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 2015

Financial highlights:

	2015	2014	
	RMB'000	*RMB'000*	Change
Revenue	**4,360,110**	4,169,785	+4.6%
Gross profit	**354,332**	363,519	-2.5%
Operating profit	**120,274**	67,969	+77.0%
Profit for the year	**101,913**	66,345	+53.6%
Profit attributable to shareholders	**98,877**	62,725	+57.6%
Basic earnings per share (RMB)	**0.0165**	0.0105	+57.1%
Proposed final dividend per share (HK cents)	**Nil**	0.69	-100%

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 2015, together with the comparative figures for the year ended 31 December 2014.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Note	**2015**	2014
		RMB'000	*RMB'000*
Revenue	*2*	**4,360,110**	4,169,785
Cost of sales		**(4,005,778)**	(3,806,266)
Gross profit		**354,332**	363,519
Distribution expenses		**(108,771)**	(110,953)
Administrative expenses		**(149,554)**	(117,164)
Other income and gains, net	*3*	**24,267**	19,004
Provision for impairment of property, plant and equipment in respect of Shouguang Old Plant	*8*	**–**	(86,437)
Operating profit		**120,274**	67,969
Finance income		**29,888**	38,184
Finance expenses		**(9,919)**	(22,196)
Profit before income tax	*4*	**140,243**	83,957
Income tax expenses	*5*	**(38,330)**	(17,612)
Profit and total comprehensive income for the year		**101,913**	66,345
Attributable to:			
Owners of the Company		**98,877**	62,725
Non-controlling interests		**3,036**	3,620
		101,913	66,345
Earnings per share attributable to the equity holders of the Company			
Basic and diluted earnings per share (RMB)	*6*	**0.0165**	0.0105

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2015

	Note	**2015** *RMB'000*	2014 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**1,344,642**	1,263,365
Prepaid lease payments		**215,688**	215,253
Deposits for acquisition of prepaid lease payments		**20,830**	20,830
Deposits for acquisition of property, plant and equipment		**1,503**	39,779
Deferred income tax assets		**26,236**	22,537
Total non-current assets		**1,608,899**	1,561,764
Current assets			
Prepaid lease payments		**–**	4,917
Inventories		**202,951**	276,679
Trade and other receivables	*9*	**384,634**	381,268
Derivative financial instruments		**245**	–
Pledged bank deposits		**37,916**	6,000
Fixed deposits with maturity period over three months		**290,000**	430,000
Cash and cash equivalents		**298,075**	184,568
Total current assets		**1,213,821**	1,283,432
Total assets		**2,822,720**	2,845,196

	Note	2015 RMB'000	2014 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital		**532,656**	532,656
Reserves		**1,520,338**	1,454,128
		2,052,994	1,986,784
Non-controlling interests		**30,089**	27,053
Total equity		**2,083,083**	2,013,837
LIABILITIES			
Non-current liabilities			
Borrowings		**1,996**	2,882
Deferred income		**35,432**	34,067
Total non-current liabilities		**37,428**	36,949
Current liabilities			
Trade and other payables	*10*	**570,162**	465,609
Income tax payable		**8,336**	20,972
Borrowings		**97,436**	281,550
Employee housing deposits		**26,275**	26,279
Total current liabilities		**702,209**	794,410
Total liabilities		**739,637**	831,359
Total equity and liabilities		**2,822,720**	2,845,196

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, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

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 financial year beginning on or after 1 January 2015:

Annual Improvements Project	Annual Improvements 2010–2012 Cycle
Annual Improvements Project	Annual Improvements 2011–2013 Cycle
HKAS 19 (Amendment)	Defined Benefit Plants: Employee Contributions

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.

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

2. REVENUE AND SEGMENT INFORMATION

The Executive Directors, being the chief operating decision maker of the Group, consider the business from a product perspective in the past. However, due to continual expansion and business development of the Group, management has changed its internal organisation structure to align more closely with the Group's strategic decision and reflect the economic similarity and distinction of products. The Group has adopted the new organisation structure as the reporting format effective for the year ended 31 December 2015. The comparative segment information has been reclassified to reflect the current organisational structure. The Group's operating segments are so 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

Interest income and expenses 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	Fermented and downstream products	Total
	RMB'000	*RMB'000*	*RMB'000*
2015			
Sales to external customers	**3,339,891**	**1,020,219**	**4,360,110**
Inter-segment sales	**150,209**	**11,112**	**161,321**
Reportable segment gross profit	**225,351**	**128,981**	**354,332**
Reportable segment results	**215,721**	**118,802**	**334,523**
Unallocated income			**21,671**
Unallocated expenses			**(235,920)**
Finance income			**29,888**
Finance expenses			**(9,919)**
Profit before income tax			**140,243**
Other segment information:			
Depreciation and amortisation	**52,670**	**54,691**	**107,361**
Provision for impairment of property, plant and equipment in respect of Electricity and Steam Generating Equipment	**–**	**10,286**	**10,286**
2014 (Restated)			
Sales to external customers	2,971,862	1,197,923	4,169,785
Inter-segment sales	147,149	59,183	206,332
Reportable segment gross profit	252,848	110,671	363,519
Reportable segment results	232,542	45,506	278,048
Unallocated income			15,723
Unallocated expenses			(225,802)
Finance income			38,184
Finance expenses			(22,196)
Profit before income tax			83,957
Other segment information:			
Depreciation and amortisation	42,995	56,855	99,850
Provision for impairment of property, plant and equipment in respect of Shouguang Old Plant	20,306	48,565	68,871

The revenue from external customers in the People's of Republic China (the "PRC") for the year ended 31 December 2015 amounted to RMB3,896,835,000 (2014: RMB3,609,279,000), and the revenue from external customers from other countries amounted to RMB463,275,000 (2014: RMB560,506,000).

3. OTHER INCOME AND GAINS, NET

	2015 *RMB'000*	2014 *RMB'000*
Government grants *(note)*	**5,901**	8,102
Amortisation of steam connection income and government grants	**3,578**	3,778
Reversal of deferred income attributable to steam connection income	**9,357**	–
Gain on sales of scrap coal and oil	**3,295**	4,324
Net fair value gain on derivative financial instruments	**3,095**	–
Provision for impairment of property, plant and equipment in respect of Electricity and Steam Generating Equipment *(note 8)*	**(10,286)**	–
Losses on disposal of property, plant and equipment	**(2,783)**	(6,142)
Others	**12,110**	8,942
	24,267	19,004

Note: For the year ended 31 December 2015, the government grants mainly represented subsidies from local government for, inter alia, compensation for the cessation of power plant's operation and the relocation to the new production base in Shouguang. The government grants were granted at the discretion of the government and were not recurring in nature.

4. PROFIT BEFORE INCOME TAX

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

	2015 *RMB'000*	2014 *RMB'000*
Cost of inventories recognised as expenses	**3,944,450**	3,751,919
Employee benefit expenses (including directors' emoluments)	**137,994**	130,225
Depreciation of property, plant and equipment	**127,921**	117,474
Amortisation of prepaid lease payments	**4,482**	3,820
Provision for impairment of property, plant and equipment in respect of Shouguang Old Plant *(note 8)*	**–**	86,437
Provision for impairment of trade receivables *(note 9(b))*	**9,630**	–
Net foreign exchange gain	**(3,711)**	(69)
Operating lease payments	**666**	659
Research and development expenses *(note)*	**6,584**	10,215
Auditor's remuneration		
– Audit services	**1,204**	1,162
– Non-audit services	**27**	38

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

	2015 *RMB'000*	2014 *RMB'000*
PRC Enterprises Income Tax ("EIT")		
– Current year	**41,349**	42,821
– Under/(over)-provision in prior years	**680**	(3,763)
Deferred income taxes	**(3,699)**	(21,446)
	38,330	17,612

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.

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:

	2015	2014
Earnings		
Profit attributable to owners of the Company (RMB'000)	**98,877**	62,725
Weighted average number of ordinary shares in issue (thousands)	**5,995,892**	5,994,109

The basic and diluted earnings per share for the year ended 31 December 2015 and 2014 were the same because there was no dilutive potential ordinary share.

7. DIVIDENDS

	2015	2014
	RMB'000	*RMB'000*
Final dividend in respect of previous financial year, approved and paid during the year of HK0.69 cents (2014: HK0.67 cents) per share	**32,667**	31,882
Final dividend proposed after the end of the reporting period *(note)*	**–**	32,638

Note: The Board does not recommend the payment of a final dividend for the year ended 31 December 2015. A final dividend of HK0.69 cents per share was proposed after the year ended 31 December 2014 and was paid in June 2015.

8. PROVISION FOR IMPAIRMENT LOSSES OF PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2014, due to the cessation of manufacturing operations of the previous production base located in Shouguang and relocation of the production to the new production base during the second half of 2014, the management carried out an impairment review on the manufacturing plant, machinery and other equipment remained in the previous production base ("Shouguang Old Plant"). These assets include manufacturing plant, machinery and other equipment that are unmovable (amounted to RMB68,872,000 as to manufacturing assets and RMB17,565,000 as to non-manufacturing assets respectively). Considering (i) the physical condition of these unmovable machinery and other equipment and (ii) the fact that the land on which the manufacturing plant is situated is not going to be used for industrial purpose, according to the future development plan of the region in which the previous production base was located, the management considered the fair value less cost of disposal of the Shouguang Old Plant immaterial and made a full provision of RMB86,437,000 (note 4).

As at 31 December 2015, the management carried out an impairment review and concluded that no further impairment loss was required except for certain electricity and steam generating equipment ("Electricity and Steam Generating Equipment") with an original plan for re-use upon relocation. Taking into account of the latest change in development plan in the second half of 2015 and the physical condition of the Electricity and Steam Generating Equipment, the management considered the fair value less cost of disposal of these assets to be minimal and made a full provision of RMB10,286,000 (note 3) for the current financial year.

9. TRADE AND OTHER RECEIVABLES

	2015	2014
	RMB'000	*RMB'000*
Trade receivables (a)	**152,453**	147,116
Less: Provision for impairment of trade receivables (b)	**(9,630)**	–
	142,823	147,116
Bank acceptance bills (c)	**194,525**	185,503
Other receivables and prepayments	**47,286**	48,649
	384,634	381,268

(a) Trade receivables

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

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

	2015	2014
	RMB'000	*RMB'000*
0–30 days	**103,291**	102,828
31–60 days	**11,438**	21,621
61–90 days	**9,992**	6,711
Over 90 days	**27,732**	15,956
	152,453	147,116

Included in the trade receivables balance are debtors with an aggregate carrying amount of RMB40,820,000 (2014: RMB25,992,000) which are past due but not impaired. These relate to a number of independent customers of whom there is no recent history of default.

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

	2015	2014
	RMB'000	*RMB'000*
1–30 days	**11,438**	13,916
31–60 days	**9,992**	2,229
61–90 days	**5,701**	1,560
Over 90 days	**13,689**	8,287
	40,820	25,992

(b) Provision for impairment of trade receivables

As of 31 December 2015, trade receivables of RMB9,630,000 (2014: nil) were impaired and fully provided for. The individually impaired receivables past due for over twelve months are related to a customer, which has financial difficulty.

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

	2015	2014
	RMB'000	*RMB'000*
At 1 January	**–**	–
Provision for impairment *(note 4)*	**9,630**	–
At 31 December	**9,630**	–

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

	2015	2014
	RMB'000	*RMB'000*
Endorsed bills	**126,621**	131,055
Bills on hand	**67,904**	54,448
	194,525	185,503

The bank acceptance bills are normally with maturity period of 180 days (2014: 180 days). There is no recent history of default on bank acceptance bills.

As at 31 December 2015, bank acceptance bills of RMB2,000,000 (RMB4,692,000) were pledged to banks for securing bills payables.

10. TRADE AND OTHER PAYABLES

	2015	2014
	RMB'000	*RMB'000*
Trade payables	**132,582**	113,801
Bills payables	**58,900**	10,692
Total trade and bills payables	**191,482**	124,493
Advances from customers	**112,486**	51,813
Deposits	**9,449**	11,742
Sales commission	**2,126**	2,358
Other tax payables	**30,794**	22,676
Accrued expenses	**20,231**	13,170
Payroll and welfare payables	**1,639**	6,709
Payable for construction and equipment	**198,640**	230,328
Others	**3,315**	2,320
	378,680	341,116
	570,162	465,609

As at 31 December 2015, bills payables were secured by bank acceptance bills of RMB2,000,000 (2014: RMB4,692,000) and pledged bank deposits of RMB27,400,000 (2014: RMB6,000,000).

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

	2015	2014
	RMB'000	*RMB'000*
0–60 days	**149,000**	77,520
61–90 days	**16,456**	22,963
Over 90 days	**26,026**	24,010
	191,482	124,493

The average credit period on purchases is 80 days (2014: 80 days). The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

MANAGEMENT DISCUSSION AND ANALYSIS

GENERAL REVIEW AND OUTLOOK

Review

In year 2015, China's economic slowdown had led to a widespread pessimistic view on the economic outlook. Some established economic indicators, such as gross domestic product and producer price index, were reported the lowest amongst the decade. In addition, the recent Shanghai and Shenzhen stock market indices and Renminbi exchange rate fluctuations also pose warning signals of further deterioration in the Chinese economy.

Our business involves purchasing of corn kernel on one hand and manufacturing and sales of cornstarch and other related products on the other hand in the mainland China. Corn kernel is a commodity and cornstarch is a base-material which is widely applied in different industries. Therefore, we are among one of the industries which first felt the impact of China's economic slowdown. Although the Chinese government had launched a series of economic stimulation policies to boost the economy, the rebound in the corn-refinery industry was unsustainable and the general business environment in the corn-refinery industry remained unsatisfactory. Both the market price and demand of corn-refinery products lost their dynamic to grow.

To counter the decelerating economic growth rate and the challenge of excessive production capacity in the China market, the Group has applied a well-known Chinese proverb "to forge iron, one must be strong" as our motto in the times of challenge. For instance, our new production site in Shouguang has operated for a full financial year since its relocation from the old plant site. We have achieved, among others, a lower overall energy consumption rate per output in this new production site than that in the old plant, and hence improved the efficiency of our production model. The Group is committed to continue making effort in equipping ourselves with advanced production knowhow and maintaining ourselves on a sustainable growth track.

During the year under review, the Group's production output and equipment utilisation rate were maintained at a healthy level despite the economic slowdown. Revenue of the Group had slightly increased by about 4.6% to RMB4,360,110,000 (2014: RMB4,169,785,000). Gross profit margin of the Group decreased from 8.7% to 8.1%. Profit after taxation for the current financial year increased significantly from RMB66,345,000 to RMB101,913,000, as the Group provided a provision for impairment of approximately RMB86,437,000 for the previous financial year ended 31 December 2014 in relation to the manufacturing plant, machinery and other equipment that remained in the Group's previous production base in Shouguang subsequent to the relocation of our production site during the second half of 2014 (the details of which were announced by the Company on 13 February 2015). Basic earnings per share of the Company was RMB0.0165 per share based on the weighted average number of 5,995,892,000 ordinary shares (2014: RMB0.0105 per share based on the weighted average number of 5,994,109,000 ordinary shares).

LATEST DEVELOPMENT AND OUTLOOK

Safety comes first

As one of the leading cornstarch manufacturers in China, the Group is committed to deploying our resources to safety issues. In January 2015, a new department, the Safety Supervision Department, was set up to consolidate all safety measures amongst various departments of the Group, and is led by Mr. Liu Xianggang, one of our executive Directors. The responsibilities of the Safety Supervision Department include, but are not limited to, formulating safety measures of the Group and safety training for staff, and coordinating workplace safety management. The Directors believe that the establishment of the Safety Supervision Department will help our staff pay more attention to safety issues and enhance our work safety policies in a professional manner.

Launch of new product

In August 2015, the Group started to launch a new product, D-lactic acid, which is used in the production of pesticide and biodegradable polymer. The current production scale of D-lactic acid is relatively small as compared with our other products and the production is still in the trial-run stage. The future development and investment plan of this new product are still subject to various factors, such as customer's feedback, future price movement and potential competition. The Directors presently believe that the market and prospects of this new product are promising in the foreseeable future.

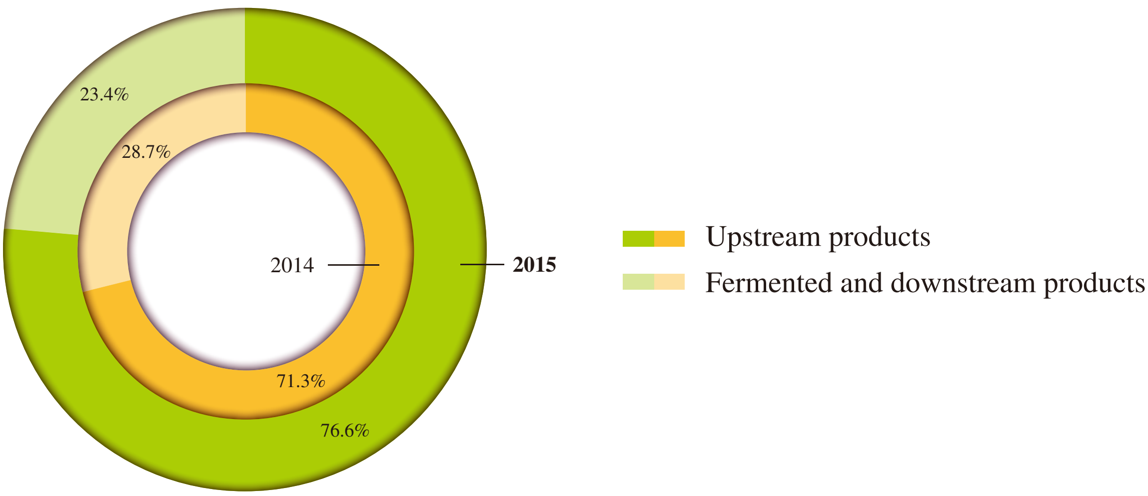
Research and development

The Chinese government has encouraged enterprises to develop new materials which possess the characteristics of environmental-friendly and energy-efficient. In echo with this State policy, the Group embraces the potential of cornstarch as a raw material of many possible new materials, and has been committed to deploying resources to the development of cornstarch into new materials. D-lactic acid, our new product as disclosed above, is one of the fruits of our efforts.

BUSINESS ANALYSIS

During the year under review, the Directors re-assessed each business segment and considered that the Group's existing organisation structure should be adapted to our continual business development and enable our shareholders and potential investors to understand our business and our positioning in the macro-production chain more easily. The original business segments were made up of (1) products (cornstarch and ancillary corn-refined products, lysine and related products, starch-based sweetener, and modified starch) and (2) services (electricity and steam). As the production and sale of electricity and steam had ceased as a result of the relocation of our production plants in Shouguang, the original services segment is not expected to be of continuing significance to the Group's business performance, and is accordingly aggregated with our products segment for a simplified organisation structure. In addition, to reflect the economic similarity and distinction of products in our product portfolio, the original product segments are currently revised into two new main business segments, namely (1) "Upstream products" and (2) "Fermented and downstream products". Upstream products represent cornstarch and ancillary corn-refined products, which have a variety of application potentials depending on our customers' industry sectors. 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.

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:



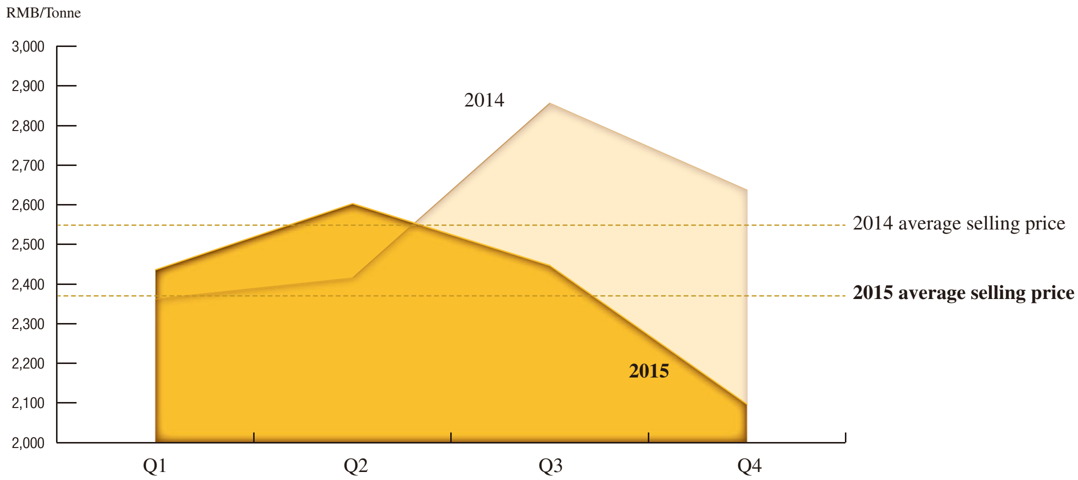
Upstream products

	2015	2014
	RMB'000	*RMB'000*
Revenue	**3,339,891**	2,971,862
Gross profit	**225,351**	252,848
Gross profit margin	**6.7%**	8.5%

Revenue of upstream products increased by approximately 12.4% to RMB3,339,891,000 (2014: RMB2,971,862,000). The increase in sales was mainly attributable to an increase in sales volume of cornstarch by approximately 31.6% to 1,017,194 tonnes (2014: 773,099 tonnes). However, this positive factor was offset by the decrease in average selling prices of cornstarch and other ancillary corn-refined products. The average selling price of cornstarch was approximately RMB2,385 (2014: RMB2,548) per tonne.

During the year under review, the international market prices of corn kernel, sorghum, barley and other substitute goods of ancillary corn-refined products decreased significantly and their international market prices were lower than their Chinese market prices. In this regard, domestic manufacturers were inclined to procure higher proportions of such imported substitutes of ancillary corn-refined products. As a result of this competition, the sales performance (selling price in particular) of ancillary corn-refined products, such as corn gluten meal and corn germs, was disappointing.

Gross profit margin of upstream products decreased from 8.5% to 6.7% due to the drop in average selling price of cornstarch and ancillary corn-refined products.



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

Fermented and downstream products

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

	2015	2014
	RMB'000	*RMB'000*
Revenue		
– Lysine	**551,288**	669,745
– Starch-based sweetener	**258,493**	253,025
– Modified starch	**204,032**	218,123
– Others	**6,406**	57,030
Total	**1,020,219**	1,197,923
Gross profit	**128,981**	110,671
Gross profit margin	**12.6%**	9.2%

Fermented and downstream products consist of lysine, starch-based sweetener, modified starch, D-lactic acid and other fermented products, such as D-lactic acid, which are derived from cornstarch, as well as other services. Revenue of this business segment for the year under review was approximately RMB1,020,219,000 (2014: RMB1,197,923,000).

Sales performance of lysine was mainly affected by the excess production capacity in China. Besides, the Chinese government stockpiled grain, including corn kernel (a major raw material in the production of lysine), in Northeast China during the second half of the year, leading to an increase in corn kernel price and indirectly affected the production activities of local lysine manufacturers in these regions. As our production plants were not located in and our corn kernel were not sourced from those affected regions, our production cost of lysine was not affected. Instead, we benefited from the substantial decrease in corn kernel price in the Shandong province, which resulted in a decrease in the production cost and hence the selling price of lysine in the second half of the year. During the year under review, the average selling price of lysine products was approximately RMB5,818 (2014: RMB5,961) per tonne. Our lysine products had thus regained competitive advantage in the international market and sales volume of lysine products had substantially increased in the second half of the year.

Sales performance of starch-based sweetener was affected by the excessive supply in the domestic market. In order to avoid building up excessive inventories, the Group had reviewed, on perpetual basis, the market demand of different starch-based sweetener products and adjusted our production schedule. During the year under review, the average selling price of starch-based sweetener was approximately RMB2,357 (2014: RMB2,526) per tonne.

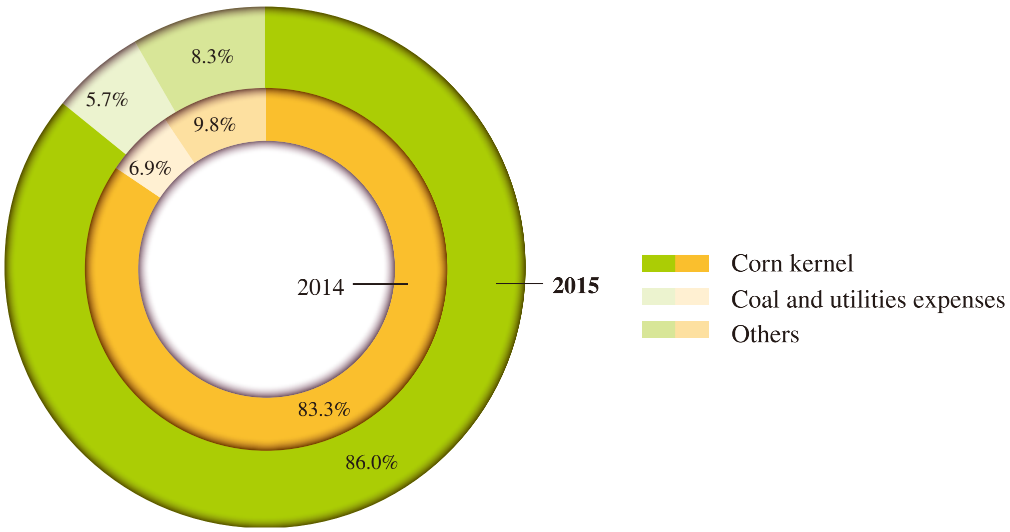
Sales performance of modified starch was affected by various adverse factors. One of those factors was the overseas paper-making industry's tendency of using less modified starch in their production, leading to a continuous decrease in the demand of modified starch. Therefore, export sales of modified starch decrease to 19.4% (2014: 49.4%) of total sales of modified starch. During the year under review, the average selling price of modified starch was approximately RMB3,292 (2014: RMB3,443) per tonne.

Cost of sales

The major cost components of our cost of sales are corn kernel and utilities expenses for the year under review. In the financial year 2014, the major cost components of our cost of sales also included the cost of coal. Our utilisation of coal declined as our electricity and steam business segment was substantially reduced following the relocation of our production plant.

Costs of sales increased by approximately 5.2% to RMB4,005,778,000 (2014: RMB3,806,266,000). Although the sales volume of the Group increased, the cost of sales did not increase at the same pace. It is because the cost of corn kernel, a major cost component, decreased during the year under review. The average corn kernel price in 2015 was approximately RMB1,867 (2014: RMB2,051) per tonne.

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



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.

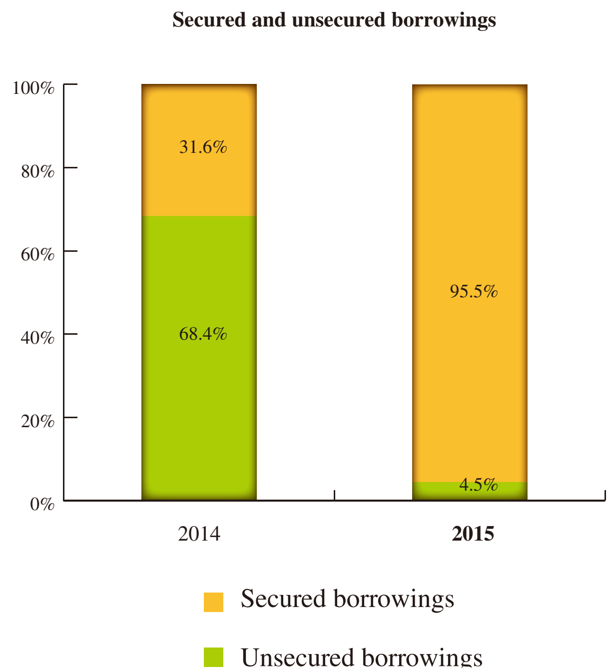
Finance expenses

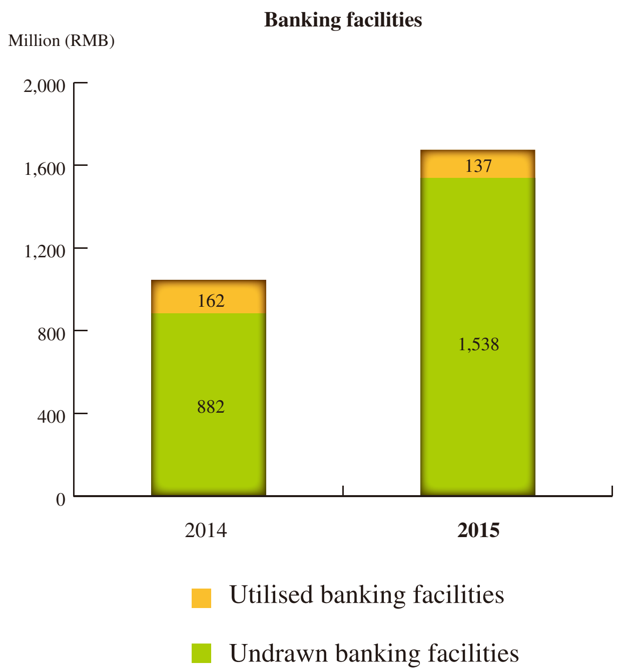
As a result of a decrease in both borrowings and interest rate during the year under review, finance expenses decreased significantly from approximately RMB22,196,000 to RMB9,919,000. The Group has regularly reviewed the financial needs for potential projects for developing new products and/or materials and monitors a suitable level of debts. The interest cover during the year under review (which equals profit before income tax and finance expenses divided by finance expenses) was approximately 15 times (2014: 5 times).

Liquidity, financial resources and capital structure

As at 31 December 2015, the borrowings were approximately RMB99 million (2014: RMB284 million).

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





	2015	2014
Borrowings (RMB'000)	**99,432**	284,432
Debtors turnover (days)	**28**	35
Creditors turnover (days)	**14**	13
Inventories turnover (days)	**22**	32
Current ratio	**1.7**	1.6
Quick ratio	**1.4**	1.3
Gearing ratio – borrowings to total assets	**3.5%**	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 31 December 2015, the borrowings were approximately RMB99,432,000 (2014: RMB284,432,000) and carried interest at fixed rates. In addition, most of the borrowings were with a maturity within one year. The decrease in borrowings was mainly attributable to the repayment of borrowings during the year.

Pledge of assets

As at 31 December 2015, bank deposits of approximately RMB37,916,000 were pledged for securing bills payables and banking facilities respectively.

Leasehold land and buildings with carrying amounts of RMB51,469,000 was pledged for securing bank facilities granted to a subsidiary of the Group as at 31 December 2015.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 December 2015.

FINAL DIVIDEND

The Board does not recommend any final dividend for the year ended 31 December 2015.

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 2015.

CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the year under review and has applied the principles as laid down with the aim of achieving a high level of governance.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own Securities Dealing Code (the "Dealing Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Appendix 10 of the Listing Rules. The Dealing Code applies to all Directors and to all employees who are informed that they are subject to its provisions. The Company has made specific enquiry of all Directors and that all the Directors confirmed their compliance with the required standard set out in the Dealing Code throughout the year under review.

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, PricewaterhouseCoopers, regarding the consolidated financial statements of the Group for the year ended 31 December 2015.

ANNUAL REPORT

The 2015 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 13 April 2016 (Wednesday).

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

Shouguang, the People's Republic of China, 21 March 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:
Mr. Yue Kwai Wa, Ken
Mr. Chen Zhijun
Mr. Sun Mingdao