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CHINA STARCH HOLDINGS LIMITED

中國澱粉控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3838)

PRELIMINARY ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

Financial highlights:

	2016	2015	
	RMB'000	RMB'000	<i>Change</i>
Revenue	4,397,844	4,360,110	+0.9%
Gross profit	497,095	354,332	+40.3%
Operating profit	292,656	120,274	+143.3%
Profit for the year	219,219	101,913	+115.1%
Profit attributable to shareholders	213,682	98,877	+116.1%
Basic earnings per share (RMB)	0.0356	0.0165	+115.8%
Proposed final dividend per share (HK cents)	0.75	Nil	N/A

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 2016, together with the comparative figures for the year ended 31 December 2015.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	<i>Note</i>	2016 <i>RMB'000</i>	2015 <i>RMB'000</i> (Restated)
Revenue	2	4,397,844	4,360,110
Cost of sales		<u>(3,900,749)</u>	<u>(4,005,778)</u>
Gross profit		497,095	354,332
Distribution expenses		(101,132)	(108,771)
Administrative expenses		(115,865)	(153,265)
Other gains and losses	3	<u>12,558</u>	<u>27,978</u>
Operating profit		292,656	120,274
Finance income		24,851	29,888
Finance expenses		<u>(1,862)</u>	<u>(9,919)</u>
Profit before income tax	4	315,645	140,243
Income tax expenses	5	<u>(96,426)</u>	<u>(38,330)</u>
Profit and total comprehensive income for the year		<u>219,219</u>	<u>101,913</u>
Attributable to:			
Owners of the Company		213,682	98,877
Non-controlling interests		<u>5,537</u>	<u>3,036</u>
		<u>219,219</u>	<u>101,913</u>
Earnings per share attributable to owners of the Company			
Basic and diluted earnings per share (RMB)	6	<u>0.0356</u>	<u>0.0165</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	<i>Note</i>	2016	2015
		RMB'000	<i>RMB'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		1,230,397	1,344,642
Prepaid lease payments		210,474	215,688
Other asset		20,830	20,830
Deposits for acquisition of property, plant and equipment		–	1,503
Deferred tax assets		7,369	26,236
		<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
Total non-current assets		1,469,070	1,608,899
		<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
Current assets			
Inventories		213,885	202,951
Trade and other receivables	8	336,545	384,634
Financial assets at fair value through profit or loss		19	245
Pledged bank deposits		1,063	37,916
Fixed deposits with maturity period over three months		390,000	290,000
Cash and cash equivalents		493,810	298,075
		<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
Total current assets		1,435,322	1,213,821
		<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
Total assets		2,904,392	2,822,720
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	<i>Note</i>	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
EQUITY			
Equity attributable to owners of the Company			
Share capital		532,656	532,656
Other reserves		419,205	395,759
Retained earnings		1,314,815	1,124,579
		2,266,676	2,052,994
Non-controlling interests		35,626	30,089
Total equity		<u>2,302,302</u>	<u>2,083,083</u>
LIABILITIES			
Non-current liabilities			
Borrowings		1,110	1,996
Deferred income		33,543	35,432
Deferred tax liabilities		1,000	–
Total non-current liabilities		<u>35,653</u>	<u>37,428</u>
Current liabilities			
Trade and other payables	<i>9</i>	496,239	570,162
Income tax payable		40,601	8,336
Borrowings		3,322	97,436
Employee housing deposits		26,275	26,275
Total current liabilities		<u>566,437</u>	<u>702,209</u>
Total liabilities		<u>602,090</u>	<u>739,637</u>
Total equity and liabilities		<u>2,904,392</u>	<u>2,822,720</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with all applicable 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, except for the financial assets at fair value through profit or loss.

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 following new amendments to standards have been adopted by the Group for the first time for the current financial year:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation

The adoption of these new and amended standards and interpretations does not have any significant impact to the results and financial position of the Group.

2. REVENUE AND SEGMENT INFORMATION

The Group’s operating segments are as follows:

Upstream products	–	the manufacture and sale of cornstarch and ancillary corn-refined products
Fermented and downstream products	–	the manufacture and sale of lysine, starch-based sweetener, modified starch and other products, as well as other services

The operating segments are identified in accordance with the economic similarity and distinction of our products. For the purpose of assessing segment performance and allocating resources between segments, the chief operating decision maker assesses and monitors the segment revenues, margins and results attributable to each reportable segment. Inter-segment sales or provision of materials to other segments is not measured.

Interest income and expense are not included in the result for each operating segment as these are managed on a group basis and are not allocated to reportable segments.

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

Sales between segments are charged at cost or with reference to the selling prices used for sales made to third parties at the then prevailing market prices. The revenue from external parties reported to the management is measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income.

	Upstream products <i>RMB'000</i>	Fermented and downstream products <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
2016				
Sales to external customers	3,032,633	1,365,211	–	4,397,844
Inter-segment sales	<u>146,568</u>	<u>7,829</u>	–	<u>154,397</u>
Reportable segment results	222,034	248,950	–	470,984
Unallocated income				12,373
Unallocated expenses				(190,701)
Finance income				24,851
Finance expenses				<u>(1,862)</u>
Profit before income tax				<u><u>315,645</u></u>
Other segment information:				
Depreciation and amortisation	<u>57,206</u>	<u>45,966</u>	<u>43,221</u>	<u>146,393</u>
2015 (Restated)				
Sales to external customers	3,339,891	1,020,219	–	4,360,110
Inter-segment sales	<u>150,209</u>	<u>11,112</u>	–	<u>161,321</u>
Reportable segment results	215,721	118,802	–	334,523
Unallocated income				24,980
Unallocated expenses				(239,229)
Finance income				29,888
Finance expenses				<u>(9,919)</u>
Profit before income tax				<u><u>140,243</u></u>
Other segment information:				
Depreciation and amortisation	52,670	54,691	25,042	132,403
Provision for impairment of property, plant and equipment	<u>–</u>	<u>10,286</u>	<u>–</u>	<u>10,286</u>

Based on the place of the operation of external customers, revenue attributed to the People's Republic of China (the "PRC") and other countries is RMB4,055,817,000 and RMB342,027,000 (2015: RMB3,896,835,000 and RMB463,275,000) respectively.

3. OTHER GAINS AND LOSSES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i> (Restated)
Government grants (<i>note</i>)	5,212	5,901
Amortisation of steam connection income and government grants	1,889	3,578
Reversal of deferred income attributable to steam connection income	–	9,357
Gain on sales of scrap coal and oil	2,015	3,295
Net fair value (loss)/gain on derivative financial instruments	(1,013)	3,095
Provision for impairment of property, plant and equipment	–	(10,286)
Losses on disposal of property, plant and equipment	(1,354)	(2,783)
Foreign exchange gain	1,048	3,711
Others	4,761	12,110
	<u>12,558</u>	<u>27,978</u>

Note: For the year ended 31 December 2016, the government grants mainly represented subsidies from local government for, inter alia, supporting the development of base-material infrastructure and the use of new and advance technology. The government grants were granted at the discretion of the government and were not recurring in nature.

4. PROFIT BEFORE INCOME TAX

The major expenses of the Group are as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Cost of inventories recognised as an expense	3,723,569	3,944,450
Employee benefits expense (including directors' emoluments)	159,141	137,994
Depreciation of property, plant and equipment	140,813	127,921
Amortisation of prepaid lease payments	5,580	4,482
Provision for impairment of trade receivables (<i>note 8(b)</i>)	–	9,630
Minimum lease payments paid under operating leases in respect of premises	713	666
Research and development expenses (<i>note</i>)	11,939	6,584
Auditor's remuneration	733	1,231
	<u>733</u>	<u>1,231</u>

Note: Research and development costs include staff costs of employees in the research and development department, which are included in the employee benefits expenses as disclosed above.

5. INCOME TAX EXPENSES

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
– PRC Enterprises Income Tax (“EIT”)	79,086	41,349
– (Over)/under-provision in prior years	(3,527)	680
– PRC dividend withholding tax	1,000	–
Deferred tax	<u>19,867</u>	<u>(3,699)</u>
	<u><u>96,426</u></u>	<u><u>38,330</u></u>

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

No provision for Hong Kong profits tax has been made as the Group entities’ profit neither arose in nor was derived from Hong Kong during both years.

Pursuant to the PRC EIT and its Implementation Regulation, non-PRC resident enterprises are levied withholding tax at 10% (unless reduced by tax treaties/arrangements) on dividends receivable from PRC enterprises for profits earned since 1 January 2008. The Group adopted the 10% withholding tax rate for PRC withholding tax purposes during the year ended 31 December 2016.

6. EARNINGS PER SHARE

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

	2016	2015
Earnings		
Profit attributable to owners of the Company (RMB’000)	213,682	98,877
Weighted average number of ordinary shares in issue (thousands)	<u><u>5,995,892</u></u>	<u><u>5,995,892</u></u>

The basic and diluted earnings per share for the year ended 31 December 2016 and 2015 were the same because there was no dilutive potential ordinary share.

7. DIVIDENDS

Dividend payable to shareholders attributable to the previous financial year, approved and paid during the year:

	2016 RMB'000	2015 <i>RMB'000</i>
2015 final dividend: nil (2014 final dividend of HK0.69 cents per share)	<u>–</u>	<u>32,667</u>

Subsequent to 31 December 2016, the Directors proposed a final dividend of HK0.75 cents (2015: nil) per share, amounting to HK\$44,969,000. The final dividend proposed after the end of the reporting period is subject to approval by the shareholders at the forthcoming annual general meeting and has not been recognised as a liability as at 31 December 2016.

8. TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 <i>RMB'000</i>
Trade receivables (a)	147,678	152,453
Less: Provision for impairment of trade receivables (b)	<u>(9,630)</u>	<u>(9,630)</u>
	138,048	142,823
Bank acceptance bills (c)	145,995	194,525
Others	<u>24,222</u>	<u>15,468</u>
	308,265	352,816
Loans and receivables	308,265	352,816
Prepayments and other tax receivables	<u>28,280</u>	<u>31,818</u>
	<u>336,545</u>	<u>384,634</u>

The carrying amounts of trade and other receivables are mainly denominated in RMB.

(a) **Trade receivables**

The Group normally grants credit period ranging from 0 to 120 days (2015: 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:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
0 – 30 days	120,931	103,291
31 – 60 days	10,295	11,438
61 – 90 days	5,494	9,992
Over 90 days	1,328	18,102
	138,048	142,823

As at 31 December 2016, trade receivables of RMB17,117,000 (2015: RMB40,820,000) that were past due but not impaired. These related to a number of independent customers for whom there is no recent history of default. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there have not been a significant change in credit quality and the balances are still considered fully recoverable.

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
1 – 30 days	10,295	11,438
31 – 60 days	5,494	9,992
61 – 90 days	705	5,701
Over 90 days	623	13,689
	17,117	40,820

(b) Provision for impairment of trade receivables

As at 31 December 2016, trade receivables of RMB9,630,000 (2015: RMB9,630,000) were impaired and fully provided for. The individually impaired receivables past due for over twelve months were related to a customer, which had financial difficulty.

Movements in the Group's provision for impairment of trade receivables are as follows:

	2016 RMB'000	2015 <i>RMB'000</i>
At 1 January	9,630	–
Provision for impairment	<u>–</u>	<u>9,630</u>
At 31 December	<u>9,630</u>	<u>9,630</u>

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

(c) Bank acceptance bills

	2016 RMB'000	2015 <i>RMB'000</i>
Endorsed bills	127,413	126,621
Bills on hand	<u>18,582</u>	<u>67,904</u>
	<u>145,995</u>	<u>194,525</u>

The bank acceptance bills are normally with maturity period of 180 days (2015: 180 days). There is no recent history of default on bank acceptance bills.

As at 31 December 2016, bank acceptance bills of RMB2,624,000 (2015: RMB2,000,000) were pledged to banks for securing bill payables.

9. TRADE AND OTHER PAYABLES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Trade payables	170,244	132,582
Bills payables	<u>3,687</u>	<u>58,900</u>
Total trade and bills payables	173,931	191,482
Accrued expenses	16,864	20,231
Payable for construction and equipment	88,076	198,640
Payroll and welfare payables	15,846	1,639
Deposits	12,015	9,449
Sales commission	2,347	2,126
Others	<u>5,445</u>	<u>3,315</u>
Financial liabilities measured at amortised cost	314,524	426,882
Advances from customers	162,376	112,486
Other tax payables	<u>19,339</u>	<u>30,794</u>
	<u>496,239</u>	<u>570,162</u>

As at 31 December 2016, bills payables are secured by bank acceptance bills of RMB2,624,000 (2015: RMB2,000,000) (note 8(c)) and pledged bank deposits of RMB1,063,000 (2015: RMB27,400,000).

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

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
0 – 60 days	90,474	149,000
61 – 90 days	35,563	16,456
Over 90 days	47,894	26,026
	<u>173,931</u>	<u>191,482</u>

The average credit period on purchases is 80 days (2015: 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 mainly denominated in RMB.

10. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year'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.

MANAGEMENT DISCUSSION AND ANALYSIS

GENERAL REVIEW AND OUTLOOK

Review

In 2016, China's economy had stabilised gradually. As a result of the suspension of the temporary national grain reserve policy, corn kernel price in the domestic market dropped substantially and the price gap between the domestic and international markets for corn kernel was minimised. This had in turn resulted in a decrease in the production cost of the animal feeds and corn refinery industries and increased their competitiveness in both the domestic and international markets. For instance, domestic demand for domestic corn kernel and corn-derivative products had notably heightened, which reduced the incentive of using imported substitutes and even stimulated exports of such products. These factors had bailed the corn kernel and corn-refinery industries out of the trough that they had been situated in for several consecutive years.

Nevertheless, some small-scale cornstarch manufacturers faded from the market due to different adverse factors, such as volatile demand, suppressed profit margin and strengthened environmental protection standards. We believe this consolidation process amongst the corn-refinery industry will continue in the future.

The Group had continued to monitor our cost control policy, capacity utilisation rate and output ratio in order to enhance our profitability and financial position amongst the industry. Revenue of the Group had increased slightly by 0.9% to approximately RMB4,397,844,000 (2015: RMB4,360,110,000) for the year under review. Gross profit of Group increased significantly to approximately RMB497,095,000 (2015: RMB354,332,000), or 40.3%, for the year under review. This increase in gross profit was mainly attributable to the following factors:

- (i) an increase in sales volume of fermented and downstream products;
- (ii) an increase in profit margin of fermented and downstream products in the second half of the year under review;
- (iii) an increase in profit margin of upstream products in both November and December 2016;

- (iv) the introduction of high value-added products into the Group's existing product portfolio since 2015; and
- (v) an improvement in production efficiency as a result of using automated machineries.

Profit after taxation increased significantly from approximately RMB101,913,000 to RMB219,219,000. Basic earnings per share of the Company was RMB0.0356 per share based on the weight average number of 5,995,892,000 ordinary shares (2015: RMB0.0165 per share based on the weight average number of 5,995,892,000 ordinary shares).

LATEST DEVELOPMENT AND OUTLOOK

2017 Outlook

We maintain a prudently optimistic view on the 2017 economic development in China. Firstly, the corn kernel price and cornstarch price have regained their competitiveness after the Chinese government adjusted its temporary national grain reserve policy. It infers that the existing domestic and international market shares possessed by the Chinese market players will not be further encroached upon by other overseas market players. Secondly, we believe that the markets for consumable materials such as corn-refined products will be one of the sectors that will first be recovered after the Chinese economy had stabilised. Cornstarch, as a base-material that is both non-reusable and non-replaceable in nature, is therefore expected to recoup its growth momentum in terms of usage and market demand.

Innovation – Widened product varieties

The Group echoed with the State policy on the development of environmental-friendly, hi-tech and high-value added products. Pursuant to the introduction of our new product D-lactic acid in 2015, the Group had continued to emphasise new product development in 2016. Although the Group did not have major new product launch during the year, we have achieved a breakthrough in various aspects during the research and development process, which were conducive to the advancement of our existing production process. We are confident that our commitment to investing resources on research and development and upgrading production technique would provide us with a new competitive advantage amongst our peers.

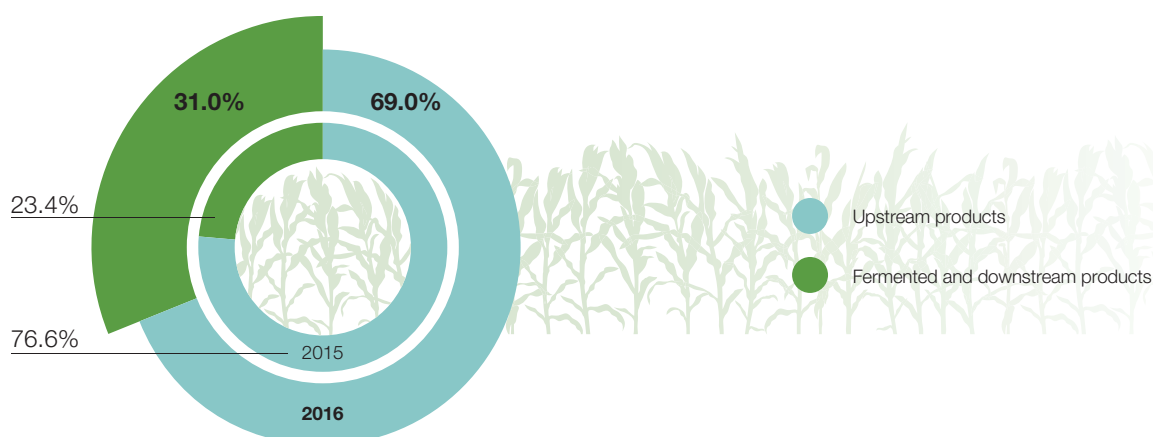
Looking forward, we continue to deploy our internal resources to develop other corn-derivative products.

Market volatility

Our professional management team observed the market volatility of the corn-refinery industry had been increasing over the past few years. This trend is expected to continue in 2017. The Group has adopted various control and monitoring policies in order to mitigate these risks. Details of our risk analysis and mitigation policies are set out in the Risk Review Report as contained in the 2016 annual report. We will make a responsible decision on every investment and product development project.

BUSINESS ANALYSIS

The following chart shows the contribution of (i) upstream products and (ii) fermented and downstream products to the Group's revenue in the past two years:



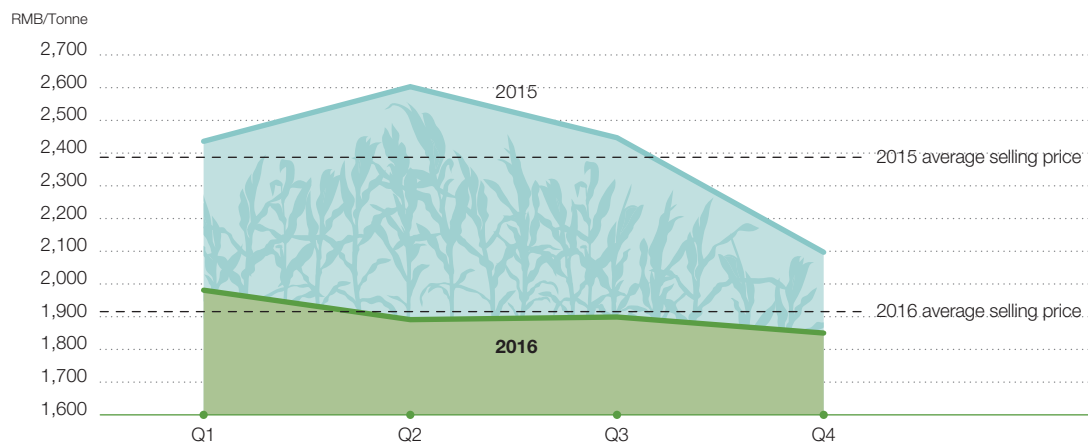
Upstream products

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3,032,633	3,339,891
Gross profit	222,034	225,351
Gross profit margin	7.3%	6.7%

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 decreased substantially by approximately 9.2% to RMB3,032,633,000 (2015: RMB3,339,891,000). The sales performance of cornstarch in the first, second and final quarter of 2016 were satisfactory. During the year under review, the sales performance of other ancillary corn-refined products, such as corn fibre and corn gluten meal, in this business segment remained sustainable. As a result, gross profit margin of this business still recorded a mild increase of 0.6 percent point to 7.3% (2015: 6.7%).

Total sales volume of cornstarch during the year was approximately 1,079,456 tonnes (2015: 1,017,194 tonnes). The average selling price of cornstarch was approximately RMB1,903 (2015: RMB2,385) per tonne.



Fermented and downstream products

The following table shows the revenue of the products in this business segment:

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue		
– Lysine	850,250	551,288
– Starch-based sweetener	265,399	258,493
– Modified starch	224,679	204,032
– Others	24,883	6,406
	<hr/>	<hr/>
Total	1,365,211	1,020,219
Gross profit	275,061	128,981
Gross profit margin	20.1%	12.6%
	<hr/> <hr/>	<hr/> <hr/>

Fermented and downstream products consist of lysine, starch-based sweetener, modified starch, and other fermented products derived from cornstarch, as well as other services. Revenue of this business segment for the year under review was approximately RMB1,365,211,000 (2015: RMB1,020,219,000). Benefited from the increase in sales volume of different value-added products on one hand and the decrease in corn kernel price on the other hand, the Group recorded a remarkable growth in both revenue and gross profit margin in this business segment.

Revenue of lysine products was approximately RMB850,250,000 (2015: RMB551,288,000). The average selling price of lysine products for the year under review was approximately RMB5,653 (2015: RMB5,818) per tonne. Benefited from the increase in production technology and equipment utilisation rate, the sales volume of lysine products increased substantially to 150,414 tonnes (2015: 94,748 tonnes), or by 58.8%.

The market condition, such as market price and demand, in respect of starch-based sweetener was very unstable over the year. The average selling price of starch-based sweetener was suppressed because of the abundant supply of starch-based sweetener and the decrease in corn kernel price during the year under review. During the year under review, revenue of starch-based sweetener increased slightly to RMB265,399,000 (2015: RMB258,493,000). The average selling price of starch-based sweetener was approximately RMB1,939 (2015: RMB2,357) per tonne.

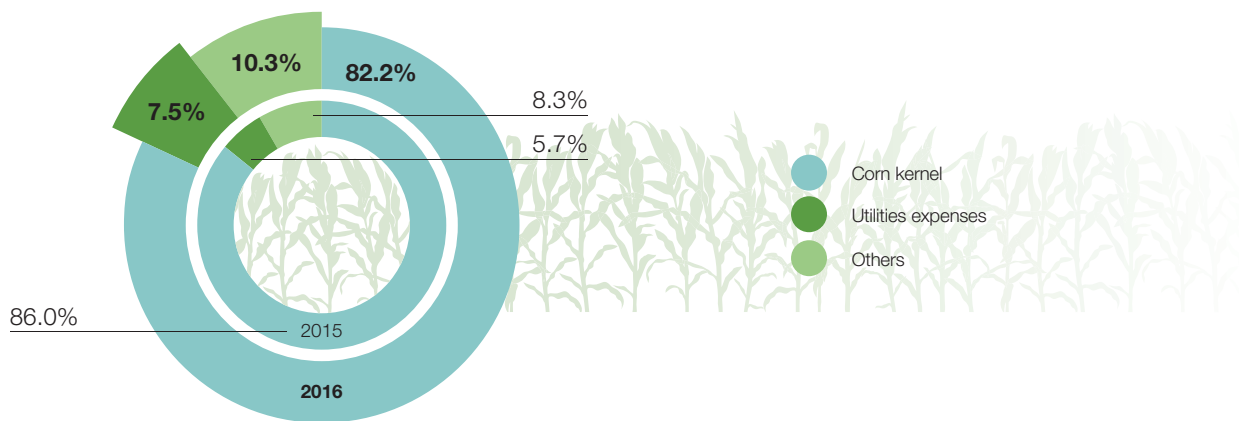
Benefited from the increase in sales volume of modified starch, revenue of modified starch increased substantially by 10.1% to approximately RMB224,679,000 (2015:RMB204,032,000). During the year under review, the average selling price of modified starch was approximately RMB2,752 (2015: RMB3,292) per tonne.

Other fermented and downstream products represented new generation and environmental-friendly products, one of which was D-lactic acid. The development of these new products would enhance our profitability and allow us to gain presence in those niche markets in China.

Cost of sales

The major cost components of our cost of sales are corn kernel and utilities expenses for the year under review. Benefited from the substantial decrease in corn kernel price during the year under review, the percentage of cost of corn kernel to total cost of sales reduced to about 82.2% (2015: 86.0%). The average corn kernel price in 2016 decreased by 17.5% to approximately RMB1,540 (2015: RMB1,867) per tonne.

The Group did not enter into any forward/futures contract to hedge the price fluctuation of corn kernel. The Group makes purchases from the spot market in accordance with its production schedule.



HUMAN RESOURCES AND REMUNERATION POLICIES

As at 31 December 2016, the Group had 2,163 full time staff (2015: 2,201). Total staff costs, including Directors' emoluments, of the Group were approximately RMB159,141,000 (2015: RMB137,994,000). 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 2016, 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 be placed on short term/fixed deposits with authorised financial institutions in Hong Kong and/or the People's Republic of China (the "PRC").

Foreign currency exposure

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

Finance expenses

As a result of a decrease in both borrowings and interest rate during the year under review, finance expenses decreased significantly from approximately RMB9,919,000 to RMB1,862,000. The Group has regularly reviewed the financial needs for potential projects for developing new products and/or materials and monitors a suitable level of debts. The interest cover during the year under review (which equals profit before income tax and interest divided by the sum of interest charges and capitalised interest) was approximately 171 times (2015: 15 times).

Liquidity, financial resources and capital structure

The key financial ratios of the Group for the year ended 31 December 2016 and its comparative figures are summarised as follows:

	2016	2015
Borrowings (RMB'000)	4,432	99,432
Repayable:		
– Within one year	3,322	97,436
– Over one year	1,110	1,996
Debtors turnover (days)	26	28
Creditors turnover (days)	17	14
Inventories turnover (days)	20	22
Current ratio (times)	2.5	1.7
Quick ratio (times)	2.2	1.4
Gearing ratio – borrowings to total assets	<u>0.2%</u>	<u>3.5%</u>

The Directors are of the opinion that the working capital available to the Group is sufficient for its present requirements. The Group's borrowings, cash and cash equivalents were mostly denominated in Renminbi. As at 31 December 2016, the borrowings of RMB4,432,000 represented an unsecured and interest-free government loan provided to a subsidiary of the Group. As at 31 December 2016, the total available and undrawn banking facilities was approximately RMB765 million. In addition, most of the borrowings were with a maturity within one year. The decrease in borrowings was mainly attributable to the repayment of bank borrowings.

Pledge of assets

As at 31 December 2016, bills payables were secured by bank acceptance bills and bank deposits in the amount of RMB2,624,000 and RMB1,063,000 respectively. As at 31 December 2016, the Group did not pledge any leasehold land and building to secure banking facilities.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 December 2016.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There was no purchase, sale or redemption by the Company or any of its subsidiaries, of the Company's listed securities during the year ended 31 December 2016.

CORPORATE GOVERNANCE

The Company had complied with the applicable code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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) and Mr. Yue Kwai Wa, Ken (the chairman of the audit committee of the Board (the "Audit Committee")) did not attend the 2016 annual general meeting of the Company because of their other business engagement.

ANNUAL GENERAL MEETING

The annual general meeting (the "AGM") will be held on 16 May 2017 (Tuesday). The notice of AGM, which constitutes part of the circular for the AGM will be despatched to the shareholders of the Company together with the 2016 annual report.

FINAL DIVIDEND

The Board is pleased to recommend the payment of a final dividend of HK0.75 cents per share (2015: nil) for the year ended 31 December 2016, subject to the approval of the shareholders of the Company in the AGM. The proposed final dividend is expected to be paid in June 2017 in cash.

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 10 May 2017 (Wednesday)
Closure of register of members:	11 May 2017 (Thursday) to 16 May 2017 (Tuesday) (both days inclusive)
Record date:	16 May 2017 (Tuesday)

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration:	By no later than 4:30 p.m. on 23 May 2017 (Tuesday)
Closure of register of members:	24 May 2017 (Wednesday) to 25 May 2017 (Thursday) (both days inclusive)
Record date:	25 May 2017 (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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the aforementioned latest time.

AUDIT COMMITTEE

The audit committee of the Board comprises all independent non-executive Directors. The audit committee has reviewed and discussed with the management and the external auditor, SHINEWING (HK) CPA Limited, regarding the consolidated financial statements of the Group for the year ended 31 December 2016.

ANNUAL REPORT

The 2016 annual report containing all the information required by the Listing Rules will be made available on the Stock Exchange website and the Company's website (www.chinastarch.com.hk) on or about 6 April 2017 (Thursday).

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

Shouguang, The People's Republic of China, 10 March 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