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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 2015

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 2015, together with the comparative figures as follows.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		(Unaudited)	
		Six months ended 30 June	
		2015	2014
	Note	RMB'000	RMB'000
Revenue	2	2,000,697	2,249,623
Cost of sales		(1,804,238)	(2,085,287)
Gross profit		196,459	164,336
Distribution expenses		(51,485)	(59,997)
Administrative expenses		(63,982)	(41,839)
Other income and gain, net		9,251	8,157
Operating profit		90,243	70,657
Finance income		13,273	16,700
Finance expenses		(6,758)	(11,607)
Profit before taxation	3	96,758	75,750
Income tax expenses	4	(24,133)	(17,040)
Profit and total comprehensive income for the period		<u>72,625</u>	<u>58,710</u>
Attributable to:			
Owners of the Company		71,005	57,418
Non-controlling interests		1,620	1,292
		<u>72,625</u>	<u>58,710</u>
Basic and diluted earnings per share (RMB)	6	<u>0.0118</u>	<u>0.0096</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		1,298,044	1,263,365
Prepaid lease payments		212,972	215,253
Deposits for acquisition of prepaid lease payments		20,830	20,830
Deposits for acquisition of property, plant and equipment		13,372	39,779
Deferred tax assets		20,959	22,537
Total non-current assets		1,566,177	1,561,764
Current assets			
Prepaid lease payments		4,936	4,917
Inventories		399,596	276,679
Trade and other receivables	7	536,590	381,268
Pledged bank deposits		6,360	6,000
Fixed deposits with maturity period over three months		290,000	430,000
Cash and cash equivalents		163,724	184,568
Total current assets		1,401,206	1,283,432
Total assets		2,967,383	2,845,196

		30 June 2015	31 December 2014
	<i>Note</i>	RMB'000 (Unaudited)	<i>RMB'000 (Audited)</i>
EQUITY			
Equity attributable to owners of the Company			
Share capital		532,656	532,656
Reserves		1,492,466	1,454,128
		2,025,122	1,986,784
Non-controlling interests		28,673	27,053
Total equity		2,053,795	2,013,837
LIABILITIES			
Non-current liabilities			
Borrowings		2,439	2,882
Deferred income		21,244	34,067
Total non-current liabilities		23,683	36,949
Current liabilities			
Trade and other payables	8	539,581	465,609
Income tax payable		10,066	20,972
Borrowings		313,983	281,550
Employee housing deposits		26,275	26,279
Total current liabilities		889,905	794,410
Total liabilities		913,588	831,359
Total equity and liabilities		2,967,383	2,845,196

Notes:

1. BASIS OF PREPARATION

These condensed consolidated interim financial statements for the six months ended 30 June 2015 have been prepared in accordance with the disclosure requirements of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and Hong Kong Accounting Standard 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants. The condensed consolidated interim financial statements should be read in conjunction with the annual audited financial statements for the year ended 31 December 2014 (the “2014 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 2014 Financial Statements, except for the accounting policy changes that are expected to be reflected in the 2015 annual audited financial statements. Details of these changes in accounting policies are set out in note 2.1 of the 2014 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	Modified starch RMB’000	Electricity and steam RMB’000	Total RMB’000
Six months end 30 June 2015						
Sales to external customers	1,558,206	228,918	106,923	106,650	–	2,000,697
Inter-segment sales	81,545	5,024	–	–	–	86,569
	<u>121,750</u>	<u>38,397</u>	<u>16,299</u>	<u>12,678</u>	<u>4,415</u>	<u>193,539</u>
Reportable segment results						
Unallocated income						4,997
Unallocated expenses						(108,293)
Finance income						13,273
Finance expenses						(6,758)
						<u>96,758</u>
Profit before taxation						
Six months end 30 June 2014						
Sales to external customers	1,593,667	366,467	110,824	137,153	41,512	2,249,623
Inter-segment sales	99,153	8,484	–	–	47,554	155,191
	<u>126,308</u>	<u>(7,841)</u>	<u>5,668</u>	<u>18,225</u>	<u>14,408</u>	<u>156,768</u>
Reportable segment results						
Unallocated income						5,447
Unallocated expenses						(91,558)
Finance income						16,700
Finance expenses						(11,607)
						<u>75,750</u>
Profit before taxation						

3. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Depreciation of property, plant and equipment	61,801	58,755
Amortisation of prepaid lease payments	2,262	1,813
Total depreciation and amortisation	64,063	60,568
Loss on disposal of property, plant and equipment	9,242	1,340
Net foreign exchange (gain)/loss	(2,310)	434
Provision for impairment of inventories (<i>note</i>)	1,993	–
Employee benefits expenses (including directors' emoluments)	63,233	63,358

Note:

The provision for impairment of inventories has been recognised as an expense, being the amount of write-down of inventories to net realisable value, in profit or loss during the period.

4. INCOME TAX EXPENSES

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
PRC Enterprise Income Tax ("EIT")		
— Current year	24,982	16,958
— Over-provision in prior years	(2,427)	–
Deferred income tax	1,578	82
	24,133	17,040

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

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

5. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2015 (2014: nil).

A final dividend of HK0.69 cents per share for the year ended 31 December 2014 (2013: HK0.67 cents per share) has been approved at the annual general meeting of the Company held on 20 May 2015. The payment of the final dividend has been completed on 29 June 2015.

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2015 is based on earnings of RMB71,005,000 (2014: RMB57,418,000) and on the weighted average number of 5,995,892,000 ordinary shares (2014: 5,992,296,000 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 2015 and 2014.

7. TRADE AND OTHER RECEIVABLES

	30 June 2015 RMB'000	31 December 2014 RMB'000
Trade receivables	231,806	147,116
Bank acceptance bills	236,606	185,503
Other receivables and prepayments	68,178	48,649
	<u>536,590</u>	<u>381,268</u>

The Group normally grants credit period ranging 0 to 120 days (31 December 2014: 0 to 120 days) to customers.

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

	30 June 2015 RMB'000	31 December 2014 RMB'000
0–30 days	191,784	102,828
31–60 days	13,664	21,621
61–90 days	8,093	6,711
Over 90 days	18,265	15,956
	<u>231,806</u>	<u>147,116</u>

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

	30 June 2015 RMB'000	31 December 2014 RMB'000
Endorsed bills	170,067	131,055
Bills on hand	54,499	54,448
Discounted bills	12,040	–
	<u>236,606</u>	<u>185,503</u>

The bank acceptance bills are normally with maturity period of 180 days (31 December 2014: 180 days). There is no recent history of default on bank acceptance bills. As at 30 June 2015, bank acceptance bills of RMB2,973,000 (31 December 2014: RMB4,692,000) and RMB12,040,000 (31 December 2014: nil) were pledged to banks for securing bills payables and cash advances for discounted bills respectively.

8. TRADE AND OTHER PAYABLES

	30 June 2015 RMB'000	31 December 2014 RMB'000
Trade and bills payables		
0–60 days	73,128	77,520
61–90 days	9,799	22,963
Over 90 days	35,150	24,010
	<u>118,077</u>	<u>124,493</u>
Advances from customers	111,133	51,813
Others	310,371	289,303
	<u>539,581</u>	<u>465,609</u>

As at 30 June 2015, bills payables were secured by bank acceptance bills of RMB2,973,000 (31 December 2014: RMB4,692,000) and pledged bank deposits of RMB6,360,000 (31 December 2014: RMB6,000,000).

MANAGEMENT DISCUSSION AND ANALYSIS

General Review and Outlook

Review

In the era of “new normal” of the Chinese economy, most of the domestic base-material manufacturers are facing the threat of over-production capacity and industry consolidation. China’s manufacturing sector remained weak in the first half of 2015. While our competitors and other Chinese producers are recovering from the aftermath of the “new normal”, the Group has proactively taken steps to achieve a rebound under this economic atmosphere.

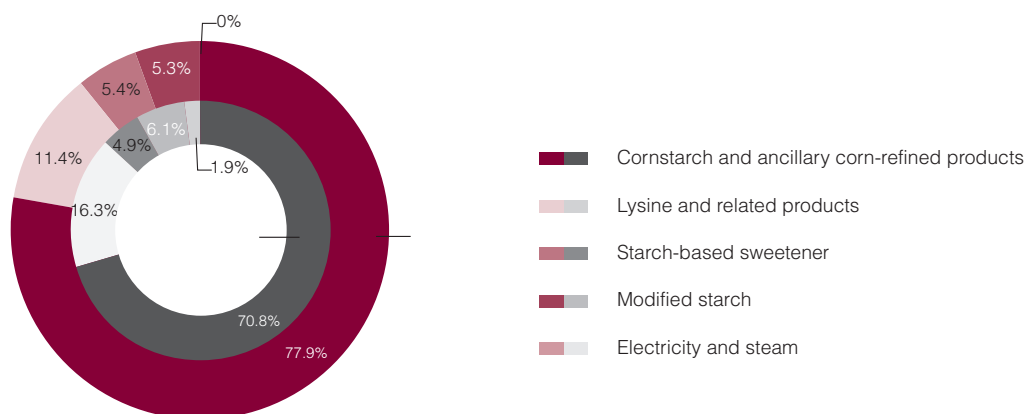
During the period under review, we had strived to improve our performance by strengthening our customer relationship and expanding our domestic distribution network. Although our revenue recorded a decrease to approximately RMB2,000,697,000 (2014: RMB2,249,623,000), gross profit margin had improved by 2.5 percentage point to 9.8% due to the increase in our gross profit to approximately RMB196,459,000 (2014: RMB164,336,000). Net profit also increased by 23.7% to RMB72,625,000 (2014: RMB58,710,000) and the profit attributable to owners of the Company was approximately RMB71,005,000 (2014: RMB57,418,000). Basic earnings per share of the Company was RMB0.0118 per share based on weighted average number of 5,995,892,000 ordinary shares (2014: RMB0.0096 per share based on weighted average number of 5,992,296,000 ordinary shares).

Outlook

As disclosed in the 2014 annual report, the Group entered into a research and development agreement with a research centre managed by Chinese Academy of Sciences for the development and marketization of a new product (the “New Project”) and set up a pilot-scale production line for the New Project. The designated new product is D-lactic acid (the “New Product”), which is used in the production of pesticide and biodegradable polymer. The New Project is in line with one of our strategies of producing high value-added products with cornstarch as a raw material and is aimed at enhancing our competitive advantage and creating business opportunities for the Group. As at the date of this announcement, a small amount of samples of the New Product have been obtained as part of the pilot experiment results for the New Project. It remains open for the Company to consider further investment in the New Project, depending on customer feedback on the New Product, the required production capacity for its mass production, further research and analysis on its market demand and assessment on its potential selling price.

BUSINESS ANALYSIS

The following chart shows the contribution of each of our business segments to the Group's revenue for the six months ended 30 June 2015 and 2014:



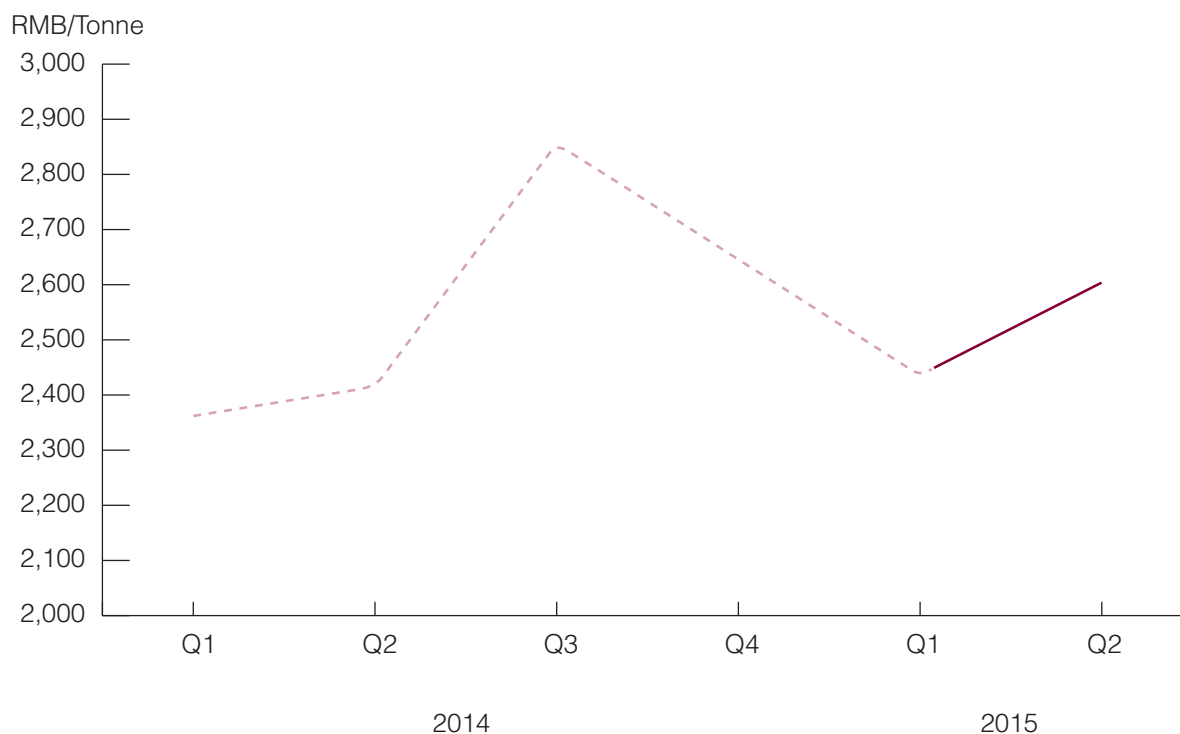
Cornstarch and other ancillary corn-refined products

For the six months ended
30 June

	2015 RMB'000	2014 RMB'000
Revenue	1,558,206	1,593,667
Gross profit	121,750	126,308
Gross profit margin	7.8%	7.9%

Sales of cornstarch and ancillary corn-refined products decreased slightly by 2.2% to approximately RMB1,558,206,000 (2014: RMB1,593,667,000). During the period under review, sales volume of cornstarch increased to 448,750 (2014: 425,629) tonnes while the average selling price of cornstarch increased by 5.6% to RMB2,532 (2014: RMB2,397) per tonne. However, these positive factors to our cornstarch business were offset by the disappointing sales performance of ancillary corn-refinery products, such as corn gluten meal, corn fibre and corn germs.

During the period under review, domestic manufacturers were inclined to procure higher proportions of imported corn kernel, sorghum, barley, soybean and other substitute goods of ancillary corn-refined products, in view of their significantly decreased international market prices. Such increase in market competition had driven down the domestic market price of ancillary corn-refined products. In addition, corn fibre and corn gluten meal, which are main ingredients of animal feeds, also recorded a decline in market price as the domestic animal feed market remained lacklustre. Having considered the substantial decrease in the market price for corn gluten meal and corn germs recorded by the end of June, a provision for impairment of inventories of RMB1,993,000 was provided as at the period ended 30 June 2015.

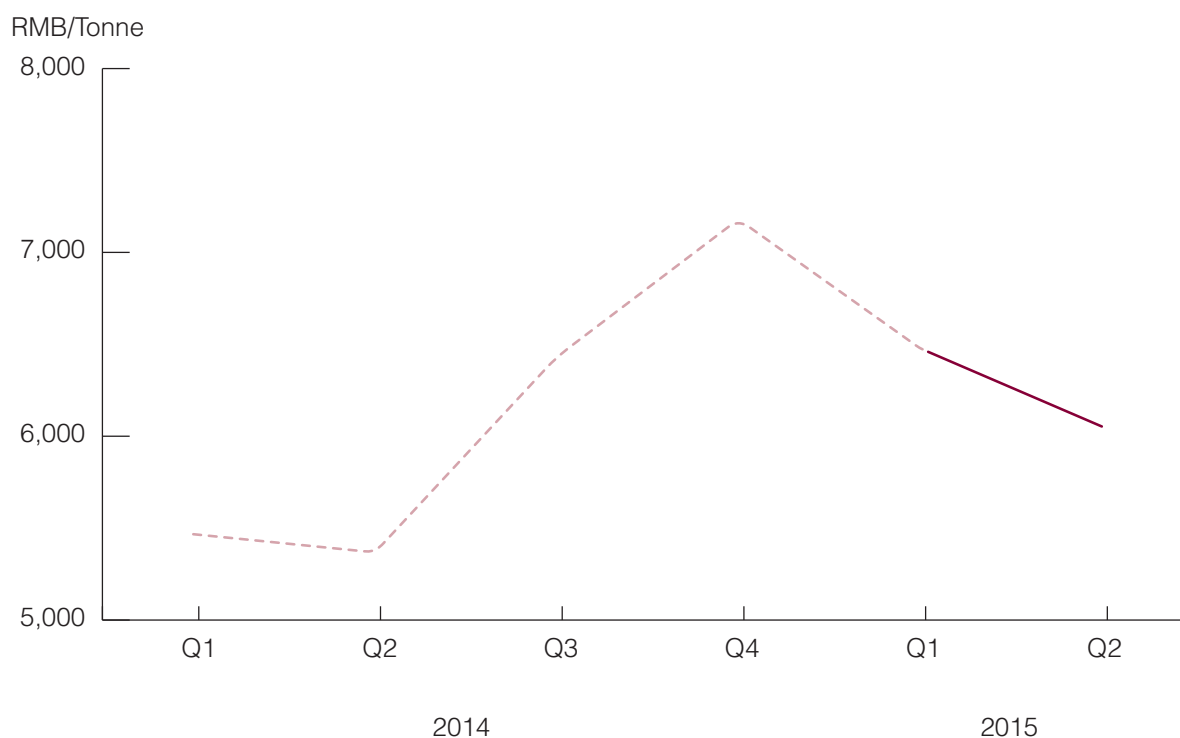


Cornstarch selling price movement
(net of value-added tax)

Lysine and related products

	For the six months ended	
	30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	228,918	366,467
Gross profit/(loss)	38,397	(7,841)
Gross profit/(loss) margin	16.8%	(2.1%)

Sales of lysine and related products decreased significantly by 37.5% to approximately RMB228,918,000 (2014: RMB366,467,000). As the overall lysine market in China has been experiencing weaker profit margins due to reduction in market demand and excess market supply for lysine, the price of lysine products has become very unstable and difficult to predict. We believe that the market would take a period of time to digest the excess production capacity in China.



Lysine selling price movement
(net of value-added tax)

Starch-based sweetener

	For the six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Revenue	106,923	110,824
Gross profit	16,299	5,668
Gross profit margin	15.2%	5.1%

The decrease in sales of starch-based sweetener to approximately RMB106,923,000 (2014: RMB110,824,000) was mainly attributable to the temporary suspension of production in our Linqing plant as a result of its annual repair and maintenance carried out in April 2015. Comparatively, the sales of starch-based sweetener for the six months ended 30 June 2014 was not impacted by the annual repair and maintenance work at the Linqing plant as it was performed in July for 2014.

The management expected that the sales performance of starch-based sweetener in the second half of the year would be affected by the excessive supply in the domestic market.

Modified starch

	For the six months ended	
	30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	106,650	137,153
Gross profit	20,013	28,491
Gross profit margin	18.8%	20.8%

Sales of modified starch recorded a substantial decrease to RMB106,650,000 (2014: RMB137,153,000). The sales of this business segment were mainly contributed by export sales in past years. During the period under review, the domestic market price of corn kernel (a major raw material of modified starch) was substantially higher than the overseas market price, leading to a higher market price of modified starch within China than in overseas. Therefore, export sales had decreased to 26.2% (2014: 61.1%) of the total sales of modified starch.

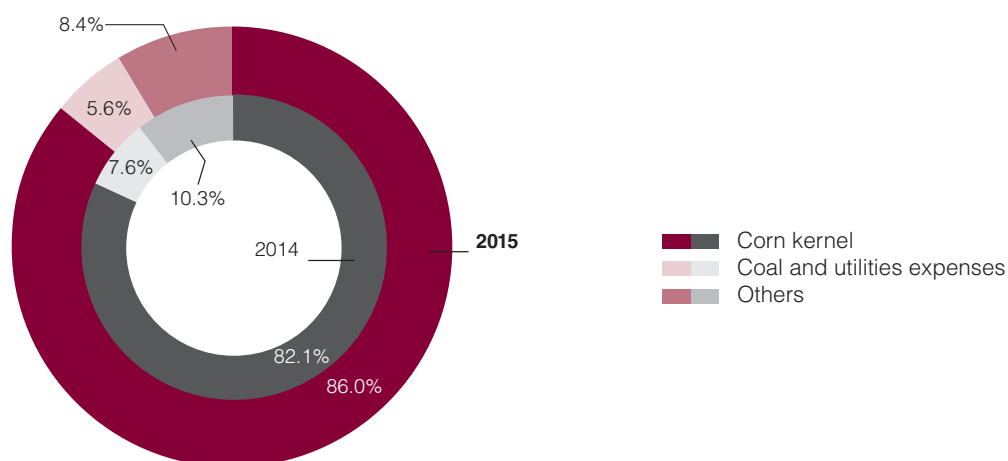
Electricity and steam

	For the six months ended	
	30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	–	41,512
Gross profit	–	11,710
Gross profit margin	–	28.2%

The Group did not have any sales of electricity and steam during the period under review because of the ceased operations of our power plant subsequent to the relocation of our production plant in Shouguang. The Group may or may not engage in this business segment, subject to any related acquisition opportunities, which the Group is yet to identify as at the date of this announcement.

Cost of sales and gross profit margin

The major cost components are corn kernel and utilities expenses for the six months ended 30 June 2015. Due to the ceased operation of our power plant in the first half of 2015, we did not purchase any coal for the production of electricity and steam. A decrease in our cost of sales during the period under review was attributable to a decrease in the cost of corn kernel, the average of which was approximately RMB1,995 (2014: RMB2,004) per tonne.



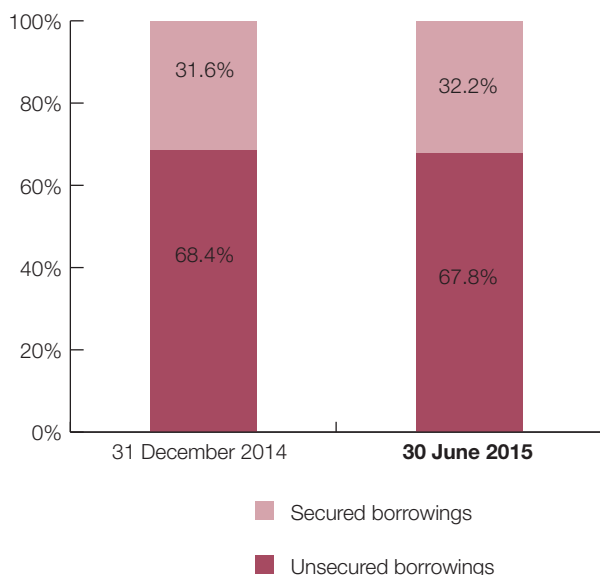
The Group's gross profit margin increased from 7.3% to 9.8% during the period under review. The increase in gross profit margin was mainly due to (i) the increase in average selling price of our major products, such as cornstarch, lysine and starch-based sweetener, as compared with the past corresponding period and (ii) the decrease in the cost of corn kernel.

FINANCIAL REVIEW

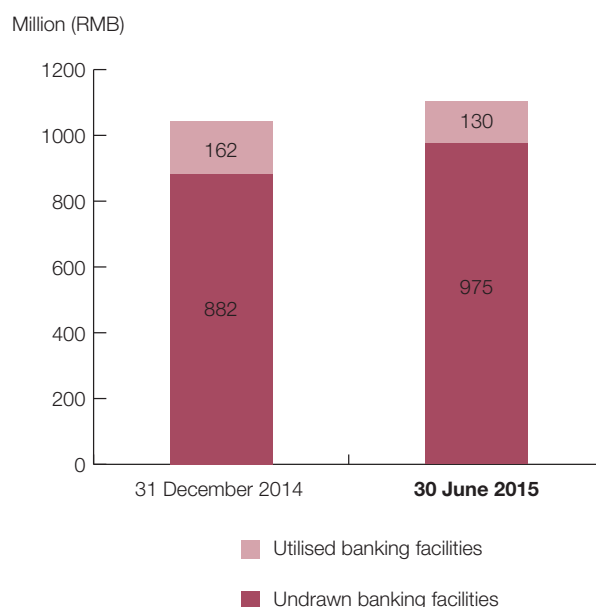
Liquidity, financial resources and capital structure

The portfolio of borrowings and key financial ratios are summarised as follows:

Secured and unsecured borrowings



Banking facilities



	30 June 2015	31 December 2014
Borrowings (<i>RMB'000</i>)	316,422	284,432
Debtors turnover (<i>days</i>)	36	35
Creditors turnover (<i>days</i>)	12	13
Inventories turnover (<i>days</i>)	34	32
Current ratio	1.6	1.6
Quick ratio	1.1	1.3
Gearing ratio — borrowings to total assets	10.7%	10.0%

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 30 June 2015, the borrowings were approximately RMB316,422,000 (31 December 2014: RMB284,432,000) and carried interest at fixed rates. Most of the Group's borrowings were with a maturity within one year. The increase in borrowings was mainly attributable to the receipt of cash advances for discounted bills and short-term bank borrowings.

Finance expenses

Benefited from the decrease in interest rate, finance expenses decreased significantly from approximately RMB11,607,000 to RMB6,758,000 during the period under review.

Pledge of assets

As at 30 June 2015, bills payables were secured by bank acceptance bills and bank deposits in the amount of RMB2,973,000 and RMB6,360,000 respectively. In addition, the net book value of leasehold land and buildings pledged as security for a bank loan granted to a subsidiary of the Group amounted to approximately RMB52,206,000.

As at 31 December 2014, bills payables were secured by bank acceptance bills and bank deposits in the amount of RMB4,692,000 and RMB6,000,000 respectively. The Group did not pledge any leasehold land and building to secure banking facilities as at 31 December 2014.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2015.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2015 (2014: nil).

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

There was no purchase, sale or redemption by the Company or any of its subsidiaries, of the Company's listed securities during the period under review.

CORPORATE GOVERNANCE

During the six months ended 30 June 2015, 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.

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 2015.

The unaudited consolidated interim results of the Company for the six months ended 30 June 2015 have not been reviewed by the auditors of the Company.

INTERIM REPORT

The 2015 Interim Report will be published on the websites of The Stock Exchange of Hong Kong Limited and the Company (www.chinastarch.com.hk) on or about 28 August 2015 (Friday).

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

Shouguang, The People's Republic of China, 21 August 2015

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:

Mr. Yue Kwai Wa, Ken
Mr. Chen Zhijun
Mr. Sun Mingdao