on re-measurement of previously held equity interest upon step acquisition of a subsidiary were approximately RMB15,833,000 and RMB4,012,000 respectively.

### **Distribution and administrative expenses**

The increase in distribution expenses for the year under review was mainly due to the increase in transportation cost.

The decrease in administrative expenses was mainly attributable to the decrease in government levies.

### **Income tax**

Income tax expenses was approximately RMB66,655,000 (2011: RMB85,476,000) and the Group's effective tax rate was 23.1% (2011: 27.1%) for the year under review.

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

## **HUMAN RESOURCES AND REMUNERATION POLICIES**

As at 31 December 2012, the Group had approximately 2,407 full time staff (2011: 2,251). Increase in number of staff was mainly attributable to the acquisition of Golden Far East. Total staff costs, including Directors' emoluments, of the Group were approximately RMB96,641,000 (2011: RMB100,919,000). The Group considers the experience, responsibility, and performance of the Directors and employees of the Group in order to determine their respective remuneration packages. The Company has also adopted a share option scheme (the "Share Option Scheme") with a primary purpose of motivating our employees and other eligible persons entitled under the Share Option Scheme to optimise their contributions to the Group and to reward them for their contribution to the Group. In addition, a remuneration committee is delegated by the Board to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management.

As at 31 December 2012, no share options have been granted under the Share Option Scheme.

## FINANCIAL REVIEW

### Financial management and treasury policy

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

### Foreign currency exposure

The Directors 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 2012, the available and unutilised banking facilities of the Group amounted to approximately RMB640,000,000. 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>2012</b>	2011
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Interest-free borrowings:		
— Within 1 year	<b>2,437</b>	1,551
— 1 to 2 years	<b>886</b>	886
— 2 to 5 years	<b>2,659</b>	2,659
— Over 5 years	<b>1,109</b>	1,995
	<b>7,091</b>	7,091
Debtors turnover (days)	<b>35</b>	37
Creditors turnover (days)	<b>10</b>	10
Inventories turnover (days)	<b>24</b>	29
Current ratio	<b>2.5</b>	4.1
Quick ratio	<b>2.2</b>	3.5
Gearing ratio — borrowings to total assets	<b>0.3%</b>	0.4%

### Pledge of assets and contingent liabilities

As at 31 December 2012, bills payable were secured by bank deposits in the amount of approximately RMB2,500,000. Save as disclosed above, the Group did not pledge any leasehold land and building to secure banking facilities and did not have any material contingent liabilities as at 31 December 2012.

## **Use of net proceeds from placing**

As at 31 December 2012, the Group fully utilised the net proceeds of approximately RMB335,855,000 from the placing agreement entered into on 4 February 2010 for the expansion of production capacity and general working capital of the Group.

## **FUTURE PLAN AND PROSPECT**

After the negotiation of the new production site with the Municipal Government of Shouguang (the “Shouguang Municipal Government”), the Company had a breakthrough on its relocation and expansion plan. A site in Shouguang with a total area of approximately 133,333 square metres was successfully bid by the Group in October 2012. The land premium was approximately RMB36,000,000. The annual production capacity of cornstarch, lysine and modified starch in the new production plant to be constructed on the site are expected to be 450,000 tonnes, 55,000 tonnes and 100,000 tonnes respectively, which will be the same as those of the existing production site. The construction of these production facilities is gearing up for the completion target in the third quarter of 2013. For prudence sake, the existing production facilities will be kept running for a period of time until the new production facilities at the new site are proven to be in good condition and running smoothly. The management is still negotiating with the Shouguang Municipal Government for the grant of additional land in Shouguang in order to facilitate and in furtherance of the Group’s relocation and expansion plan.

## **ANNUAL GENERAL MEETING**

The annual general meeting (the “AGM”) will be held on 15 May 2013 (Wednesday). The notice of AGM, which constitutes part of the circular to the shareholders of the Company, will be sent together with the 2012 Annual Report.

## **FINAL DIVIDEND**

The Board is pleased to recommend the payment of a final dividend of HK0.67 cents per share (2011: HK0.67 cents per share) for the year ended 31 December 2012, 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 13 May 2013 (Monday)

Closure of register of members: 14 May 2013 (Tuesday) to  
15 May 2013 (Wednesday)  
(both days inclusive)

Record date: 15 May 2013 (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 22 May 2013 (Wednesday)

Closure of register of members: 23 May 2013 (Thursday) to  
24 May 2013 (Friday)  
(both days inclusive)

Record date: 24 May 2013 (Friday)

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 2012, 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 (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and has applied the principles as laid down with the aim of achieving a high level of corporate governance, except for (i) the insurance cover in respect of legal action against its Directors; and (ii) the attendance of independent non-executive Directors in the annual general meeting held on 13 June 2012. Details of the above deviations are set out in the immediately preceding 2012 interim report and there has been no change as to corporate governance compliance since the 2012 interim report.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

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

## **AUDIT COMMITTEE**

The audit committee of the 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 2012.

## **ANNUAL REPORT**

The 2012 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 11 April 2013 (Thursday).

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

Hong Kong, 25 March 2013

*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.*