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CHINA STARCH HOLDINGS LIMITED

中國澱粉控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3838)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

INTERIM RESULTS

The board (the “Board”) of directors (the “Directors”) of China Starch Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2013, together with the comparative figures as follows.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		(Unaudited)	
		Six months ended 30 June	
		2013	2012
	Note	RMB'000	RMB'000
Turnover	2	1,536,171	1,564,330
Cost of goods sold		<u>(1,365,469)</u>	<u>(1,387,561)</u>
Gross profit		170,702	176,769
Distribution expenses		(35,950)	(29,613)
Administrative expenses		(44,184)	(37,046)
Other income		<u>8,472</u>	<u>9,527</u>
Operating profit		99,040	119,637
Finance income		17,444	19,132
Finance costs		(476)	(318)
Share of result of an associate		<u>–</u>	<u>(1,498)</u>
Profit before taxation	3	116,008	136,953
Income tax expenses	4	<u>(27,871)</u>	<u>(34,398)</u>
Profit and total comprehensive income for the period		<u><u>88,137</u></u>	<u><u>102,555</u></u>
Attributable to:			
— Equity holders of the Company		87,437	101,941
— Non-controlling interests		<u>700</u>	<u>614</u>
		<u><u>88,137</u></u>	<u><u>102,555</u></u>
Basic and diluted earnings per share (RMB)	6	<u><u>0.0148</u></u>	<u><u>0.0176</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June	31 December
	2013	2012
	RMB'000	RMB'000
<i>Note</i>	(Unaudited)	(Audited)
Non-current assets		
Property, plant and equipment	1,116,877	778,319
Prepaid lease payments	101,885	103,259
Deposit for acquisition of prepaid lease payments	100,800	80,000
Deposit for acquisition of property, plant and equipment	73,637	103,977
Deferred tax assets	1,173	1,254
	1,394,372	1,066,809
	1,394,372	1,066,809
Current assets		
Inventories	225,717	182,506
Prepaid lease payments	2,500	2,500
Trade and other receivables	368,940	387,188
Income tax recoverable	–	1,043
Pledged bank deposits	–	2,500
Fixed deposits with maturity period over three months	360,000	340,000
Cash and cash equivalents	363,775	459,266
	1,320,932	1,375,003
	1,320,932	1,375,003
Total assets	2,715,304	2,441,812
Equity		
Equity attributable to equity holders of the Company		
Share capital	532,357	523,670
Reserves	1,388,255	1,321,160
	1,920,612	1,844,830
Attributable to equity holders	1,920,612	1,844,830
Non-controlling interests	22,170	21,470
	1,942,782	1,866,300
Total equity	1,942,782	1,866,300
Non-current liabilities		
Borrowings	4,211	4,654
Deferred income	24,922	26,630
	29,133	31,284
	29,133	31,284

		30 June 2013	31 December 2012
		RMB'000	RMB'000
	<i>Note</i>	(Unaudited)	(Audited)
Current liabilities			
Trade and other payables	8	498,378	495,989
Income tax payable		15,801	19,495
Employee housing deposits		26,291	26,307
Borrowings		202,919	2,437
		<u>743,389</u>	<u>544,228</u>
Total liabilities		<u>772,522</u>	<u>575,512</u>
Total equity and liabilities		<u>2,715,304</u>	<u>2,441,812</u>
Net current assets		<u>577,543</u>	<u>830,775</u>
Total assets less current liabilities		<u>1,971,915</u>	<u>1,897,584</u>

Notes:

1. BASIS OF PREPARATION

These condensed consolidated interim financial statements for the six months ended 30 June 2013 have been prepared in accordance with the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and Hong Kong Accounting Standard 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants. The condensed consolidated interim financial statements should be read in conjunction with the annual audited financial statements for the year ended 31 December 2012 (the “2012 Financial Statements”), which have been prepared in accordance with Hong Kong Financial Reporting Standards.

The accounting policies applied in the condensed consolidated interim financial statements are consistent with those of the 2012 Financial Statements, except for the accounting policy changes that are expected to be reflected in the 2013 annual audited financial statements. Details of these changes in accounting policies are set out in note 2.1 of the 2012 Financial Statements. The adoption of these changes has no material financial effect on the Group’s results and financial position for the current or prior periods. The Group has not applied any new standard or amendment that is not effective for the current accounting period.

These condensed consolidated interim financial statements are presented in Renminbi (“RMB”), unless otherwise stated. These condensed consolidated interim financial statements have not been audited.

2. SEGMENT INFORMATION

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

	Cornstarch RMB’000	Lysine RMB’000	Starch- based sweetener RMB’000	Electricity and steam RMB’000	Modified starch RMB’000	Unallocated RMB’000	Total RMB’000
Six months ended 30 June 2013							
TURNOVER							
Total sales	1,118,649	257,693	107,684	94,614	102,767	–	1,681,407
Inter-segment sales	(81,730)	–	–	(63,506)	–	–	(145,236)
External sales	<u>1,036,919</u>	<u>257,693</u>	<u>107,684</u>	<u>31,108</u>	<u>102,767</u>	<u>–</u>	<u>1,536,171</u>
Segment results	<u>68,583</u>	<u>73,938</u>	<u>4,691</u>	<u>3,980</u>	<u>15,902</u>	<u>(68,054)</u>	<u>99,040</u>
Six months ended 30 June 2012							
TURNOVER							
Total sales	1,150,177	288,835	83,726	119,603	–	–	1,642,341
Inter-segment sales	–	–	–	(78,011)	–	–	(78,011)
External sales	<u>1,150,177</u>	<u>288,835</u>	<u>83,726</u>	<u>41,592</u>	<u>–</u>	<u>–</u>	<u>1,564,330</u>
Segment results	<u>70,393</u>	<u>101,252</u>	<u>2,202</u>	<u>4,392</u>	<u>–</u>	<u>(58,602)</u>	<u>119,637</u>
TOTAL SEGMENT ASSETS							
At 30 June 2013	<u>662,720</u>	<u>255,052</u>	<u>124,336</u>	<u>98,595</u>	<u>80,171</u>	<u>1,493,257</u>	<u>2,714,131</u>
At 31 December 2012	<u>743,912</u>	<u>167,827</u>	<u>119,146</u>	<u>128,580</u>	<u>79,311</u>	<u>1,200,739</u>	<u>2,439,515</u>

2. SEGMENT INFORMATION (Continued)

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

	Six months ended 30 June	
	2013	2012
	RMB'000	<i>RMB'000</i>
Results of reportable segments	167,094	178,239
Unallocated income	6,001	8,057
Unallocated expenses	(74,055)	(66,659)
	<hr/>	<hr/>
Total segment results	99,040	119,637
Finance income	17,444	19,132
Finance costs	(476)	(318)
Share of result of an associate	–	(1,498)
	<hr/>	<hr/>
Profit before taxation	116,008	136,953
	<hr/> <hr/>	<hr/> <hr/>

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

	30 June	31 December
	2013	2012
	RMB'000	<i>RMB'000</i>
Reportable segments' assets	1,220,874	1,238,776
Unallocated:		
Prepaid lease payments	98,666	99,971
Deposit for acquisition of prepaid lease payments	100,800	80,000
Deposit of acquisition of property, plant and equipment	32,654	21,699
Pledged bank deposits	–	2,500
Fixed deposits with maturity period over three months	360,000	340,000
Cash and cash equivalents	363,775	459,266
Other unallocated assets	537,362	197,303
	<hr/>	<hr/>
Total segment assets	2,714,131	2,439,515
Income tax recoverable	–	1,043
Deferred tax assets	1,173	1,254
	<hr/>	<hr/>
Total assets as per condensed consolidated statement of financial position	2,715,304	2,441,812
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3. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Depreciation of property, plant and equipment	35,769	33,043
Amortisation of prepaid lease payments	1,374	756
	<hr/>	<hr/>
Total depreciation and amortisation	37,143	33,799
Gain on disposal of property, plant and equipment	(457)	(369)
Net foreign exchange loss/(gain)	2,679	(311)
Cost of inventories recognised as expenses	1,281,611	1,326,244
Employee benefits expenses (including directors' emoluments)	45,858	43,950
Research and development expenses	3,412	1,580
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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 periods. Taxation on overseas profits has been calculated on the estimated assessable profits for the periods at the rates of taxation prevailing in the countries in which the Group operates.

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Current income tax		
— PRC corporate income tax	27,790	34,263
Deferred tax	81	135
	<hr/>	<hr/>
	27,871	34,398
	<hr/> <hr/>	<hr/> <hr/>

5. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2013 (2012: Nil).

A final dividend of HK0.67 cents per share (with a scrip dividend option) for the year ended 31 December 2012 (2011: HK0.67 cents per share) has been approved at the annual general meeting of the Company held on 15 May 2013. The payment of the final dividend and the issue of the scrip shares have been completed on 21 June 2013.

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2013 is based on earnings of RMB87,437,000 (2012: RMB101,941,000) and on the weighted average number of 5,889,121,000 ordinary shares (2012: 5,779,680,000 ordinary shares) in issue.

No diluted earnings per share has been presented because no dilutive potential ordinary shares exist for both six months ended 30 June 2013 and 2012.

7. TRADE AND OTHER RECEIVABLES

	30 June 2013 RMB'000	31 December 2012 RMB'000
Trade receivables	160,073	142,925
Bank acceptance bills	182,988	220,353
Other receivables	25,879	23,910
	<u>368,940</u>	<u>387,188</u>

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

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

	30 June 2013 RMB'000	31 December 2012 RMB'000
0–30 days	135,384	109,230
31–60 days	11,176	9,387
61–90 days	3,682	10,862
Over 90 days	9,831	13,446
	<u>160,073</u>	<u>142,925</u>

Included in other receivables is an amount due from non-controlling interest of RMB21,076,000 (31 December 2012: RMB12,284,000). No impairment has been made to receivables from related companies.

The detail of bank acceptance bills at the end of the reporting period is shown as follows:

	30 June 2013 RMB'000	31 December 2012 RMB'000
Endorsed bills	136,585	186,784
Bills on hand	46,403	33,569
	<u>182,988</u>	<u>220,353</u>

The bank acceptance bills are normally with maturity period of 180 days (31 December 2012: 180 days). There is no recent history of default on bank acceptance bills.

8. TRADE AND OTHER PAYABLES

	30 June 2013 RMB'000	31 December 2012 RMB'000
Trade and bills payables		
0–60 days	35,343	64,899
61–90 days	10,287	3,809
Over 90 days	10,452	16,954
	56,082	85,662
Advances from customers	82,740	106,555
Others	359,556	303,772
	498,378	495,989

As at 30 June 2013, bills payables are secured by bank acceptance bills of RMB4,500,000.

As at 31 December 2012, bills payables were secured by pledged bank deposits of RMB2,500,000.

Included in other payables is an amount due to a related company of RMB29,679,000 (31 December 2012: amount due from a related company of RMB5,015,000).

MANAGEMENT DISCUSSION AND ANALYSIS

General Review and Outlook

Review

The manufacturing contraction, following slowed growth in the first half of the year, has dashed the hope of economic recovery in China. This trend will probably continue to last for the remaining year while the Board is still anticipating opportunities for the long-term growth followed by the key economic reforms released by the current term of Chinese Government. However, as most of the revenue generated by the Group was from the China market, our performance was inevitably affected by the manufacturing contraction in China. In the meantime, the Directors will be more cautious on the business in the second half of the year.

Our performance was mainly affected by the decrease in selling price in our major products, such as cornstarch, lysine and starch-based sweetener, however, the management team spent much effort to maintain the profitability during the period under review. Benefited from the introduction of the new business segment, modified starch, during the period under review, turnover of the Group decreased slightly by 1.8% to approximately RMB1,536,171,000 (2012: RMB1,564,330,000). Gross profit for the period under review decreased slightly by 3.4% to approximately RMB170,702,000 (2012: RMB176,769,000). Profit after taxation decreased by 14.1% to approximately RMB88,137,000 (2012: RMB102,555,000).

Basic earnings per share of the Company was RMB0.0148 per share based on the weighted average number of 5,889,121,000 ordinary shares (2012: RMB0.0176 per share based on the weighted average number of 5,779,680,000 ordinary shares).

Outlook

The Group managed to keep the construction of our new production site in Shouguang on schedule and the trial production of cornstarch facilities on the new site is expected to start in the third quarter of the year. The Board also expected the other production facilities, such as for the production of lysine and modified starch, will be installed gradually in the foreseeable future. The Group has a solid financial position and the funding for this construction has been financed by internal resources of the Group.

The Group has strong confidence in the cornstarch market in China in the long run because of the unbreakable relationship between the Chinese economy and the demand of cornstarch. The profitability and technological innovation of the Group exceed that of the small to medium-scale cornstarch manufacturers, whom could be eliminated from the market under the current economic environment in China. As cornstarch is non-reusable and is hard to be substituted by nature, the demand of cornstarch will be recovered at a high speed when the Chinese economy resumes and the benefit of market supply integration is at the same time being brought about in future.

Business Review

Cornstarch and ancillary corn-refined products

Six months ended 30 June	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	1,036,919	1,150,177
Gross profit	68,583	70,393
Gross profit margin	6.6%	6.1%

Sales of cornstarch and ancillary corn-refined products decreased by 9.8% to approximately RMB1,036,919,000 (2012: RMB1,150,177,000). This business segment represented about 67.5% (2012: 73.5%) of total turnover of the Group for the period under review.

The decrease in sales and gross profit of this segment were mainly attributable to the decrease in selling price and sales volume for the period under review. Cost of corn kernel was stable for the period under review. The average selling price of cornstarch decreased from approximately RMB2,624 per tonne to RMB2,514 per tonne. Sales volume decreased by approximately 13.2% from 309,969 tonnes to 268,922 tonnes, as a result of the slackening market demand and the temporary suspensions of production due to the regular repair and maintenance work in, as well as accidental failures in the supplies of gas and electricity to, the Linqing plant in April and May. The Linqing plant resumed production and returned to its normal production capacity subsequently.

Lysine and fertilisers

Six months ended 30 June	2013 RMB'000	2012 RMB'000
Turnover	257,693	288,835
Gross profit	73,938	101,252
Gross profit margin	28.7%	35.1%

Lysine and fertilisers was the second largest segment of the Group, which represented about 16.8% (2012:18.5%) of the Group's total turnover.

The average selling price of lysine for the period under review decreased significantly by 22.6% from approximately RMB11,000 per tonne to RMB8,516 per tonne. As lysine was mainly used for the production of animal feeds, the domestic demand on lysine was affected by the new bird flu strain in China. The marketing team shifted its focus to overseas markets, therefore, export sales of lysine products represented about 37.5% of turnover in this segment, as compared with about 9.6% of turnover for the corresponding period in 2012. With the effort of the development of overseas markets for lysine products, sales volume of lysine products increased from 25,979 tonnes to 30,096 tonnes for the period under review.

The decrease in gross profit and profit margin of this business segment was mainly due to the decrease in selling price of lysine products.

Starch-based sweetener

Six months ended 30 June	2013 RMB'000	2012 RMB'000
Turnover	107,684	83,726
Gross profit	3,891	2,202
Gross profit margin	3.6%	2.6%

Turnover of starch-based sweetener increased by 28.6% to approximately RMB107,684,000 (2012: RMB83,726,000), which represented about 7.0% (2012: 5.4%) of total turnover of the Group.

The average selling price and sales volume of starch-based sweetener was approximately RMB2,379 per tonne (2012: RMB2,455 per tonne) and 45,272 tonnes (2012: 34,108 tonnes) respectively. During the period under review, the operation of the Linqing plant, which is the production plant of starch-based sweetener, was temporarily suspended in April and May due to the regular repair and maintenance work in, as well as the accidental failures in the supplies of gas and electricity to, the Linqing plant. The operation of the Linqing plant was resumed. As a result of the stagnant market of starch-based sweetener, the inventory level was high. The management destocked the inventories actively in June, resulting in increases in the turnover and gross profit of this business segment as compared with the same period in last year.

Modified starch

Modified starch was a new business segment of the Group because the Company completed the acquisition of the remaining 51% equity interest in Shouguang Golden Far East Modified Starch Co., Ltd (“Golden Far East”) from the then joint venture partner at the end of November 2012 (the “Acquisition”). Most of the modified starch orders were from overseas markets. Turnover and gross profit of modified starch for the period under review was approximately RMB102,767,000 and RMB21,940,000 respectively. Gross profit margin of this business segment was 21.3%.

Electricity and steam

Six months ended 30 June	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Turnover	31,108	41,592
Gross profit	2,350	2,922
Gross profit margin	7.6%	7.0%

Turnover of electricity and steam represented about 2.0% (2012: 2.6%) of total turnover of the Group. Turnover of this business was mainly contributed by sales to Golden Far East before the Acquisition. Since the operating results of Golden Far East were consolidated in the Group’s financial statements after the Acquisition, turnover for the current period represented the sales to independent third parties.

The increase in gross profit margin for the period under review was mainly due to the decrease in coal price.

Review of Other Operations

Other Income

The decrease in other income was mainly due to the decrease in sales of scrap materials for the period under review.

Distribution and Administrative Expenses

The increase in distribution expenses was mainly due to the increase in transportation cost and the increase in sales of modified starch resulted from the Acquisition.

Administrative expenses recorded a substantial growth during the period under review due to the increase in staff costs and foreign exchange loss, which outweighed the benefit of the decrease in government levies.

Human Resources and Remuneration Policies

As at 30 June 2013, the Group had approximately 2,373 full time staff (2012: 2,240). Total staff costs, including Directors' emoluments, of the Group was approximately RMB45,858,000 (2012: RMB43,950,000). 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 30 June 2013, 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 was 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 RMB. Foreign currencies were however received from export sales and bank loan. Such proceeds were subject to foreign exchange risk before converting into RMB. The foreign currencies received from export sales were converted into RMB 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.

Liquidity, financial resources and capital structure

As at 30 June 2013, the available and unutilised banking facilities of the Group amounted to approximately RMB1,030,000,000 and RMB829,961,000 respectively. 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:

Borrowings

	30 June 2013 RMB'000	31 December 2012 RMB'000
Bank loan, unsecured	200,039	–
Government loan, unsecured	7,091	7,091
	207,130	7,091
Carrying amount payables:		
Within 1 year	202,919	2,437
1 to 2 years	886	886
2 to 5 years	2,659	2,659
Over 5 years	666	1,109
	207,130	7,091
Debtors turnover (days)	41	35
Creditors turnover (days)	9	10
Inventories turnover (days)	27	24
Current ratio	1.8	2.5
Quick ratio	1.5	2.2
Gearing ratio — borrowings to total assets	7.6%	0.3%

The bank loans are unsecured and carry interest at fixed rates ranging from 5.0% to 6.0% per annum, of which the bank loan amounting to approximately RMB40,039,000 is denominated in United States dollar.

Pledge of assets and contingent liabilities

As at 30 June 2013, bills payables were secured by bank acceptance bills at the amount of approximately RMB4,500,000. The Group did not pledge any leasehold land and building to secure banking facilities and did not have any material contingent liabilities as at 30 June 2013.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2013 (2012: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

During the six months ended 30 June 2013, the Company has complied with the applicable code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules, except for the insurance cover in respect of legal action against its Directors.

Details of the deviation is set out in the corporate governance report in the 2012 annual report and there has been no change as to corporate governance compliance during the period under review.

AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) comprises all independent non-executive Directors. The Audit Committee has reviewed and discussed with the management of the Company the unaudited consolidated interim results for the six months ended 30 June 2013.

The consolidated interim results of the Company for the six months ended 30 June 2013 have not been audited.

INTERIM REPORT

The 2013 Interim Report will be published on the websites of The Stock Exchange of Hong Kong Limited and the Company (www.chinastarch.com.hk) in due course.

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

Shouguang, 9 August 2013

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:

Ms Dong Yanfeng
Mr Cao Zenggong
Mr Yue Kwai Wa, Ken