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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 2016

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 2016, together with the comparative figures as follows.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	(Unaudited)	
		Six months ended 30 June	
		2016	2015
		RMB'000	RMB'000
Revenue	2	2,122,404	2,000,697
Cost of sales		(1,903,716)	(1,804,238)
Gross profit		218,688	196,459
Distribution expenses		(48,631)	(51,485)
Administrative expenses		(60,872)	(63,982)
Other income and gain, net	3	16,926	9,251
Operating profit		126,111	90,243
Finance income		8,210	13,273
Finance expenses		(1,586)	(6,758)
Profit before income tax	4	132,735	96,758
Income tax expenses	5	(34,863)	(24,133)
Profit and total comprehensive income for the period		97,872	72,625

		(Unaudited)	
		Six months ended 30 June	
		2016	2015
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Attributable to:			
Owners of the Company		94,829	71,005
Non-controlling interests		3,043	1,620
		<u>97,872</u>	<u>72,625</u>
Basic and diluted earnings per share (<i>RMB</i>)	7	<u>0.0158</u>	<u>0.0118</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June	31 December
		2016	2015
		RMB'000	RMB'000
	<i>Note</i>	(Unaudited)	(Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		1,284,826	1,344,642
Prepaid lease payments		212,917	215,688
Deposits for acquisition of prepaid lease payments		20,830	20,830
Deposits for acquisition of property, plant and equipment		–	1,503
Deferred income tax assets		14,944	26,236
		<hr/>	<hr/>
Total non-current assets		1,533,517	1,608,899
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Current assets			
Inventories		297,841	202,951
Trade and other receivables	8	418,631	384,634
Derivative financial instruments		–	245
Pledged bank deposits		5,500	37,916
Fixed deposits with maturity period over three months		390,000	290,000
Cash and cash equivalents		136,180	298,075
		<hr/>	<hr/>
Total current assets		1,248,152	1,213,821
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Total assets		2,781,669	2,822,720
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		30 June	31 December
		2016	2015
		RMB'000	RMB'000
	<i>Note</i>	(Unaudited)	(Audited)
EQUITY			
Equity attributable to owners of the Company			
Share capital		532,656	532,656
Other reserves		396,007	395,759
Retained earnings		1,219,160	1,124,579
		2,147,823	2,052,994
Non-controlling interests		33,132	30,089
Total equity		2,180,955	2,083,083
LIABILITIES			
Non-current liabilities			
Borrowings		1,551	1,996
Deferred income		34,487	35,432
Total non-current liabilities		36,038	37,428
Current liabilities			
Trade and other payables	9	534,920	570,162
Income tax payable		600	8,336
Borrowings		2,881	97,436
Employee housing deposits		26,275	26,275
Total current liabilities		564,676	702,209
Total liabilities		600,714	739,637
Total equity and liabilities		2,781,669	2,822,720

Notes:

1. BASIS OF PREPARATION

These condensed consolidated interim financial statements for the six months ended 30 June 2016 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 2015 (the “2015 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 2015 Financial Statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual audited financial statements. Details of these changes in accounting policies are set out in note 2.1 of the 2015 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:

	Upstream products RMB'000	Fermented and downstream products RMB'000	Total RMB'000
2016			
Sales to external customers	1,504,814	617,590	2,122,404
Inter-segment sales	<u>65,641</u>	<u>4,797</u>	<u>70,438</u>
Reportable segment gross profit	112,606	106,082	218,688
Reportable segment results	117,842	98,660	216,502
Unallocated income			12,128
Unallocated expenses			(102,519)
Finance income			8,210
Finance expenses			<u>(1,586)</u>
Profit before income tax			<u><u>132,735</u></u>
	Upstream products RMB'000	Fermented and downstream products RMB'000	Total RMB'000
2015			
Sales to external customers	1,558,206	442,491	2,000,697
Inter-segment sales	<u>81,545</u>	<u>5,024</u>	<u>86,569</u>
Reportable segment gross profit	121,750	74,709	196,459
Reportable segment results	121,750	71,789	193,539
Unallocated income			4,997
Unallocated expenses			(108,293)
Finance income			13,273
Finance expenses			<u>(6,758)</u>
Profit before income tax			<u><u>96,758</u></u>

3. OTHER INCOME AND GAINS, NET

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	4,123	220
Amortisation of steam connection income and government grants	944	3,349
Reversal of deferred income attributable to steam connection income	–	9,357
Gain on sales of scrap coal and oil	–	1
Net fair value gain on derivative financial instruments	5,236	–
Gain/(loss) on disposal of property, plant and equipment	5,333	(9,242)
Others	1,290	5,566
	<u>16,926</u>	<u>9,251</u>

4. PROFIT BEFORE INCOME TAX

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

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefits expenses (including directors' emoluments)	71,614	63,233
Depreciation of property, plant and equipment	73,214	61,801
Amortisation of prepaid lease payments	3,137	2,262
Net foreign exchange loss/(gain)	10	(2,310)
Provision for impairment of inventories	–	1,993
Research and development expenses (<i>note</i>)	3,778	2,996
	<u>3,778</u>	<u>2,996</u>

Note:

Research and development expenses 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

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
The People's Republic of China (the "PRC") Enterprise Income Tax ("EIT")		
– Current year	26,777	24,982
– Over-provision in prior years	(3,206)	(2,427)
Deferred income taxes	<u>11,292</u>	<u>1,578</u>
	<u>34,863</u>	<u>24,133</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 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.

6. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016 (2015: nil).

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2016 is based on earnings of RMB94,829,000 (2015: RMB71,005,000) and on the weighted average number of 5,995,892,000 ordinary shares (2015: 5,995,892,000 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 2016 and 2015.

8. TRADE AND OTHER RECEIVABLES

	30 June 2016 RMB'000	31 December 2015 RMB'000
Trade receivables (a)	166,868	152,453
Less: Provision for impairment of trade receivables	<u>(9,630)</u>	<u>(9,630)</u>
	157,238	142,823
Bank acceptance bills (b)	164,896	194,525
Other receivables and prepayments	<u>96,497</u>	<u>47,286</u>
	<u>418,631</u>	<u>384,634</u>

(a) Trade receivables

The Group normally grants credit period ranging from 0 to 120 days (31 December 2015: 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 2016 RMB'000	31 December 2015 RMB'000
0–30 days	126,233	103,291
31–60 days	14,387	11,438
61–90 days	10,392	9,992
Over 90 days	<u>15,856</u>	<u>27,732</u>
	<u>166,868</u>	<u>152,453</u>

(b) **Bank acceptance bills**

	30 June 2016 <i>RMB'000</i>	31 December 2015 <i>RMB'000</i>
Endorsed bills	134,903	126,621
Bills on hand	29,993	67,904
	164,896	194,525

The bank acceptance bills are normally with maturity period of 180 days (31 December 2015: 180 days). There is no recent history of default on bank acceptance bills.

As at 30 June 2016, bank acceptance bills of approximately RMB5,916,000 (31 December 2015: RMB2,000,000) were pledged to banks for securing bills payables.

9. TRADE AND OTHER PAYABLES

	30 June 2016 <i>RMB'000</i>	31 December 2015 <i>RMB'000</i>
Trade and bills payables		
0–60 days	61,764	149,000
61–90 days	6,053	16,456
Over 90 days	27,337	26,026
	95,154	191,482
Advances from customers	162,552	112,486
Others	277,214	266,194
	534,920	570,162

As at 30 June 2016, bills payables were secured by bank acceptance bills of approximately RMB5,916,000 (31 December 2015: RMB2,000,000) and pledged bank deposits of RMB5,500,000 (31 December 2015: RMB27,400,000).

MANAGEMENT DISCUSSION AND ANALYSIS

GENERAL REVIEW AND OUTLOOK

Review

The overall cornstarch market atmosphere in the first half of 2016 was relatively stable as compared with the same period in the past year. Since the Chinese government adjusted its national grain reserve policy, leading to a higher degree of free and orderly corn kernel market, a new competition landscape had been formed amongst the corn-refinery industry in China. The domestic market prices of cornstarch and its derivative products decreased at the same pace as those of corn kernel during the period under review. In fact, such decrease in domestic market prices constituted a positive factor for the corn-refinery industry in China because it provided an opportunity for domestic manufacturers of cornstarch and related products to retrieve their competitive advantage in both the domestic market and export sales in the long run.

During the period under review, revenue of the Group was approximately RMB2,122,404,000 (2015: RMB2,000,697,000). Gross profit increased by 11.3% to approximately RMB218,688,000 (2015: RMB196,459,000), while gross profit margin was about 10.3% (2015: 9.8%). With the benefit of various positive factors to the Group's financial results, including the (i) substantial increase in sales volume of fermented and downstream products and (ii) gain from disposal of property, plant and equipment, net profit for the period increased significantly by 34.8% to RMB97,872,000 (2015: RMB72,625,000). Basic earnings per share of the Company was RMB0.0158 based on weighted average number of 5,995,892,000 ordinary shares (2015: RMB0.0118 per share based on weighted average number of 5,995,892,000 ordinary shares).

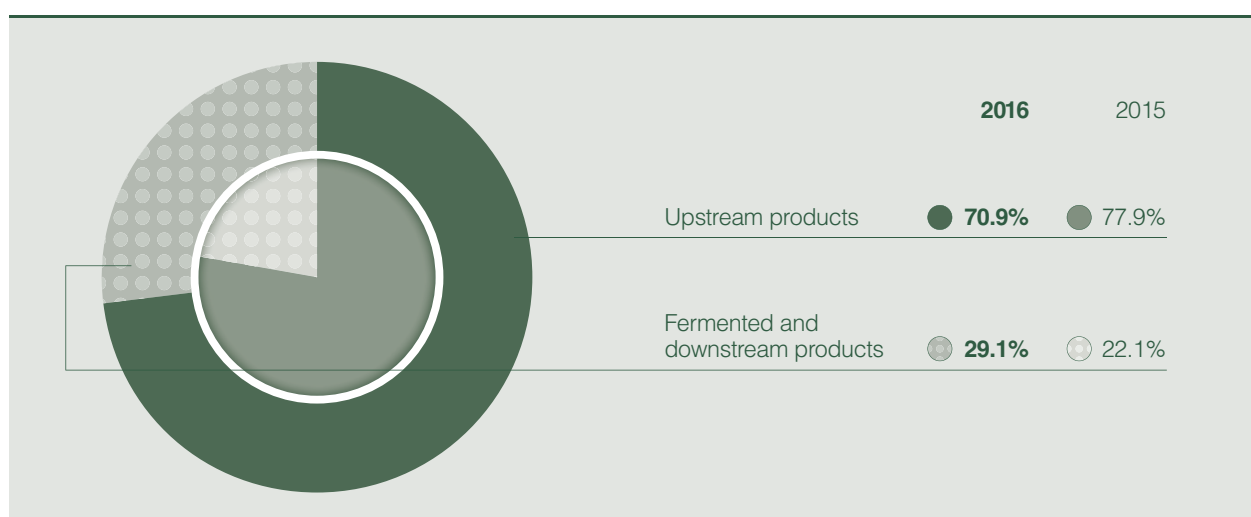
Outlook

We maintain a prudently optimistic outlook on the corn-refinery industry in China for the second half of 2016. Due to the decrease in the domestic market price of corn kernel, our fermented and downstream products have become more competitive in the overseas market. In addition, recovery of the domestic livestock farming and animal feed industries has led to an increase in demand of raw materials for the production of animal feeds, such as lysine and corn gluten meal, which is expected to instigate positive impact on the corn-refinery industry in China.

In the long run, the Group keeps upgrading our production efficiency gradually on one hand. We are also committed to spending more resources on developing new categories of niche cornstarch derivative products and introducing them to the Group's product profile on the other hand. The management believes that these new products could help us gain presence and penetrate into those niche markets in China. Moreover, this product combination strategy, by balancing our requirements of (i) economies of scale, (ii) profitability and (iii) business development, is expected to strengthen the sustainability of the Group's business in the long run.

BUSINESS ANALYSIS

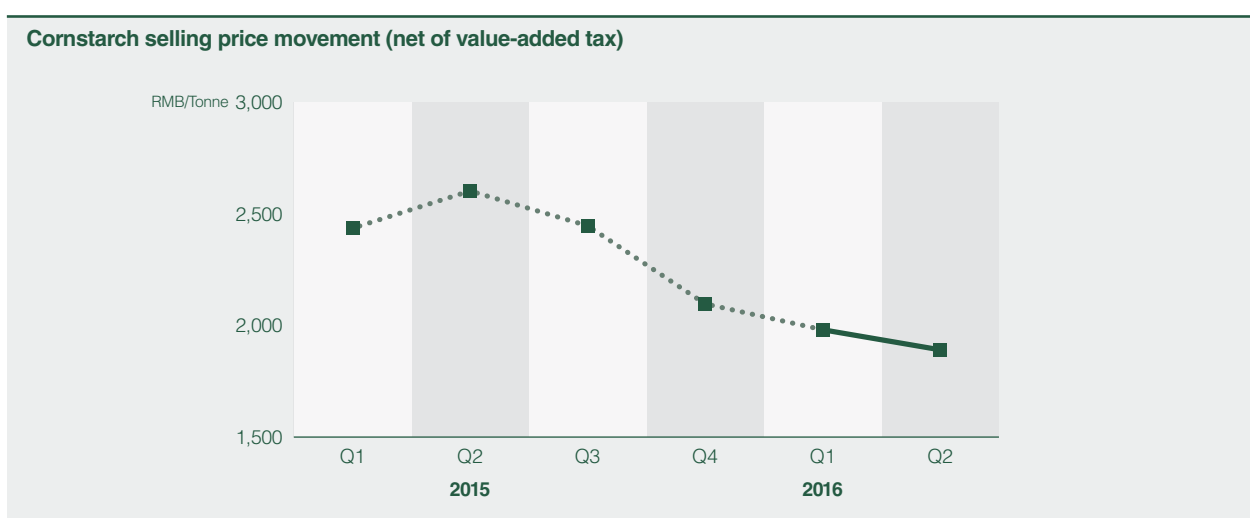
The following chart shows the contribution of (i) upstream products and (ii) fermented and downstream products to the Group's revenue for the six months ended 30 June 2016 and 2015 respectively:



Upstream products

	For the six months ended	
	30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	1,504,814	1,558,206
Gross profit	112,606	121,750
Gross profit margin	<u>7.5%</u>	<u>7.8%</u>

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 slightly by 3.4% to approximately RMB1,504,814,000 (2015: RMB1,558,206,000). During the period under review, the price movements of cornstarch and corn kernel (the major raw material of cornstarch) were at the same pace. The average selling price of cornstarch for the first half of 2016 was approximately RMB1,932 (2015: RMB2,532) per tonne. Sales volume of cornstarch for the period under review was approximately 550,395 tonnes (2015: 448,750 tonnes). An increase of sales volume was mainly attributable to an advancement of production technique and a reorganisation of production lines in our Linqing production site.



Fermented and downstream products

	For the six months ended	
	30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue		
– Lysine	374,890	228,734
– Starch-based sweetener	129,186	106,923
– Modified starch	99,678	106,650
– Others	13,836	184
Total	617,590	442,491
Gross profit	106,082	74,709
Gross profit margin	17.2%	16.9%

Fermented and downstream products consist of lysine, starch-based sweetener, modified starch and other fermented products derived from cornstarch, such as D-lactic acid, the applications of which are pre-determined by customers at the time of placing orders, as well as other services. Total revenue of this business segment was approximately RMB617,590,000 (2015: RMB442,491,000), representing an increase of 39.6%. Such increase was mainly attributable to the increase in sales volume during the period under review.

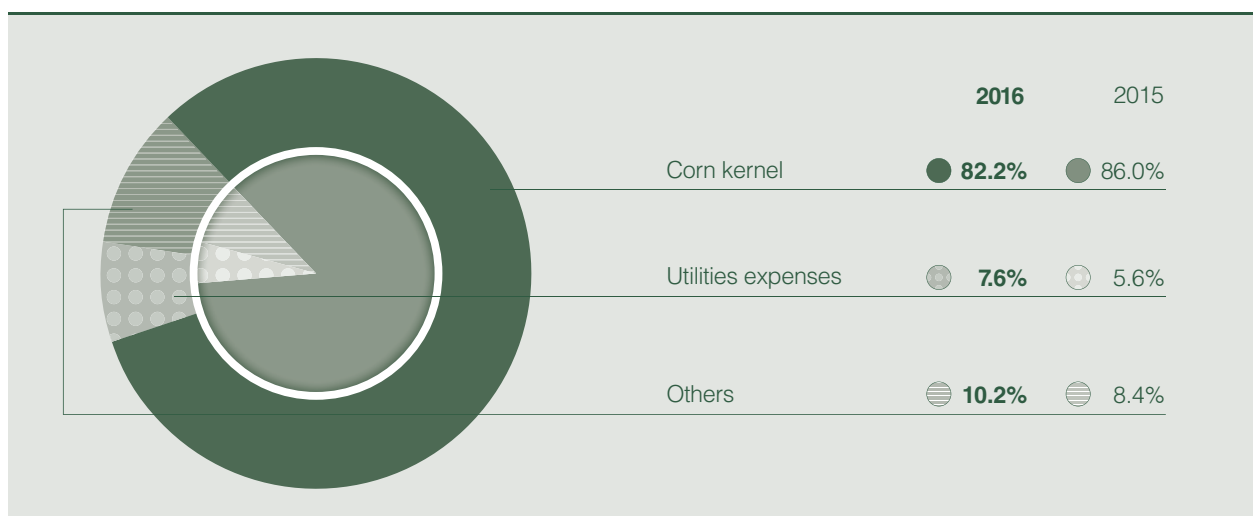
Sales performance of lysine products benefited from the recovery of the domestic animal feed market and our strengthened inventory control. The average selling price of lysine products was approximately RMB5,341 (2015: RMB6,247) per tonne, while the sales volume increased substantially to 70,193 tonnes (2015: 36,615 tonnes), or by 91.7%.

Revenue of starch-based sweetener recorded a substantial increase to RMB129,186,000 (2015: RMB106,923,000). Such increase was mainly attributable to an increase in market demand from domestic breweries.

Revenue of modified starch decreased by 6.5% to approximately RMB99,678,000 (2015: RMB106,650,000). Such decrease in sales of modified starch was mainly attributable to a decrease in average selling price during the period under review.

Cost of sales and gross profit margin

The major cost components mainly consisted of corn kernel and utilities expenses. During the period under review, domestic corn kernel price was mainly affected by the excessive corn kernel supply resulted from the release of national grain reserve. The average corn kernel price was approximately RMB1,536 (2015: RMB1,995) per tonne. Corn kernel prices moved downward in the first quarter of the year and started to increase in the second quarter of the year. It is expected that corn kernel prices will maintain at a higher level until the end of the third quarter of the year.



The Group's gross profit margin increased slightly from 9.8% to 10.3% during the period under review. The increase in gross profit margin was mainly due to (i) the decrease in the cost of corn kernel and (ii) the change of product mix.

REVIEW OF OTHER OPERATIONS

Other incomes and gains

The Group recorded a substantial increase in other income and gains during the period under review. The increase was mainly attributable to a gain on disposal of property, plant and equipment of approximately RMB5,333,000 (2015: a loss of approximately RMB9,242,000). In addition, the Group also recorded a fair value gain on futures contracts of approximately RMB5,236,000 for the period under review (2015: nil).

HUMAN RESOURCES AND REMUNERATION POLICIES

As at 30 June 2016, the Group had 2,178 (2015: 2,209) full time staff. Total staff costs, including directors' emoluments, for the six months ended 30 June 2016 were approximately RMB71,614,000 (2015: RMB63,233,000). The Company's remuneration policy and share option scheme remained unchanged from information disclosed in our 2015 Annual Report. As at 30 June 2016, no share options had been granted under the Company's share option scheme.

FINANCIAL REVIEW

Liquidity, Financial Resources And Capital Structure

The key financial ratios of the Group for the six months ended 30 June 2016 and the year ended 31 December 2015 respectively are summarised as follows:

	30 June 2016	31 December 2015
Borrowings (<i>RMB'000</i>)	4,432	99,432
Repayable:		
– within one year	2,881	97,436
– over one year	1,551	1,996
Debtors turnover (days)	28	28
Creditors turnover (days)	14	14
Inventories turnover (days)	24	22
Current ratio	2.2	1.7
Quick ratio	1.7	1.4
Gearing ratio – borrowings to total assets	0.2%	3.5%

As at 30 June 2016, the Group did not have any bank borrowings (31 December 2015: RMB95,000,000) and the total available and undrawn banking facilities was approximately RMB1,235 million. The bank borrowings for the period under review had carried interest at fixed rates before they were fully repaid.

The Group's borrowings as at 30 June 2016 represented an unsecured and interest-free government loan of approximately RMB4,432,000 (31 December 2015: RMB4,432,000). The Group's borrowings, cash and cash equivalents were mostly denominated in Renminbi.

The Directors are of the opinion that the working capital available to the Group is sufficient for its present requirements.

Finance expenses

A significant decrease of 76.5% in finance expenses to approximately RMB1,586,000 (2015: RMB6,758,000) was mainly attributable to the early repayment of bank borrowings and the reduction of interest rate for the period under review.

Pledge of assets

As at 30 June 2016, bills payables were secured by bank acceptance bills and bank deposits in the amounts of RMB5,916,000 and RMB5,500,000 respectively. The Group did not pledge any leasehold land and building to secure banking facilities as at 30 June 2016.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2016.

Financial management, treasury policy and foreign currency exposure

Save as disclosed above, the Group's financial management, funding and treasury policy and foreign currency exposure had not changed materially from the information disclosed in our 2015 Annual Report.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2016 (2015: 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 2016, the Company had complied with the applicable code provisions as set out in the Corporate Governance Code contained in Appendix 14 to 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 because of their other business engagement.

AUDIT COMMITTEE

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 2016.

The unaudited consolidated interim results of the Company for the six months ended 30 June 2016 have not been reviewed by the auditors of the Company.

INTERIM REPORT

The 2016 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 29 August 2016 (Monday).

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

Shouguang, The People's Republic of China, 19 August 2016

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