



CHINA STARCH HOLDINGS LIMITED

中國澱粉控股有限公司

(incorporated in the Cayman Islands with limited liability)

CHINA STARCH HOLDINGS LIMITED

GLOBAL OFFERING

Sponsor, Bookrunner and Lead Manager



IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



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GLOBAL OFFERING

Number of Offer Shares : 150,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Public Offer Shares : 15,000,000 Shares (subject to adjustment)
Number of International Placing Shares : 135,000,000 Shares (subject to adjustment and the Over-allotment Option)
Offer Price : Not more than HK\$2.31 per Offer Share and expected to be not less than HK\$1.85 per Offer Share (payable in full on application and subject to refund, plus brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%)
Nominal value per Share : HK\$0.10
Stock code : 3838

Sponsor, Bookrunner and Lead Manager



建银国际
CCB International

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between our Company and the Lead Manager (on behalf of the Underwriters) at or before the Price Determination Time. The Price Determination Time is expected to be at or before 5:00 p.m. (Hong Kong time) on Monday, 17 September, 2007 (or any other time not later than 8:00 a.m. (Hong Kong time) on Tuesday, 18 September, 2007 as agreed between the Lead Manager (on behalf of the Underwriters) and our Company). The Offer Price will not be more than HK\$2.31 per Offer Share and is expected to be not less than HK\$1.85 per Offer Share. Investors applying for the Hong Kong Public Offer Shares must pay, on application, the maximum Offer Price of HK\$2.31 for each Hong Kong Public Offer Share together with brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%. The Lead Manager (on behalf of the Underwriters and with the consent of our Company) may reduce the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such case, a notice of the reduction of the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. If applications for the Hong Kong Public Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, then even if the Offer Price is so reduced, such applications cannot subsequently be withdrawn.

If, for any reason, the Offer Price is not agreed between our Company and the Lead Manager (on behalf of the Underwriters) at or before the Price Determination Time, the Global Offering will not become unconditional and will lapse.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk factors" in this prospectus.

Pursuant to the force majeure provisions contained in the Hong Kong Underwriting Agreement, the Lead Manager (for itself and on behalf of the other Hong Kong Underwriters) has the right in certain circumstances and in its sole discretion to terminate the obligations of the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement at any time at or before 8:00 a.m. (Hong Kong time) on the Listing Date (currently expected to be on or about 27 September, 2007 (Hong Kong time)). Further details of the terms of the force majeure provisions are set out in the sub-paragraph headed "Grounds for termination" under the paragraph headed "Hong Kong Public Offering" in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

12 September, 2007

EXPECTED TIMETABLE

Application lists open⁽²⁾ 11:45 a.m. on Monday, 17 September, 2007⁽¹⁾

Latest time for lodging **WHITE** and **YELLOW**

Application Forms and giving **electronic**

application instructions to HKSCC. 12:00 noon on Monday, 17 September, 2007⁽¹⁾

Application lists close⁽²⁾ 12:00 noon on Monday, 17 September, 2007⁽¹⁾

Expected Price Determination Time⁽³⁾ 5:00 p.m. on Monday, 17 September, 2007⁽¹⁾

Announcement of the final Offer Price,

level of applications of the Hong Kong

Public Offering, indication of the level of

interests in the International Placing

and basis of allotment of the Hong Kong Public

Offer Shares to be published in the South

China Morning Post (in English) and the

Hong Kong Economic Times (in Chinese)

on or before Tuesday, 25 September, 2007⁽¹⁾

Results of allocations in the Hong Kong

Public Offering (including the final Offer

Price, level of applications of the Hong Kong

Public Offering, basis of allotment of the Hong Kong

Public Offer Shares and successful

applicants' identification document numbers,

where applicable) to be available through

a variety of channels (see the paragraph

headed "Publication of results" in the section

headed "How to apply for Hong Kong

Public Offer Shares" in this prospectus) from Tuesday, 25 September, 2007

Despatch of Share certificates on or before^{(4),(5)} Tuesday, 25 September, 2007⁽¹⁾

Despatch of refund cheques in respect of

wholly or partially unsuccessful applications

and in respect of successful applications, in the

event that the final Offer Price is less than the

maximum Offer Price per Share pursuant to the

Hong Kong Public Offering on or before⁽⁵⁾ Tuesday, 25 September, 2007⁽¹⁾

Dealings in Shares on the Stock Exchange

to commence on Thursday, 27 September, 2007⁽¹⁾

EXPECTED TIMETABLE

Notes:

- (1) All times refer to Hong Kong local time. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.
- (2) If there is a “black” rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 17 September, 2007, the application lists will not open and close on that day. Further information is set out in the paragraph headed “Effect of bad weather on the opening of the application lists” under the section headed “How to apply for Hong Kong Public Offer Shares” in this prospectus.
- (3) The Offer Price is expected to be determined by agreement between our Company and the Lead Manager (on behalf of the Underwriters) by the Price Determination Time. The Price Determination Time is expected to be at or before 5:00 p.m. (Hong Kong time) on Monday, 17 September, 2007 (or any other time not later than 8:00 a.m. (Hong Kong time) on Tuesday, 18 September, 2007 as agreed between the Lead Manager (on behalf of the Underwriters) and our Company).
- (4) Share certificates for the Hong Kong Public Offer Shares are expected to be issued on Tuesday, 25 September, 2007 but will only become valid certificates of title provided that (i) the Global Offering has become unconditional in all respects; and (ii) the right of termination as described in the sub-paragraph headed “Grounds for termination” under the paragraph headed “Hong Kong Public Offering” in the section headed “Underwriting” in this prospectus has not been exercised and has lapsed.
- (5) Refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the price payable on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may lead to delay in encashment of, or may invalidate, the refund cheque.

Applicants who apply on **WHITE** Application Forms for 1,000,000 Hong Kong Public Offer Shares or more under the Hong Kong Public Offering and have indicated in their Application Forms that they wish to collect their refund cheques (where applicable) and Share certificates (where applicable) in person from our Company’s Hong Kong branch share registrar may collect their refund cheques (where applicable) and Share certificates (where applicable) in person from our Company’s Hong Kong branch share registrar, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on 25 September, 2007 or any other date as notified by our Company in the newspaper as the date of collection/despatch of refund cheques/Share certificates. Identification and (where applicable) authorisation documents acceptable to Tricor Investor Services Limited must be produced at the time of collection.

Applicants who apply on **YELLOW** Application Forms for 1,000,000 Hong Kong Public Offer Shares or more under the Hong Kong Public Offering and have indicated in their Application Forms that they wish to collect their refund cheques (where applicable) in person may collect their refund cheques (where applicable) but may not elect to collect their Share certificates (where applicable), which will be deposited into CCASS for credit to their designated CCASS Participants’ stock accounts or CCASS Investor Participants’ stock accounts, as appropriate. The procedure for collection of refund cheques for applicants who apply on **YELLOW** Application Forms for Hong Kong Public Offer Shares is the same as that for **WHITE** Application Form applicants.

Applicants who apply for Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the paragraph headed “Applying by giving electronic application instructions to HKSCC” under the section headed “How to apply for Hong Kong Public Offer Shares” in this prospectus.

Uncollected Share certificates and refund cheques will be despatched by ordinary post at the applicants’ own risk to the addresses specified in the relevant Application Forms. Further information is set out in the section headed “How to apply for Hong Kong Public Offer Shares” in this prospectus.

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You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus and the Application Forms must not be relied upon by you as having been authorised by our Company, the Sponsor, the Lead Manager, the Underwriters, any of their respective directors, officers, employees, advisers, agents or representatives or any other party or person involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are one of the leading manufacturers of cornstarch in the PRC. We were ranked by the China Starch Industry Association in December, 2006 as the third largest cornstarch producer in the PRC in 2005 in terms of cornstarch sales. In addition to cornstarch, we also manufacture 98.5% L-lysine hydrochloride salt and other ancillary corn-refined and corn-based products such as corn slurry, corn germ, corn fibre, corn gluten meal and agricultural fertilisers. Our corn-refined and corn-based products are marketed under the trademark .

During the Track Record Period, our major customers include manufacturers in the chemicals, paper, food and beverage, animal feeds and agricultural fertilisers industries, such as Roquette (China) Co., Ltd. (羅蓋特(中國)精細化工有限公司), Pucheng Chia Tai Biochemistry Co., Ltd. (浦城正大生化有限公司), Shandong Liuhe Group Co., Ltd. (山東六和集團有限公司), Shandong Huatai Paper Co., Ltd. (山東華泰紙業股份有限公司), 華潤雪花啤酒(浙江)股份有限公司 (China Resources Snow Breweries (Zhejiang) Co., Ltd.*), Yantai Beer Asahi Co., Ltd. (煙台啤酒朝日(股份)有限公司), China Jiangsu Suntory Foods Company Limited (中國江蘇三得利食品有限公司), Zhouping Sanxing Oil & Fat Industrial Co., Ltd. (山東鄒平三星油脂工業有限公司) and 三井物產(中國)貿易有限公司 (Mitsui (China) Trading Co., Ltd.*). Leveraged on the quality of our products, we have been appraised by some of these major customers as having reliable and consistent product quality, as well as delivery and after-sales services.

While most of our corn-based and corn-refined products are sold within the PRC, some are exported to countries in Asia, North America, Central America, Southern and Northern Europe and the Middle East. To facilitate sales of our products to certain overseas countries with significant Muslim population, our products are certified by the Shandong Islamic Association (山東省伊斯蘭教協會) as “halal” (清真) in accordance with the Islamic Law for intake by Muslims.

In addition to the sales of corn-refined and corn-based products, we have been engaging in the sales of steam and electricity since 1999 serving principally local customers in Shouguang City. Our co-generation power plant comprised three power generator systems with sufficient capacity to cater for our external sales of steam and electricity as well as to support our internal production needs. Since the commencement of our sales of steam and electricity, this business segment has generated a continuous and steady stream of revenue and contributed significantly to the gross profit of our Group. Our Directors place emphasis on this business segment and have designated management with relevant experience to oversee its operations as part of our Group’s ordinary course of business.

SUMMARY

During the Track Record Period, our steam was sold, in addition to Golden Corn Bio-chem and Golden Far East, to over 80 customers including local commercial and industrial enterprises, hotels, banks, governmental departments and offices, hospitals and schools, as well as 山東壽光巨能特鋼有限公司 (Shandong Shouguang Juneng Special Steel Co., Ltd.*), a connected person of our Company to whom we commenced the provision of steam in September, 2006. On the other hand, save for the sales of electricity to Golden Corn Bio-chem and Golden Far East, all our electricity was sold to 壽光市供電公司 (Electricity Supply Company of Shouguang City*) during the Track Record Period via transmission to the local electricity network.

The following table sets forth a breakdown of our turnover and gross profit margin by segment for the Track Record Period:

Product type	For the year ended 31 December,						For the four months ended 30 April,			
	2004 (audited)		2005 (audited)		2006 (audited)		2006 (unaudited)		2007 (audited)	
	Turnover/ Gross profit/ (loss)	% of total turnover	Turnover/ Gross profit/ (loss)	% of total turnover	Turnover/ Gross profit/ (loss)	% of total turnover	Turnover/ Gross profit/ (loss)	% of total turnover	Turnover/ Gross profit/ (loss)	% of total turnover
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Cornstarch and ancillary corn-refined products	727,595 11.4%	74.6	658,955 11.0%	69.5	728,409 14.0%	70.6	207,196 17.7%	70.2	263,565 12.5%	65.4
L-lysine hydrochloride salt and agricultural fertilisers (note)	141,457 (0.9)%	14.5	181,255 6.8%	19.1	225,846 31.5%	21.9	53,266 20.3%	18.1	96,556 32.1%	24.0
Steam and electricity	106,702 38.7%	10.9	107,995 33.3%	11.4	77,251 28.6%	7.5	34,509 27.2%	11.7	42,863 31.7%	10.6
Total	975,754	100.0	948,205	100.0	1,031,506	100.0	294,971	100.0	402,984	100.0

Note: During the period from 1 January, 2004 up to the date when we assumed the assets, liabilities and operations of Golden Corn Bio-chem, our L-lysine hydrochloride salt and agricultural fertilisers were manufactured under Golden Corn Bio-chem and sold to Golden Corn for on-sale to final customers. During the captioned period, Golden Corn Bio-chem was an associated company of our Group and its results were equity accounted for by our Group. As a result, the cost of goods sold for L-lysine hydrochloride salt and agricultural fertilisers reported by our Group during such period represented mainly the purchase cost of L-lysine hydrochloride salt and agricultural fertilisers from Golden Corn Bio-chem.

During the Track Record Period, our sales of cornstarch amounted to approximately RMB477,270,000, RMB486,107,000, RMB535,260,000 and RMB188,556,000 (and represented some 48.9%, 51.3%, 51.9% and 46.8% of our total turnover), while our sales of L-lysine hydrochloride salt amounted to approximately RMB131,544,000, RMB165,420,000, RMB210,700,000 and RMB91,925,000 (and represented some 13.5%, 17.4%, 20.4% and 22.8% of our total turnover), respectively.

SUMMARY

During the Track Record Period, our sales of steam amounted to some RMB42,047,000, RMB49,284,000, RMB47,183,000 and RMB42,863,000 (and represented about 4.3%, 5.2%, 4.6% and 10.6% of our total turnover), while our sales of electricity amounted to some RMB64,655,000, RMB58,711,000, RMB30,068,000 and RMBnil (and represented about 6.6%, 6.2%, 2.9% and nil% respectively of our total turnover), respectively.

We had temporarily suspended our sales of electricity since October, 2006 as it was excluded from the approved business scope of the revised business licence granted to Golden Corn pursuant to its conversion into a wholly foreign owned enterprise, pending confirmation from the relevant authority as to whether additional approval requirement was required for Golden Corn to continue its sales of electricity as a wholly foreign owned enterprise. As an interim measure, we had adjusted the production level of steam and electricity to increase our sales of steam. Following positive confirmation that no additional approval requirement was required, we have applied for, and have accordingly been granted a revised business licence of Golden Corn on 8 June, 2007 with an expanded business scope to include the sales of electricity. Since the grant of Golden Corn's revised business licence on 8 June, 2007, our connection cables for transmission of electricity to the local electricity network have been refurbished, pursuant to which we re-commenced our sales of electricity in August, 2007.

We adopt advanced production technology available in the corn refinery industry. In addition, we strongly believe that strict quality control and the provision of consistent, quality products are essential for us to maintain sustainable growth and excel in the corn refinery industry. We place strong emphasis on quality control throughout our production processes to ensure the quality of our products. Our cornstarch and L-lysine hydrochloride salt were named, in December, 2003 and October, 2004 respectively, the “山東名牌” (“Shandong Famous Brand”*) jointly by 山東省名牌戰略推進委員會 (Brand Name Strategic Promotion Committee of Shandong Province*) and 山東省質量技術監督局 (Quality and Technology Supervisory Board of Shandong Province*). Our cornstarch was also named the “中國名牌產品” (“China Top Brand Products”*) by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) in September, 2005. Our commitment to quality is further evidenced by the accreditation of ISO 9001:2000, ISO 14001:2004, ISO 22000:2005 and the grant of the Good Standardization Practice Certificate (標準化良好行為證書) in 2006 by 山東省質量技術監督局 (Quality and Technology Supervisory Board of Shandong Province*).

Our annual production capacity of cornstarch averaged to some 357,000 tonnes, 357,000 tonnes and 404,000 tonnes respectively for each of the three years ended 31 December, 2006, and reached approximately 450,000 tonnes as at 31 December, 2006. On the other hand, our annual production capacity of lysine averaged to some 25,000 tonnes, 25,000 tonnes and 27,000 tonnes respectively for each of the three years ended 31 December, 2006, and reached approximately 29,000 tonnes as at 31 December, 2006.

The capacity of our co-generation power plant is convertible between the provision of steam and electricity, and we adjust our production level of steam and electricity according to the respective external demand as well as internal production needs from time to time. For each of the three years

SUMMARY

ended 31 December, 2006, our power plant was capable of generating a maximum of approximately 252,000,000 kwh, 252,000,000 kwh and 336,000,000 kwh of electricity, while its maximum capacity for steam generation (in the case where no electricity is generated) was approximately 1,260,000 tonnes, 1,260,000 tonnes and 2,620,000 tonnes, respectively.

We use corn kernels as our principal raw material for the production of cornstarch, during such process ancillary corn-refined products including corn slurry, corn germ, corn fibre and corn gluten meal are produced. Some of our cornstarch (in the form of starch paste) is applied internally as the principal raw material for the production of L-lysine hydrochloric salt, and supplied to Golden Far East as its principal raw material for the production of modified starch products. On the other hand, coal is our principal raw material for our production of steam and electricity.

Our production site is strategically located in Shouguang City, Shandong Province, the PRC which is well-known for its abundance of agricultural output and is one of the top corn growing provinces in the PRC. Our production site houses, among other ancillary facilities, two cornstarch production plants, one lysine production plant, one fertiliser production plant and one co-generation power plant.

We own 49% of the equity interest of Golden Far East, our associated company, which is principally engaged in the manufacture and sale of modified starch. CPI, being our joint venture partner holding the remaining 51% equity interest of Golden Far East, is an international renowned producer of corn-refined and starch-based ingredients with a corporate history of over 100 years and is listed on the New York Stock Exchange. During the Track Record Period, Golden Far East offered various types of modified starch including oxydised starch, positively ionized starch, acidified starch, fabrics coating starch and acetic anhydride starch which were sold to, amongst others, paper, chemical and textile manufacturers principally in the PRC. As at 31 December, 2006, the annual modified starch production capacity of Golden Far East averaged to some 104,000 tonnes.

OUR COMPETITIVE STRENGTHS

We believe our success can be attributed to the following factors:

- our leading position in the PRC cornstarch supply market;
- our stringent quality control and systematic management;
- our quality products and recognised brandname;
- our devotion to improving our product and production technologies;
- we operate our own co-generation power plant to provide steam and electricity required for our production activities;
- our experienced and devoted management team; and
- the strategic location of our production facilities.

SUMMARY

Further details of our competitive strengths are set out in the paragraph headed “Our competitive strengths” under the section headed “Business” in this prospectus.

OUR BUSINESS STRATEGIES

Leveraged on our established position in the PRC cornstarch market and our recognised brand name, we aim to capture an increasing market share and expand our business scope to become a market leader in the PRC corn-refinery industry. To achieve our goal, we have formulated the following business strategies:

Expand our production capacity of cornstarch and lysine products

During the year ended 31 December, 2006, our annual production capacity of cornstarch and lysine averaged to about 404,000 tonnes and 27,000 tonnes, with an average utilisation rate of approximately 89% and 78%, respectively. Our annual production capacity of cornstarch and lysine increased to approximately 450,000 tonnes and 29,000 tonnes respectively as at 31 December, 2006. In order to facilitate our goal to capture an increasing market share, we intend to increase our annual production capacity of cornstarch and lysine to about 800,000 tonnes and 35,000 tonnes by the end of 2007, and further to about 1,050,000 tonnes and 55,000 tonnes by the end of 2008, respectively. On such basis, our Directors expect that our annual production of cornstarch and lysine shall achieve an average of some 500,000 tonnes and 31,000 tonnes respectively for the year ending 31 December, 2007, and some 800,000 tonnes and 50,000 tonnes respectively for the year ending 31 December, 2008.

To facilitate the above planned expansion in production capacity, we intend to enter into arrangements to sub-contract the operations of a small-to-medium-sized cornstarch factory, which should serve to increase our production capacity in a short time frame. We also plan to acquire additional production capacity from small-to-medium-sized cornstarch and/or lysine producer(s), possibly by way of direct equity acquisition(s) or setting up new joint venture(s) with such producer(s) to acquire or subcontract their existing production facilities. Additionally, we intend to expand our existing cornstarch and lysine production facilities by way of acquiring additional machineries and equipment and/or constructing additional production lines.

As at the Latest Practicable Date, we have conducted preliminary market research and initial studies on a number of potential candidates for possible subcontracting, cooperation and/or acquisitions. More particularly, we are in discussion with a PRC enterprise in Shandong Province for the forming of a joint venture to subcontract certain manufacturing facilities and to engage in the business of production and sales of cornstarch, and are in discussion with another PRC enterprise also in Shandong Province for the subcontracting of its existing cornstarch production facilities. Moreover, we have commissioned preliminary studies on, and have entered into a letter of intent with, a PRC enterprise in Hebei Province having production capacities on cornstarch and lysine to explore the possibility of joint venture cooperation or direct equity acquisition. Having said that, we have not entered into any binding agreement with respect to possible acquisitions or forming of joint ventures. We will comply with the applicable disclosure and/or shareholders' approval requirements in accordance with the Listing Rules as and when those requirements arise.

SUMMARY

Expand our product pipeline

In order to achieve our goal to become a leader in the PRC corn-refinery industry, we consider it important to develop a more comprehensive product pipeline. In this respect, we intend to continue to develop cornstarch of variable formulations, expand our lysine product offerings to include 65% lysine and threonine (a kind of amino acid which is generally applied as animal feed additive) and, depending on future developments in market conditions, expand vertically into the provision of starch-based sweeteners in a longer run. That said, we do not intend to research into the production of ethanol in the near future. At present, we are at an initial research and development stage for threonine and glucose-fructose slurry. We believe that leveraging on our knowledge on the production technologies of, and our experience in producing cornstarch and 98.5% L-lysine hydrochloride salt, we should achieve success in broadening our product pipeline.

Expand our sales and marketing force and our market coverage

We strongly believe it is essential that our sales and marketing force should expand in tandem with our increased production capacity and broadened product pipeline, such that our increased production capacity will be supported by increased sales, and our new products will be effectively promoted to our targeted customers. In this respect, we intend to establish new sales offices and/or marketing presence in Hong Kong and the central region of the PRC to enhance our inland and overseas market coverage. We also intend to devote additional resources on various marketing and promotion activities such as advertisements, participation and/or hosting of trade shows and exhibitions and arranging for more frequent customers' factory visits. In particular, we have recently hosted the Sixth Annual Meeting of the China Starch Industry Association (中國澱粉工業協會第六屆大會) in Shanghai in April 2007. We also intend to employ additional sales and marketing personnel in support of our expanded sales and marketing activities.

Enhance our research and development capability

We intend to enhance our research and development capability to support our continuous growth and to achieve our goal of becoming a leading player in the PRC corn refinery industry. In this respect, we intend to acquire additional testing equipment and apparatuses and employ additional qualified research and development personnel. We intend to focus our research and development efforts to enhance our production technologies on cornstarch. In addition, we intend to research into other fermentation technologies with the aim of improving our lysine production efficiency and developing a wider range of amino acid-based products.

REASONS FOR THE GLOBAL OFFERING AND USE OF PROCEEDS

We believe that the Listing will enhance the corporate profile and public awareness of our Group. Additionally, the net proceeds from the Global Offering will strengthen our financial structure and fund our business expansions.

SUMMARY

The net proceeds from the Global Offering, after deduction of related fees and expenses, are estimated to be approximately HK\$284 million based on the Offer Price of HK\$2.08, being the mid-point of the indicative Offer Price range. We intend to apply the net proceeds in the following manner:

- approximately HK\$177 million for acquisition(s) of other manufacturer(s) and/or as registered capital injections for the forming of operating subsidiary(ies) and/or joint venture(s) with other manufacturer(s) to subcontract or acquire production facilities;
- approximately HK\$73 million to acquire new machineries and equipment, such as various attrition and grinding machineries, filtration systems, connection piping and dehydration equipment, and/or conduct production technology enhancements on the newly acquired production facilities;
- approximately HK\$20 million to acquire new machineries and equipment for the purpose of expanding our existing cornstarch and lysine production facilities; and
- the balance of approximately HK\$14 million as general working capital of our Group.

In the event that the Offer Price is finally determined at the minimum Offer Price of HK\$1.85 per Offer Share, the net proceeds from the Global Offering will be reduced by approximately HK\$34 million to about HK\$250 million, as compared with the above computation (which is based on the mid-point of the indicative Offer Price range). In such event, no proceeds will be allocated for the acquisition of new machineries and equipment for the purpose of expanding our existing cornstarch and lysine production facilities, and general working capital of our Group.

In the event that the Offer Price is finally determined at the maximum Offer Price of HK\$2.31 per Offer Share, we will receive additional net proceeds of approximately HK\$34 million, as compared with the above computation (which is based on the mid-point of the indicative Offer Price range). It is the present intention of our Directors to apply such additional net proceeds as to:

- approximately HK\$20 million as additional funds for the purchases of raw materials and general production expenses of the newly acquired production facilities; and
- the balance of approximately HK\$14 million as general working capital of our Group.

To the extent that the net proceeds from the Global Offering are not immediately applied for the above purposes, it is the present intention of our Directors to place such proceeds on short-term deposits with authorised financial institutions and/or licensed banks in Hong Kong and/or the PRC.

SUMMARY

SUMMARY OF FINANCIAL INFORMATION

Set out below is a summary of the audited consolidated financial statements of our Group for the Track Record Period, which is extracted from the accountants' report set forth in Appendix I to this prospectus:

Consolidated Income Statements

Notes	Year ended 31 December,			Four months ended 30 April,	
	2004	2005	2006	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i>
Turnover					
- Cornstarch and by-products	727,595	658,955	728,409	207,196	263,565
- Lysine and by-products	141,457	181,255	225,846	53,266	96,556
- Steam and electricity	106,702	107,995	77,251	34,509	42,863
	<u>975,754</u>	<u>948,205</u>	<u>1,031,506</u>	<u>294,971</u>	<u>402,984</u>
Cost of goods sold	<u>(852,903)</u>	<u>(827,650)</u>	<u>(836,267)</u>	<u>(238,209)</u>	<u>(325,339)</u>
Gross profit	122,851	120,555	195,239	56,762	77,645
Other income	9,212	9,033	10,631	3,207	2,212
Investment income	1,009	2,411	4,632	1,709	878
Distribution expenses	(26,792)	(26,720)	(31,944)	(9,120)	(11,892)
Administrative expenses	(12,338)	(17,180)	(25,568)	(6,645)	(10,508)
Finance costs	(6,100)	(12,403)	(16,359)	(5,600)	(6,413)
Share of results of associates	<u>2,986</u>	<u>1,790</u>	<u>(3,475)</u>	<u>(198)</u>	<u>(1,237)</u>
Profit before taxation	90,828	77,486	133,156	40,115	50,685
Taxation	<u>(26,883)</u>	<u>3,105</u>	<u>(18,766)</u>	<u>(11,374)</u>	<u>—</u>
Profit for the year	<u>63,945</u>	<u>80,591</u>	<u>114,390</u>	<u>28,741</u>	<u>50,685</u>
Attributable to:					
Parent	31,979	40,918	66,574	15,688	50,685
Minority interests	<u>31,966</u>	<u>39,673</u>	<u>47,816</u>	<u>13,053</u>	<u>—</u>
	<u>63,945</u>	<u>80,591</u>	<u>114,390</u>	<u>28,741</u>	<u>50,685</u>
Dividends	<u>—</u>	<u>—</u>	<u>108,000</u>	<u>108,000</u>	<u>20,793</u>

SUMMARY

		Year ended 31 December,			Four months ended 30 April,	
	Notes	2004	2005	2006	2006	2007
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i>
Attributable to:						
Parent		—	—	58,950	58,950	20,793
Minority interests		—	—	49,050	49,050	—
		<u>—</u>	<u>—</u>	<u>108,000</u>	<u>108,000</u>	<u>20,793</u>
Earnings per share - basic	3	RMB0.1218	RMB0.1559	RMB0.2536	RMB0.0598	RMB0.1931

Notes:

- (1) The aggregate ultimate beneficial interest of our Founding Shareholders in our Group (which represented 100% equity interest in Golden Corn) has remained unchanged since 27 October, 2005. However, on the basis of Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants in November, 2005, our audited consolidated financial statement reported minority interests of approximately RMB31,966,000, RMB39,673,000 and RMB47,816,000 respectively for each of the three years ended 31 December, 2006, which represented: (i) the equity interest of approximately 20.82%, 20.83% and 8.33% of Golden Corn held by Zhang Junhua (張軍華), Li Mingwen (李明文) and Juneng Electricity Group respectively during the period from 1 January, 2004 up to 26 October, 2005; and (ii) the equity interest of 25.00% and approximately 16.67% of Golden Corn held by Mr. Gao and Mr. Guo respectively, together with the aggregate equity interest of approximately 3.75% of Golden Corn attributable to the shareholders of Juneng Holding Group other than Mr. Tian during the period from 27 October, 2005 up to 28 November, 2006, being the day immediately preceding the date of incorporation of our Company and completion of the Reorganisation. Upon completion of the Reorganisation on 29 November, 2006, Golden Corn became an indirect wholly owned subsidiary of our Company. Therefore, there was no minority interest since 29 November, 2006 from the perspective of our Company and we ceased to have any minority interest thereafter.
- (2) On 10 January, 2006, Golden Corn declared dividends to its then shareholders in the amount of RMB108,000,000 in respect of the financial year ended 31 December, 2005 which were fully paid out as at 31 July, 2007 funded by internal resources. On 20 March, 2007, our Company declared dividends to Merry Boom in the amount of HK\$21,000,000 which were fully paid out as at 31 March, 2007 funded by internal resources.
- (3) The calculation of basic earnings per share is based on the consolidated profit attributable to parent of our Company for the Track Record Period and on 262,500,000 Shares in issue, assuming the Capitalisation Issue as described in the section headed “Statutory and general information” in Appendix V to this prospectus occurred on 1 January, 2004.

SUMMARY

Consolidated Balance Sheet

	The Group			
	At 31 December,			At 30 April,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	326,567	443,885	433,876	421,014
Prepaid lease payments	25,025	36,034	35,099	34,739
Interests in associates	55,586	24,919	21,875	20,782
Available-for-sale investment	—	1,000	—	—
Deferred tax assets	6,108	8,614	1,368	1,368
Investment in a subsidiary	—	—	—	—
Amount due from a subsidiary	—	—	—	—
	<u>413,286</u>	<u>514,452</u>	<u>492,218</u>	<u>477,903</u>
Current assets				
Inventories	53,266	85,682	115,915	100,885
Prepaid lease payments	716	954	941	939
Trade and other receivables	168,867	121,671	138,352	173,182
Amounts due from related companies	174,398	40,891	2,000	99
Pledged bank deposits	20,060	67,685	37,500	2,000
Bank balances and cash	<u>79,743</u>	<u>53,930</u>	<u>55,976</u>	<u>54,904</u>
	<u>497,050</u>	<u>370,813</u>	<u>350,684</u>	<u>332,009</u>
Current liabilities				
Trade and other payables	257,448	137,397	99,537	111,833
Amounts due to related companies	31,233	—	14,265	1,818
Dividend payable	24,983	1,271	78,500	48,500
Income tax payable	31,261	18,326	19,881	14,381
Employee housing deposits				
Basic deposit portion	17,021	16,935	27,292	26,956
Installment portion	2,589	2,640	4,153	4,042
Borrowings	<u>199,955</u>	<u>303,166</u>	<u>101,608</u>	<u>44,252</u>
	<u>564,490</u>	<u>479,735</u>	<u>345,236</u>	<u>251,782</u>
Net current assets/(liabilities)	<u>(67,440)</u>	<u>(108,922)</u>	<u>5,448</u>	<u>80,227</u>
Total assets less current liabilities	<u>345,846</u>	<u>405,530</u>	<u>497,666</u>	<u>558,130</u>

SUMMARY

	The Group			
	At 31 December,			At 30 April,
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current liabilities				
Employee housing deposits				
Installment portion	13,755	11,679	18,356	18,629
Borrowings	103,000	82,750	283,394	313,727
Deferred income	9,019	10,438	12,131	12,097
	<u>125,774</u>	<u>104,867</u>	<u>313,881</u>	<u>344,453</u>
Net assets	<u>220,072</u>	<u>300,663</u>	<u>183,785</u>	<u>213,677</u>
Capital and reserves				
Paid-in capital	60,012	65,500	—	—
Share capital	—	—	151	151
Reserves	43,464	53,610	149,317	149,317
Retained earnings	6,582	45,001	34,317	64,209
Equity attributable to parent	110,058	164,111	183,785	213,677
Minority interests	110,014	136,552	—	—
Total equity	<u>220,072</u>	<u>300,663</u>	<u>183,785</u>	<u>213,677</u>

SUMMARY

OFFERING STATISTICS

	Based on an Offer Price of HK\$1.85 per Offer Share	Based on an Offer Price of HK\$2.31 per Offer Share
Market capitalisation of the Shares ⁽¹⁾	HK\$925 million	HK\$1,155 million
Adjusted net tangible asset value per Share ⁽²⁾	RMB0.92 (approximately HK\$0.93)	RMB1.05 (approximately HK\$1.07)

Notes:

- (1) The market capitalisation of the Shares is calculated based on 500,000,000 Shares in issue immediately following completion of the Global Offering, the Loan Capitalisation Issue and the Capitalisation Issue, without taking into account any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted under the Share Option Scheme.
- (2) The adjusted net tangible asset value per Share is arrived at after making the adjustments referred to in Appendix II to this prospectus, and on the basis of 500,000,000 Shares in issue at the respective Offer Price of HK\$1.85 per Offer Share and HK\$2.31 per Offer Share immediately following completion of the Global Offering, the Loan Capitalisation Issue and the Capitalisation Issue, but taking no account of any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted under the Share Option Scheme.

DIVIDEND POLICY

On 10 January, 2006, Golden Corn declared dividends to its then shareholders in the amount of RMB108,000,000 in respect of the financial year ended 31 December, 2005 which were fully paid out as at 31 July, 2007 funded by internal resources. On 20 March, 2007, our Company declared dividends to Merry Boom in the amount of HK\$21,000,000 which were fully paid out as at 31 March, 2007 funded by internal resources. On 20 July, 2007, our Company declared further dividends to Merry Boom in the amount of Hong Kong dollars equivalent to RMB50,000,000 which were fully paid out as at 31 July, 2007 funded by internal resources.

After completion of the Global Offering, our Shareholders will be entitled to receive dividends declared by us. It is the present intention of our Directors to distribute not less than 30% of our distributable profit in each financial year. Nevertheless, the amount of dividends that may be declared in the future will be subject to, among other factors, the discretion of our Directors, the availability of distributable profits, our earnings, financial position and funding requirements and other factors as deemed relevant at such time by our Directors. Therefore prospective investors should not use our dividend payout history as a reference or basis to predict our future dividend payouts.

SUMMARY

It should also be noted that our Company is a holding company and depends on its existing operating subsidiary, which is established and operated in the PRC (and any operating subsidiaries that may be established in the future, which would likely to be established in the PRC) for its ability to fund dividends. Each of the PRC law, Hong Kong law and BVI law limits the ability of a company incorporated (or established) in their respective jurisdiction to pay dividends for various reasons including the absence of surplus, sufficient distributable reserves or profits. In particular, our existing operating subsidiary (and any future subsidiaries to be established in the PRC) may only distribute dividends after offsetting the accumulated losses brought down from previous years, if any, and after making relevant appropriation(s) to the statutory surplus reserve fund at the rate(s) stipulated in the Company Law of the PRC. In addition, the profits available for distribution by companies established in the PRC are determined in accordance with PRC GAAP, which may differ from the amounts arrived at under HKFRS. In the event that the amount of profits determined under PRC GAAP in a given year is less than that determined under HKFRS, our Company may not have sufficient funds for distribution of profits to our Shareholders.

NET CURRENT ASSET/LIABILITY POSITION

During the three years ended 31 December, 2006, our fixed assets and capital expenditure were mainly financed by internal resources and short term borrowings, as a result of which we had net current liabilities of approximately RMB67,440,000 and RMB108,922,000 respectively as at each of the two years ended 31 December, 2005. During the last quarter of 2006, we successfully restructured our financing structure to replace a vast majority of our short term bank borrowings to long term bank borrowings, with the aim of better matching the nature of our investments and our financing tools. As a result, we reported net current assets of approximately RMB5,448,000 and RMB80,227,000 as at 31 December, 2006 and 30 April, 2007 respectively.

ENVIRONMENTAL PROTECTION

We are required to comply with applicable environmental protection regulations in the PRC. Our lysine production was temporarily suspended in September, 2005 pursuant to the order of 壽光市環境保護局 (Environmental Protection Bureau of Shouguang City*) for non-compliance of sewage ammonia-nitrogen ($\text{NH}_3\text{-N}$) level. Prior to the suspension, our lysine production was required to adopt the 《污水綜合排放標準》 (“Consolidated Discharge Standards on Polluted Water”*) (GB8978-1996), the standard applicable to our cornstarch production, for our lysine production. While we were granted with the approval from 山東省環境保護局 (Environmental Protection Bureau of Shandong Province*) to re-commence partial operation of our lysine production plant for trial production from 23 September, 2005, we applied to and was granted the approval by 山東省環境保護局 (Environmental Protection Bureau of Shandong Province*) on 2 November, 2005 for the adoption of the 《味精工業污染物排放標準》 (“Pollutants Discharge Standards for MSG Industry”*) (GB19431-2004) for our lysine production, which our Directors consider is more appropriate given the nature of production technology and process involved and which is more lenient on the ammonia-nitrogen ($\text{NH}_3\text{-N}$) level of the discharged sewage, and full operation of our lysine production was approved to commence from 9 November, 2005. Our Directors confirm that no fine was imposed on our Group for the captioned non-compliance.

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Our Directors consider the impact of the temporary suspension to our lysine production to be insignificant given the limited period involved and our ability to fulfill our sales and delivery schedules during the period of suspension using our then available finished lysine inventory. Our legal advisers in respect of PRC laws have confirmed that since we have (i) rectified our non-compliance with the relevant environmental measures on ammonia-nitrogen ($\text{NH}_3\text{-N}$); (ii) taken remedial measures in accordance with the terms of the administrative penalty; (iii) maintained our level of ammonia-nitrogen ($\text{NH}_3\text{-N}$) within the level prescribed under the relevant environmental protection standards; and (iv) complied with the relevant PRC laws and regulations, we will not be subject to any further penalty, administrative sanctions or suspensions imposed by the relevant PRC authorities for the non-compliance of the sewage ammonia-nitrogen ($\text{NH}_3\text{-N}$) level in the past, and that the aforesaid incident would not have an impact on our business and operations or our legal subsistence.

We commenced construction of our fourth power generator system in 2004 without preparing for the 環境影響報告書 (Report on Environmental Impact*) and applying for approval prior to our commencement. In this respect, we had subsequently filed a 環境影響報告書 (Report on Environmental Impact*) on 31 March, 2004 within the time frame ordered by 山東省環境保護局 (Environmental Protection Bureau of Shandong Province*), and received the approval from 山東省環境保護局 (Environmental Protection Bureau of Shandong Province*) on 16 June, 2004 agreeing to the construction of our fourth power generator system. On 12 April, 2007, we received the certification from 山東省環境保護局 (Environmental Protection Bureau of Shandong Province*) certifying completion of and granting approval to the operation of our fourth power generator system, and no fine was levied on our Group for the aforesaid incident of non-compliance. On 25 April, 2007, we were further confirmed by 壽光市環境保護局 (Environmental Protection Bureau of Shouguang City*) that no monetary penalty would be imposed on us by 山東省環境保護局 (Environmental Protection Bureau of Shandong Province*) as the non-compliance has been rectified. Our PRC legal advisers have confirmed that the aforesaid incident would not have an impact on our business and operations or our legal subsistence.

According to our PRC legal advisers, based on the applicable environmental laws and regulations of the PRC and the requests of the relevant environmental bureaus, we are required to adopt the following environmental protection measures:

- strengthen the recycling of sewage to reduce sewage discharge;
- control noise pollution and ensure broad compliance;
- ensure normal operation of the on-line COD density detection device;
- install on-line pollutant gas detection device;
- ensure the use of de-sulphur additives to remove sulphur residuals;

SUMMARY

- install ammonia-nitrogen ($\text{NH}_3\text{-N}$) level automatic detector connecting to the relevant environmental bureau; and
- install high-efficiency anti-dust device.

In response to the above, we have taken and implemented the following measures (in addition to those already in place):

- we have established a special division in August, 2006, headed by Mr. Zhang Junhua (張軍華), Mr. Gao, Ms. Wei Guoying (魏國英) and Mr. Hu Jiang* (胡靖), all being directors of Golden Corn, for the management, supervision, implementation and monitoring of environmental protection compliance measures, formulation of guidelines in relation to environmental protection compliance, as well as maintaining regular communications with the relevant environmental protection bureau, supervising the operations, repair and maintenance of our environmental facilities and monitoring and analysing our pollutants emission levels;
- our internal guidelines on environmental protection had since been revised for the purpose of delineating the responsibility in relation to environmental protection compliance of each of our departments and detailing the scope of work and procedures for periodic compliance reviews;
- we have completed the installation of an automatic on-line COD density detection device so that the COD density is under continuous supervision;
- we have completed the installation of an automatic on-line pollutant gas detection device;
- we have further invested in improving our control of sewage odor emission level; and
- we have since maintained regular contact and communication with the relevant environmental protection bureau for the purpose of keeping abreast of any further development and changes in environmental laws and regulations.

Our Directors confirm that all environmental protection measures as required based on the applicable environmental laws and regulations of the PRC and the requests of the relevant environmental bureaus have been in place as at the Latest Practicable Date. In addition thereto, our environmental protection measures have been confirmed by 壽光市環境保護局 (Environmental Protection Bureau of Shouguang City*) to be comprehensive and structural for the purpose of satisfying the relevant environmental protection requirements.

At present, we have over 20 managerial and operational staff responsible for continuous monitoring and implementation of environmental protection measures of our power plant and ensuring compliance of, among other things, the COD and sulphur-dioxide (SO_2) emission levels. We also have over 30 managerial and operational staff responsible for continuous monitoring and implementation of environmental protection measures of our two water treatment plants and ensuring compliance of, among other things, the sewage ammonia-nitrogen ($\text{NH}_3\text{-N}$) level. Some of

SUMMARY

these managerial and operational staff possess university or post-secondary educational background. In addition to the daily preparation of monitoring reports to ensure timely adjustments to our production and pollutant treatment processes, monthly analysis reports are also prepared for review by our management.

On the basis set out above, our Group does not anticipate incurrence of any significant capital expenditure in relation to environmental protection for the remaining of the year ending 31 December, 2007 and the following year ending 2008 unless there is change in the environmental protection laws and regulations in the PRC demanding more stringent requirements to be complied with by us in relation to environmental protection.

RISK FACTORS

Our business and operations involved certain risks, which can be classified as follows:

Risks relating to our business:

- the prices and supply of corn kernels and coal, our principal raw materials, may fluctuate from time to time;
- the prices of our corn-refined and corn-based products are affected by market factors and may fluctuate from time to time;
- the prices of our steam and electricity are regulated
- our sales of electricity via transmission to local electricity union network is subject to unified organisation and management of relevant authority
- we conduct our business and operations principally in the PRC and most of our products are sold in the PRC;
- we have not entered into long term contracts with customers of our corn-refined and corn-based products;
- we may not be able to implement our business strategies to expand our production capacity, and there is no assurance that sufficient new customers and sales will be procured to achieve desirable utilisation rates for our expanded production capacity;
- there is no proven track record for our proposed development, production and sales of new products as stipulated in our future plans;
- we may raise additional funds in the debt/equity market in the future;
- historical net current liability position;
- we rely on our Directors and senior management for our continuous business success;

SUMMARY

- we may face increasing stringent environmental protection requirements;
- any prolonged suspension of our production facilities would have an adverse effect on our business and financial performance;
- we rely on our pipeline system to transport materials and steam between our production plants;
- tax benefits granted by tax authorities in the PRC may not continue in the future;
- we may face potential product liability claims;
- our business and operations may be affected by natural disasters and adverse weather conditions;
- our dividend payout history may not be used as a reference or basis to predict our future dividend payouts; and
- as we do not have full control over Golden Far East, we may not have the ability to cause Golden Far East to take all actions which our Directors believe would be most beneficial to our Group.

Risks relating to the industry:

- we operate in a competitive industry;
- changes in government regulations, including quality standards, licensing requirements, government charges and tax rates applicable to the corn refinery industry may adversely affect the industry players; and
- the PRC corn refinery industry may be adversely affected by outbreak of serious contagious diseases.

Risks relating to the PRC:

- economic, social and political consideration;
- macroeconomic measures by the PRC government;
- the PRC legal system; and
- currency conversions and fluctuations.

SUMMARY

Risks relating to the Global Offering:

- there has been no prior market for our Shares and the Global Offering may not result in an active or liquid market for our Shares;
- the Offer Price may not be indicative of prices of our Shares that will prevail on the Main Board, which may be volatile;
- the substantial amount of our Shares held by the public after the Global Offering may adversely affect the market prices of our Shares;
- the interests of our Founding Shareholders, whom through Merry Boom will continue to control our Company, may differ from those of the public Shareholders; and
- investors should not place any reliance on any information contained in press articles or other media regarding our Group and the Global Offering.

Other risks:

- statistics in this prospectus that are derived from various official government publications may not be accurate;
- forward-looking statements contained in this prospectus may not be accurate.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the following meanings. Certain other terms are explained in the section headed “Glossary of technical terms” in this prospectus.

“Application Form(s)”	white application form(s) and yellow application form(s) or, where the context so requires, either of them, relating to the Hong Kong Public Offering
“Articles of Association”	the articles of association of our Company adopted on 5 September, 2007 by the written resolutions of the sole Shareholder and as amended from time to time, a summary of which is set out in Appendix IV to this prospectus
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Day”	any day (other than a Saturday or a Sunday) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of 348,000,000 Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in the paragraph headed “Resolutions in writing of the sole Shareholder of our Company passed on 5 September, 2007” under the section headed “Further information about our Company and our subsidiaries” in Appendix V to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Broker Participant”	a person admitted to participate in CCASS as a broker participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Broker Participant or a CCASS Custodian Participant or a CCASS Investor Participant

DEFINITIONS

“CCBIC” or “Sponsor” or “Lead Manager” or “International Underwriter”	CCB International Capital Limited, the sponsor, bookrunner and lead manager of the Global Offering, a corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as set out in Schedule 5 to the SFO
“China Starch Industry Association”	China Starch Industry Association (中國澱粉工業協會), an association approved by the Ministry of Civil Affairs of the PRC and managed under the State Economics and Trade Council which is engaged in the planning, coordination and development of China’s cornstarch industry as well as provision of industry related information
“China Fermentation Industry Association”	中國發酵工業協會 (China Fermentation Industry Association*), an association approved by the Ministry of Civil Affairs of the PRC for the purpose of promoting fermentation technologies, materials, equipment and products and provision of industry related information
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	China Starch Holdings Limited (中國澱粉控股有限公司) (formerly known as China Starch Holdings Ltd.), a company incorporated in the Cayman Islands on 29 November, 2006 under the Companies Law with limited liability
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and in the context of our Company, refers to Merry Boom and Mr. Tian
“CPI”	Corn Products International, Inc., a corporation organised under the laws of the State of Delaware, US and listed on the New York Stock Exchange, which is a global producer of corn-refined and starch-based ingredients. CPI is an independent third party and the joint venture partner of Golden Corn having 51% equity interest in Golden Far East
“CSRC”	The China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	the director(s) of our Company

DEFINITIONS

“Founding Shareholder(s)”	Mr. Tian, Mr. Gao, Mr. Guo, Mr. Yu, 霍登科 (Huo Dengke*), Zhou Jincheng (周錦成), Wang Shaofa (王紹發), Zhang Junhua (張軍華), 劉波 (Liu Bo*), Tian Xiaoli (田效禮), Zhang Mingrong (張明榮), Li Mingwen (李明文), and each of them a Founding Shareholder
“Global Offering”	the Hong Kong Public Offering and the International Placing
“Golden Corn”	山東壽光巨能金玉米開發有限公司 (Shandong Shouguang Juneng Golden Corn Development Co., Ltd.*) (formerly known as 山東壽光金玉米開發有限責任公司 (Shandong Shouguang Golden Corn Development Co., Ltd.*) and Shandong Juneng Electric Power Group Golden Corn Co., Ltd. (山東巨能電力集團金玉米開發有限公司)), a wholly foreign-owned enterprise established in the PRC on 25 July, 1998 and indirectly wholly-owned by our Company
“Golden Corn Bio-chem”	山東金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.*), a company established in the PRC on 26 March, 2003 and was owned as to 50% by Golden Corn, 25% by Mr. Gao and 25% by an independent third party immediately prior to the resolutions of its members passed in July 2005 resolving to dissolve Golden Corn Bio-chem, as further described in the sub-paragraph headed “Golden Corn Bio-chem” in the paragraph headed “Corporate development” under the section headed “Corporate development and structure” in this prospectus
“Golden Far East”	壽光金遠東變性澱粉有限公司 (Shouguang Golden Far East Modified Starch Co., Ltd.*), a sino-foreign equity joint venture established in the PRC on 25 September, 2004 and an associated company of our Group which is owned as to 49% by Golden Corn and 51% by CPI
“Group”, “our Group”, “we”, “our” or “us”	our Company and our subsidiaries or, where the context requires in respect of the period prior to our Company becoming the holding company of our present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors during such period
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of the Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Public Offer Shares”	the 15,000,000 new Shares (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus) initially being offered by our Company for subscription pursuant to the Hong Kong Public Offering
“Hong Kong Public Offering”	the issue and offer for subscription of the Hong Kong Public Offer Shares to the public in Hong Kong (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus) at the Offer Price (plus brokerage of 1% of the Offer Price, Stock Exchange trading fee of 0.005% of the Offer Price and SFC transaction levy of 0.004% of the Offer Price) on the terms and subject to the conditions set out in this prospectus and the related Application Forms
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering whose names are set out in the sub-paragraph headed “Names of Hong Kong Underwriters” under the paragraph headed “Underwriters” in the section headed “Underwriting” in this prospectus
“Hong Kong Underwriting Agreement”	the conditional underwriting agreement dated 11 September, 2007 relating to the Hong Kong Public Offering entered into by our Company, the Lead Manager, Merry Boom, Mr. Tian, Mr. Gao, Mr. Guo, the executive Directors and the Hong Kong Underwriters
“independent third party”	an independent third party not connected with the Directors, chief executive or substantial Shareholder(s) of our Company or any of our subsidiaries or their respective associates and “independent third parties” shall be construed accordingly
“International Placing”	the conditional placing of the International Placing Shares by the International Underwriter on behalf of our Company with professional, institutional and/or individual investors at the Offer Price, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Placing Shares”	the 135,000,000 new Shares (subject to adjustment and the Over-allotment Option as described in the section headed “Structure of the Global Offering”) initially being offered by our Company for subscription pursuant to the International Placing

DEFINITIONS

“International Underwriting Agreement”	the conditional underwriting agreement relating to the International Placing to be entered into by, amongst others, our Company, the executive Directors and the International Underwriter on or around 17 September, 2007
“Juneng Electric Group”	山東壽光巨能電力集團有限公司 (Shandong Shouguang Juneng Electric Group Co., Ltd.*) (formerly known as 山東壽光巨能電力有限責任公司 (Shandong Shouguang Juneng Electric Co., Ltd.*) and 山東巨能電力集團有限責任公司 (Shandong Juneng Electric Group Co., Ltd.*)), a state-controlled enterprise and one of the founders and original controlling shareholder of Golden Corn holding 98% of its equity interest up to May, 2003 and remained as a minority shareholder of Golden Corn up to October, 2005 holding approximately 8.33% of its equity interest. Juneng Electric Group underwent a privatisation scheme in October, 2005 pursuant to which the 8.33% equity interest of Golden Corn held by it was sold to Juneng Holding Group and became an independent third party since then until its de-registration in November 2006
“Juneng Holding Group”	山東壽光巨能控股集團有限公司 (Shandong Shouguang Juneng Holding Group Co., Ltd.*) (formerly known as 山東壽光巨能控股有限公司 (Shandong Shouguang Juneng Holding Co., Ltd.*)), a minority shareholder of Golden Corn holding approximately 8.33% of the equity interest of Golden Corn prior to the acquisition by Sourcestar of the entire equity interest of Golden Corn on 30 August, 2006, which is owned as to 55% by Mr. Tian and the remaining 45% in equity proportion of 5% by each of Mr. Yu, 霍登科 (Huo Dengke*), Zhou Jincheng (周錦成), Wang Shaofa (王紹發), Zhang Junhua (張軍華), 劉波 (Liu Bo*), Tian Xiaoli (田效禮), Zhang Mingrong (張明榮) and Li Mingwen (李明文). Juneng Holding Group is an associate of Mr. Tian and accordingly a connected person of our Company for the purpose of Chapter 14A of the Listing Rules
“Latest Practicable Date”	5 September, 2007, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication

DEFINITIONS

“Listing”	listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about 27 September, 2007, on which the Shares are listed on the Main Board and from which dealings in the Shares first commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Loan Capitalisation Issue”	the issue of an aggregate of 500,000 Shares to Merry Boom at an aggregate subscription price of an amount equal to the Shareholder’s Loan, which aggregate subscription price would be satisfied by setting off protanto against the amount of the Shareholder’s Loan in full
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Merry Boom”	Merry Boom Group Limited (怡興集團有限公司), a company incorporated in the BVI with limited liability on 28 September, 2006 and the controlling shareholder of our Company which is owned as to approximately 54.5833% by Mr. Tian, 25.00% by Mr. Gao, 16.67% by Mr. Guo and 0.4163% by each of the remaining nine Founding Shareholders
“MOC”	the Ministry of Commerce of the People’s Republic of China (中華人民共和國商務部)
“Mr. Gao”	Gao Shijun (高世軍), the chief executive officer of our Company and a Founding Shareholder holding 25% of the equity interests in Merry Boom
“Mr. Guo”	Guo Zhibo (郭智博), a Founding Shareholder holding approximately 16.67% of the equity interests in Merry Boom
“Mr. Tian”	Tian Qixiang (田其祥), the chairman of our Company and a Founding Shareholder holding approximately 54.5833% of the equity interests in Merry Boom
“Mr. Yu”	Yu Yingquan (于英全), an executive Director and a Founding Shareholder holding approximately 0.4163% of the equity interests in Merry Boom

DEFINITIONS

“NPC”	the National People’s Congress of the People’s Republic of China (中華人民共和國全國人民代表大會)
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%) of not more than HK\$2.31 and expected to be not less than HK\$1.85, such price to be agreed upon by our Company and the Lead Manager (on behalf of the Underwriters) on or before the Price Determination Time
“Offer Share(s)”	the Hong Kong Public Offer Shares and the International Placing Shares
“Over-allotment Option”	the option to be granted by our Company to the Lead Manager pursuant to the International Underwriting Agreement, exercisable by the Lead Manager at any time within 30 days after the last day for the lodging of applications under the Hong Kong Public Offering (which is expected to be 17 October, 2007), pursuant to which our Company may be required to allot and issue up to an aggregate of 22,500,000 additional new Shares (representing approximately 15% of the total number of Shares initially being offered under the Global Offering) at the Offer Price solely to cover over-allocations in the International Placing and/or the obligations of the Lead Manager to return securities borrowed under the Stock Borrowing Agreement, details of which are set out in the section headed “Structure of the Global Offering” in this prospectus
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC” or “China”	the People’s Republic of China, but for the purpose of this prospectus and for geographical reference only (unless otherwise indicated), excludes Taiwan, the Macau Special Administrative Region of the PRC and Hong Kong
“PRC Company Law”	the Company Law of the People’s Republic of China (Third Revision) (中華人民共和國公司法第三次修正), as adopted by the Standing Committee of the Tenth NPC on 27 October, 2005, and which became effective on 1 January, 2006, as amended, supplemented or otherwise modified from time to time
“PRC GAAP”	the Generally Accepted Accounting Principles of the People’s Republic of China

DEFINITIONS

“PRC government”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities)
“Price Determination Agreement”	the agreement to be entered into between our Company and the Lead Manager (on behalf of the Underwriters) at or prior to the Price Determination Time to record and fix the Offer Price
“Price Determination Time”	the time, expected to be at or about 5:00 p.m. (Hong Kong time) on 17 September, 2007, at which the Offer Price is fixed for the purpose of the Global Offering, or such later date or time as our Company and the Lead Manager (on behalf of the Underwriters) may agree, but in any event not later than 8:00 a.m. (Hong Kong time) on 18 September, 2007
“Regulation S”	Regulation S under the US Securities Act
“Reorganisation”	the corporate reorganisation of our Group in preparation for the Listing, details of which are set out in the paragraph headed “Group reorganisation” in the section headed “Further information about our Company and our subsidiaries” in Appendix V to this prospectus
“SAFE”	the State Administration of Foreign Exchange of the People’s Republic of China (中華人民共和國國家外匯管理局), the PRC governmental agency responsible for matters relating to foreign exchange administration
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of par value of HK\$0.10 each in the share capital of our Company, for which an application has been made for listing and permission to deal on the Stock Exchange, and which are subscribed for and traded in Hong Kong dollars
“Share Option Scheme”	the share option scheme conditionally adopted by our Company pursuant to written resolutions passed by the sole Shareholder on 5 September, 2007, a summary of the principal terms of which is set out in the paragraph headed “Share Option Scheme” under the section headed “Other information” in Appendix V to this prospectus

DEFINITIONS

“Shareholder(s)”	holder(s) of the Share(s)
“Shareholder’s Loan”	the shareholder’s loan as may be due from our Company to Merry Boom and remain outstanding shortly prior to the implementation of the Capitalisation Issue
“Sourcestar”	Sourcestar Worldwide Inc., a company incorporated in the BVI with limited liability on 26 July, 2006 and a wholly-owned subsidiary of our Company
“State”	the government of the PRC, including (without limitation) the NPC and the State Council
“State Council”	the State Council of the People’s Republic of China (中華人民共和國國務院) and the chief administrative body of the PRC
“Stock Borrowing Agreement”	the stock borrowing agreement dated 11 September, 2007 and entered into between Merry Boom and the Lead Manager pursuant to which Merry Boom will agree to lend up to 22,500,000 Shares to the Lead Manager on the terms set out therein, further details of which are set out in the paragraph headed “Over-allotment Option and Stabilization” in the section headed “Structure of the Global Offering” in this prospectus
“Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of the Hong Kong Exchanges and Clearing Limited
“subsidiary”	has the meaning ascribed thereto under Section 2 of the Companies Ordinance and, when construed in the context of the Listing Rules, has the meaning ascribed thereto under the Listing Rules, and “subsidiaries” shall be construed accordingly
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Track Record Period”	the three financial years ended 31 December, 2006 and the four months ended 30 April, 2007
“Underwriters”	the International Underwriter and the Hong Kong Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “US”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction

DEFINITIONS

“US Securities Act”	the United States Securities Act of 1933, as amended from time to time
“HK dollars” or “HK\$” and “cents”	Hong Kong dollars and cents, respectively, the lawful currency for the time being of Hong Kong
“Renminbi” or “RMB”	the lawful currency for the time being of the PRC
“US dollars” or “US\$”	United States dollars, the lawful currency for the time being of the United States
“kw”	kilowatt
“kwh”	kilowatt hours
“sq.m.”	square metres
“%”	per cent.

In this prospectus, unless otherwise stated, certain amounts denominated in Renminbi have been translated into HK dollars or US dollars at an exchange rate of RMB0.985=HK\$1.00 or RMB7.683=US\$1.00, respectively, for illustration purpose only. Such conversions shall not be construed as representations that amounts in Renminbi were or may have been converted into HK dollars or US dollars at such rates or any other exchange rates.

Certain amounts and percentage figures set out in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

In this prospectus, if there is any inconsistency between the Chinese names of PRC entities, enterprises, regulatory bodies, natural persons, documents and terms and their respective English translations, the Chinese names shall prevail. The provision of English translation of names of PRC entities, enterprises, regulatory bodies, natural persons, documents and terms in Chinese are marked with “” for identification purposes only.*

Unless otherwise specified, all relevant information in this prospectus assumes no exercise of the Over-allotment Option.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations of certain terminology used in this prospectus which relate to us and our business. The terminologies contained in this glossary and their given meaning may not correspond to their standard meaning and usage adopted in the industry.

“amino acids”	basic organic molecules that combine to form proteins. Amino acids are made up of hydrogen, carbon, oxygen and nitrogen. Some examples of amino acids are lysine, phenylalanine and tryptophan
“attrition”	a wearing away by friction or rubbing
“CAGR”	compound annual growth rate
“COD”	chemical oxygen demand, a measure of the amount of a dissolved oxygen supply in a body of water that would be used up in completely oxidizing added inorganic oxidisable compounds, e.g., in the oxidation of ammonia to nitrate
“corn fibre”	the outer coating of corn kernels, which contains very few starchy substance, and is commonly used as animal feed and as a kind of raw materials for animal feed
“corn germ”	the embryo of the corn kernel, which contains a miniature plant made up of a root-like portion and five or six embryonic leaves, and is commonly used for extraction of corn oil
“corn gluten meal”	a kind of protein that remains after the extraction of the starch and fibrous fraction from corn, which is a large group of nitrogenous organic compounds that are essential constituents of living cells and consist of polymers of amino acid
“corn slurry”	a soft fluid obtained by concentrating corn steepwater which is rich in nutrients and are used for the production of enzymes, antibiotics and other fermentation products, as well as the production of animal feeds
“corn steepwater”	a residue liquid mixture generated from steeping
“crystallisation”	the formation of crystals or the assumption of a crystalline form
“dehydration”	the process of removing water from a substance or compound

GLOSSARY OF TECHNICAL TERMS

“enzymes”	any of numerous proteins produced in living cells that accelerate or catalyse the metabolic processes of an organism
“evaporation”	the changing of a liquid into a gas, often under the influence of heat
“fermentation”	the process by which complex organic compounds are broken down by the action of enzymes into simpler compounds without the use of oxygen, such as the anaerobic conversion of sugar to carbon dioxide and alcohol by yeast
“filtration”	the act or process of filtering, especially the process of passing a liquid or gas, such as air, through a filter in order to remove solid particles
“GDP”	gross domestic product
“glutamic acid”	an amino acid occurring widely in plant and animal tissue and is used by the body to build proteins. MSG is a form of glutamic acid that is used as a food flavour enhancing product
“lysine”	an essential amino acid derived from the hydrolysis of proteins and required by the body for optimum growth
“MSG”	monosodium glutamate, a salt of glutamic acid which is commonly used as a flavour enhancer and additive in the food industry, restaurant and household applications
“pH”	a measure of the acidity or alkalinity of a solution
“purification”	the act of cleansing or ridding of impurities
“saccharification”	the process of breaking a complex carbohydrate (such as starch or cellulose) into simple sugars
“steeping”	an initial process of cornstarch production pursuant to which corn kernels are soaked in a liquid mixture of water and sulphur dioxide under a controlled temperature to swell and soften the corn kernels

RISK FACTORS

You should carefully consider all of the information set out in this prospectus before making an investment in the Offer Shares, including the risks and uncertainties described below. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The trading price of the Offer Shares could decrease due to any of these risks, and you may lose all or part of your investment. You should pay particular attention to the fact that we primarily conduct our operations in the PRC and are governed by a legal and regulatory environment that in some respects differs significantly from the environment that may prevail in other countries with which you may be familiar.

RISKS RELATING TO OUR BUSINESS

The prices and supply of corn kernels and coal, our principal raw materials, may fluctuate from time to time

Corn kernel is the principal raw material for the production of our corn-refined and corn-based products. During the Track Record Period, we consumed a total of about 468,000 tonnes, 475,000 tonnes, 508,000 tonnes and 170,000 tonnes, respectively, of corn kernels for our products sold. While our monthly average purchase price of corn kernels fluctuated in the range of about RMB1,047 per tonne to about RMB1,380 per tonne during the Track Record Period, it fluctuated within the range of about RMB1,068 and RMB1,268 in 2004 with an apparent peak in July and August followed by a general downward trend. Furthermore, we have noted, in general, a lower level of monthly average price in 2005 which fluctuated within the range of about RMB1,047 per tonne and RMB1,147 per tonne, followed by a progressive increase since 2006 from around RMB1,050 per tonne in January, 2006 to around RMB1,365 per tonne in April, 2007. During the Track Record Period, our total cost of corn kernels amounted to approximately RMB554,459,000, RMB523,844,000, RMB601,921,000 and RMB228,875,000, representing about 65.0%, 63.3%, 72.0% and 70.3%, respectively, of our cost of goods sold.

We also operate our own power plant which consume coal as its principal raw material. During the Track Record Period, we consumed a total of some 219,000 tonnes, 249,000 tonnes, 228,000 tonnes and 97,000 tonnes of coal respectively. We have experienced a significant increase in the monthly average price per tonne of coal in 2004 from about RMB350 in January to about RMB477 in December. Nevertheless, our monthly average purchase price of coal had stabilised since 2005, which fluctuated in the range of about RMB430 per tonne and RMB495 per tonne up to April, 2007. During the Track Record Period, our total cost of coal amounted to approximately RMB93,661,000, RMB119,396,000, RMB105,792,000 and RMB46,677,000, representing some 11.0%, 14.4%, 12.7% and 14.3%, respectively, of our cost of goods sold.

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We had not engaged in any hedging activity for corn kernels or coal in the past, nor do we intend to engage in any such hedging activity in the near future. There is no assurance that our purchase price for corn kernels or coal will remain stable and not subject to substantial fluctuation in the future. Moreover, we source our corn kernels and coal principally in the PRC. Based on the industry experience of our Directors, the prices and supply of corn kernels and coal may be affected by their respective market demand and supply, government policies and natural disasters such as droughts, floods or earthquakes. The prices and supply of corn kernels may also be affected by climate and harvesting conditions. Moreover, the increasing general interest in the use of ethanol produced from corn as an alternative fuel source has put an upward pressure on the market demand and prices of corn recently. Should there be any substantial increase in the prices of corn kernels and/or coal in the future and we are unable to pass on the increased costs to our customers without significantly affecting the demand for our products, our financial results would be adversely affected. Additionally, any significant shortage in the supply of corn kernels or coal in the future may result in disruption in our production or significantly increasing our cost of sales, adversely affecting our business and financial results.

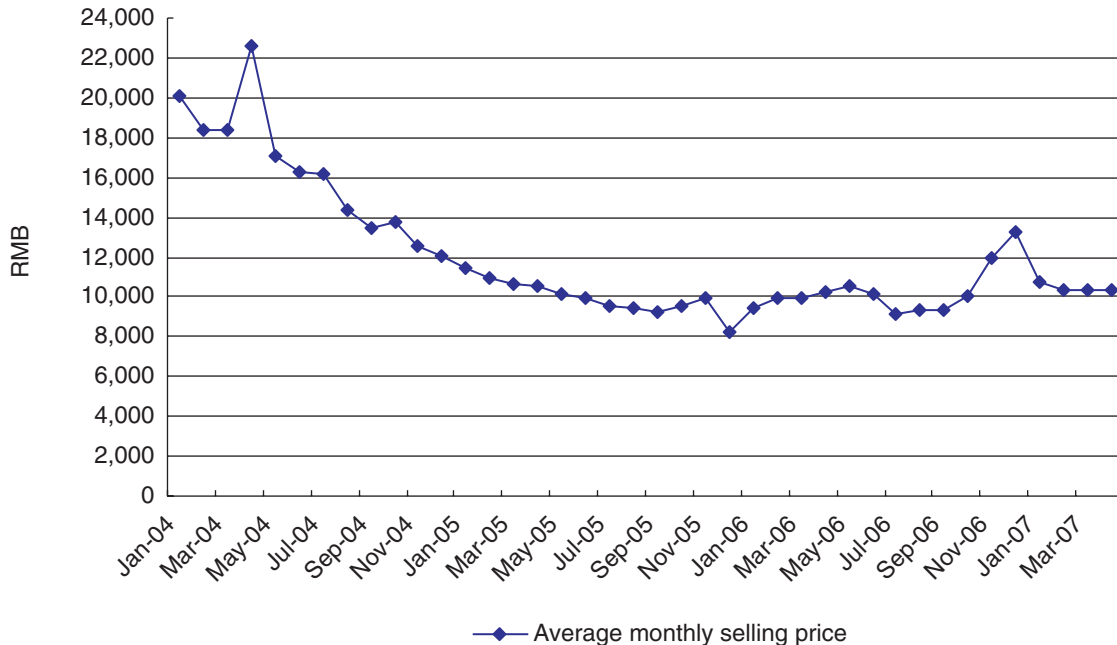
The prices of our corn-refined and corn-based products are affected by market factors and may fluctuate from time to time

We have established an internal sales pricing committee to recommend selling prices for most of our products. When forming recommendations, our pricing committee would place particular emphasis on the prices offered by our competitors and the prevailing and estimated general price level of starch and lysine products which, based on our Directors' industry knowledge, may be affected by market demand and supply as well as the market price of corn kernels. Therefore, the selling prices of our products are susceptible to such general price levels prevailing in the market. During the Track Record Period, our monthly average selling price per tonne of cornstarch fluctuated generally in tandem with the fluctuations of our monthly average purchase price per tonne of corn kernels, and averaged to some RMB1,600, RMB1,571, RMB1,758 and RMB1,923 respectively for each of the three years ended 31 December, 2006 and the four months ended 30 April, 2007.

Our monthly average selling price per tonne of lysine declined by over 50% from about RMB20,000 in January, 2004 to about RMB8,200 in December, 2005. It had stabilised in the first nine months of 2006 which fluctuated within a range of about RMB9,100 and RMB10,500, then exhibited a brief improvement from about RMB9,300 for the month of September, 2006 to about RMB13,300 for the month of December, 2006, and returned to a level comparable to the first nine

RISK FACTORS

months of 2006 and fluctuated within the range of about RMB10,309 to about RMB10,698 during the four months ended 30 April, 2007. The following is a graphical illustration of our average monthly selling price of lysine during the Track Record Period:



Our Directors believe that the continuous suppressed price of lysine in 2005 was attributable to, among other factors, the surplus lysine production during the year coupled with the human case of pig streptococcus which, when put under control around the third quarter of 2005, was hit again by the outbreak of avian flu in October, 2005. Our Directors further believe that the market price of lysine in the first nine months of 2006 continued to be affected by the level of output from major lysine manufacturers in the PRC and pressure on inventory build-up.

Should there be a significant decline in prices of our products in the future and we are unable to pass on the pricing pressure to our raw materials suppliers, our financial results may be adversely affected.

The prices of our steam and electricity are regulated

The charge rate for the sales of electricity to power grids is principally determined by the State or as the case may be, under guidance of the State. In some cases, the power to determine the applicable charge rate is delegated to the relevant department of the local government vested with the responsibility to determine the charge rate. Therefore, the prices of electricity in the PRC are governed by the relevant PRC government authorities in charge and are not market driven, and we would not be able to pass on any increase in production costs through upward selling price adjustments. Moreover, there is no assurance that our electricity charge rate will not be adjusted downward by the relevant PRC authority due to whatever reason in the future. In such events, our profitability and financial performance may be negatively affected.

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The charge rate for sales of steam in Shandong province is delegated from 山東省物價局 (Commodity Pricing Bureau of Shandong Province*) to the relevant commodity pricing bureau of the city or county level concerned. In our case, the charge rate for sales of steam is set by 壽光市物價局 (Commodity Pricing Bureau of Shouguang City*) and therefore it is not market driven. Again, we would not be able to pass on any increase in production costs through upward selling price adjustments, and there is no assurance that our steam charge rate will not be adjusted downward by 壽光市物價局 (Commodity Pricing Bureau of Shouguang City*) due to whatever reason in the future. In such events, our profitability and financial performance may be negatively affected.

Our sales of electricity via transmission to local electricity union network is subject to unified organisation and management of relevant authority

We had temporarily suspended our sales of electricity since October, 2006 as it was excluded from the approved business scope of the revised business licence granted to Golden Corn pursuant to its conversion into a wholly foreign owned enterprise, pending confirmation from the relevant authority as to whether additional approval requirement was required for Golden Corn to continue its sales of electricity as a wholly foreign owned enterprise. Following positive confirmation that no additional approval requirement was required, we have applied for, and have accordingly been granted a revised business licence of Golden Corn on 8 June, 2007 with an expanded business scope to include the sales of electricity, and re-commenced our sales of electricity in August, 2007.

In accordance with the relevant PRC laws and regulations, the amount of electricity sold by us via transmission to the local electricity union network is subject to the unified organisation and management of 濰坊電業局 (Electricity Affairs Bureau of Weifang City*), and is permitted to be sold only to 壽光市供電公司 (Electricity Supply Company of Shouguang City*). There is no assurance that we will be allotted the same (or higher) level of electricity for sale via transmission to the local electricity union network in the future. In the event where our allotted level of electricity is to be significantly reduced by the relevant authority in the future and we are not able to adjust our production of steam and electricity and increase our sales of steam to compensate for the loss of revenue from sales of electricity, our financial performance may be negatively affected.

We conduct our business and operations principally in the PRC and most of our products are sold in the PRC

We conduct our business and operations principally in the PRC. In particular, Golden Corn, our principal operating subsidiary, was established in the PRC. Furthermore, it is also part of our future plans to expand our production capacity through, among other means, acquisition of or forming joint ventures with small-to-medium cornstarch and/or lysine producers in the PRC. As such, we anticipate that our business and operations will continue to be conducted principally in the PRC. On the other hand, we sell most of our products in the PRC. In particular, our domestic sales represented some 93.7%, 95.2%, 88.5% and 89.1%, respectively, of our turnover during the Track Record Period. Moreover, cornstarch, being our major product and represented about 48.9%, 51.3%, 51.9% and 46.8% respectively of our turnover during the Track Record Period, was sold mostly in the PRC. We anticipate that China will continue to be our principal product market in the

RISK FACTORS

future. As a result, our business and financial results are exposed to changes in the economic, social and political conditions and competitive environment in the PRC as well as changes in the domestic demand for our products. If there is an adverse change in any of such factors, our business and financial results may be adversely affected.

We have not entered into long term contracts with customers of our corn-refined and corn-based products

Save for the utilities and services agreement entered into with Golden Far East covering, among other things, our provision of starch paste which is effective throughout the operating duration of Golden Far East unless terminated in accordance with its terms, we have not entered into long term contracts with customers of our corn-refined and corn-based products. It is our internal policy to enter into sales contracts with such customers before delivery arrangements are made in accordance with the terms of the sales contracts (except for small quantity cash sales and sales of agricultural fertilisers in which full advanced payment or cash-on-delivery are generally required). Additionally, while a majority of our customers have been trading with us since 2005, a majority of our major customers commenced their trading relationships with us since 2003. However, there is no assurance that our customers will continue with their purchase patterns or maintain trading relationship with us in the future. In the event that our customers, especially our five largest customers, reduce their purchases of our products substantially or cease to have trading relationship with us and we are unable to obtain substitute orders with comparable size, our business and financial performance will be adversely affected.

We may not be able to implement our business strategies to expand our production capacity, and there is no assurance that sufficient new customers and sales will be procured to achieve desirable utilisation rates for our expanded production capacity

Our average annual production capacity of cornstarch and lysine increased from approximately 357,000 tonnes and 25,000 tonnes respectively for the year ended 31 December, 2004 to approximately 450,000 tonnes and 29,000 tonnes respectively as at 31 December, 2006. Our annual production of cornstarch and 98.5% L-lysine hydrochloride salt, on the other hand, increased from approximately 319,000 tonnes and 9,700 tonnes respectively for the year ended 31 December, 2004 to approximately 357,000 tonnes and 21,300 tonnes respectively for the year ended 31 December, 2006. In order to achieve further growth in our business, it is part of our future plans to increase our production capacity through a variety of sub-contracting and/or acquisition arrangements (please refer to the paragraph headed “Our business strategies” under the section headed “Future plans and use of proceeds” in this prospectus for further details). However, there is no assurance that we will be successful in completing any or all of our expansion plans in accordance with our intended terms and time frame. Even if we are successful in expanding our production capacity as planned, there is no assurance that enough additional sales will be generated to achieve the desirable utilisation rates. In the event that we fail to implement any or all of our expansion plans or procure sufficient new customers and sales to maintain desirable utilisation rates for such expanded production capacity, our business prospects and financial performance may be adversely affected.

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There is no proven track record for our proposed development, production and sales of new products as stipulated in our future plans

It is stipulated in the paragraph headed “Our business strategies” under the section headed “Future plans and use of proceeds” in this prospectus that we intend to expand our product pipeline through research and development of new products for commercialisation in the future. Although these proposed new products are generally founded on similar production technologies we already possess, there is no assurance that we may successfully develop and commercialise any or all such new products in the time frame as deemed favourable to our Group. There is no assurance that we would be successfully granted with all necessary licences, approvals and permits to engage in the production of any or all such products. Furthermore, there is no assurance that we would be able to procure customers and orders for these new products to our satisfaction following their commercialisation. Any of these factors may significantly hinder our plan to expand our product pipeline, and may have a significant negative effect to our business prospects and financial performance.

We may raise additional funds in the debt/equity market in the future

While we intend to utilise our internally generated funds, the available banking facilities and the estimated net proceeds from the Global Offering to satisfy our working capital requirements following the Listing, we may also raise funds through debt and/or equity markets in the future. If additional equity funds are raised, our Shareholders’ equity interests in our Company will be diluted. On the other hand, if additional funds are raised through bank borrowings and/or the debt market, we will incur additional finance costs which may result in a higher gearing ratio and may have a negative effect on our financial position and results of operations.

Historical net current liability position

During the three years ended 31 December, 2006, our fixed assets and capital expenditure were mainly financed by internal resources and short term borrowings, as a result of which we had net current liabilities of approximately RMB67,440,000 and RMB108,922,000 respectively as at each of the two years ended 31 December, 2005. During the last quarter of 2006, we successfully restructured our financing structure to replace a vast majority of our short term bank borrowings to long term bank borrowings, with the aim of better matching the nature of our investments and our financing tools. As a result, we reported net current assets of approximately RMB5,448,000 and RMB80,227,000 as at 31 December, 2006 and 30 April, 2007 respectively. However, there is no assurance that the net proceeds from the Global Offering and our internally generated resources will be sufficient to finance all our capital expenditure in the long run. In that event, it may be necessary to resort to external financing such as additional bank borrowings. Should our Group fail to obtain sufficient long term financing in this respect, our capital structure and financial position may be adversely affected.

RISK FACTORS

We rely on our Directors and senior management for our continuous business success

We strongly believe that our historical success is attributable, to a large extent, to the in-depth industry knowledge and experience of our executive Directors (namely, Mr. Tian, Mr. Gao, Mr. Yu and Mr. Liu Xianggang (劉象剛)) and senior management (namely, Mr. Zhang Junhua (張軍華), Mr. Guo Zhibo (郭智博), Ms. Wei Guoying (魏國英), Mr. Hu Jing* (胡靖), Mr. Liu Bingzhong* (劉炳忠), Mr. Su Tao* (蘇濤) and Mr. Wang Guoliang* (王國良)) and their persistent commitment on systematic management and stringent quality control, which are also shared by our technical staff. We believe our continuous business success hinges on the continued services of our executive Directors and senior management. A majority of our executive Directors and senior management have been with our Group since (or shortly following) its establishment and we believe our remuneration packages and incentive schemes are sufficient to retain our senior management and technical staff. Nonetheless, there is no assurance that we will be able to retain or continue to hire qualified management and technical staff in support of our existing operations as well as our planned expansions. In the event that we need additional qualified management and technical staff to support our business expansions or there is significant loss of our senior management and/or technical staff, but we are unable to find suitable and qualified replacements and/or new hires in a timely manner, our operations, financial performance and business prospects may be significantly hindered.

We may face increasing stringent environmental protection requirements

We are required to comply with applicable environment protectional regulations in the PRC. Our lysine production was temporarily suspended in September, 2005 pursuant to the order of 壽光市環境保護局 (Environmental Protection Bureau of Shouguang City*) for non-compliance of sewage ammonia-nitrogen (NH₃-N) level. Prior to the suspension, our lysine production was required to adopt the 《污水綜合排放標準》 (“Consolidated Discharge Standards on Polluted Water”*) (GB8978-1996), the standard applicable to our cornstarch production, for our lysine production. While we were granted with the approval from 山東省環境保護局 (Environmental Protection Bureau of Shandong Province*) to re-commence partial operation of our lysine production plant for trial production from 23 September, 2005, we applied to and was granted the approval by 山東省環境保護局 (Environmental Protection Bureau of Shandong Province*) on 2 November, 2005 for the adoption of the 《味精工業污染物排放標準》 (“Pollutants Discharge Standards for MSG Industry”*) (GB19431-2004) for our lysine production, which our Directors consider is more appropriate given the nature of production technology and process involved and which is more lenient on the ammonia-nitrogen (NH₃-N) level of the discharged sewage, and full operation of our lysine production was approved to commence from 9 November, 2005. Our Directors confirm that no fine was imposed on our Group for the captioned non-compliance.

We commenced construction of our fourth power generator system in 2004 without preparing for the 環境影響報告書 (Report on Environmental Impact*) and applying for approval prior to our commencement. In this respect, we had subsequently filed a 環境影響報告書 (Report on Environmental Impact*) on 31 March, 2004 within the time frame ordered by 山東省環境保護局 (Environmental Protection Bureau of Shandong Province*), and received the approval from 山東省環境保護局 (Environmental Protection Bureau of Shandong Province*) on 16 June, 2004 agreeing to the construction of our fourth power generator system. On 12 April, 2007, we received the certification from 山東省環境保護局 (Environmental Protection Bureau of Shandong Province*)

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certifying completion of and granting approval to the operation of our fourth power generator system, and no fine was levied on our Group for the aforesaid incident of non-compliance. On 25 April, 2007, we were further confirmed by the 壽光市環境保護局 (Environmental Protection Bureau of Shouguang City*) that no monetary penalty would be imposed on us by the 山東省環境保護局 (Environmental Protection Bureau of Shandong Province*) as the non-compliance has been rectified. Our PRC legal advisers have confirmed that the aforesaid incident would not have an impact on our business and operations or our legal subsistence. However, there is no assurance that the existing environmental protection laws and regulations in the PRC will not change and become increasingly stringent in the future. In such circumstances, we may incur substantial additional costs to comply with the new laws and regulations, which could have an adverse impact on our business and financial performance.

Any prolonged suspension of our production facilities would have an adverse effect on our business and financial performance

Our production is capital intensive and highly automated, and our production activities are operating on a continuous basis. Our lysine production were temporarily suspended during the month of September, 2005 pursuant to the order by 壽光市環境保護局 (Environmental Protection Bureau of Shouguang City*) due to non-compliance of sewage ammonia-nitrogen (NH₃-N) level, and only to resume full operation in November, 2005 (more details of which are set out in the immediate preceding risk factor headed “We may face increasing stringent environmental protection requirements”). There is no assurance that our production facilities will not break down due to mechanical malfunctions or human errors, or be put on suspension due to upgrade work or governmental order in the future. In such event and if we are unable to repair and/or upgrade the relevant facilities and/or correct any errors affecting our production in a timely manner, our production may be significantly interrupted and our business and financial performance may be adversely affected. Furthermore, significant costs of repair or upgrade work may also result which may have a significant negative effect to our financial results.

We rely on our pipeline system to transport materials and steam between our production plants

Certain of our intermediary products (or by-products, where relevant) from our cornstarch and lysine production are transferred to other adjacent production plants as raw materials for production of other products. In particular, the starch paste produced from our cornstarch production is transferred to our lysine production plant for the production of our 98.5% L-lysine hydrochloride salt, and the protein-rich residual liquid produced during the process of lysine production is transferred to our fertiliser production plant for the production of our agricultural fertilisers. These intermediaries are transported between production plants through our pipeline system. In addition, steam generated from our power plant is transported through our pipeline system to different production plants and used in the respective production processes. There is no assurance that our pipeline system will not breakdown or be suspended for repair and maintenance or upgrade work in the future. In that event, we may experience significant disruption to our production activities if we are unable to repair or upgrade our pipeline system in a timely manner, which may affect our business and financial performance adversely. Furthermore, significant costs of repair may also result which may have a significant negative effect to our financial results.

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Tax benefits granted by tax authorities in the PRC may not continue in the future

For each of the three years ended 31 December, 2006 and the four months ended 30 April, 2007, we had income tax expense/(income) in the amount of RMB26,883,000, (RMB3,105,000), RMB18,766,000 and RMBnil respectively. For each of the two years ended 31 December, 2005 and for the period from 1 January, 2006 up to 26 September, 2006, Golden Corn was subject to the domestic income tax rate of 33% , and thereafter the foreign income tax rate of 27%. Pursuant to its conversion into a wholly foreign owned enterprise in 26 September, 2006, Golden Corn is entitled to exemption from PRC Foreign Enterprise Income Tax for two years commencing from its profit-making year, following by a 50% relief for the next three years. The first profit-making year is claimed for the period from 26 September, 2006 to 31 December, 2006 and accordingly, Golden Corn is exempted from PRC Foreign Enterprise Income Tax up to 31 December, 2007, and thereafter a 50% relief ending on 31 December, 2010. According to article 57 of the Voting Draft of the Enterprise Income Tax Law of the PRC 中華人民共和國企業所得稅法 (草擬)(表決稿)) (the “**Revised PRC Enterprise Income Tax Law**”) which will take effect from 1 January, 2008, if an enterprise is entitled to periodical tax exemption and reduction benefits, such benefits shall remain applicable until expiration of such exemption and reduction. On such basis, Golden Corn will continue to be exempted from income tax for the year ending 31 December, 2007, and shall enjoy a 50% income tax relief from 1 January, 2008 up to 31 December, 2010. However, from 2011 and onwards, it will be subject to the state enterprise income tax rate of 25% under the Revised PRC Enterprise Income Tax Law.

In addition to the above, during each of the three years ended 31 December, 2006, tax credit equivalent to 40% of the acquisition cost of advance technological machinery for lysine production and power generation acquired during the relevant year was granted by the local tax bureau under the 技術改造項目國產設備投資抵免企業所得稅暫行辦法 (Interim Measures Regarding the Enterprise Income Tax Deduction in Purchasing Domestic Equipment for Technical Renovation Projects*) to reduce the income tax of Golden Corn. As a result, Golden Corn reported tax exemption in the amount of RMB3,429,000, RMB28,379,000 and RMB2,318,000 respectively for each of the three years ended 31 December, 2006. This tax benefit, however, was limited to the amount of additional income tax in the current period that is in excess of the prior period before taking into account of this tax benefit. Unutilised amount can be carried forward for a period of not more than five years from the year in which the advance technological machinery were acquired. However, Golden Corn had no unutilised amount as at 31 December, 2006.

In the event that there is any revocation of or unfavourable change to the tax benefits currently enjoyed by Golden Corn, the tax liability of our Group may be materially increased which would have an adverse impact on the operating results and financial position of our Group.

We may face potential product liability claims

We have not currently maintained any insurance coverage for product liability to cover any claims in respect of personal injury or defects in, or deterioration of, our products, as we are not legally required to have such insurances under the PRC law and our Directors believe that it is not standard industry practice in the PRC at present. Having said that, there is no assurance that we will not face any product liability claim in the future. Further, if any consumer claims against any producer

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for liability arising from defective products and that such defects are then proven to be caused by the defects of our products (as one of the raw materials), the relevant producer may claim against us for damage. A product liability claim and any legal proceedings, arbitration or administrative sanctions or penalties arising therefrom could have a material adverse effect on our business, operations, financial performance and reputation.

Our business and operations may be affected by natural disasters and adverse weather conditions

The occurrence of natural disasters and adverse weather conditions may result in severe damage to our production facilities. Our insurance policies do not provide for compensation for loss of profits or any other consequential damage in the case of business interruption arising from such natural disasters and adverse weather conditions. As a result, we may incur substantial repair and re-construction expenses in respect of our damaged production facilities, and may experience material loss of profits due to business interruptions. Furthermore, the occurrence of natural disasters and adverse weather conditions may also result in material shortage in our raw materials supply, which may lead to significant increase in raw material costs and even suspension of production. The occurrence of natural disasters and adverse weather conditions thus may have a severe adverse impact on our business, operations and financial position.

Our dividend payout history may not be used as a reference or basis to predict our future dividend payouts

On 10 January, 2006, Golden Corn declared dividends to its then shareholders in the amount of RMB108,000,000 in respect of the financial year ended 31 December, 2005 which were fully paid out as at 31 July, 2007 funded by internal resources. On 20 March, 2007, our Company declared dividends to Merry Boom in the amount of HK\$21,000,000 which were fully paid out as at 31 March, 2007 funded by internal resources. On 20 July, 2007, our Company declared further dividends to Merry Boom in the amount of Hong Kong dollars equivalent to RMB50,000,000 which were fully paid out as at 31 July, 2007 funded by internal resources.

After completion of the Global Offering, our Shareholders will be entitled to receive dividends declared by us. It is the present intention of our Directors to distribute not less than 30% of our distributable profit in each financial year. Nevertheless, the amount of dividends that may be declared in the future will be subject to, among other factors, the discretion of our Directors, the availability of distributable profits, our earnings, financial position and funding requirements and other factors as deemed relevant at such time by our Directors. Therefore prospective investors should not use our dividend payout history as a reference or basis to predict our future dividend payouts.

It should also be noted that our Company is a holding company and depends on its existing operating subsidiary, which is established and operated in the PRC (and any operating subsidiaries that may be established in the future, which would likely to be established in the PRC) for its ability to fund dividends. Each of the PRC law, Hong Kong law and BVI law limits the ability of a company incorporated (or established) in their respective jurisdiction to pay dividends for various reasons including the absence of surplus, sufficient distributable reserves or profits. In particular, our existing

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operating subsidiary (and any future subsidiaries to be established in the PRC) may only distribute dividends after offsetting the accumulated losses brought down from previous years, if any, and after making relevant appropriation(s) to the statutory surplus reserve fund at the rate(s) stipulated in the Company Law of the PRC. In addition, the profits available for distribution by companies established in the PRC are determined in accordance with PRC GAAP, which may differ from the amounts arrived at under HKFRS. In the event that the amount of profits determined under PRC GAAP in a given year is less than that determined under HKFRS, our Company may not have sufficient funds for distribution of profits to our Shareholders.

As we do not have full control over Golden Far East, we may not have the ability to cause Golden Far East to take all actions which our Directors believe would be most beneficial to our Group

Our Group owns 49% of equity interest in Golden Far East, which has been accounted for as an associate of our Group since 25 September 2004. The results of Golden Far East are accounted for in our Group's financial results using the equity method of accounting. Please refer to the paragraph headed "Critical accounting policies" under the section headed "Financial Information" in this prospectus. Contributions from Golden Far East to our share of results/(loss) from associates during the Track Record Period amounted to some (RMB9,000), RMB880,000, (RMB3,475,000) and (RMB1,237,000) respectively. Our contractual rights and ownership interests in Golden Far East do not provide us with the ability to fully control them. As a result, our ability to influence the actions or business of Golden Far East depends on a number of factors, including the ability to reach an agreement with CPI, the joint venture partner of Golden Far East, our bargaining power and the decision making process applicable to Golden Far East. Furthermore, there is no assurance that the best interests and business philosophy of our Group will always be shared by CPI, which could lead to disputes with CPI and distract management's attention from the management of the business, as well as, potentially, resulting in the termination of Golden Far East.

RISKS RELATING TO THE INDUSTRY

We operate in a competitive industry

We operate in a competitive industry that, in our Directors' view, can be characterised as price sensitive and segmented, comprising a number of large enterprises and numerous small-to-medium-sized players. There is no assurance that we will be able to fend off the intense competition in the future. Intensive competitive pressure could have an adverse impact on the demand and pricing of our products, which may adversely affect our business prospects and financial results.

Changes in government regulations, including quality standards, licensing requirements, government charges and tax rates applicable to the corn refinery industry may adversely affect the industry players

Under the PRC laws, enterprises engaging in corn refinery activities, such as production of cornstarch, modified starch, glucose and lysine products in the PRC, are required to obtain

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appropriate licenses, certificates, approvals and permits from, as well as maintain relevant product quality standards of, relevant PRC governmental authorities. In addition thereto, enterprises operating in the PRC are subject to national and municipal laws, government charges, taxes and other impositions in the PRC.

We have obtained all necessary licenses, certificates, permits, approvals and licences for the production and sales of our existing products, and our products have complied with relevant state product quality standards (where available). However, there is no assurance that the Group will be able to renew such licenses, certificates, approvals and permits upon their expiration. The eligibility criteria for such licenses, certificates, approvals and permits and the relevant national standards on product quality may change from time to time and may become more stringent. In addition, new requirements for licenses, certificates, approvals, permits and product quality standards may come into effect in the future. The introduction of any new and/or more stringent laws, regulations, licenses, certificates, approvals, permits and product quality requirements relevant to our business and operations may significantly escalate our compliance and maintenance costs or may limit our Group to continue with our existing operations or may limit or prohibit us from expanding our business. Furthermore, any changes or introduction of additional government taxes and charges may substantially increase our costs of operation. Any such event may have an adverse effect to our business, financial results and future prospects.

The PRC corn refinery industry may be adversely affected by outbreak of serious contagious diseases

An outbreak of serious contagious diseases, such as the outbreak of Acute Respiratory Syndrome (“**SARS**”) in 2003 and the outbreak of avian influenza in 2004, could result in significant interruption to business operations within the affected areas. The occurrence of such an epidemic is beyond our control and any future outbreak of such epidemic, whether or not in the areas we operate or conduct business with, could have an adverse impact to our business, financial results and operations.

RISKS RELATING TO THE PRC

Economic, social and political consideration

We conduct our business principally in the PRC and our products are sold mostly in the PRC. As such, our operations, financial results and future prospects are subject to, to a material extent, the economic, social and political developments of the PRC. The PRC economy differs from the economies of most developed countries in many respects, such as structure, level of government involvement, control of foreign exchange and allocation of resources. The PRC economy is generally a planned economy, in which periodic economic plans and measures are promulgated and implemented by the State. The PRC has been reforming its economic and political systems toward a more market-oriented economy in the past two decades, and many of the reforms are unprecedented and are expected to be refined and improved. That said, the State still plays a significant role in the PRC economic growth and has in the past implemented various measures to direct the PRC economic growth.

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There is no assurance that the State will continue to pursue economic reforms, or that such reforms (and any refinement and readjustment relating thereto) will be to the benefit of our Group. Furthermore, changes in the political, economic and social conditions, laws, regulations and policies of the State may have a material adverse effect on our business, financial results and future prospects.

Macroeconomic measures by the PRC government

In view of concerns over the PRC's economic and fixed investment growth, bank credit and inflationary pressure, the State has taken measures, including restrictions on bank loans to certain sectors and increase in interest rates, with the aim of managing the PRC's economic growth. Such measures, and any additional measures which may be further taken by the State, may have a significant negative impact on the PRC economy which in turn would adversely affect our business, results of operations and future prospects.

The PRC legal system

We operate and conduct our business principally in the PRC and therefore are principally subject to PRC laws and regulations. The PRC legal system is based on written statutes and prior court decisions can only be cited as reference. Since 1979, the State has promulgated laws and regulations relating to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial law. Notwithstanding that, prospective investors should be aware that since the PRC legal system is still in a development stage and there is only limited volume of published cases (which are non-binding in nature), the interpretation and enforcement of the PRC laws and regulations involve a degree of uncertainty and may be inconsistent from time to time.

Currency conversions and fluctuations

Renminbi is not freely convertible into other currencies, except under certain circumstances. Since 1996, a number of rules, regulations and notices regarding foreign exchange control have been issued by the State with a view of allowing a degree of convertibility of Renminbi, including the permission for foreign investment enterprises to convert Renminbi into foreign currencies for current account transactions (such as distribution of profits and payment of dividends to foreign shareholders) through designated foreign exchange banks under prescribed procedural requirements. A substantial portion of our sales was settled in Renminbi during the Track Record Period and we anticipate this to continue in the future. Accordingly, it is likely that we would depend on the conversion of our Renminbi cash reserve into foreign currencies for future dividend payouts (if any) and other foreign exchange requirements. There is no assurance that we will be able to obtain sufficient foreign currency to satisfy our foreign exchange requirements.

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The value of Renminbi against other currencies is not freely floating and depends on, among other things, changes in the domestic and international economic, financial and political conditions, as well as supply and demand of Renminbi in the market. In 21 July, 2005, the PBOC announced its decision on Renminbi exchange rate reform, introducing a floating width band of 2% for the currency against a basket of foreign exchange. As our income and profits are denominated in Renminbi, fluctuations in its value may adversely affect our financial condition and results of operations as and when they are translated into foreign currencies (such as Hong Kong dollars). Furthermore, any appreciation of Renminbi may impact on our competitiveness in terms of our export market, and may also affect our dividend payouts to our Shareholders.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior market for our Shares and the Global Offering may not result in an active or liquid market for our Shares

There has been no public market for our Shares prior to the Global Offering. There is no assurance that an active trading market for our Shares will develop or be sustained following the Listing. If an active trading market for our Shares does not develop after the Listing, the market price and liquidity of our Shares may be adversely affected.

The Offer Price may not be indicative of prices of our Shares that will prevail on the Main Board, which may be volatile

The Offer Price will be determined by negotiations between us and the Lead Manager (on behalf of the Underwriters), and may not be indicative of the Share prices that will prevail in the trading market. Investors are therefore cautioned that they may not be able to resell their Shares above the Offer Price. Moreover, the Hong Kong financial markets have experienced price and trading volume volatility. The volatility in price and trading volume of our Shares may be affected by factors which are beyond our control and may be unrelated or disproportionate to our financial results and future prospects.

The substantial amount of our Shares held by the public after the Global Offering may adversely affect the market prices of our Shares

Immediately following completion of the Global Offering, Merry Boom will hold a total of 350,000,000 Shares which represented approximately 70% of our then issued capital (assuming that the Over-allotment Option is not exercised). Commencing from the Listing Date, the Shares held by our public Shareholders will be eligible for immediate resale on the Main Board without restriction, while the Shares held by Merry Boom will be subject to a moratorium restriction and will only be eligible for resale following the expiry of the relevant moratorium period. If our public Shareholders and/or Merry Boom disposes of a substantial amount of Shares (in respect of Merry Boom, after the expiry of the relevant moratorium period), it may result in material downward pressure to the prevailing market price of our Shares.

RISK FACTORS

The interests of our Founding Shareholders, whom through Merry Boom will continue to control our Company, may differ from those of the public Shareholders

Our Founding Shareholders, through Merry Boom, will continue to control our Company. In particular, they will, subject to the Articles of Association and the Companies Law, continue to be able to influence our major operating and strategic decisions following completion of the Global Offering. Such major decisions may include, without limitation:

- nomination and selection of executive Directors and senior management of our Company;
- approval of annual budgets;
- influence on business and strategic directions; and
- effecting corporate transactions which do not require the approval of minority Shareholders.

Notwithstanding that our Directors are obliged to act in the interest of our Company and our Shareholders as a whole, our Founding Shareholders may have interests that are not in line with our public Shareholders from time to time, and may take actions which may not be in the interests of our other public Shareholders.

Investors should not place any reliance on any information contained in press articles or other media regarding our Group and the Global Offering

There may be press and media coverage regarding our Group and the Global Offering prior to and/or following the publication of this prospectus. Such coverage may include certain financial information, financial projections, valuations and other information regarding our Group which has not been included in this prospectus. We would emphasize to our prospective investors that neither our Group nor any of the Sponsor, the Lead Manager, the Underwriters, any of their respective directors, officers, employees, advisers, agents or representatives, or any other party or person involved in the Global Offering (collectively referred to as the “**Professional Parties**”) has authorised the disclosure of any such information in the press or media, nor such information being prepared, provided or elaborated by or sourced or derived from our Group or any of the Professional Parties. Accordingly, neither our Group nor any of the Professional Parties accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is not contained in this prospectus or is inconsistent or conflicts with the information contained in this prospectus, we disclaims any responsibility and liability whatsoever in connection therewith or resulting therefrom. Prospective investors should not rely on any such information in making their decisions as to whether to invest in our Shares, and should only rely on the information contained in this prospectus in making their investment decisions.

RISK FACTORS

OTHER RISKS

Statistics in this prospectus that are derived from various official government publications may not be accurate

Certain facts and official statistics set out in this prospectus are derived from various official government publications. Whilst our Directors and the Sponsor have taken reasonable care to ensure that the facts and official statistics presented are accurately reproduced from such publications, such official government publications have not been independently verified by our Group and may be inconsistent, inaccurate or incomplete. None of our Group, the Sponsor, the Lead Manager, the Underwriters, their respective directors, officers, employees, advisers, agents or representatives or any other party or person involved in the Global Offering make any representation as to the accuracy, completeness or reliability of such official information and, accordingly, such official information should not be unduly relied upon. Furthermore, the official statistics may not be comparable to statistics available for other nations' economies; there can be no assurance that the official government publications are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts or statistics derived from such official government publications.

Forward-looking statements contained in this prospectus may not be accurate

This prospectus contains certain statements that are “forward-looking” and use forward-looking terminologies such as “anticipate”, “believe”, “expect”, “may”, “ought to”, “should” and “will”. Those statements include, among other things, the discussion of our Group's growth strategy and expectations concerning the Group's future operations, liquidity and capital resources. Prospective investors are cautioned that the forward-looking statements are based upon assumptions and are inherently subject to significant risks and uncertainties. Any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could be incorrect and the forward-looking statements could be inaccurate for this reason or due to the other risks and uncertainties. The risks and uncertainties in this regard include those identified in the risk factors discussed above. In light of these and other risks and uncertainties, prospective investors are cautioned not to place undue reliance upon forward-looking statements. The inclusion of forward-looking statements in this prospectus should not be regarded as guarantee of future performance or a representation or warranty by our Company that its plans and objectives will be achieved.

REGULATIONS

PRINCIPAL LAWS, RULES AND REGULATIONS APPLICABLE TO OUR OPERATIONS IN THE PRC

The legal framework for our production, business and operation in the PRC is laid down by the national laws and regulations of the PRC, as well as regional laws, regulations and measures promulgated by the provincial or municipal authorities at which our production, business and operation are operated and carried on.

The principal PRC laws, rules and regulations applicable to our operations in the PRC include the following:

Regulations on the Administration of Permits for the Production of Industrial Products (《中華人民共和國工業產品生產許可証管理條例》) and the Implementation Rules for the Administration of Permits for the Production of Industrial Products (《中華人民共和國工業產品生產許可証管理條例實施辦法》) (collectively referred to as the “Rules and Regulations on Industrial Products”)

- The Regulations on the Administration of Permits for the Production of Industrial Products (《中華人民共和國工業產品生產許可証管理條例》) was issued by the State Council and took effect on 1 September, 2005. The Implementation Rules for the Administration of Permits for the Production of Industrial Products (《中華人民共和國工業產品生產許可証管理條例實施辦法》) was issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) and took effect on 1 November, 2005.
- The Rules and Regulations on Industrial Products are applicable to enterprises engaged in the production of material industrial products that are subject to the production permit management system as laid down by the Rules and Regulations on Industrial Products.
- No person or entity may, without obtaining an industrial products production permit, manufacture any material industrial products that are subject to the production permit management system as laid down by the Rules and Regulations on Industrial Products nor, may any person or entity sell or use any industrial product that is subject to the requirement of obtaining an industrial products production permit for such industrial product but without one having been obtained.
- The necessary credentials of an enterprise engaged in the production of industrial products required for the issuance of an industrial products production permit are principally as follows:
 - holding a business licence;
 - the technical personnel are with the suitable expertise in the relevant products produced;
 - possessing the corresponding technique or technology for the production of the relevant products;
 - possessing a complete and effective management system and responsibility system;

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- its products are in compliance with the relevant State standard or industrial standard; and
- the technique or technology employed is not prohibited for investment by the State and does not involve a high level of environmental pollution or a high degree of waste of resources.
- All products that are subject to the Rules and Regulations on Industrial Products must have the logo and permit number of the industrial products production permit printed on the products themselves or their packing or manual.
- Enterprises are required to submit an annual report on, among other matters, the following:
 - certifying the maintenance of the qualifications for the issuance of an industrial products production permit;
 - the status on the use of the industrial products production permit, its logo and number; and
 - the quality inspection results on products carried on by the relevant administration authorities.
- The industrial products production permit is liable to be revoked if the holder fails to comply with the requirements of the Rules and Regulations on Industrial Products.

Law on Food Hygiene of the PRC (《中華人民共和國食品衛生法》) (the “Food Hygiene Law”)

- The Food Hygiene Law was promulgated by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) and took effect on 30 October, 1995.
- The Food Hygiene Law laid down the legal framework for the production of food products in the PRC. It is applicable to all food products, food additives and food products production sites, related facilities and environment.
- According to article 27 of the Food Hygiene Law, enterprises engaged in food production or distribution must obtain a food production permit from the relevant 衛生行政部門 (hygiene administration bureau*) before they are permitted to apply for business registrations with the relevant Administration for Industry and Commerce.
- The Food Hygiene Law specifies the hygiene requirements for food production process and the use of food containers, packaging materials, utensils and equipment. It further prohibits the production of certain foodstuffs, governs the production and use of food additives, details the administration and supervision of food hygiene and laid down penalties for acts in violation of the law.

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Law on Safe Production of the PRC (《中華人民共和國安全生產法》) (the “Safe Production Law”)

- The Safe Production Law was promulgated by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) and took effect on 1 November, 2002.
- The Safe Production Law laid down the legal framework for the requirements, supervision and enforcement of safe production in respect of enterprises engaged in production activities in the PRC.
- Under the Safe Production Law, it is the prime responsibility of the authorised representative of an enterprise engaged in production activities in the PRC to ensure, among other matters, the comprehensive safety accountability within the enterprise, the formulation of safety manual and operating procedures, the formulation of emergency plan for safe production, the supervision and review of safety practices and the elimination of potential hazards which may occur during the manufacturing processes.
- The Safe Production Law safeguards certain interests of workers who are injured as a result of industrial accidents, including the requirement of maintaining insurance policy for industrial accidents.

Regulations on the Administration of Feeds and Feeds Additives (《飼料和飼料添加劑管理條例》) (“Feeds and Feeds Additives Regulations”)

- The Feeds and Feeds Additives Regulations were issued by the State Council and took effect on 29 May, 1999, and were subsequently amended by the Decisions of the State on Amending the Regulations on the Administration of Feeds and Feeds Additives (《國務院關於修改〈飼料和飼料添加劑管理條例〉的決定》) issued by the State Council on 29 November, 2001.
- The Feeds and Feeds Additives Regulations laid down the regulations for the approval, import, production, operation and use of feeds and feeds additives.
- Under the Feeds and Feeds Additives Regulations, newly developed feeds and feeds additives must obtain the approval of the relevant approving authority as authorised by the agricultural administrative department (農業行政主管部門) of the State Council prior to their production.
- The Feeds and Feeds Additives Regulations also provide that in addition to the requirements as stipulated by the relevant laws and administrative rules and regulations, the credentials for the establishment of an enterprise engaged in the production of feeds and feeds additives are as follows:
 - the production plants, facilities, technology and storage facilities are suitable for the production of feeds and feeds additives products;

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- the technical personnel are with the relevant expertise in the production of feeds and feeds additives products;
 - the enterprise must have the necessary quality control department, personnel and facilities;
 - the production must be in compliance with the relevant State requirements in relation to hygiene and safety; and
 - the environmental pollution preventive measures employed must comply with the relevant State requirements for environmental protection.
- Shandong Province has established a series of rules and regulations, including the Tentative Procedures on the Administration of Feeds Production Industry in Shandong Province (《山東省飼料工業管理暫行辦法》) and the Tentative Procedures on the Administration of Review and Registration of Feeds Production Enterprises in Shandong Province (《山東省飼料生產企業審查登記管理暫行辦法》).

Rules on the Administration of Fertiliser Registration (《肥料登記管理辦法》) (“Rules on Fertiliser Registration”)

- The Rules on Fertiliser Registration was issued by The Ministry of Agriculture of the PRC (中華人民共和國農業部) and took effect on 23 June, 2000, and were subsequently amended by the Decisions on Amending the Agricultural Rules and Regulations on Administrative Permission (《關於修訂農業行政許可規章和規範性文件的決定》) issued on 1 July, 2004 by The Ministry of Agriculture of the PRC (中華人民共和國農業部).
- The Rules on Fertiliser Registration laid down the regulations on the production, operation, use and advertising of fertilisers products in the PRC.
- A products registration system is established for fertilisers. Fertilisers, including organic, inorganic and compound fertilisers, that are not registered shall not be imported, put into production, sold and used and shall not be advertised.
- It is also the requirement of the Rules on Fertiliser Registration that (a) the import, manufacture, sales and use of fertilisers, including organic, inorganic and compound fertilisers, are subject to the product testing requirements; and (b) the packaging of fertilisers must include the necessary label, manual and certification on products quality.

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Law on Standardisation of the PRC (《中華人民共和國標準化法》) (the “Standardisation Law”)

- The Standardisation Law was promulgated by Standing Committee of the National People's Congress (全國人民代表大會常務委員會) and took effect on 1 April, 1989.
- The Standardisation Law laid down the requirements for the unification of technical requirements standards for, among other matters, the design, production, inspection, packaging, storage, transportation and methods of operation of industrial products as well as the safety and sanitary requirements for their production, storage and transportation.
- Under article 6 of the Standardisation Law:
 - in the absence of both national and industrial standards, safety and sanitary requirements for industrial products need to be unified within a province, an autonomous region or a municipality directly under the central Government, local standards may be formulated;
 - in the absence of both national and industrial standards for products manufactured by an enterprise, standards for the enterprise shall be formulated to serve as the basis for the organization of production. An enterprise's standards for its production are required to be reported to the standardization administration department and the competent administrative authorities under the local government for record; and
 - where national or industrial standards have been formulated, the State encourages enterprise to formulate standards that are stringent than the national or industrial standards as their own enterprise standards.

Rules on Circulation of Foods (《糧食流通管理條例》) (the “Food Circulation Rules”)

- The Food Circulation Rules was promulgated by the State Council and took effect on 26 May, 2004.
- The Food Circulation Rules laid down the regulations on the purchase, wholesale, storage, transportation, processing and import and export of, among others, wheat, corn and their products in the PRC.
- It is the requirements of the Food Circulation Rules that any person engaged in the purchase of, among others, wheat and corn, must have the following qualifications:
 - the capability in raising the necessary working capital;
 - the necessary storage facilities either under its name or through leasing;
 - the corresponding food quality inspection ability; and
 - registered under the Regulations on the Administration of Companies Registration (《中華人民共和國公司登記管理條例》)

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Rules on the Administration on Permission on Extradition of Water and Fees on Water Resources (《取水許可和水資源費徵收管理條例》)

- The Rules on the Administration on Permission on Extradition of Water and Fees on Water Resources were promulgated by the State Council and took effect on 15 April, 2006. The rules laid down the regulations on the extraditions of water direct from rivers, lakes or extradition of underground water.

Law on Foreign Trade (Revised) (《中華人民共和國對外貿易法(修訂)》)

- The Law on Foreign Trade (Revised) was promulgated by Order No.15 of the President of the People's Republic of China and took effect on 1 July 2004.
- The Law on Foreign Trade (Revised) applies to foreign trade, i.e., import and export of goods and technology and international trade in services. Foreign trade operator engaged in import and export of goods or technology is required to effect registration with the State Council department in charge of foreign trade or its entrusted institution, except where the laws, rules and regulations provide otherwise.

Laws, rules and regulations for our electricity generation

- The principal PRC laws, rules and regulations governing our Group's electricity production and supply are the Law on Electric Power (《中華人民共和國電力法》) (the **"Electric Power Law"**) promulgated by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) and took effect on 1 April, 1996, the Regulations on the Development of Co-generation of Heat and Electricity (《關於發展熱電聯產的規定》) (**"Regulations on Co-generation of Heat and Electricity"**) jointly issued by the 國家發展計劃委員會 (State Development and Planning Commission*), 國家經濟貿易委員會 (State Economic and Trade Commission), 建設部 (Construction Department*) and the State Environmental Protection Bureau (國家環境保護總局) on 25 August 2000, the Temporary Measures on the Administration of Registration of Changes in Technology Applied by Enterprises in the Shandong Province (《山東省企業技術改造項目登記備案管理暫行辦法》) (**"Temporary Measures on the Administration of Registration of Changes in Technology Applied in Shandong Province"**) issued by 山東省經濟貿易委員會 (Economic and Trade Commission of Shandong Province*) and took effect on 1 April, 2002, the Regulations on Supervision of Electric Power (《電力監管條例》) (**"Regulations on Supervision of Electric Power"**) issued by the State Council (國務院) and took effect on 1 May 2005, the Temporary Regulations on the Administration of Price Charged for the Supply of Electricity to Union Network (《上網電價管理暫行辦法》) (**"Temporary Regulations on Price Charged for the Supply of Electricity to Union Network"**) issued by the National Development and Reform Commission (國家發展改革委員會) and took effect on 1 May, 2005 and the Regulations on the Administration of Electricity Business Permits (《電力業務許可證管理規定》) (**"Electricity Business Permit Administration Regulations"**) issued by the State Electricity Regulatory Commission (國家電力監督管理委員會) and took effect on 1 December 2005.

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- The Electric Power Law laid down the legal framework for the construction, production, supply and utilisation of electricity in the PRC. According to article 22 of the Electric Power Law, the State advocates union network operation (併網運行) between electricity production enterprises and power distribution networks or among power distribution networks. Parties to an union network operation (併網運行) are required to sign an union network operation agreement to regulate their respective rights and duties. We have, in October, 1998, September, 1999 and September, 2002, entered into 併網協議書 (union network agreement*) with 壽光市供電公司 (Electricity Supply Company of Shouguang City*) and 濰坊電業局 (Electricity Affairs Bureau of Weifang City*) for our transmission and sales of electricity in respect of our first, second and third co-generation power generator systems, respectively, through the electricity union network. According to article 38 of the Electric Power Law, for electricity generated by electricity production enterprises with local investment, if forming an independent power distribution network among regions of a province or generated for self use, the electricity price may be managed by the People's Governments of the relevant province, autonomous region or centrally-governed municipality. According to the Temporary Regulations on Price Charged for the Supply of Electricity to Union Network, the provincial government department in charge of pricing is responsible for the determination of price charged for the supply of electricity to electricity union network save for electricity price for the supply of electricity to regional power distribution networks (區域電網) or unified tuning units (統一調度機組) under the local power distribution networks of the regional power distribution networks shall be formulated by the department in charge of pricing of the State Council. Please refer to the paragraph headed "Certificates, permits, approvals and licences for our production and businesses in the PRC" of this section for the approvals that we have obtained in respect of the rates charged for our electricity supplied to the electricity union network.
- Pursuant to the Regulations on Co-generation of Heat and Electricity, the relevant Economic and Trade Commission (經濟貿易委員會) is responsible for the approval of changes in technology applied in the co-generation of heat and electricity. Pursuant to Article 2 of the Temporary Measures on the Administration of Registration of Changes in Technology Applied in Shandong Province, the changes in technology applied to our co-generation power generator systems are required to be registered with the relevant Economic and Trade Commission (經濟貿易委員會). Our Group has, in compliance with the Temporary Measures on the Administration of Registration of Changes in Technology Applied in Shandong Province, effected the relevant registrations of the changes in technology applied in our co-generation power generator system with 山東省經濟貿易委員會 (Economic and Trade Commission of the Shandong Province*). Please refer to the paragraph headed "Certificates, permits, approvals and licences for our production and businesses in the PRC" of this section for further details of the registrations effected by us.
- Under the Regulations on Supervision of Electric Power, the relevant electricity regulatory authority shall issue and administer the issuance of electricity business permits 《電力業務許可証》 in accordance with the relevant PRC laws and regulations. The Electricity Business Permit Administration Regulations which were issued under the authority of the Regulation on Supervision of Electric Power, apply principally to the application, review and approval, and administration of electricity business permits 《電力業務許可證》. The State Electricity Regulatory Commission (國家電力監督管理委員會) is the PRC authority responsible for the issuance and administration of the electricity business permits 《電力業務許可證》. Electricity business is

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classified under the Electricity Business Permit Administration Regulations into three categories, namely, electricity generation, electricity transmission and electricity supply businesses. Corresponding classification is also made in the classification of the electricity business permits under the Electricity Business Permit Administration Regulations. Every operator engaged in electricity business must obtain an electricity business permit (or the corresponding electricity business permits if more than one kind electricity businesses are engaged). The business of our union network operation (併網運行) co-generation power generator systems is classified as electricity generation business under the Electricity Business Permit Administration Regulations. According to the relevant provisions of the Electricity Business Permit Administration Regulations, operators engaged in the electricity generation business must satisfy, among other things, the following qualification requirements:

- being a legal person;
- having possessed the financial capability required for engaging in the electricity generation business;
- having crew responsible for the operation, technology, safety and finance with three years or more experience in the electricity generation business;
- having the electricity generation plants constructed be approved by the relevant PRC authority; and
- having the electricity generation plants possess electricity generation capability, and in compliance with the relevant PRC environmental protection requirements.

Under the current provisions of the Electricity Business Permit Administration Regulations, in order to extend the validity period of the electricity business licence, operators engaged in the electricity business would have to make an extension application to the State Electricity Regulatory Commission (國家電力監督管理委員會) 30 days prior to the date of expiry of the validity period. The State Electricity Regulatory Commission (國家電力監督管理委員會) is required to make its decision on whether to approve the extension prior to the expiry of the validity period, otherwise, it will deem to have approved the extension. Please refer to the paragraph headed “Certificates, permits, approvals and licences for our production and businesses in the PRC” of this section for further details of the electricity business permits 《電力業務許可證》 that we have obtained.

Laws, rules and regulations for our steam provision

- The principal PRC laws, rules and regulations governing our Group’s steam provision business are the Regulations on Administration of City Development of Shandong Province (《山東省城市建設管理條例》) (“**Shandong City Development Administration Regulations**”) issued by the People’s Congress of the Shandong Province (山東省人民代表大會常務委員會) and took effect on 14 December 1996, and were subsequently amended by the 《關於修改〈山東省水路交通管理條例〉等十二件地方性法規的決定》(The Twelfth Local Regulations Decision on amending the Regulations on Management of Sea Traffic*) on 30 July 2004,

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Measures on the Administration of Heat Supply Operation in the Shandong Province (《山東省供熱經營許可管理辦法》) (“**Shandong Province Heat Supply Operation Administration Measures**”) issued by Construction Bureau of Shandong Province (山東省建設廳) and took effect on 1 March 2006, Price Index of the Shandong Province (山東省定價目錄) (“**Price Index**”) issued by the Commodity Pricing Bureau of Shandong Province (山東省物價局).

- The Shandong City Development Administration Regulations laid down the regulations on the administration of, among others, public facilities, city environment hygiene and city development funds in the Shandong Province of the PRC. According to article 25 of the Shandong City Development Administration Regulations, approval for operation must be obtained prior to the operation of, among other operations, supply of steam in the Shandong Province of the PRC.
- The Shandong Province Heat Supply Operation Administration Measures apply to all heat supply operations carried on in the Shandong Province and administration of heat supply operation permits 《供熱經營許可證》. The relevant department of the People’s Government of the provincial level, construction district city (設區市) level or county (city) 縣(市)) level in charge of the administration of construction matters or the department as designated by the relevant People’s Government (collectively, the “**Heat Supply Administration Departments**”) are responsible for the administration of the issuance of the heat supply operation permits 《供熱經營許可證》. As prescribed by article 3 of the Shandong Province Heat Supply Operation Administration Measures, every operator engaged in the heat supply business in the Shandong Province must obtain a heat supply operation permit 《供熱經營許可證》 from the relevant Heat Supply Administration Departments. According to the relevant provisions of section 6 of the Shandong Province Heat Supply Operation Administration Measures, operators engaged in the heat supply business must satisfy, among other things, the following qualification requirements:
 - having duly effected business registration in accordance with the laws;
 - having reliable heat source and heat supply facilities;
 - having obtained approval for heat supply and completed inspection of the heat supply project;
 - having the necessary heat supply capability;
 - having the necessary management framework and service regulations;
 - having a requisite registered capital correspond with the scale of the heat supply;
 - having management and technical crew of not less than five with corresponding experience in heat supply; and
 - having the necessary emergency plan, maintenance crew and facilities.

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Under the current provisions of the Shandong Province Heat Supply Operation Administration Measures, in order to extend the validity period of the heat supply operation permit, operators engaged in the heat supply business would have to make an extension application to the Construction Bureau of Shandong Province (山東省建設廳) three months prior to the date of expiry of the validity period. The Construction Bureau of Shandong Province (山東省建設廳) is required to make its decision on whether to approve the extension within 20 days of the application. Please refer to the paragraph headed “Certificates, permits, approvals and licences for our production and businesses in the PRC” in this section for further details of the heat supply operation permit 《供熱經營許可證》 that we have obtained.

- In accordance with the Price Index, the Commodity Pricing Bureau of Shouguang City (壽光市物價局) is delegated with power by the Commodity Pricing Bureau of Shandong Province (山東省物價局) in the determination of price charged for the supply of steam. Please refer to the paragraph headed “Certificates, permits, approvals and licences for our production and businesses in the PRC” in this section for further details of the approvals that we have obtained in this regard.
- The Temporary Measures on the Price Administration of City Heat Supply (《城市供熱價格管理暫行辦法》) (“**Temporary Measures**”), which are to become effective on 1 October 2007, will apply to price charged for heat supply (“**Heat Price**”) in the administrative districts of cities (城市行政區域) (comprising heat supply districts within the city, county and village of the relevant province). The Heat Price is to be determined by the State or under the State’s guidance. The relevant department of the People’s Government of the relevant city and district within the relevant province in charge of price administration or the People’s Government of the city or county as authorised is responsible for the determination of Heat Price or the formulation of guidance on Heat Price.

Law, rules and regulations on environmental protection

- Law on Environmental Protection of the PRC (《中華人民共和國環境保護法》) issued by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) and took effect on 26 December, 1989; the Law on Prevention and Control of Water Pollution of the PRC (《中華人民共和國水污染防治法》) issued by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) and took effect on 1 November, 1984; the Law on Prevention and Control of Air Pollution of the PRC (《中華人民共和國大氣污染防治法》) issued by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) and took effect on 1 September, 2000; the Law on Prevention and Control of Environmental Pollution by Solid Waste of the PRC (《中華人民共和國固體廢物污染環境防治法》) issued by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) and took effect on 1 April, 2005; the Regulations on Environmental Protection on Construction Projects (《建設項目環境保護管理條例》) issued by the State Council and took effect on 29 November, 1998 and the Law on Environmental Impact Evaluation of the PRC (《中華人民共和國環境影響評價法》) issued by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) and took effect on 1 September, 2003, collectively referred to as the “Environmental Protection Law and Regulations”.

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- The State Environmental Protection Bureau (國家環境保護總局) (“**EPB**”) is responsible for the overall supervision and management of environmental protection in the PRC. Pursuant to current environmental regulations in the PRC, all manufacturers in the PRC must comply with the relevant Environmental Protection Law and Regulations and of the rules and regulations in relation to environmental protection as promulgated by the local environmental protection bureau.
- The environmental regulations contain provisions regarding the treatment and disposal of pollutants and sewage and discharge of polluted fumes and the prevention of industrial pollution.
- Depending on the circumstances and the seriousness of the violation of the environmental regulations, the local authorities are authorised to impose various types of penalties on the persons or entities in violation of the environmental laws and regulations. The penalties which could be imposed include the issue of warning, suspension of operation or installation of preventive facilities which are incomplete and fail to meet the prescribed standards, reinstallation of preventive facilities which have been dismantled or left idle, administrative sanction against office-in-charge, suspension of business operations or shut-down of the enterprise or institution. Fines could also be levied together with these penalties. The maximum fine for severe violation of the environmental laws and regulations ranges from RMB500,000 to RMB1,000,000 for each violation. The relevant local authorities may apply to court for compulsory enforcement of environmental compliance. The persons or entities in violation of the applicable laws and regulations may also be liable to pay damages to the victims and/or result in criminal liability.

CERTIFICATES, PERMITS, APPROVALS AND LICENCES FOR OUR PRODUCTION AND BUSINESSES IN THE PRC

The following is a summary of the principal certificates, permits, approvals and licences that we are required to obtain from the relevant PRC regulatory and supervisory bodies for our production and businesses carried on in the PRC:

- a business licence (營業執照) issued by the Administration for Industry and Commerce of the Shandong Province (山東省工商行政管理局);
- an hygiene permit (衛生許可證) issued by the Shouguang City Health Bureau (壽光市衛生局) for the production and sale of our edible cornstarch;
- an industrial products production permit (全國工業產品生產許可證) issued by the Quality and Technology Supervisory Board of Shandong Province (山東省質量技術監督局) for the production of our industrial cornstarch;

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- an industrial products production permit (全國工業產品生產許可證) issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) for the production of our compound fertilizer (organic and inorganic);
- a feed additive production permit (飼料添加劑生產許可證) issued by The Ministry of Agriculture of the PRC (中華人民共和國農業部) for the production of our L-lysine hydrochloride salt;
- a water extradiation permit (中華人民共和國取水許可證) issued by The Water Resources Bureau of Shouguang City (壽光市水利部) for our extradiation of underground water;
- a feed production enterprise review and registration certificate (飼料生產企業審查登記證) issued by the Cattle Office of the Shandong Province (山東省畜牧辦公室) for the production of our ancillary corn-refined and corn-based products;
- a fertilizer official registration certificate (山東省肥料正式登記證) issued by the Agricultural Office of Shandong Province (山東省農業廳) for the production of our concentrated powder fertilizer;
- a food acquisition permit (糧食收購許可證) issued by the Food Bureau of Shouguang City (壽光市糧食局) for our acquisition of corn;
- a foreign trade operator registration certificate (對外貿易經營者備案登記表) issued by the relevant department of Shandong in charge of foreign trade operator registration for the export of our Group's products;
- a notice issued by Commodity Pricing Bureau of Shandong Province (山東省物價局) and Electric Power Bureau (電力局) 《關於躉售縣小火(熱)電電價的通知》(魯價格發 [2000]344 號) (Notice in relation to electricity price) (Lujia gefa [2000] No.344) for the rate charged for our electricity supplied to the electricity union network in respect of our first and second co-generation power generator systems;
- a notice on the adjustment in price charged for the supply of electricity to electricity union network and electricity price charged for non-industrial and ordinary industrial uses (Shouzhengfa [2001] No.84) 《關於調整熱電廠上網電價及非工業、普通工業用電價格的通知》(壽政發 [2001]84號) issued by The People's Government of Shouguang City (壽光市人民政府) for the rate charged for our electricity supplied to the electricity union network in respect of our first and second stage co-generation power generator systems;
- an electricity business permit (電力業務許可證) issued by the State Electricity Regulatory Commission (國家電力監管委員會) for the operation of electricity generation business with a validity period of 20 years commencing from 5 June, 2007 and ending on 4 June, 2027;

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- an approval in relation to the feasibility study report on heat and electricity power plant in the economic technology development district in Shouguang City (Lujiziyuan(Ji)Zi [1995] No.320) 《關於壽光市經濟技術開發區熱電廠可行性研究報告的批復》 (魯計資源(基)字[1995]320號) given by Planning Committee of the Shandong Province (山東省計劃委員會) for the construction of our co-generation power generator system;
- an approval in relation to the feasibility study report on the change in heat provision technology and ancillary facilities in relation to the industrial site of Shandong Juneng Electric Power Group Golden Corn Co., Ltd. (Lujingmaotouzi [2002] No.264) 《關於山東巨能電力集團金玉米開發有限公司工業園配套供熱技術改造工程項目可行性研究報告的批復》 (魯經貿投字[2002]264號) given by Economic and Trade Commission of Shandong Province (山東省經濟貿易委員會) for the change in our heat provision technology and ancillary facilities;
- a change in technology filing registration (Filing No: Lujingmaotoubei 0300985) (技術改造項目登記備案(備案號:魯經貿投備 0300985) filed with Economic and Trade Commission of Shandong Province (山東省經濟貿易委員會) in respect of our fourth co-generation power generator system;
- a change in technology filing registration (Filing No: Lujingmaotoubei 0301431) (技術改造項目登記備案(備案號:魯經貿投備 0301431) filed with Economic and Trade Commission of Shandong Province (山東省經濟貿易委員會) for the improvement and change in our boiler for the purpose of increasing our heat provision capacity;
- a heat supply operation permit (供熱經營許可證) issued by the Construction Bureau of Shandong Province (山東省建設廳) for our heat supply with a validity period of three years commencing from 15 January, 2007 and ending on 15 January, 2010; and
- approvals issued by the Commodity Pricing Bureau of Shouguang City (壽光市物價局) in relation to the price of steam Shoujiagefe [2004] No.2 (關於對蒸汽價格的批復) (壽價格發(2004)2號) and Shoujiagefe [2005] No.7 (關於對蒸汽價格的批復) (壽價格發(2005)7號) for rates charged for the supply of steam.

As advised by our PRC legal advisers, our Group has obtained all necessary certificates, permits, approvals and licences as mentioned above which are necessary for our operations in the PRC, all of which are valid and effective.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

WAIVER FROM STRICT COMPLIANCE WITH RULE 8.12 OF THE LISTING RULES

Background

It is required under Rule 8.12 of the Listing Rules that a new listing applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong, which normally means that at least two of its executive directors must be ordinarily resident in Hong Kong.

As disclosed in this prospectus, our business, operation and production are primarily located, managed and conducted in the PRC and, as such, none of our executive Directors are Hong Kong residents nor ordinarily based in Hong Kong. Our Company does not and, for the foreseeable future, will not have a sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

Our executive Directors and senior management (other than Mr. Lau Wing Ling, our company secretary and the qualified accountant of our Company) are, and will continue to be based in Shandong, the PRC, the head office and the principal place of business, operations and management of our Group in the PRC.

In view of our business, management and operations in the PRC, the appointment of additional executive Directors who are ordinarily resident in Hong Kong would increase our administrative expenses and reduce the effectiveness and responsiveness of our Board in making decisions for our Group, particularly when business decision are required to be made on a timely basis. Furthermore, such additional executive Directors, not being able to be physically present at the place where our daily operations and management take place, may not be able to fully understand the daily operations of our business and management or appreciate the circumstances affecting our business operations and development from time to time. This may adversely affect these Directors' ability to exercise their discretion on a fully informed basis, or to make appropriate business decisions or judgments that are beneficial to the management, operation and development of our Group.

Similarly, if any of the existing PRC-based executive Directors are relocated to Hong Kong for the sole purpose of satisfying the requirement under Rule 8.12 of the Listing Rules, these Directors will no longer be physically present at the place where our daily operations and management take place and may encounter the management difficulties as mentioned above.

For reasons stated above, our Directors consider that appointment of additional executive Directors for the sole purpose of satisfying the requirement under Rule 8.12 of the Listing Rules would be practically difficult and commercially infeasible for our Company and may not be in the best interests of the Group and its Shareholders as a whole.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Waiver application

For the purpose of the Listing, an application has been submitted to the Stock Exchange, and the Stock Exchange has accordingly granted, a waiver for strict compliance with Rule 8.12 of the Listing Rules. In this respect, we have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules who will act as the principal channel of communication with the Stock Exchange, namely Mr. Yu Yingquan, an executive Director and Mr. Lau Wing Ling, an ordinarily resident in Hong Kong and our company secretary and qualified accountant of our Company. Each of the authorised representatives has confirmed that they will be available to meet with the Stock Exchange in Hong Kong within a reasonable time frame upon request by the Stock Exchange and will be readily contactable by telephone, facsimile and electronic means. Each of the two authorised representatives is authorised to communicate on behalf of our Company with the Stock Exchange. In addition thereto, Mr. Liu Xianggang, an executive Director, is appointed as the alternate to Mr. Yu Yingquan, and Mr. Lau Wing Ling will be authorised to accept service of legal process and notices in Hong Kong on behalf of our Company. Both Mr. Yu Yingquan and Mr. Liu Xianggang are holding valid travel documents such that they will be able to meet with the Stock Exchange to discuss any matters in relation to our Company within a reasonable time frame.

With the aim of enhancing our communication with the Stock Exchange, we will implement the following policies:

- that each executive Director will provide his/her office phone number, mobile phone number, residential phone number, fax number and e-mail address to the authorised representatives and his/her respective alternate;
- that in the event where an executive Director expects to travel and be out of office, he/she will provide the phone number of the place of his/her accommodation to the authorised representatives and his/her respective alternate;
- that all the executive Directors and the authorised representatives will provide his/her office phone number, mobile phone number, residential phone number, fax number and e-mail address to the Stock Exchange; and
- all our Directors shall hold valid travel document to travel to Hong Kong that will enable them to meet with the Stock Exchange to discuss any matters in relation to our Company within a reasonable time frame. All the executive Directors and independent non-executive Directors who are not ordinarily residents in Hong Kong have confirmed that they possess or will apply for valid travel documents to travel to Hong Kong such that they will be able to meet the Stock Exchange within a reasonable period of time when required.

If circumstances require, meeting of the Board will be summoned and held in such manners and on short notice as permitted under the articles of association of our Company to discuss and address any issues which the Stock Exchange is concerned in a timely manner.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Additionally, we have appointed CCBIC as our compliance adviser pursuant to rule 3A.19 of the Listing Rules for the period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the financial year ending 31 December, 2008. We shall also seek legal advice from time to time on on-going compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong after the Listing.

We will maintain a principal place of business in Hong Kong at Room 502-505, 5th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong.

WAIVER FROM STRICT COMPLIANCE WITH RULE 14A.35 OF THE LISTING RULES

We operate our own co-generation power plant which generates the steam and electricity needed both for our production and sales to third parties. On 1 September, 2006, we entered into a steam provision contract (the “**Steam Provision Contract**”) with 山東壽光巨能特鋼有限公司 (Shandong Shouguang Juneng Special Steel Co., Ltd.*) (“**Juneng Special Steel**”) for the provision of steam to Juneng Special Steel at the relevant prevailing charge rate prescribed by the 壽光市物價局 (Commodity Pricing Bureau of Shouguang City*) (“**Shouguang CPB**”) from time to time, for a period commencing from 28 September, 2006 up to 31 December, 2008. Shouguang CPB is the PRC government authority responsible for prescribing charge rates for the provision of, among other things, steam for residential and non-residential uses in Shouguang City. The pricing term is subject to adjustment in the event that there are changes in the prevailing charge rates for the provision of steam as prescribed by Shouguang CPB.

The following is a summary of the historical figures of the transaction (exclusive of tax paid by Juneng Special Steel to Golden Corn for onward payment to the relevant tax authority in the PRC) contemplated under the Steam Provision Contract for each of the three years ended 31 December 2006 and the four months ended 30 April 2007:

	For the year ended 31 December			Four months ended
2004	2005	2006		30 April 2007
RMB	RMB	RMB		RMB
Nil (note 1)	Nil (note 1)	11,556,000 (note 2)		22,235,000

Notes:

- (1) No steam was provided to Juneng Special Steel during these two periods.
- (2) Golden Corn commenced the provision of steam to Juneng Special Steel from September 2006. This figure represents the amount of sales (exclusive of tax paid by Juneng Special Steel to Golden Corn for onward payment to the relevant tax authority in the PRC) to Juneng Special Steel for the four months ended 31 December 2006.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Taking into account our Group's own requirements, the Directors estimate that we have sufficient capacity to provide steam for external use including Juneng Special Steel.

Listing Rules implications

As at the Latest Practicable Date, Juneng Special Steel was owned as to 59% by Juneng Holding Group (which was 55% owned by Mr. Tian), and as to the remaining 41% as to 11% by 劉發友 (Liu Fayou*), 10% by 朱衛東 (Zhu Weidong*), 10% by 張洪波 (Zhang Hongbo*) and 10% by 于克臣 (Yu Kechen*), all independent third parties. As Juneng Special Steel is a subsidiary of Juneng Holding Group which is an associate of Mr. Tian, Juneng Special Steel is a connected person of our Company for the purpose of Chapter 14A of the Listing Rules.

The sales of steam to Juneng Special Steel will continue following the Listing. Accordingly, transaction contemplated under the Steam Provision Contract will constitute continuing connected transaction of our Company under Rule 14A.14 of the Listing Rules.

Taking into account of the amount involved in the above continuing connected transaction, the transaction as contemplated under the Steam Provision Contract constitutes continuing connected transaction for our Company which is subject to the reporting, announcement and independent Shareholders' approval requirements set out in Rule 14A.35 of the Listing Rules.

Waiver application and annual cap

For the purpose of the Listing, an application has been submitted to the Stock Exchange pursuant to Rule 14A.42(3) of the Listing Rules for, and the Stock Exchange has accordingly granted, the waiver from strict compliance with the announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of our sales of steam to Juneng Special Steel contemplated under the Steam Provision Contract, with an annual cap of RMB70,000,000 and RMB70,000,000 respectively (exclusive of tax paid by Juneng Special Steel to Golden Corn for onward payment to the relevant tax authority in the PRC) for each of the two years ending 31 December, 2008. The annual caps are determined with reference to, among other factors, (i) the sales of steam to Juneng Special Steel for the four months ended 30 April, 2007 of approximately RMB22,235,000 (exclusive of tax paid by Juneng Special Steel to Golden Corn for onward payment to the relevant tax authority in the PRC and translating into an annualised amount of about RMB66,705,000); (ii) the amount of steam required by Juneng Special Steel as estimated and provided by its management; (iii) the expansion of production capacity of Juneng Special Steel in 2007 and the corresponding estimated increase in production level as advised by the management of Juneng Special Steel; and (iv) our Directors' estimates on the annual capacity of our steam production taking into account their estimates on the required amount of electricity and steam to be utilised internally.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Directors' and Sponsor's view on the continuing connected transaction

The Directors (including the independent non-executive Directors) and the Sponsor are of the view that the transaction contemplated under the Steam Provision Contract is in the ordinary and usual course of business of the Group and is entered into on normal commercial terms. Furthermore, the Directors (including the independent non-executive Directors) and the Sponsor are of the view that the Steam Provision Contract and the corresponding proposed annual cap amounts are fair and reasonable and in the interests of the Shareholders taken as a whole.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies Ordinance, the SFO, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purposes of giving information to the public with regard to us. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and, having made all reasonable inquiries, confirm that:

1. the information contained in this prospectus is accurate and complete in all material respects and not misleading;
2. to the best of their knowledge and belief, there are no other facts or matters the omission of which would make any statement in this prospectus misleading; and
3. all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on basis and assumptions that are fair and reasonable.

The Offer Shares are offered solely on the basis of the information contained and the representations made in this prospectus. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Sponsor, the Lead Manager, the Underwriters, any of their respective directors, officers, employees, advisers, agents or representatives or any other party or person involved in the Global Offering.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applicants under the Hong Kong Public Offering, this prospectus and the related Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The Listing is sponsored by CCBIC. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters and is subject to our Company and the Lead Manager (on behalf of the Underwriters) agreeing on the Offer Price. The International Placing is expected to be underwritten by the International Underwriter under the International Underwriting Agreement. Further details about the Underwriters and the underwriting arrangements are contained in the section headed "Underwriting" in this prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Price is expected to be determined by agreement between our Company and the Lead Manager (on behalf of the Underwriters) at or before the Price Determination Time or such later time or date as may be agreed by the Lead Manager (on behalf of the Underwriters) and our Company but in any event no later than 8:00 a.m. (Hong Kong Time) on 18 September, 2007. The Offer Price will not be more than HK\$2.31 per Offer Share and is expected to be not less than HK\$1.85 per Offer Share. The Lead Manager (on behalf of the Underwriters) may reduce the

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, a notice of the reduction of the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision of the Global Offering statistics as currently set out in the section headed “Summary” in this prospectus, and any other financial information which may change as a result of any such reduction. If applications for the Hong Kong Public Offer Shares have been submitted prior to the day which is the last day for lodging applications for the Hong Kong Public Offering, then if the Offer Price range is so reduced, such applications cannot be subsequently withdrawn.

If, for any reason, the Offer Price is not agreed between our Company and the Lead Manager (on behalf of the Underwriters) at or before the Price Determination Time, the Global Offering will not become unconditional and will lapse.

RESTRICTIONS ON THE OFFER OF THE OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

The Offer Shares are offered for subscription solely on the basis of the information contained and representations made in this prospectus and the related Application Forms. No person is authorised in connection with the Global Offering to give any information, or to make any representation, not contained in this prospectus and the related Application Forms, and any information or representation not contained in this prospectus and the related Application Forms must not be relied upon as having been authorised by our Company, the Sponsor, the Lead Manager, the Underwriters, any of their respective directors, officers, employees, agents or representatives or any other person or party involved in the Global Offering.

Each person acquiring the Hong Kong Public Offer Shares under the Hong Kong Public Offering will be required to confirm, or be deemed by his acquisition of Hong Kong Public Offer Shares to confirm, that he is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.

United States of America

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered, sold, pledged or otherwise transferred within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

The Offer Shares have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Global Offering or the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offence in the United States.

United Kingdom

This prospectus has not been approved by an authorised person in the United Kingdom and has not been registered with the Registrar of Companies in the United Kingdom. The Offer Shares have not been offered or sold and, prior to the expiry of a period of six months from the latest date of the issue of the Offer Shares, the Offer Shares will not be offered or sold to any persons in the United Kingdom except to qualified investors within the meaning of section 86 of the Financial Services and Markets Act 2000 (as amended) (the “**FSMA**”). This prospectus and its contents are confidential and its distribution (which term shall include any form of communication) is restricted pursuant to section 21 (restrictions on financial promotion) of the FSMA. In relation to the United Kingdom, this prospectus is only directed at, and may only be distributed to, persons who are “Investment Professionals” (being persons having professional expertise in matters relating to investments) within the meaning of Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended).

This prospectus is directed at persons having professional experience in the investments to which this prospectus relates. Any investment, and investment activity or controlled activity, to which this prospectus relates is available only to such persons and will be engaged in only with such persons. Persons who do not have professional experience should not rely or act upon this prospectus.

Singapore

This prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Offer Shares may not be circulated or distributed, nor may the Offer Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “**SFA**”), (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Offer Shares are subscribed or purchased under Section 275 by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the Offer Shares pursuant to an offer made under Section 275 except: (1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions, specified in Section 275 of the SFA, (2) where no consideration is or will be given for the transfer; or (3) where the transfer is by operation of law.

Cayman Islands

This prospectus does not constitute an invitation or offer to the public in the Cayman Islands of the Offer Shares, whether by way of sale or subscription. The Underwriters have not offered or sold, and will not offer or sell, directly or indirectly, any Offer Share in the Cayman Islands.

General

No action may be taken in any jurisdiction other than Hong Kong that would permit a public offering of the Offer Shares or the possession, circulation or distribution of this prospectus in any jurisdiction where action for that purpose is required. Accordingly, the Offer Shares may not be offered or sold, directly or indirectly, and neither this prospectus nor any other offering material or advertisements in connection with the Offer Shares may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares in issue, Shares to be issued pursuant to the Loan Capitalisation Issue and the Capitalisation Issue, Shares to be issued pursuant to the Global Offering, and any Shares which may fall to be allotted and issued upon the exercise of the Over-allotment Option or the exercise of any options which may be granted under the Share Option Scheme, on the Main Board.

Save as disclosed in this prospectus, no part of the equity or debt securities of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Under section 44B(1) of the Companies Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Offer Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

HONG KONG BRANCH REGISTER AND STAMP DUTY

All of the Shares in issue and to be issued pursuant to the Loan Capitalisation Issue, the Capitalisation Issue and the Shares to be issued pursuant to the Global Offering will, upon the Listing, be registered on our Company's branch register of members to be maintained by Tricor Investor Services Limited in Hong Kong.

Dealings in the Shares registered in the branch register of members of our Company maintained in Hong Kong will be subject to Hong Kong stamp duty. Dealings in the Shares registered on our Company's principal register of members maintained in the Cayman Islands will not be subject to Cayman Islands stamp duty unless our Company holds an interest in land in the Cayman Islands.

Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of the Shares will be paid to our Shareholders listed on the share registers of our Company, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange and our Company's compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date as determined by HKSCC. Settlement of transaction between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

Applicants for the Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposal of, dealing in, or exercise of any rights in relation to, the Shares. It is emphasised that none of our Company, the Sponsor, the Lead Manager, the Underwriters, any of their respective directors, officers, employees, agents, advisers or representatives or any other party or person involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, holders of Shares resulting from the subscription, purchase, holding, disposal of or dealing in, or the exercise of any rights, in relation to the Shares.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

STABILIZATION AND OVER-ALLOTMENT OPTION

In connection with the Global Offering, our Company will grant to the Lead Manager the Over-allotment Option, exercisable by the Lead Manager within 30 days after the last day for the lodging of applications under the Hong Kong Public Offering (which is expected to be 17 October, 2007), pursuant to which our Company may be required to allot and issue up to an aggregate of 22,500,000 additional new Shares (representing approximately 15% of the Shares initially being offered under the Global Offering) at the Offer Price to cover over-allocations in the International Placing and/or the obligations of the Lead Manager to return securities borrowed under the Stock Borrowing Agreement. Any new Shares allotted and issued pursuant to the exercise of the Over-allotment Option will be on the same terms and conditions as the Offer Shares. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 33% of our Company's enlarged issued share capital following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

In connection with the Global Offering, the Lead Manager, or any person acting for it, may over-allocate or effect transactions with a view to supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Lead Manager or any person acting for it to conduct any such stabilizing action. Such transactions, if commenced, may be discontinued at any time. The Lead Manager has been or will be appointed as stabilizing manager for the purpose of the Global Offering in accordance with the Securities and Futures (Price Stabilizing) Rules made under the SFO and, should stabilizing transactions be effected in connection with the Global Offering, this will be at the absolute discretion of the Lead Manager and will be effected in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

Further details with respect to stabilization and the Over-allotment Option are set out in the paragraph headed "Over-allotment Option and stabilization" in the section headed "Structure of the Global Offering" in this prospectus.

PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedures for applying for the Hong Kong Public Offer Shares are set out in the section headed "How to apply for Hong Kong Public Offer Shares" in this prospectus and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including the conditions, are set out under the section headed "Structure of the Global Offering" in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Residential address	Nationality
<i>Executive Directors</i>		
Mr. Tian Qixiang (田其祥) (Chairman)	Room 302, Unit 2 Building No.2 No. 59 Qingshou Street Shouguang City Shandong Province PRC	Chinese
Mr. Gao Shijun (高世軍) (Chief Executive Officer)	Room 101, Unit 3 Building No.6 No. 79 Guangming Road Shouguang City Shandong Province PRC	Chinese
Mr. Yu Yingquan (于英全)	No. 268 Bohai Road Shouguang City Shandong Province PRC	Chinese
Mr. Liu Xianggang (劉象剛)	Room 301, Unit 1 Building No.14 No. 59 Qingshou Street Shouguang City Shandong Province PRC	Chinese
<i>Independent non-executive Directors</i>		
Ms. Dong Yanfeng (董延豐)	Room 302, Unit 1 Building No.56 28 Yuejin Road Changan District Shijiazhuang City Hebei Province PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Residential address	Nationality
Ms. Yu Shumin (余淑敏)	Unit 1, No. 302 5th Floor Section A North First Alley Zhongguan Village Haidian District Beijing PRC	Chinese
Mr. Cao Zenggong (曹增功)	Room 502, Unit 4 Building No. 18 No. 94 Minziqian Road Lixia District Jinan City Shandong Province PRC	Chinese
Mr. Yue Kwai Wa, Ken (余季華)	25A, Block 7 Cavendish Heights 33 Perkins Road Jardine's Lookout Hong Kong	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

**Sponsor, Bookrunner
and Lead Manager**

CCB International Capital Limited
Suites 2815-21, 28th Floor
Two Pacific Place
88 Queensway
Hong Kong

Hong Kong Underwriters

Hong Kong Public Offering Lead Manager

CCB International Capital Limited
Suites 2815-21, 28th Floor
Two Pacific Place
88 Queensway
Hong Kong

Co-Managers

BOCOM International Holdings Company Limited
3rd Floor
Far East Consortium Building
121 Des Voeux Road Central
Hong Kong

China Merchants Securities (HK) Co., Ltd.
48th Floor
One Exchange Square
Central
Hong Kong

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DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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Remuneration committee	Yue Kwai Wa, Ken (余季華) (<i>Chairman</i>) Tian Qixiang (田其祥) Dong Yanfeng (董延豐) Yu Shumin (余淑敏) Cao Zenggong (曹增功)

CORPORATE INFORMATION

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Tian Qixiang (田其祥)
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INDUSTRY OVERVIEW

Certain facts and official statistics set out in this section are derived from various official government publications. Whilst our Directors and the Sponsor have taken reasonable care to ensure that the facts and official statistics presented are accurately reproduced from such publications, such official government publications have not been independently verified by our Group and may be inconsistent, inaccurate or incomplete. None of our Group, the Sponsor, the Underwriters, their respective directors and advisers or any other parties involved in the Global Offering make any representation as to the accuracy or completeness of such official government publications and, accordingly, such official government publications should not be unduly relied upon. Furthermore, the official statistics may not be comparable to statistics available for other nations' economies; there can be no assurance that the official statistics are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

INTRODUCTION

Our principal business involves the use of corn kernels as our principal raw material to produce cornstarch, 98.5% L-lysine hydrochloride salt and other ancillary corn-refined and corn-based products such as corn slurry, corn germ, corn fibre, corn gluten meal and agricultural fertilisers. As such, we consider that we are operating in the corn refinery industry. Cornstarch is the primary upstream product for the corn-refinery industry. The continuous technological advancements in the corn-refinery industry have broadened the industrial use of corn, laying a foundation for a growing cornstarch market.

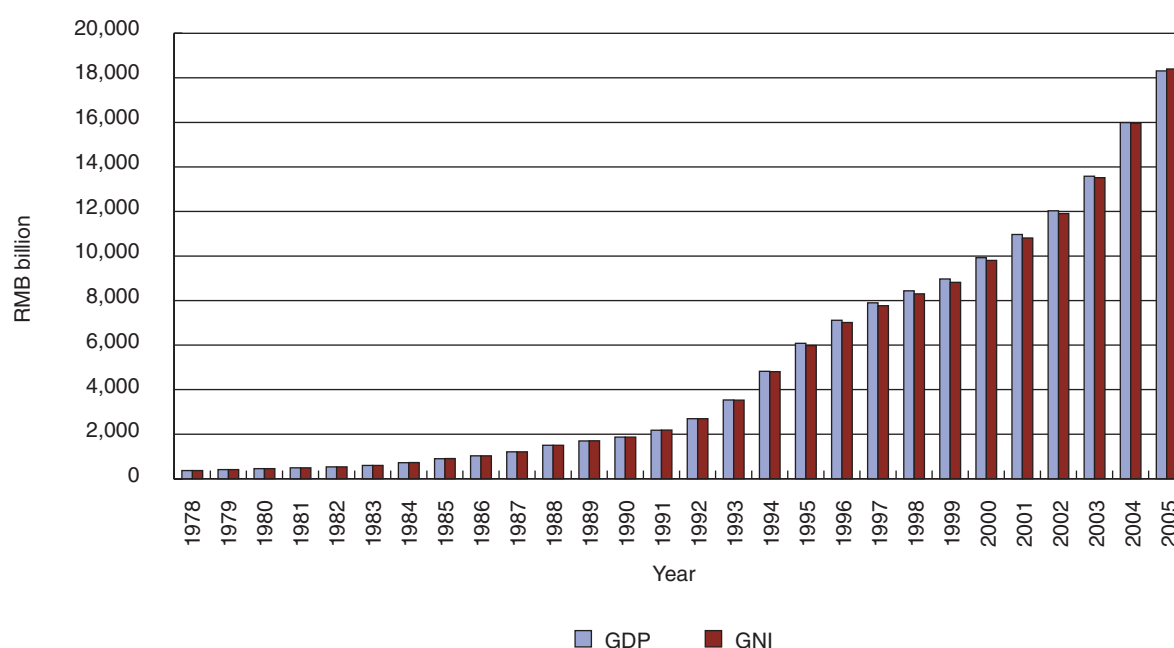
In respect of an over-expanding corn refinery industry in China, state policy recommends several measures to make the industry a healthy growth. In particular, the National Development and Reform Commission (國家發展和改革委員會) issued a notice on 8 December, 2006 (taking effect on the same date) to halt approval and filing of any new corn refinery projects and only allow those plants that meet relevant production and environmental standards to continue the production. In addition, the policy recommends large corn refinery enterprises to acquire those small and non-profitable corn refinery companies in order to consolidate and increase the production efficiency of the whole industry.

INDUSTRY OVERVIEW

THE PRC ECONOMY

China's economy has been growing continuously since the 1980's. During the period from 1978 to 2005, China's gross domestic product ("GDP") and gross national income ("GNI") had exhibited substantial growth. In particular, such substantial growth in China's GDP has been well reflected in all the primary, secondary (industry and construction) and tertiary (transport, storage and post, and whole and retail trades) industries. In addition, China's per capita gross domestic product has grown from about RMB381 in 1978 to about RMB14,040 in 2005, representing a CAGR of over 13%. The following charts sets out China's GDP and GNI during the captioned period:

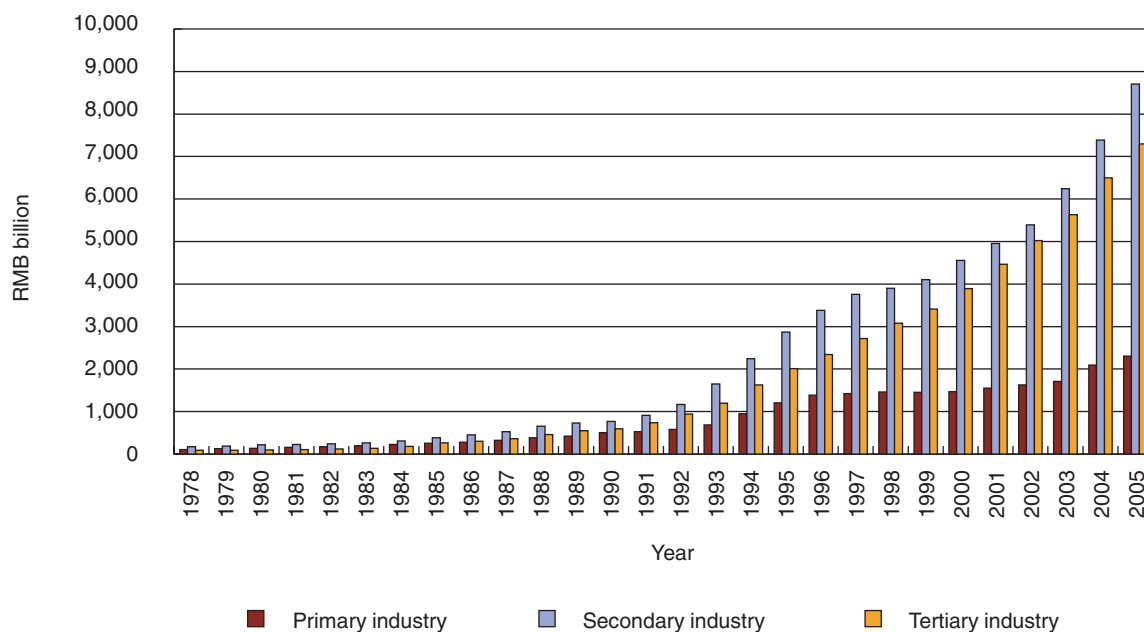
1978 — 2005 China's GDP and GNI



Source: 2006 China Statistical Yearbook

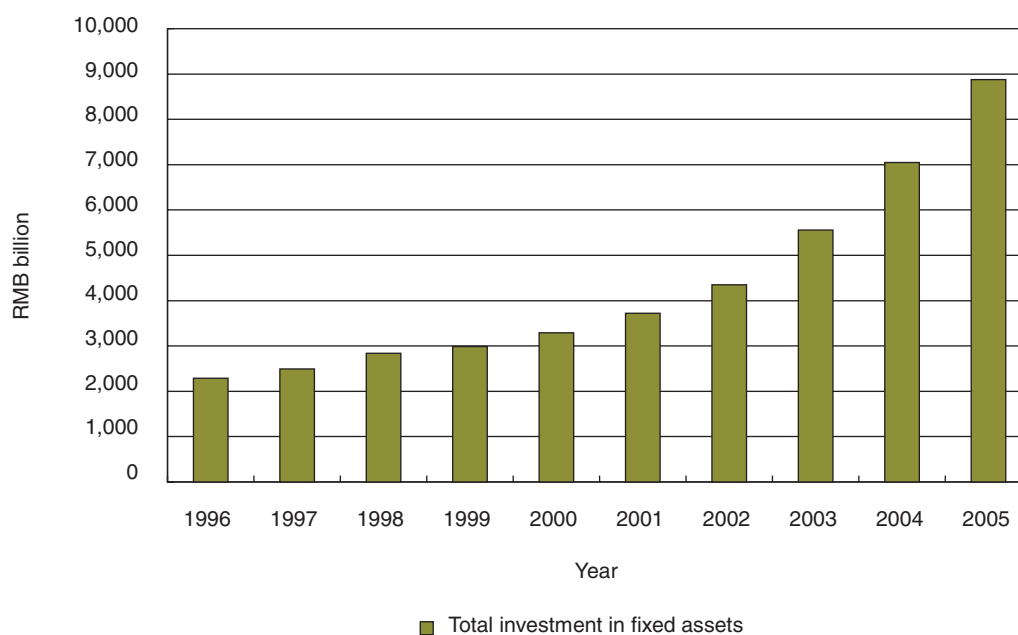
INDUSTRY OVERVIEW

1978 — 2005 China's GDP growth by industry classification



Source: 2006 China Statistical Yearbook

In tandem with China's GDP growth, China's total investment in fixed assets has also exhibited growth, with a CAGR of some 16.2% during the 10-year period from 1996 to 2005. The following chart sets out the growth in China's total investment in fixed assets during the captioned 10-year period:



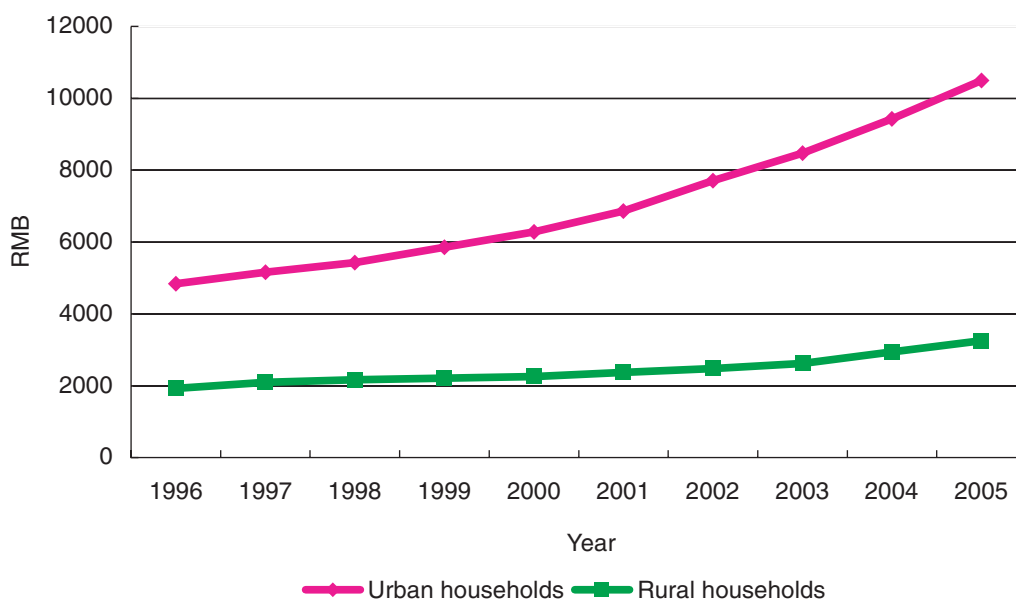
Source: 2006 China Statistical Yearbook

INDUSTRY OVERVIEW

Moreover, substantially all of China's major industries, including agriculture, forestry, animal husbandry and fishing, manufacturing, wholesale and retail trades, hotels and catering services as well as health, social securities and social welfare, have exhibited growth in fixed assets investment for three consecutive years from 2003 to 2005.

China's per capita annual income for both urban and rural households have also been on an increasing trend since the 1980's, and has grown from about RMB4,839 for urban households and RMB1,926 for rural households in 1996 to about RMB10,493 for urban households and RMB3,255 for rural households in 2005, representing a CAGR of approximately 9.0% and 6.0% respectively:

1996 — 2005 China's per capita annual income

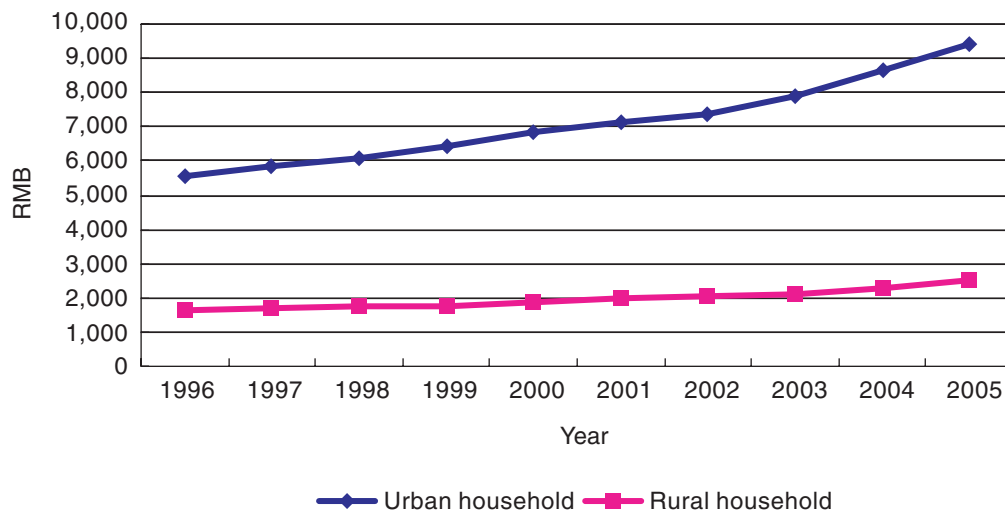


Source: 2006 China Statistical Yearbook

INDUSTRY OVERVIEW

In tandem with the growth in per capita annual income, China's household consumption expenditure also exhibited a trend of continuous growth since the 1980's, with urban household consumption expenditure grew from about RMB5,532 in 1996 to RMB9,393 in 2005 (CAGR: approximately 6.1%), and rural household consumption expenditure from about RMB1,626 in 1996 to RMB2,531 in 2005 (CAGR: approximately 5.0%):

1996 — 2005 China's household consumption expenditure

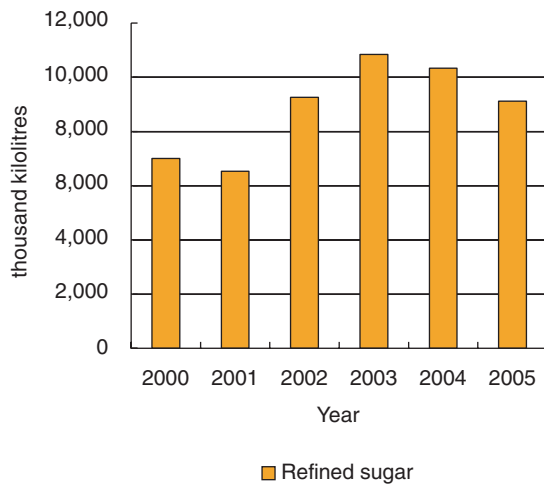


Source: 2006 China Statistical Yearbook

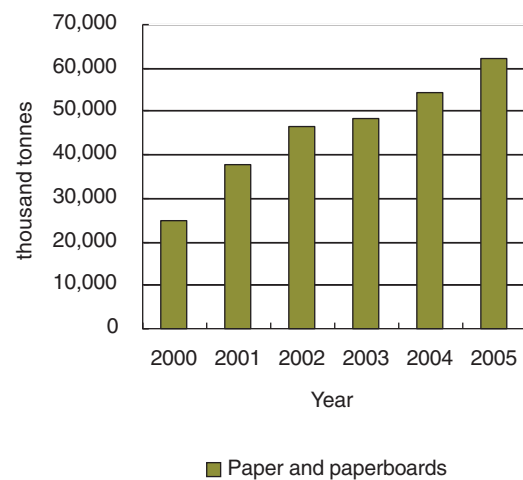
INDUSTRY OVERVIEW

According to the 2006 China Statistical Yearbook, approximately 36.7% and 7.6% of the average consumption expenditure per household in China was spent on food and health care and medical services. On the other hand, China's output of food and beverage and consumer products has, in general, been on an increasing trend since 2000. The following charts depict the increase of China's annual output of cloth, paper and paperboards, refined sugar and beer (all of which may consume cornstarch as their raw materials) during the period from 2000 to 2005:

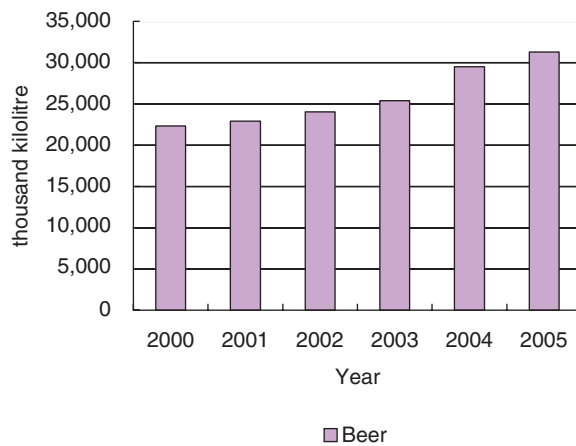
2000 - 2005 China's annual output of refined sugar



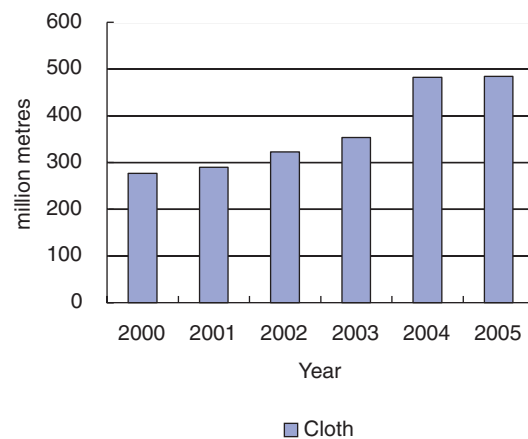
2000 - 2005 China's annual output of paper and paperboards



2000 - 2005 China's annual output of beer



2000 - 2005 China's annual output of cloth



Source: 2006 China Statistical Yearbook

INDUSTRY OVERVIEW

STARCH

Starch is one of nature's major renewable resources and a mainstay of our food and industrial economy. China's annual production of starch had increased from about 6.3 million tonnes in 2002 to about 9.3 million tonnes in 2004. It is reported that during the period from 2001 to 2005, China's starch industry had maintained an annual growth rate of over 25% in sales. It is also reported that China's average per capita starch expenditure has increased from about 2kg during the "Eighth Five-Year Planning" period to over 8kg (based on a population of 1.3 billion) during the "Tenth Five-Year Planning" period. Leveraged on the enlarged production base of starch and related refinery products, it is estimated that the PRC starch industry may achieve a growth rate of 10% to 12% under the "Eleventh Five-Year Planning" time frame.

CORNSTARCH

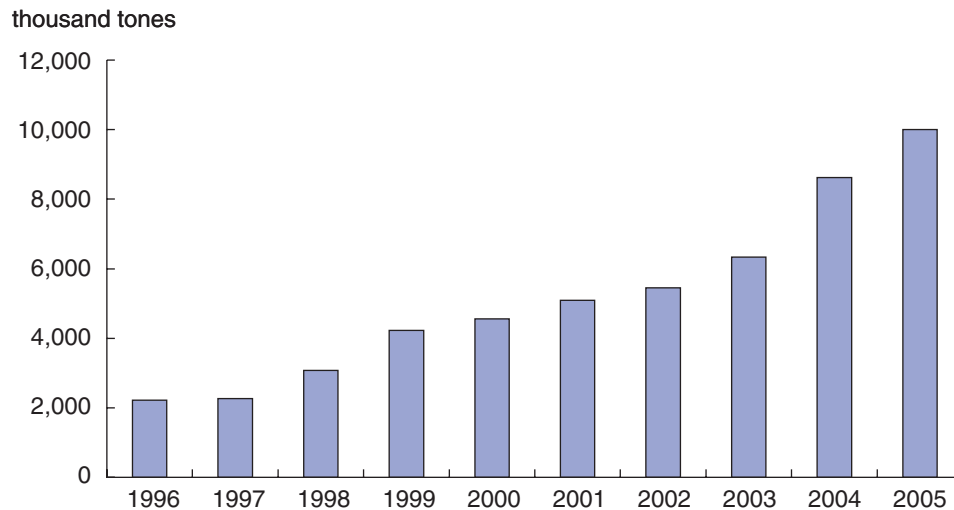
There are different kinds of starch, such as those made from corn, cassava, wheat and potatoes. Cornstarch, a corn-refined product produced from corn kernel, is a major kind of starch. It is an important raw material applied for the production of a wide range of products, including ethanol, glucose, lysine, animal feeds, agricultural fertilisers, paper, textiles, industrial chemicals, food and beverage, pharmaceutical and plastics. While cornstarch dominated China's starch production and constituted approximately 87% of total starch produced in 2002, its percentage contribution continued to increase to over 90% by 2004. Moreover, over 80% of China's starch expenditure in 2005 was contributed from cornstarch expenditure.

INDUSTRY OVERVIEW

China's cornstarch market

China's cornstarch industry has grown rapidly since 1989. Total annual production volume of cornstarch in China has increased from approximately 2.2 million tonnes in 1996 to approximately 10.0 million tonnes in 2005, representing a CAGR of approximately 18%:

1996 - 2005 China's annual corn starch production volume



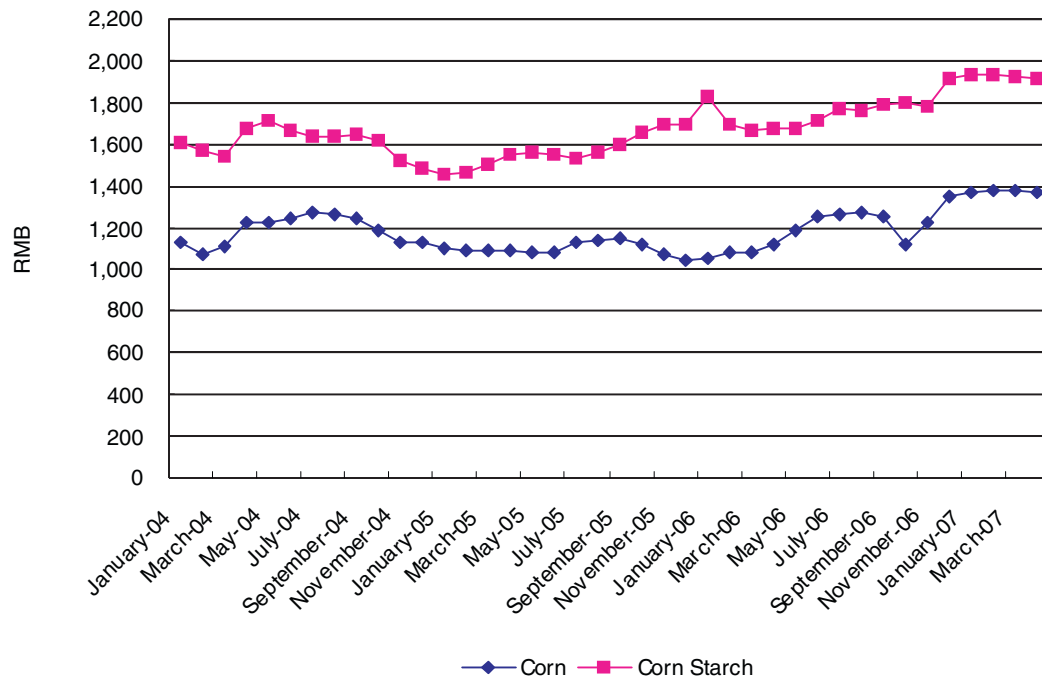
Source: *China Corn & Corn Processing Products Market Review & Outlook 2005-2006* published by ChinaCCM

Cornstarch is the major material for the production of other downstream corn-refined products such as glucose, food and beverage, lysine and MSG. Therefore, China's growth in cornstarch production can be attributable to, among other factors, the increase in consumption of food and beverage as a result of growing economy and the expansion of such downstream corn-refinery industries which consume cornstarch as their raw material.

INDUSTRY OVERVIEW

Prices of cornstarch in China

The following chart sets out the movements of our average selling prices of cornstarch against our average purchase prices of corn during the Track Record Period:



The prices of cornstarch in China has been on an upward trend. China's corn refinery industry is expected to experience continuous growth, fueled by the anticipated growth in the production of ethanol and glucose as well as other cornstarch consumption industries such as pharmaceutical, industrial chemical, food and beverage and paper. Therefore, the price of cornstarch is expected to continue to grow in the coming years.

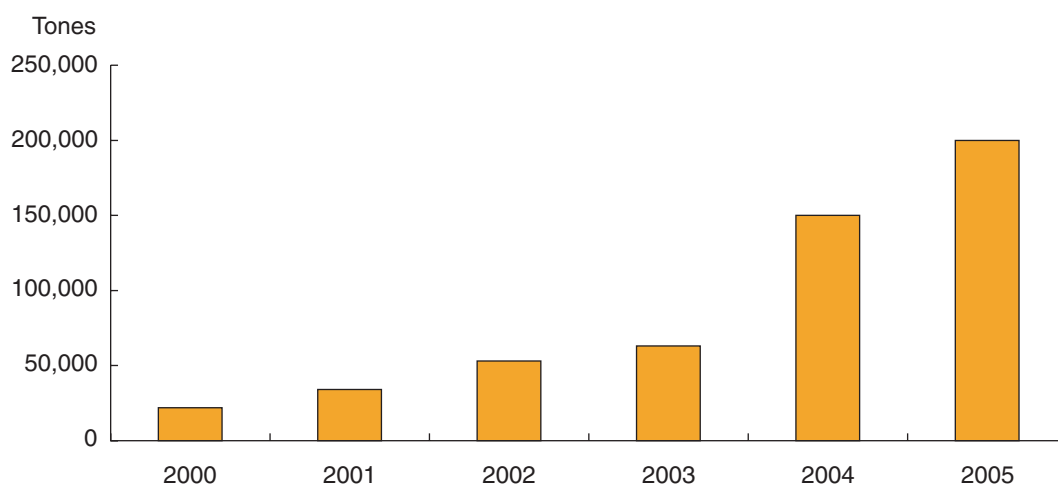
INDUSTRY OVERVIEW

DOWNSTREAM APPLICATIONS OF CORNSTARCH

Lysine

Lysine is produced mainly through further processing of cornstarch. Shandong is one of China's major lysine production base, and constituted approximately 63% of China's corn-based lysine production in China in 2005. Lysine production in China has grown drastically since 2003, with annual production increased from approximately 63,000 tonnes in 2003 to approximately 200,000 tonnes in 2005 and represented a CAGR of approximately 78.2%. The following table illustrates China annual lysine production between 2000 and 2005:

2000 - 2005 China's annual lysine production



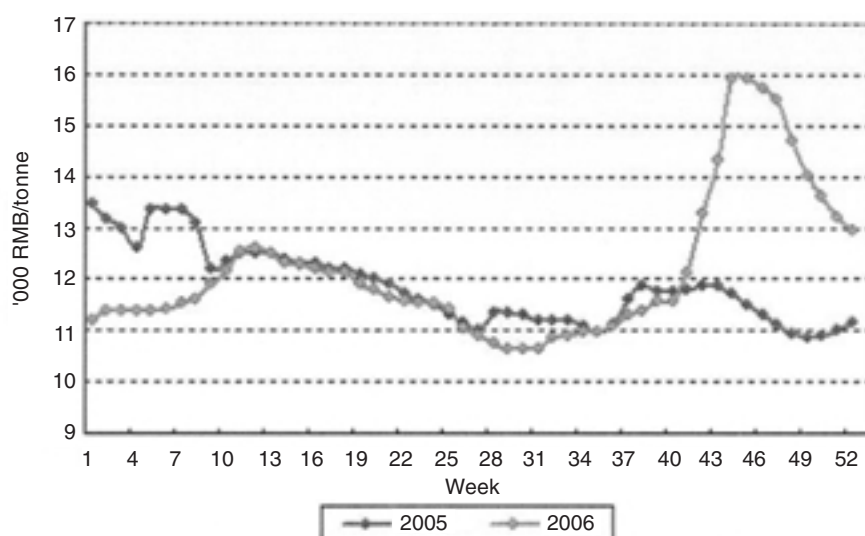
Source: *China Corn & Corn Processing Products Market Review & Outlook 2005-2006* published by ChinaCCM

There are lots of feed mills in Shandong and neighboring provinces, and it is anticipated that feed mills shall use more lysine in the coming years. As such, both demand and production of lysine are expected to grow further.

INDUSTRY OVERVIEW

China had experienced a sluggish lysine market in 2005 which, according to China Corn & Corn Processing Products Market Review & Outlook 2005-2006 by ChinaCCM, were attributable to, among other factors, the surplus lysine production during the year coupled with the human case of pig streptococcus which, when put under control with the rise of demand of lysine in the third quarter of 2005, was hit again by the outbreak of the avian flu in October 2005. The depressed market price of lysine continued during the first nine months of 2006, which can be attributable to the increased output from major lysine manufacturers in the PRC and increased pressure on inventory build-up. The market price of lysine was briefly relieved in the last quarter of 2006 due to, among other factors, the easing of inventory pressure due to increased exports and higher purchases from feed millers. The following diagram illustrates the price movements of locally produced lysine in China for 2005 and 2006:

Price movements of locally produced lysine in China, 2005-2006



Source: China Lysine Market 2006-2007 published by eFeedLink

According to the research report “China Lysine Market 2006-2007” published by eFeedLink, China’s lysine production industry in 2006 can be broadly characterised as (i) keen competition causing some relatively less cost efficient lysine producers to halt their operations; (ii) producers with diversified business structure adjusting their production and sales of lysine; (iii) international lysine producers cutting down their export to China due to intense competition; and (iv) consolidation of market participants.

China’s lysine production industry is in a consolidation stage as large local producers continued to acquire small lysine manufacturers. Competition in the 98.5-percent lysine market segment remained intense amongst various producers. Price cutting moves were common as producers seek to secure or expand their market share.

INDUSTRY OVERVIEW

Despite the intensive competitive landscape, market share for locally produced lysine continued to overtake that of imported lysine products, both in terms of sales revenue and quantity. China-produced lysine had also begun to influence competitive activity in the global market.

According to eFeedLink, China's lysine price is expected to move within a narrower range than that in 2006 and the annual average price is expected to increase for reasons as follows:

- corn price is forecast to be higher in 2007, which is expected to result in an increase of the production cost for lysine;
- livestock and feed production activities is anticipated to rise in 2007; and
- lysine exports are expected to rise at a faster pace than domestic demand, and the anticipated increase in export is expected to help ease any potential build up in domestic inventory.

Agricultural fertilisers

China is at present the largest fertiliser producer and consumer in the world. The production of fertilisers in China has been growing for years.

China population is anticipated to grow to approximately 1.5 billion people by 2030, leading to more consumption of agricultural products. However, as the area of fertile farmlands is reducing, there are views that more fertilisers will be required in order to make China agribusiness more efficient, which would increase the demand and market price of fertilizers.

Alcohol and ethanol

Corn, cassava or molasses can be used as the raw materials in the production of alcohol by fermentation method, and corn-based alcohol production accounts for approximately 50% of the total alcohol production by fermentation method in the PRC.

Production of edible alcohol and ethanol have increased rapidly since 2001, the annual average growth rate of which is approximately 15%. Currently, there are only four ethanol producers in China, three of which use corn as raw material. However, according to a notice issued by the National Development and Reform Commission (國家發展和改革委員會) on 8 December, 2006, those four ethanol producers cannot increase their production capacity before government's approval.

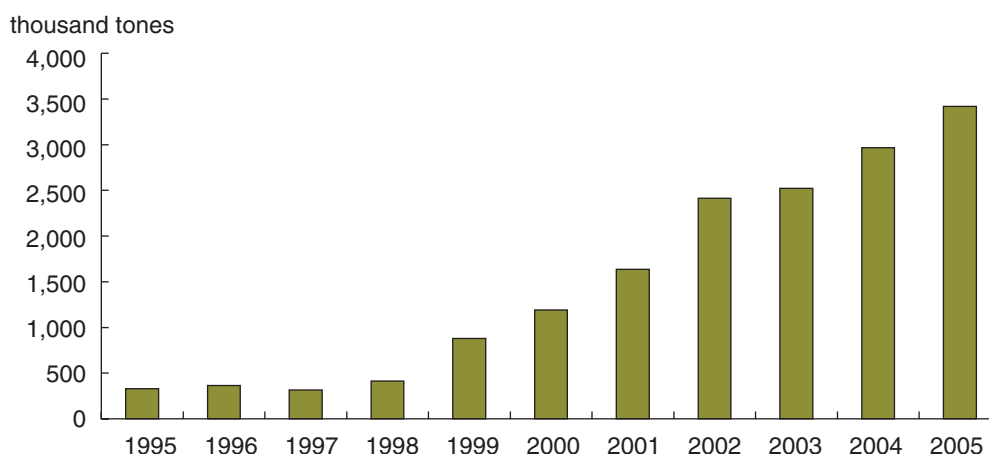
Notwithstanding the aforesaid, high oil price, demands for environmentally-friendly energy source are expected to induce further growth in the production of ethanol, an alternative form of fuel energy, in China.

INDUSTRY OVERVIEW

Glucose and Starch-based sweeteners

Shandong province is the second largest production base of crystallised glucose in China. China's production of starch-based sweeteners has been on an increasing trend, as evidenced by the growth in its annual production volume from about 330,000 tonnes in 1995 to about 3.42 million tonnes in 2005, representing a CAGR of approximately 26%.

1995 - 2005 China's production of starch-based sweeteners



Source: China Corn & Corn Processing Products Market Review & Outlook 2005-2006 published by ChinaCCM

Starch-based sweeteners are important raw materials for the food industry in China and supplements to daily sugar consumption. At present, China is considered as a country of low edible sugar expenditure, which provides substantial room for further market developments. It is reported that the world's average per capita edible sugar expenditure is over 20kg, while Asia's average per capita edible sugar expenditure is around 11kg and other European and North American developed countries has an average per capita edible sugar expenditure of around 30kg to 35kg. China, on the other hand, only has an average per capita edible sugar expenditure of about 8.5kg. Moreover, while the ratio of cane sugar vs. starch-based sugar in the U.S. in 2004 was around 1:1.26, China only had a ratio of about 1:0.27. It is argued that even by 2010, China's per capital expenditure on starch-based sugar would only represent about 11%, 34% and 40% of the 2001 per capital expenditure of the U.S., Korea and Japan respectively, on starch-based sugar.

China's starch-based sweeteners industry is expected to enjoy continuous growth. Domestic demand for cornstarch, being the principal raw material for the production of starch-based sweeteners, is expected to benefit from the anticipated growth in China's starch based sweeteners market.

INDUSTRY OVERVIEW

Other downstream industries

Apart from the above-mentioned major applications, cornstarch is also applied as raw material in the production of a wide variety of industrial and consumer goods, such as paper, textile, industrial chemicals, food and beverage, animal feeds and pharmaceutical products. The domestic demand for these products are expected to grow with China's increasing industrial output, its improving standard of living and personal disposable income, which in turn should have a positive impact on the demand of cornstarch.

COMPETITIVE LANDSCAPE OF CHINA CORN REFINERY INDUSTRY

PRC's corn refinery industry is in the process of scale expansion and consolidation. Under the influence of State policies, large corn refinery enterprises have been expanding their production capacity through acquisition of small and non-profitable corn refinery companies in order to consolidate and increase the production efficiency and to gain further market share. Based on information provided by various market researches, the top five enterprises in each of the cornstarch, lysine and starch-based sweeteners industry sectors have accounted for over 50% of the market share of their respective industry segment. It is anticipated that the PRC corn refinery market will continue to be dominated by a limited number of large corn refinery enterprises in the future.

In addition, there is a trend that large corn refinery enterprises are expanding their production to down stream corn refined products such as lysine and corn-based sweeteners because such down stream products are believed to contribute larger profit margin to the enterprises. Therefore, it is anticipated that the whole corn refinery market will experience a consolidation both horizontally and vertically.

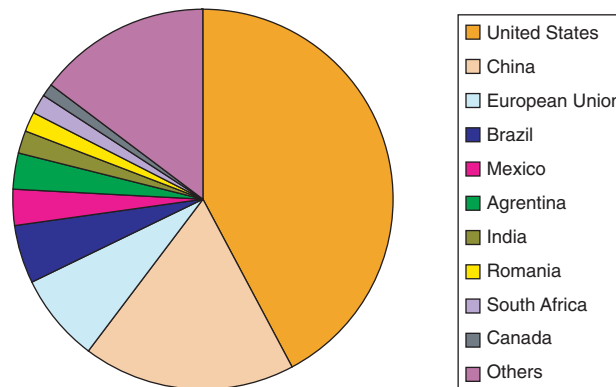
INDUSTRY OVERVIEW

SUPPLY OF CORN

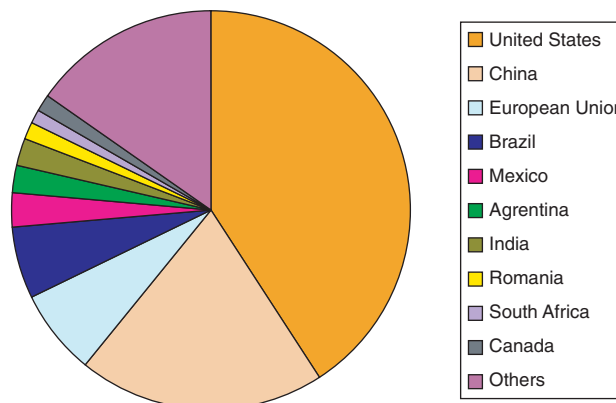
Corn is one of the major sources of food for both human beings and animals. The major content of corn kernel is starch, representing approximately 70% of the total weight of a corn kernel on a dry basis. Corn kernel can be used as the raw material in the food and beverage, medicine, automotive, chemistry and other industries.

China is one of the largest producers of corn in the world, and its annual production makes up approximately 20% of the world total production. The supply distribution of corn producing countries/regions in the world in 2004/2005 and 2005/2006 is shown below:

2004/2005 World corn supply distributions



2005/2006 World corn supply distributions

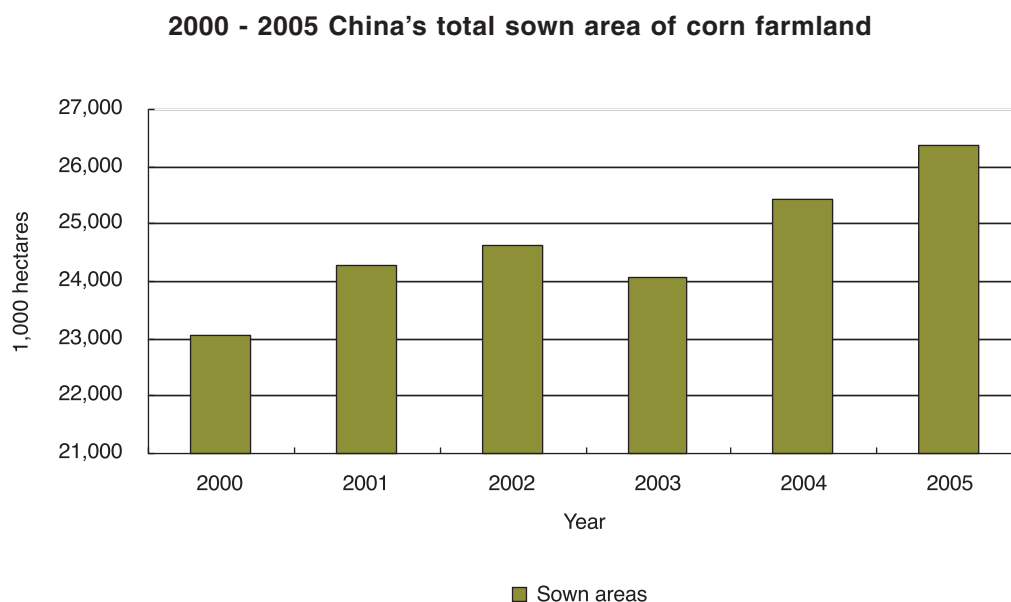


Source: Corn Refiners Association Annual Report 2006 obtained from public domain at www.corn.org

INDUSTRY OVERVIEW

The PRC corn supply market

Due to the rapid growth in China's corn demand, the total area of farmland dedicated for corn growing in the PRC increased from approximately 23.1 million hectares to approximately 26.4 million hectares during the years between 2000 and 2005:

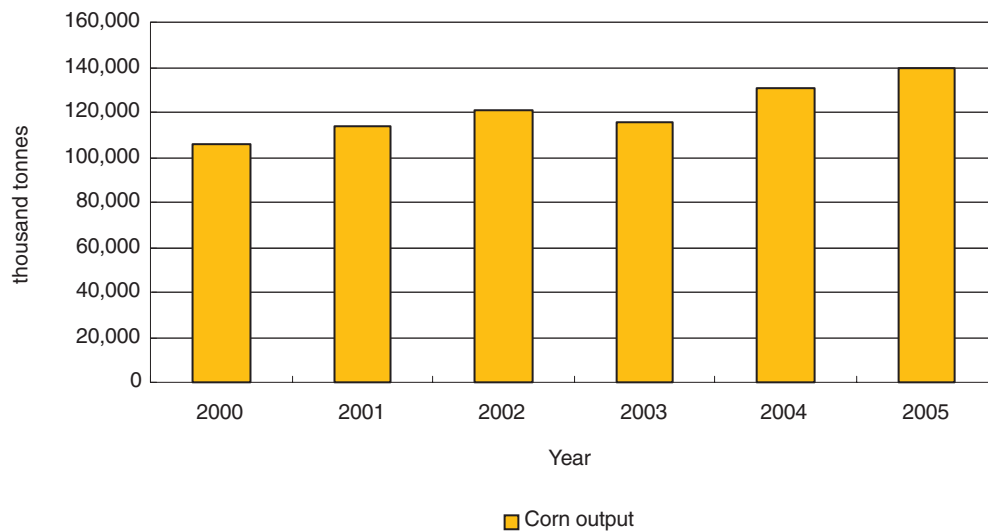


Source: 2006 China Statistical Yearbook

INDUSTRY OVERVIEW

The increase in farmland for corn resulted in an increase in the annual corn output. In particular, during the years between 2000 and 2005, total annual corn output in the PRC increased from approximately 106 million tonnes to approximately 139 million tonnes, ranking the second highest output of China's major farm products only after rice. The following chart sets out the annual corn output of PRC between 2000 and 2005:

2000 - 2005 China's corn output

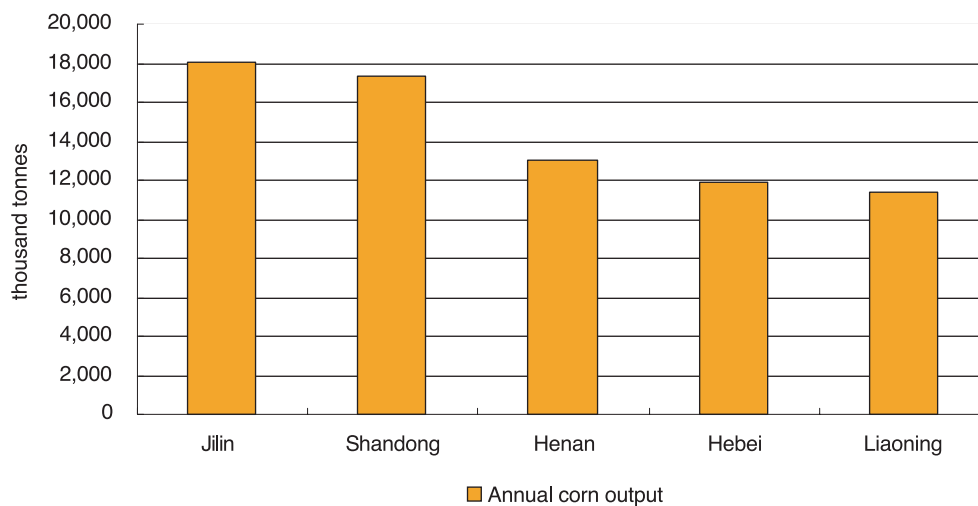


Source: 2006 China Statistical Yearbook

INDUSTRY OVERVIEW

Most of the corn growing areas in the PRC are situated in the north-eastern provinces, such as Jilin, Shandong, Hebei, Liaoning and Henan, which supply corn nationwide. The following table illustrates the five provinces in the PRC having the highest corn output in 2005:

**The five largest PRC corn production provinces
with their respective annual corn output in 2005**



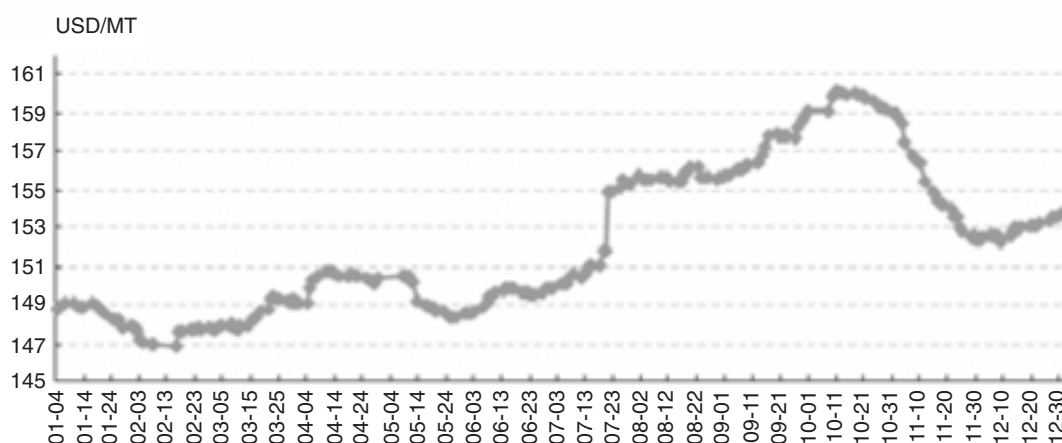
Source: 2006 China Statistical Yearbook

INDUSTRY OVERVIEW

Prices of corn

As an agricultural product, the price of corn can be affected by its harvests in each year as well as various ancillary factors such as banks' policies on issuing loans, the State's policies on exports and corn supply, and the demand for corn in the feed and animal farming industries. The following chart illustrates China's wholesale prices of corn in 2005:

Trend of wholesale corn price in 2005



Source: *China Corn & Corn Processing Products Market Review & Outlook 2005-2006* published by ChinaCCM

While the continuous growth in the corn refinery industry has exerted an upward pricing pressure on corn in the recent years, the State intends to suppress the speed of increase of corn price in the PRC. In particular, the National Development and Reform Commission (國家發展和改革委員會) issued a notice on 8 December, 2006 (taking effect on the same date) to halt approval and filing of any new corn refinery projects in order to prevent further overheating the demand of corn in the PRC. It is anticipated that the national corn price in 2007 will have a steady growth.

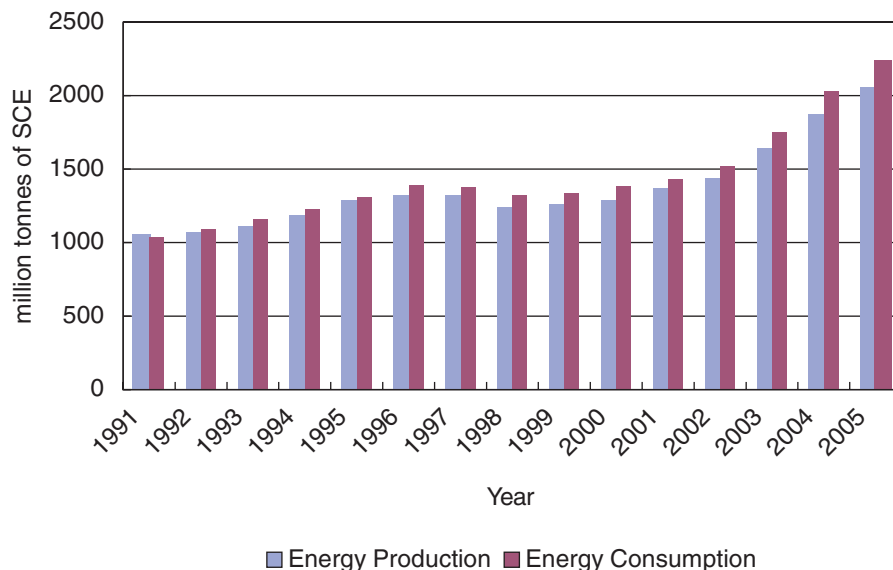
INDUSTRY OVERVIEW

CHINA'S POWER INDUSTRY

Supply and demand of power in China

China has been experiencing continuous growth in the production of energy. More particularly, China's total energy production grew from about 627.7 million tonnes of standard coal energy ("SCE") in 1978 to about 2,060.7 million tonnes of SCE in 2005. The same also holds for China's total energy consumption. Total consumption of energy in China grew from about 571.4 tonnes of SCE in 1978 to about 2,233.2 tonnes of SCE in 2005. The following chart illustrates the supply and demand of energy in the PRC during the period of 1991 to 2005:

1991 — 2005 PRC energy production and consumption

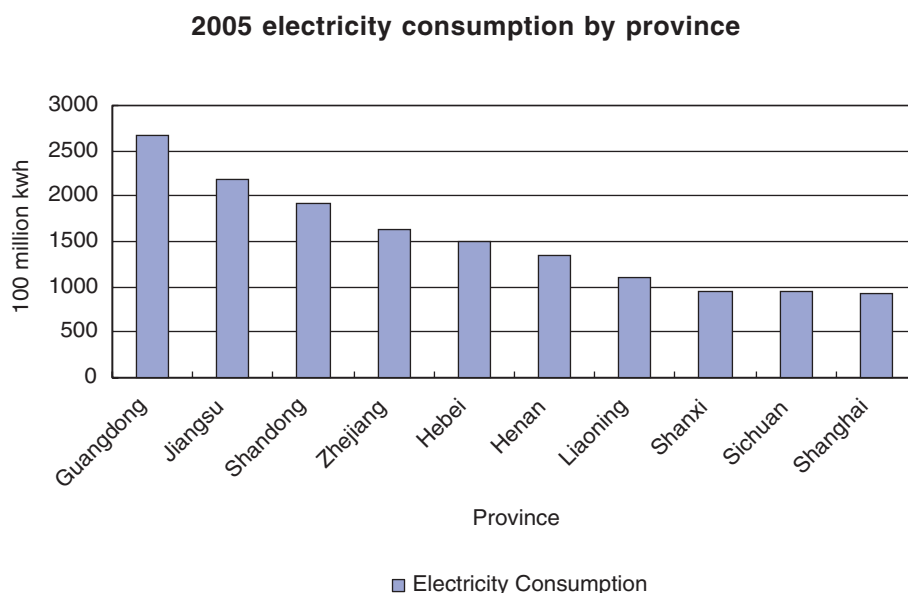


Source: 2006 China Statistical Yearbook

Despite continuous increase in energy supply, China has been facing with over-demand in energy since the 1990's, as evidenced by the consistent excess energy consumption over energy supply in the above chart.

INDUSTRY OVERVIEW

Consumption of electricity in China is concentrated in major industrial regions. Shandong, being one of the major industrial regions in the PRC, was the third highest provinces in electricity consumption in 2005. The following chart sets out the 10 highest electricity consumption provinces in the PRC in 2005:



Source: 2006 China Statistical Yearbook

The power industry in China

Prior to December, 2002, China's high voltage power grids and local power distribution networks were mostly controlled by the State Power Corporation. In December, 2002, the State Power Corporation was reorganised into two power grid companies, namely State Grid Corporation of China and China Southern Power Grid Company. State Grid Corporation of China owns and manages interprovincial high voltage power grids and local power distribution networks in 24 provinces and regions in the North, East, West and Central regions, while China Southern Power Grid Company owns and manages interprovincial high voltage power grids and local power distribution networks in five provinces and regions in the Southern region.

The power industry in China is relatively segmented, with the power generation companies having a power generation capacity of 1,000,000 kw or more taking up in aggregate approximately 37% of China's total power generation capacity in 2005, and the remaining approximately 63% shared by other power companies having a power generation capacity of less than 1,000,000 kw in 2005.

The power industry in the PRC is subject to supervision and administration of the PRC government departments, both of the State and local levels, in charge of the administration of the power industry and ancillary matters. The supervision and administration scope covers matters including (1) construction, operation and maintenance of electricity production plants and facilities; (2) production, transmission and supply of electricity; (3) utilisation of electricity; and (4) pricing.

INDUSTRY OVERVIEW

The State encourages the employment of advance technology and management in the construction, production, supply and utilisation of power and the use of recycled and clean energy for power generation. The State policy in this regard is enshrined in the Law on Electric Power (中華人民共和國電力法) (the “**Electric Power Law**”), which was implemented on 1 April, 1996 and forms the principal legal framework governing the construction, production, supply and utilization of electricity in the PRC. Under the Electric Power Law, the State shall, through the promulgation of the relevant policies, support and encourage electricity construction while the local government shall implement measures in accordance with the electricity development planning for the development of electricity construction.

Licensing regime is employed for the operations of generation, transmission and supply of electricity supply in the PRC. Operators engaged in these businesses must satisfy the relevant qualification requirements for the operation of any of these businesses. Every operator engaged in the electricity business must satisfy certain qualification requirements in respect of its own capability as well as its management, staff and financial capability. The State Electricity Regulatory Commission (國家電力監督管理委員會) is the PRC authority responsible for the issuance and administration of the electricity business permits 《電力業務許可證》.

The Electric Power Law also laid down the basic principles in the determination of electricity price. Under the Electric Power Law, electricity price means the grid-connected electricity price charged by electricity producers, the price charged for the supply of electricity between electricity networks and the selling price charged by electricity network. Electricity prices are subject to the principle of unified policies with pricing to be controlled at different levels.

The Electric Power Law provides that electricity prices are to be determined in accordance with the following five basic principles, namely:

- reasonable cost compensation
- reasonable determination of profits
- inclusion of tax in accordance with laws
- expenses must be borne reasonably
- promotion of construction of power projects

Electricity operators may not change their electricity prices without authorisation. Currently, electricity prices in the PRC are subject to control and must be approved by the relevant PRC government authority. Prices of electricity are therefore governed by the relevant PRC government authorities in charge and are not market driven.

INDUSTRY OVERVIEW

The heat and steam supply industry in China

The heat and steam supply industry is generally provincial-specific, governed by different policies, laws and regulations in different provinces. Provision of heat and steam is an item of Shandong's infrastructural development, and according to the Regulations on Administration of City Development of Shandong Province (山東省城市建設管理條例), unified planning and integrated development in the infrastructural design and steam supply of Shandong Province is adopted as the guiding principle. On 21 July 2003, the Ministry of Construction (建設部), the National Development and Reform Commission (國家發展和改革委員會), the Ministry of Finance (財政部), the Ministry of Personnel (人事部), the Ministry of Civil Affairs (民政部), the Ministry of Labour and Social Security (勞動和社會保障部), 國家稅務總局 (the National Tax Bureau*), and the State Environmental Protection Administration (國家環境保護總局) jointly issued a Notice of Guidance Opinion on the Trial Reforms of Heat Supply Regimes of Urban Cities (《關於城鎮供熱體制改革試點工作的指導意見》) pursuant to which heat and steam supply is privatised and free supply of heat and steam by housing departments or employers is ceased. The reform was implemented in some provinces on trial, with Shandong Province being one of them, with the aim of encouraging advancement of heat and steam supply technologies and energy saving.

Licensing regime is employed in Shandong province for the regulation of generation and supply of heat and steam in the PRC. Administration of the issuance of the heat and steam supply operation permits (《供熱經營許可證》) is designated by the Shandong People's Government to the relevant heat and steam supply administration department of the People's Government of provincial level, construction district city (設區市) level or county (city) 縣(市)) level, or any department as designated by any People's Government above county level. Determination of the price for the provision of heat and steam ("**Heat and Steam Price**") in Shandong province is delegated from 山東省物價局 (the Commodity Pricing Bureau of Shandong Province*) to the relevant price administration department of the People's Government of the city (市) or county (縣) level concerned.

Starting from 1 October 2007, in accordance with the Temporary Measures on Price Administration of City Heat Supply (城市供熱價格管理暫行辦法), Heat and Steam Price will be determined by the State or under the State's guidance. The relevant department in charge of price administration of the People's Government at provincial, autonomous city or municipality level will be responsible for the determination of Heat and Steam Price or the formulation of guidance on Heat and Steam Price, while such relevant department may further authorise the People's Government at city or county level for determination of Heat and Steam Price. Prices of heat and steam are therefore governed by the relevant PRC government authorities in charge and are not market driven.

We have in the section headed "Regulations" set out further details of the relevant laws, rules and regulations applicable to our electricity generation and steam provision and the certificates, permits, approvals and licences necessary for our production and businesses in the PRC for your information.

INDUSTRY OVERVIEW

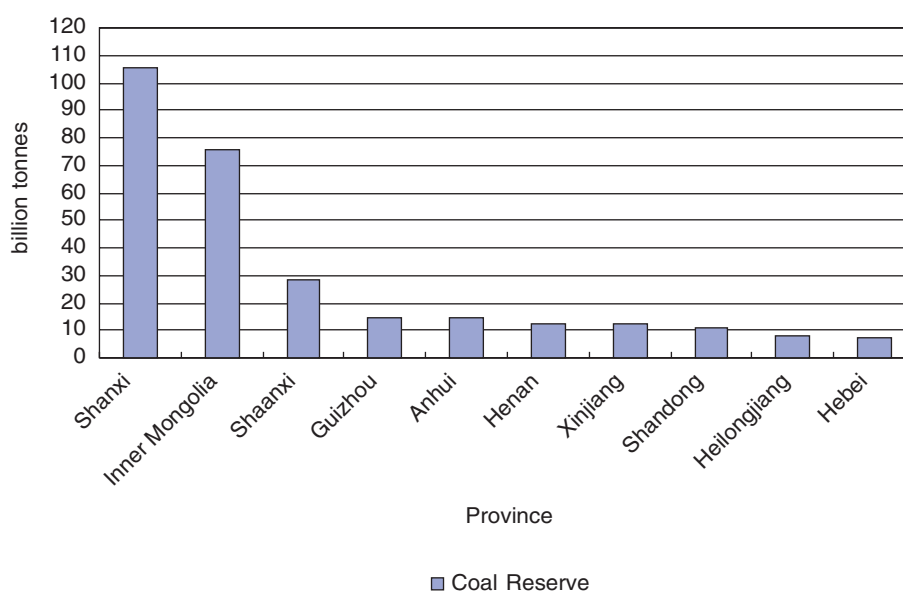
CHINA'S COAL MARKET

Supply of coal in China

China relies heavily on coal for its energy supply. Dated as early as the late 1970's, around and over 70% of China's energy has been produced from coal. The situation has intensified in recent years, with percentage of total energy produced by coal increased from about 72% in 2001 to about 76% in 2005.

China is abundant in coal reserve. In 2005, China's basic coal reserve amounted to approximately 332.6 billion tonnes. China's coal reserve is also highly concentrated. Shanxi and Inner Mongolia, being the two provinces richest coal reserve, together accounted for about 54.5% of China's coal reserve in 2005. Shandong, while falling within the top ten provinces in terms of coal reserve in 2005, ranked only the eighth. The following chart illustrates the top ten provinces in the PRC in terms of coal reserve in 2005:

2005 top ten provinces in coal reserve



Source: 2006 China Statistical Yearbook

INDUSTRY OVERVIEW

Prices of coal in China

Prior to 2002, prices of thermal coal used in electricity generation was still controlled by the PRC government. With the elimination of the State guidance price on thermal coal by the National Development and Reform Commission (國家發展和改革委員會) (formerly the State Development and Planning Commission (國家發展計劃委員會)) commencing from 1 January, 2002, prices of coal in the PRC have been largely market driven subject to the power of the PRC government to implement temporary controls over the prices of coal in the event of large price fluctuations or foreseeable large price fluctuations under the provisions of the Pricing Law 《價格法》. On 3 August 2004, the National Development and Reform Commission (國家發展和改革委員會) issued a Notice on the Implementation of Temporary Measures to Intervene the Prices of Electricity Coal in certain Districts (國家發展改革委關於對部分地區電煤價格實行臨時性干預措施的通知), which became effective on the same date, implementing temporary measures to intervene and control the prices of coal in the Anhui, Henan, Shandong, Shannxi and Shanxi provinces in view of continued increase in the prices of coal. The prices of coal in the PRC were under the control of the temporary measures implemented since then and it was not until December, 2005, when the National Development and Reform Commission (國家發展和改革委員會) issued 國家發展和改革委員會關於做好 2006 年全國重點煤炭產運需銜接工作的通知 (“Notice Regarding the Performance of Liaison Work for Coal Production and Transportation among State’s Major Locations in 2006 by the National Development and Reform Council”*) taking effect in January, 2006 foregoing the practice of such temporary interventions, were the prices of coal in the PRC open to be market driven. In other words, prior to January, 2006, the prices of coal were still governed by the temporary intervention of the National Development and Reform Commission (國家發展和改革委員會) of the PRC, but since January, 2006, the prices of coal have been principally market driven.

BACKGROUND ON ISSUERS OF NON-COMMISSIONED RESEARCH REPORTS

Corn Refiners Association

Based in Washington, D.C., the Corn Refiners Association, an independent third party, is the national trade association representing the corn refining industry of the United States. The association and its predecessors have served this segment of American agribusiness since 1913.

Through a series of operating committees of executives from corn refining firms, the association conducts programs of technical service, public relations and government relations for the association membership. The association is a primary source for journalists, agriculture and agribusiness in the U.S. technical services of the association assist its membership in meeting government regulations, developing quality systems for use by the industry and users of products from corn and in relations with other trade and professional groups.

INDUSTRY OVERVIEW

eFeedLink

eFeedLink, an independent third party, is a business intelligence firm for the animal production and feed industry. Their main service offerings include the provision of industry news and information, and China market consulting and research. They offer their services through offices in Singapore and Shanghai. In addition, they also have information collection points in nine Chinese provinces. Our Directors confirm that the report “China Lysine Market 2006-2007” quoted in this section headed “Industry overview” was a non-commissioned research report prepared by eFeedLink and purchased by our Group at US\$1,800.

ChinaCCM

ChinaCCM, an independent third party, is a business information company specialising in industry analysis through, among other means, interviews and field researches conducted with local and overseas authorised institutions like State Information Center, National Bureau of Statistics of China, State Administration for Industry & Commerce, China Customs as well as industry associations, manufacturers, traders, wholesalers, distributors and suppliers. Our Directors confirm that the report “China Corn & Corn Processing Products Market Review & Outlook 2005-2006” quoted in this section headed “Industry overview” was a non-commissioned research report prepared by ChinaCCM and purchased by our Group at RMB9,000.

To the best of our Directors’ knowledge and belief, the research reports referred to in this section headed “Industry overview” have been prepared by the respective issuer in their ordinary course of business.

CORPORATE DEVELOPMENT AND STRUCTURE

CORPORATE DEVELOPMENT

Golden Corn

Our Group was founded on 25 July, 1998 when Golden Corn was established with a registered capital of RMB30,000,000, contributed as to RMB29,400,000 (representing 98%) by Juneng Electric Group, a state-controlled enterprise established under 壽光市供電公司 (Electricity Supply Company of Shouguang City*), and RMB600,000 (representing 2%) by 山東華寶食品集團公司 (Shandong Huabao Food Group Co., Ltd.*), an independent third party. The two shareholders resolved not to establish a board of directors (which was permitted for limited liability companies with small number of shareholders and scale of operations under the PRC Company Law then in effect), and appointed Zhang Junhua (張軍華) as the sole director and authorised representative of Golden Corn.

At the time of establishment, the approved business scope of Golden Corn included the processing and sales of cornstarch and sales of heat and electricity. On 30 December, 1999, the approved business scope of Golden Corn was expanded to include the purchase of corn for self-use.

In April, 2000, 壽光市田柳鎮政府 (Tianliu County Government of Shouguang City*), after assuming the assets and liabilities of 山東華寶食品集團公司 (Shandong Huabao Food Group Co., Ltd.*), transferred the 2% equity interest of Golden Corn to 山東壽光巨能熱電有限責任公司 (Shandong Shouguang Juneng Heat and Electricity Co., Ltd.*) (now known as 山東壽光巨能興業熱電有限公司 (Shandong Shouguang Juneng Xingye Heat and Electricity Co., Ltd.*)) which is also a state-controlled enterprise originally established under Juneng Electric Group and is now established under 壽光市供電公司 (Electricity Supply Company of Shouguang City*). Mr. Tian was the authorised representative of 山東壽光巨能興業熱電有限責任公司 (Shandong Shouguang Juneng Xingye Heat and Electricity Co., Ltd.*) during the period from 26 December, 2003 up to 6 August, 2004.

On 17 August, 2001, the approved business scope of Golden Corn was expanded to include, among other activities, the processing and sales of corn-refined products and animal feeds, export of self-produced products and technologies, import of self-use consumables, machineries and equipment, and undertaking of sub-contracting business; but the provision of heat was excluded. Subsequently on 27 September, 2002, the approved business scope of Golden Corn was amended again to include the provision of heat.

Golden Corn underwent a privatisation scheme during 2003, as a result of which Juneng Electric Group retained approximately 8.33% of the equity interest of Golden Corn, and the remaining approximately 91.67% equity interest was transferred to five employees of Juneng Electric Group. Details of the said privatisation are set out as follows:

- Pursuant to the asset valuation report dated 13 April, 2003 issued by 壽光魯東有限責任會計師事務所 (Shouguang Ludong CPA Limited*), the net asset value of Golden Corn as at 31 March, 2003 was valued at RMB120,067,999.99. On 25 April, 2003, Golden Corn obtained the 《關於山東壽光巨能金玉米開發有限公司擬改制資產評估結果予以確認的通知》(壽國資字 [2003] 48號) (“Notice of Confirmation on the Asset Valuation Results

CORPORATE DEVELOPMENT AND STRUCTURE

of Shandong Shouguang Juneng Golden Corn Development Co., Ltd. Regarding its Proposed Corporate Restructuring” (Shou Guo Zhi Zi [2003] No.48)*) issued by 壽光市國有資產管理局 (Shouguang Municipal State-owned Assets Administrative Bureau*) confirming the result of the valuation.

- Pursuant to a shareholders meeting of Golden Corn dated 7 May, 2003, it was resolved that Juneng Electric Group would transfer approximately 91.67% of the equity interest of Golden Corn then held by it as to approximately 20.83% to Zhang Junhua (張軍華) for a consideration of RMB25,000,000, approximately 20.83% to Li Mingwen (李明文) for a consideration of RMB25,000,000, approximately 16.67% to 田勇 (Tian Yong*) for a consideration of RMB20,000,000, approximately 16.67% to Mr. Yu for a consideration of RMB20,000,000, and approximately 16.67% to 王保華 (Wang Baohua*) for a consideration of RMB20,000,000. It was further resolved that 山東壽光巨能熱電有限責任公司 (Shandong Shouguang Juneng Heat and Electricity Co., Ltd.*) would transfer the 2% equity interest of Golden Corn then held by it to Juneng Electric Group for a consideration of RMB2,400,000. The considerations involved were arrived at based on the net asset value of Golden Corn as at 31 March, 2003 as valued by 壽光魯東有限責任會計師事務所 (Shouguang Ludong CPA Limited*).
- On 10 May, 2003, 壽光市經濟體制改革辦公室 (Economic and Structural Reform Office of Shouguang City*) issued the 《壽光市經濟體制改革辦公室關於同意山東壽光巨能電力集團有限公司將持有的金玉米開發有限公司股權部份出售給本集團公司職工的批覆》(壽改發[2003] 9號) (“Approval by the Economic and Structural Reform Office of Shouguang City Regarding the Sale of a Portion of the Equity Interest of Golden Corn Development Co., Ltd. held by Shandong Shouguang Juneng Electric Group Co., Ltd. to its Employees” (Shou Gai Fa [2003] No. 9)*) approving the shareholding transfers and the corresponding considerations in accordance with those stipulated in the shareholders’ resolutions passed on 7 May, 2003.
- Also on 10 May, 2003, Juneng Electric Group entered into equity transfer agreements with each of Zhang Junhua (張軍華), Li Mingwen (李明文), 田勇 (Tian Yong*), Mr. Yu, 王保華 (Wang Baohua*) and 山東壽光巨能熱電有限責任公司 (Shandong Shouguang Juneng Heat and Electricity Co., Ltd.*) for the transfers of equity interest of Golden Corn as stipulated in the shareholders’ resolutions passed on 7 May, 2003. The considerations for the said transfers were fully settled on 23 May, 2003. The source of funding of Zhang Junhua (張軍華) was principally personal savings and personal borrowings from around 210 individuals who were/are mainly fellow employees and/or management of Golden Corn and other companies established under Juneng Electric Group with an aggregate amount of around RMB24,000,000. Annual interest rate of around 8% was charged for all borrowings, and all principals together with interests accrued thereon were repaid in full as at February, 2006. The source of funding of Li Mingwen (李明文) was principally personal savings and personal borrowings from around 260 individuals who were/are mainly fellow employees and/or management of 壽光市供電公司 (Electricity Supply Company of Shouguang City*) and other companies established under Juneng Electric

CORPORATE DEVELOPMENT AND STRUCTURE

Group with an aggregate amount of around RMB24,000,000. Annual interest rate of around 8% was charged for all borrowings, and all principals together with interests accrued thereon were repaid in full as at February, 2006. No fee was paid by Zhang Junhua (張軍華) and Li Mingwen (李明文) for the purpose of obtaining such borrowings.

- Also on 10 May, 2003, the new shareholders of Golden Corn convened a shareholders' meeting and resolved to increase the registered capital of Golden Corn to RMB120,000,000. The said increase in registered capital was fulfilled on 8 December, 2003 by the transfer of RMB90,000,000 standing to the credit of Golden Corn's capital reserve account, and the increased registered capital of Golden Corn was attributed as to RMB25,000,000 from Zhang Junhua (張軍華), RMB25,000,000 from Li Mingwen (李明文), RMB20,000,000 from 田勇 (Tian Yong*), RMB20,000,000 from Mr. Yu, RMB20,000,000 from 王保華 (Wang Baohua*) and RMB10,000,000 from Juneng Electric Group. However, according to a capital verification report dated 8 December, 2003, the captioned increase in registered capital was mistakenly regarded to be fulfilled by the injection of machineries and equipment. With the aim of rectifying such mistake, a revised capital verification report was issued on 28 July, 2006 confirming that the increase in registered capital of Golden Corn in December, 2003 was in fact fulfilled by the transfer of RMB90,000,000 standing to the credit of Golden Corn's capital reserve account. Subsequently on 30 July, 2006, Golden Corn received the 《同意對山東壽光巨能金玉米開發有限公司2003年12月變更註冊資本登記內容進行更正的批復》(壽工商注字[2006]56號) ("Approval Agreeing to Amend the Details of Change in Registered Capital of Shandong Shouguang Juneng Golden Corn Development Co., Ltd. in December, 2003" (Shou Gongshang Zhu Zi [2006] No. 56)*) from 壽光市工商行政管理局 (Shouguang Administration for Industry and Commerce*) agreeing to amend the registered records on the increase in registered capital of Golden Corn in December, 2003 and confirming that no penalty would be imposed on Golden Corn in respect thereof. Our PRC legal advisers advised that the above incident would not have any negative effect on the subsistence and operations of Golden Corn, nor would it have any negative effect on the legality, validity and subsequent renewals of the business licence of Golden Corn.
- On 12 July, 2003, the shareholders of Golden Corn resolved to establish a board of directors and nominated Mr. Tian, Mr. Gao, Zhang Junhua (張軍華), Mr. Yu, 田勇 (Tian Yong*), (胡靖) (Hu Jing*) and Wang Jinliang (王金良) to the board.
- An application dated 16 December, 2003 was filed to 壽光市工商行政管理局 (Shouguang Administration for Industry and Commerce*) for the change in the shareholding structure and registered capital of Golden Corn, its composition of the board of directors, its authorised representative and its scope of business. Golden Corn obtained its revised business licence on 26 December, 2003, and Mr. Tian became the authorised representative of Golden Corn. The approved business scope of Golden Corn was also expanded to include the processing and sales of modified starch, lysine and by-products.

CORPORATE DEVELOPMENT AND STRUCTURE

By three trust agreements each dated 29 December, 2003 and entered into between Mr. Tian and each of 田勇 (Tian Yong*), Mr. Yu and 王保華 (Wang Baohua*), the relevant parties confirmed that the equity interest of Golden Corn registered as to approximately 16.67% held by each of 田勇 (Tian Yong*), Mr. Yu and 王保華 (Wang Baohua*), together with all rights attaching thereto (including, without limitation, nomination of directors and management as well as the profit or loss, assets and liabilities and distribution of profit attributable to the corresponding equity interest) were so held in trust for Mr. Tian. By a further trust agreement dated 29 December, 2003 and entered into between Mr. Tian and Mr. Zhang Junhua (張軍華) on 29 December, 2003, the relevant parties confirmed that out of the approximately 20.83% equity interest of Golden Corn registered to Zhang Junhua (張軍華), approximately 0.01%, together with all rights attaching thereto (including, without limitation, nomination of directors and management as well as the profit or loss, assets and liabilities and distribution of profit attributable to the corresponding equity interest) was so held in trust for Mr. Tian. Mr. Tian has known each of Mr. Yu, 王保華 (Wang Baohua*), 田勇 (Tian Yong*) and Zhang Junhua (張軍華), all of them being management of Golden Corn at the time of entering into the trust arrangements, for more than 15 years through their working relationships under 壽光市供電公司 (Electricity Supply Company of Shouguang City*) and Golden Corn. Save as aforesaid, Mr. Tian is independent of and not connected with all of the trustees. No reward was provided to any of the trustees for holding the respective equity interest in Golden Corn in trust for Mr. Tian.

By virtue of the four trust arrangements as aforementioned, the equity interest of Golden Corn was beneficially owned as to 50.01% by Mr. Tian, approximately 20.82% by Zhang Junhua (張軍華), approximately 20.83% by Li Mingwen (李明文) and approximately 8.33% by Juneng Electric Group. The source of funding of Mr. Tian for the acquisition of the said 50.01% equity interest of Golden Corn was principally personal savings and personal borrowings from around 700 individuals who, except for a very limited number of Golden Corn's management at the relevant time, were/are principally fellow employees and/or management of 壽光市供電公司 (Electricity Supply Company of Shouguang City*) and other companies established under Juneng Electric Group, with an aggregate amount of around RMB58,000,000. Annual interest rate of around 8% was charged for all borrowings, and all principals together with interests accrued thereon were repaid in full as at January, 2007. No fee was paid by Mr. Tian for the purpose of obtaining such borrowings.

The Directors advised that Golden Corn was originally established and managed under a state-controlled environment (which may be considered by its general staff as more protective and less result-oriented) up to the aforesaid privatisation. It was the intention of Mr. Tian that through the privatisation exercise, Golden Corn would gradually adopt a more market oriented and competitive corporate management culture. As he had been known among the staff of Golden Corn for his role as manager and party member of 壽光市供電公司 (Electricity Supply Company of Shouguang City*), Mr. Tian was concerned that revealing his controlling stake prematurely prior to Golden Corn ceasing to be under the auspices of state-owned enterprise may result in undesirable inertia from general staff against Golden Corn's migration towards a market oriented and competitive corporate management culture. With a view of enforcing a private enterprise image, Mr. Tian decided to have his controlling equity interest held under trust arrangements by the aforesaid four then management of Golden Corn. The relevant trustees agreed to hold the relevant controlling equity interests in trust for Mr. Tian mainly for reason that they shared the same view with Mr. Tian that it would be more beneficial not to reveal Mr. Tian's controlling stake prematurely for the purpose of facilitating Golden Corn's migration to a more market oriented and competitive corporate and management culture. It

CORPORATE DEVELOPMENT AND STRUCTURE

was further considered that having the knowledge of Mr. Tian's controlling shareholder identity confined to the management of Golden Corn would not result in any significant negative impact on Golden Corn's progress on the migration to a market oriented and competitive corporate and management culture.

壽光市供電公司 (Electricity Supply Company of Shouguang City*) underwent a business restructuring in October, 2005 for the purpose of privatising certain of its business units, which included those held under Juneng Electric Group. The following sets out further details of part of the said business restructuring that affected Golden Corn:

- To facilitate the said business restructuring, Juneng Holding Group was established on 10 October, 2005 by the management of Juneng Electric Group. At the time of establishment, Juneng Holding Group had a registered capital of RMB5,000,000, contributed as to RMB2,750,000 (55%) by Mr. Tian and RMB250,000 (5%) by each of Mr. Yu, 霍登科 (Huo Dengke*), Zhou Jincheng (周錦成), Wang Shaofa (王紹發), Zhang Junhua (張軍華), 劉波 (Liu Bo*), Tian Xiaoli (田效禮), Zhang Mingrong (張明榮) and Li Mingwen (李明文).
- On 29 September, 2005, 壽光聖誠有限責任會計師事務所 (Shouguang Shengcheng CPA Ltd.*) issued an asset valuation report which valued the net asset value of Golden Corn at approximately RMB257,058,950 as at 31 August, 2005, including Golden Corn's land use right which was valued at approximately RMB42,481,981. On 12 October, 2005, 壽光市國有資產管理局 (State Assets Management Board of Shouguang City*) issued the 《關於對山東壽光巨能電力集團有限公司所屬山東壽光巨能電力建設有限責任公司等六單位擬進行改制資產評估結果予以確認的通知》(壽國資字 [2005] 18號) ("Notice of Confirmation on the Asset Valuation Results for the Proposed Corporate Restructuring of Six Units Including Shandong Shouguang Juneng Electric Construction Co., Ltd. Belonging to Shandong Shouguang Juneng Electric Group Co., Ltd." (Shou Guo Zhi Zi [2005] No.18)*) confirming the result of the valuation.
- On 17 October, 2005, 壽光市經濟體制改革辦公室 (Economic and Structural Reform Office of Shouguang City*) issued the 《壽光市經濟體制改革辦公室關於同意壽光市供電公司主輔業分離輔業改制方案的批覆》(壽改發 [2005] 19號) ("Approval by the Economic and Structural Reform Office of Shouguang City to the Restructuring Scheme for Separation of Core and Non-Core Businesses of the Electricity Supply Company of Shouguang City" (Shou Gai Fa [2005] No. 19)*) approving the transfer by Juneng Electric Group of its holding of approximately 8.33% equity interest in Golden Corn to Juneng Holding Group.
- A shareholders' meeting of Golden Corn was convened on 20 October, 2005 to approve the transfer by Juneng Electric Group of its holding of 8.33% equity interest in Golden Corn to Juneng Holding Group. On the same date, an equity transfer agreement was entered into between Juneng Electric Group and Juneng Holding Group to effect the said transfer for a consideration of RMB16,004,863.91, which was determined with reference to, among other things, a 40% discount on the value of the land use rights of Golden Corn taking into consideration the one-off nature of the sale. The consideration was settled on 23 October, 2005.

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On 20 October, 2005, a series of equity transfer agreements were entered into for the following equity transfers: (i) the transfer by Zhang Junhua (張軍華) of his approximately 20.83% equity interest in Golden Corn (including the part held in trust for Mr. Tian) to Mr. Gao for a consideration of RMB26,250,000, which was determined based on a 5% premium to the share of registered capital of Golden Corn attributed to Zhang Junhua (張軍華) (being RMB25,000,000 in aggregate); (ii) the transfer by Li Mingwen (李明文) of his approximately 4.17% and 16.67% equity interest in Golden Corn to each of Mr. Gao and Mr. Guo for a consideration of RMB5,250,000 and RMB21,000,000, respectively, which were determined based on a 5% premium to the share of registered capital of Golden Corn attributed to Li Mingwen (李明文) (being RMB25,000,000); (iii) the transfer by Mr. Yu of his approximately 16.67% equity interest of Golden Corn (which was held in trust for Mr. Tian) to Liu Xianggang (劉象剛) for nil consideration; (iv) the transfer by 王保華 (Wang Baohua*) of his approximately 16.67% equity interest in Golden Corn (which was held in trust for Mr. Tian) to 劉炳忠 (Liu Bingzhong*) for nil consideration; and (v) the transfer by 田勇 (Tian Yong*) of his approximately 16.67% equity interest in Golden Corn (which was held in trust for Mr. Tian) to 胡靖 (Hu Jing*) for nil consideration. The considerations as aforesaid were settled on 25 October, 2005, and Golden Corn was granted a revised business licence on 27 October, 2005. The source of funding of Mr. Gao was principally personal savings and personal borrowings from around 470 individuals who were/are mainly fellow employees and/or management of Golden Corn with an aggregate amount of around RMB29,000,000. Annual interest rate of around 8% was charged for all borrowings, and all principals together with interests accrued thereon were repaid in full as at January, 2007. The source of funding of Guo Zhibo (郭志博) was principally personal savings and personal borrowings from around 320 individuals who were/are mainly fellow employees and/or management of other companies established under Juneng Holding Group with an aggregate amount of around RMB19,000,000. Annual interest rate of around 8% was charged for all borrowings, and all principals together with interests accrued thereon were repaid in full as at January, 2007. No fee was paid by Mr. Gao and Guo Zhibo (郭志博) for the purpose of obtaining such borrowings.

By three trust agreements each dated 30 October, 2005 and entered into between Mr. Tian and each of Liu Xianggang (劉象剛), 劉炳忠 (Liu Bingzhong*) and 胡靖 (Hu Jing*), the relevant parties confirmed that the equity interest of Golden Corn transferred and accordingly registered as to approximately 16.67% held by each of Liu Xianggang (劉象剛), 劉炳忠 (Bingzhong*) and 胡靖 (Hu Jing*), together with all rights attaching thereto (including, without limitation, nomination of directors and management as well as the profit or loss, assets and liabilities and distribution of profit attributable to the corresponding equity interest) were so held in trust for Mr. Tian. The transfers of equity interest of Golden Corn from Mr. Yu to Liu Xianggang (劉象剛), 王保華 (Wang Baohua*) to 劉炳忠 (Liu Bingzhong*) and 田勇 (Tian Yong*) to 胡靖 (Hu Jing*) was principally effected for reason that each of Mr. Yu, 王保華 (Wang Baohua*) and 田勇 (Tian Yong*) had ceased to be management of Golden Corn in October, 2005, and Mr. Tian considered it more appropriate to have selected management of Golden Corn to hold the relevant equity interest in Golden Corn in trust for him. Mr. Tian has known each of Liu Xianggang (劉象剛) and 胡靖 (Hu Jing*), both of them being management of Golden Corn at the time of entering into the trust arrangements, for more than 15 years through their working relationships under 壽光市供電公司 (Electricity Supply Company of Shouguang City*) and Golden Corn. Moreover, Mr. Tian has known 劉炳忠 (Liu Bingzhong*), who was also a management of Golden Corn at the time of entering into the trust arrangements, for more than 8 years through their working relationship in Golden Corn. Save as aforesaid, Mr. Tian is independent of and not connected with all of the trustees. No reward was provided to any of the trustees for

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holding the respective equity interest in Golden Corn in trust for Mr. Tian. By virtue of the above trust arrangements, the equity interest of Golden Corn, following completion of the said transfers, was beneficially owned as to 50.00% by Mr. Tian, 25.00% by Mr. Gao, approximately 16.67% by Mr. Guo and approximately 8.33% by Juneng Holding Group.

As Golden Corn was completely detached from state-controlled ownership following completion of the aforesaid transfers, Mr. Tian considered the timing to be appropriate for him to resume his registered shareholder status. As advised by our PRC legal advisers, while it was unclear as to the statutory recognition of the shareholder's status and shareholder's rights of un-registered shareholders (as in the case of Mr. Tian's equity interests in Golden Corn which were held through trust arrangements) under the PRC Company Law prior to its amendments on 1 January, 2006, there were judicial upholding of the status and shareholder's rights of an un-registered shareholder of a PRC company whose interest was held through trust arrangement. In order to reflect the trust arrangement then in place in respect of Mr. Tian's 50% interests in Golden Corn and to comply with the PRC Company Law in requiring the trust arrangements and the actual ownership of the 50% interest in Golden Corn to be registered, it was decided among Mr. Tian and the relevant nominee shareholders of Golden Corn to seek a court order for the purpose of confirming Mr. Tian's 50% interests in Golden Corn held through the trust arrangements, as well as providing the mean and basis for 壽光市工商行政管理局 (Shouguang Administration for Industry and Commerce*) to proceed with the registration of Mr. Tian's 50% beneficial interest in Golden Corn, instead of proceeding with the transfer of the relevant interest by the nominee shareholders to Mr. Tian directly. Accordingly, legal proceedings ("**Confirmation Proceedings**") were instituted by Mr. Tian against each of the nominee shareholders to the People's Court of Shouguang City (壽光市人民法院) for the purpose of confirming his 50% interests in Golden Corn held through the trust arrangements. The Confirmation Proceedings were agreed to be entered into voluntarily by the nominee shareholders. In December 2005, three 民事起訴狀 (civil writs*) were made to the People's Court of Shouguang City (壽光市人民法院) with Mr. Tian as plaintiff and each of Mr. Yu, Liu Xianggang (劉象剛), 王保華 (Wang Baohua*), 劉炳忠 (Liu Bingzhong*), 田勇 (Tian Yong*) and 胡靖 (Hu Jing*) as defendant with respect to the 50% equity interests of Golden Corn so held (or where relevant, then held) in trust for Mr. Tian. Under each of the three 民事起訴狀 (civil writs*), based on the trust arrangements in respect of Mr. Tian's 50% interest in Golden Corn, the confirmation of the People's Court of Shouguang City (壽光市人民法院) was sought for confirming Mr. Tian's ownership in respect of these shareholdings and his shareholder's status as well as the date of commencement of Mr. Tian's shareholder's status. By three 民事調解書 (civil settlement rulings*) issued by the People's Court of Shouguang City (壽光市人民法院) dated 23 December, 2005, Mr. Tian had been the beneficial owner of 50% equity interest of Golden Corn since 26 December, 2003, and the registered records of Golden Corn in relation thereto were ordered to be amended accordingly. None of the nominee shareholders were liable to any penalty under the terms of the 民事調解書 (civil settlement rulings*). According to a capital verification report dated 31 December, 2005, the registered capital of Golden Corn was contributed as to RMB60,000,000 (50.00%) by Mr. Tian, RMB30,000,000 (25.00%) by Mr. Gao, RMB20,000,000 (approximately 16.67%) by Mr. Guo and RMB10,000,000 (approximately

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8.33%) by Juneng Holding Group as at 31 December, 2005. By the 《行政處罰決定書》 (Administrative Penalty Decision Paper*) issued by 壽光市工商行政管理局 (Shouguang Administration for Industry and Commerce*) dated 29 December, 2005, Golden Corn was fined RMB20,000 for the late filing of the six trust agreements to 壽光市工商行政管理局 (Shouguang Administration for Industry and Commerce*). The penalty was fully settled on 13 February, 2006.

Each of Mr. Tian, Mr. Yu, Liu Xianggang (劉象剛), 王保華 (Wang Baohua*), 劉炳忠 (Liu Bingzhong*), 田勇 (Tian Yong*) and 胡靖 (Hu Jing*) had confirmed that the 民事起訴狀 (civil writs*) made to the People's Court of Shouguang City (壽光市人民法院) were made for the purpose of seeking a court order as a means and basis for 壽光市工商行政管理局 (Shouguang Administration for Industry and Commerce*) to proceed with the registration of Mr. Tian's 50% equity interest in Golden Corn originally held by them in trust for Mr. Tian. Furthermore, each of Mr. Yu, Liu Xianggang (劉象剛), 王保華 (Wang Baohua*), 劉炳忠 (Liu Bingzhong*), 田勇 (Tian Yong*) and 胡靖 (Hu Jing*) had confirmed that there was no dispute as to their respective trust arrangements with Mr. Tian. The Directors advise that the trust agreement entered into on 29 December, 2003 relating to the 0.01% equity interest of Golden Corn held by Zhang Junhua (張軍華) in trust for Mr. Tian was not put forth for a court settlement ruling because at the time of making the 民事起訴狀 (civil writs*), the equity interest so held by Zhang Junhua (張軍華) on behalf of Mr. Tian was already transferred to Mr. Gao, who became the beneficial owner of the captioned equity interest.

In relation to the trust arrangements of Mr. Tian's equity interest in Golden Corn, we are advised by our PRC legal advisers as follows:

- The Confirmation Proceedings were treated as share title dispute proceedings (股權權屬糾紛訴訟) by the People's Court of Shouguang City (壽光市人民法院) and as such, constituted confirmation proceedings (確認之訴) under the Law of Civil Proceedings of the PRC (《中華人民共和國民事訴訟法》).
- In relation to Mr. Tian's 50% equity interest in Golden Corn which was held through the trust arrangements, as it was originated from three separate trust arrangements and registered in the names of three separate nominee shareholders (or their respective pre-decessor nominee shareholders), the Confirmation Proceedings in relation to each trust arrangements constituted separate actions and accordingly, 民事起訴狀 (civil writs*) should be dealt with by three separate actions in accordance with the PRC law.
- A 民事調解書 (civil settlement ruling*) would take effect upon execution by the parties concerned and that once executed, neither party would have a right for an appeal.
- The trust agreements entered into between Mr. Tian and (i) each of 田勇 (Tian Yong*), Mr. Yu, 王保華 (Wang Baohua*) and Zhang Junhua (張軍華) on 29 December, 2003; and (ii) each of Liu Xianggang (劉象剛), 劉炳忠 (Liu Bingzhong*) and 胡靖 (Hu Jing*) on 30 October, 2005, were legal and effective, and that Mr. Tian was legally entitled to the relevant equity interest of Golden Corn stipulated under the captioned trust agreements.

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- The shareholdings in Golden Corn held through these trust arrangements are in compliance with, and are legally recognised and protected under the PRC laws and regulations at the time they were entered into and currently.

For the purpose of converting Golden Corn into a wholly foreign owned enterprise as part of the Reorganisation, the following have taken place:

- On 21 August, 2006, the Founding Shareholders subscribed for the entire issued share capital of Sourcestar in proportion to their beneficial interest in Golden Corn (held either directly or, where relevant, indirectly through their respective equity interest in Juneng Holding Group), namely approximately 54.5833% by Mr. Tian, 25.000% by Mr. Gao, 16.67% by Mr. Guo and 0.4163% by each of Mr. Yu, 霍登科 (Huo Dengke*), Zhou Jincheng (周錦成), Wang Shaofa (王紹發), Zhang Junhua (張軍華), 劉波 (Liu Bo*), Tian Xiaoli (田效禮), Zhang Mingrong (張明榮) and Li Mingwen (李明文). Sourcestar completed its foreign exchange registration with the 國家外匯管理局山東分局 (Shandong Sub-bureau of the SAFE*) on 23 August, 2006 in accordance with the 《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》匯發[2005]第 75號) (“Notice by State Administration of Foreign Exchange on Foreign Exchange Management Issues relating to the Use of Off-Shore Special Purpose Vehicles by Inland Residents for Fund Raising and Reverse Takeover” (Hui Fa [2005] No. 75)*) (“SAFE Notice No. 75”).
- On 24 August, 2006, Sourcestar entered into equity transfer agreements with each of Juneng Holding Group, Mr. Tian, Mr. Gao and Mr. Guo to acquire the entire equity interest of Golden Corn for an aggregate consideration of RMB140,000,000. The consideration was determined with reference to the net asset value of Golden Corn, which was valued at approximately RMB140,000,000 as at 31 July, 2006. The proposed acquisition and the corresponding consideration were approved by the Department of Foreign Trade and Economic Cooperation of Shandong Province (山東省對外貿易經濟合作廳) on 30 August, 2006, and Golden Corn obtained the “Certificate of Approval for Establishment of Enterprises with Foreign Investment in the People’s Republic of China Foreign Investment Enterprise” (《中華人民共和國外商投資企業批准證書》) on the same date. Golden Corn obtained its revised business licence as a wholly foreign owned enterprise on 26 September, 2006, and its approved business scope was amended to read “processing and sales of cornstarch and by-products, modified starch, animal feeds, lysine and by-products; purchase of corn; provision of heat (in the case where separate operating approval(s) is/are required, in accordance with the approved scope(s) and operating period(s) granted)”.
- On 28 November, 2006, the Founding Shareholders subscribed for the entire issued share capital of Merry Boom in proportion to their shareholding interest in Sourcestar, namely approximately 54.5833% by Mr. Tian, 25.000% by Mr. Gao, 16.67% by Mr. Guo and 0.4163% by each of Mr. Yu, 霍登科 (Huo Dengke*), Zhou Jincheng (周錦成), Wang Shaofa (王紹發), Zhang Junhua (張軍華), 劉波 (Liu Bo*), Tian Xiaoli (田效禮), Zhang Mingrong (張明榮) and Li Mingwen (李明文).

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- On 29 November, 2006, our Company was incorporated as a wholly owned subsidiary of Merry Boom. On the same date, a reorganisation was effected pursuant to which Sourcestar (being the sole shareholder of Golden Corn) became a wholly owned subsidiary of our Company. By a capital verification report dated 21 December, 2006, the registered capital of Golden Corn, which amounted to RMB120,000,000, was fully contributed in the form of foreign currency by Sourcestar as at 21 December, 2006, and the conversion of Golden Corn into a wholly foreign owned enterprise was thereby completed in all respects.

In connection with the Reorganisation, the Global Offering and the Listing, we are advised by our PRC legal advisers that all necessary approvals, consents and registrations have been obtained, or as the case may be, effected, in accordance with the applicable PRC laws, rules and regulations. In particular:

- As at the Latest Practicable Date, each of the Founding Shareholders, who is a resident of the PRC, has completed their registrations with 國家外匯管理局山東省分局 (Shandong Sub-bureau of SAFE*) as required under the SAFE Notice No.75 with respect to his/her investments (direct and indirect) in Merry Boom, our Company and Sourcestar. We are advised by our PRC legal advisers that each of the Founding Shareholders has complied with the applicable requirements as required under the SAFE Notice No.75 in respect of or in connection with the reorganisation as mentioned above. We have also been advised by our PRC legal advisers that each of the Founding Shareholders is required under the SAFE Notice No. 75 to effect supplemental filing with the 國家外匯管理局山東省分局 (Shandong Sub-bureau of SAFE*) in respect of the change in his/her shareholding in the share capital of our Company as a result of the Global Offering within 30 days of such changes.
- The 《關於外國投資者並購境內企業的規定》 (Regulations on the acquisition of domestic enterprises by foreign investors*) (the “**New M&A Regulations**”) was promulgated on 8 August, 2006 and became effective as of 8 September, 2006. It is the requirement of Article 40 of the New M&A Regulations that the overseas listing and trading in securities of an overseas special purpose vehicle formed for the purpose of listing overseas the rights and interests of any domestic company and/or PRC natural person in a domestic company, which in turn is directly or indirectly controlled by such domestic company or PRC natural person, shall be subject to the approval of the CSRC. We have obtained the written confirmation from the Department of Foreign Trade and Economic Cooperation of Shandong Province (山東省對外貿易經濟合作廳) confirming that the New M&A Regulations have no application to the establishment of a foreign owned enterprise by way of acquisition, such as Golden Corn, prior to the effective date of the New M&A Regulations. As advised by our PRC legal advisers, the Department of Foreign Trade and Economic Cooperation of Shandong Province (山東省對外貿易經濟合作廳), being one of the PRC regulatory authorities vested with the authority to implement the relevant provisions of the New M&A Regulations and 外國投資者併購境內企業暫行規定 (Tentative Regulations on the acquisition of domestic enterprises by foreign investor*) (the “**Tentative M&A Regulations**”), is competent and has the proper authority to provide the confirmation in the course of performance of its statutory duties. No similar confirmation from the CSRC

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has been obtained by us. We have been advised by our PRC legal advisers that based on their understanding of the current PRC laws, rules and regulations, as (i) the Reorganisation, the Global Offering and the Listing have obtained all necessary approvals and consents of the relevant PRC regulatory authorities prior to the effective date of the New M&A Regulations; and (ii) cash consideration, instead of the offering of shares, was applied as consideration for the acquisition of Golden Corn by Sourcestar, article 40 of the New M&A Regulations has no application to the Reorganisation, the Listing and the Global Offering and no CSRC approval is required for the Listing.

- We are also advised by our PRC legal advisers that as the Listing does not involve the listing of any State-owned interests of a State-controlled foreign listed or non-listed company or the transfer of assets of domestic enterprises to a State-controlled foreign listed or non-listed company, the Reorganisation, the Listing and the Global Offering do not fall within the ambit of the《國務院關於進一步加強在境外發行股票和上市管理的通知》(國發[1997]21號) (State Council's Circular on Further Strengthening Administration of the Issue and Listing of Shares Overseas (Guo Fa [1997] No.21)*).

Golden Corn Bio-chem

Golden Corn Bio-chem was established on 26 March, 2003 with a registered capital of RMB80,000,000, contributed as to RMB56,000,000 (70%) by Golden Corn and RMB24,000,000 (30%) by 青島頤杰鴻泰投資有限公司 (Qingdao Yijie Hongtai Investment Co., Ltd.*) (“**Yijie Hongtai**”), an independent third party, both in the form of cash. Yijie Hongtai was a limited liability company established in the PRC on 26 November, 2001 with a registered capital of RMB147,000,000 and was owned as to approximately 30.61% by 山東電力建設第三工程公司 (Shandong Electricity Construction Third Project Co., Ltd.*), and the remaining approximately 69.39% by 10 independent third party individuals. Our Directors confirm that save for the business and affairs of Golden Corn Bio-chem, none of the directors, shareholders, senior management and employees of our Group had any relationship with Yijie Hongtai.

On 15 November, 2003, each of Golden Corn and Yijie Hongtai entered into an equity transfer agreement with Mr. Gao, pursuant to which Golden Corn and Yijie Hongtai transferred their respective holding of 20% and 5% equity interest of Golden Corn Bio-chem to Mr. Gao for a consideration of RMB16,000,000 and RMB4,000,000 respectively. The percentage equity interest so transferred was arrived at after arm's length negotiation among the parties involved, and the considerations for the transfers were arrived at based on the registered capital of Golden Corn Bio-chem. Mr. Gao was a director and the deputy general manager of Golden Corn Bio-chem at the time of the said transfers, and it was intended that the equity ownership arrangement would further motivate Mr. Gao's devotion to the business performance of Golden Corn Bio-chem. The source of funding of Mr. Gao for the said acquisition was principally personal savings and personal borrowings from around 290 individuals who were/are principally fellow employees and/or management of Golden Corn and other companies established under Juneng Holding Group with an aggregate amount of around RMB19,000,000. Annual interest rate of around 8% was charged for all borrowings, and all principals together with interests accrued thereon were repaid in full as at

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February, 2006. No fee was paid by Mr. Gao for the purpose of obtaining such borrowings. Following completion of the said transfers, Golden Corn Bio-chem was owned as to 50% by Golden Corn, 25% by Yijie Hongtai and 25% by Mr. Gao, and Golden Corn Bio-chem became an associated company of Golden Corn.

In 2005, Yijie Hongtai put forth to the other shareholders of Golden Corn Bio-chem of its intention to withdraw from the investment of Golden Corn Bio-chem due to increasing funding requirements from its other businesses (including electricity and property development) and its lack of knowledge in the technology development and management of lysine production. As a result, the shareholders of Golden Corn Bio-chem resolved to dissolve Golden Corn Bio-chem on 5 July, 2005 and a dissolution committee was established pursuant thereto. The net asset value of Golden Corn Bio-chem as at 30 June, 2005 amounted to approximately RMB85,193,000 as reported on by the dissolution committee. It was agreed among the shareholders of Golden Corn Bio-chem that (i) each of Yijie Hongtai and Mr. Gao would waive their respective rights to the undistributed profit of Golden Corn Bio-chem; (ii) each of Yijie Hongtai and Mr. Gao would be refunded with their respective share of registered capital contributed, namely RMB20,000,000 each; and (iii) Golden Corn would assume the assets and liabilities of Golden Corn Bio-chem following completion of the dissolution. According to the understanding of the Directors, both Yijie Hongtai and Mr. Gao agreed to waive their respective rights to the undistributed profits of Golden Corn Bio-chem mainly for reasons that (i) Golden Corn had reported minor gross loss in its lysine business segment in 2004 as a result of its support to Golden Corn Bio-chem at its initial stage of development; (ii) China's lysine market was sluggish during the time and the market price of lysine was on a downward trend; and (iii) Golden Corn would assume all liabilities of Golden Corn Bio-chem. The refund of RMB20,000,000 each to Yijie Hongtai and Mr. Gao was effected on 5 September, 2005 and 3 November, 2005 respectively. Golden Corn Bio-chem was formally de-registered on 23 January, 2006.

Golden Corn assumed the assets and liabilities of Golden Corn Bio-chem and took over its operations on 14 July 2005 prior to repayment of the outstanding debts of Golden Corn Bio-chem which, as advised by our PRC legal advisers, was in contravention of the PRC Company Law, and in the event that happened, 壽光市工商行政管理局 (Shouguang Administration for Industry and Commerce*) could order rectification and Golden Corn Bio-chem (but not Golden Corn as its successor) could be liable for a fine of not less than 1% and not more than 5% of the amount of assets of Golden Corn Bio-chem distributed prior to payment of its debts. On 23 January 2006, Golden Corn Bio-chem was formally approved by the 壽光市工商行政管理局 (Shouguang Administration for Industry and Commerce*) for de-registration. As Golden Corn had assumed the liabilities of Golden Corn Bio-chem and the rights of its creditors were not affected by the distribution of its assets, and as its de-registration had been approved by the 壽光市工商行政管理局 (Shouguang Administration for Industry and Commerce*), we are advised by our PRC legal advisers that the dissolution of Golden Corn Bio-chem is valid and effective. Our PRC legal advisers further advised that as we have, on 28 April, 2007, obtained the 《關於對山東金玉米生化有限公司不予處罰的確認》 ("Confirmation Regarding Not to Impose Penalty on Shandong Golden Corn Bio-chem Co., Ltd.*) from 壽光市公商行政管理局 (Shouguang Administration for Industry and Commerce*) confirming that no administrative penalty will be imposed on Golden Corn for the distribution of assets and liabilities of Golden Corn Bio-chem prior to repayment of outstanding debts, and that Golden Corn Bio-chem was formally approved for and was accordingly de-registered, Golden Corn would not be liable for the captioned breach.

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Since the establishment of Golden Corn Bio-chem up to the assumption of its assets, liabilities and operations by Golden Corn, Golden Corn Bio-chem was principally engaged in the production and sale of 98% L-lysine hydrochloride salt and agricultural fertilisers. During such period, Golden Corn supplied all the starch paste, electricity and steam to Golden Corn Bio-chem for its production of L-lysine hydrochloride salt and agricultural fertilisers, and purchased the finished lysine and agricultural fertilisers from Golden Corn Bio-Chem for on-sale to final customers. According to the management accounts of Golden Corn Bio-chem, its unaudited turnover and net profit after tax for the year ended 31 December, 2004 amounted to approximately RMB142,380,000 and RMB5,989,000 respectively. During the period from 1 January, 2005 up to the date on which its assets, liabilities and operations were taken over by Golden Corn, Golden Corn Bio-chem reported unaudited turnover and net profit after tax of approximately RMB85,076,000 and RMB1,820,000 respectively based on its management accounts.

Golden Far East

Golden Far East was established as a sino-foreign equity joint venture on 25 September, 2004 with a registered capital of US\$5,010,000 (equivalent to approximately RMB41,600,000), which was contributed as to US\$2,454,000 (equivalent to approximately RMB20,384,000) (49%) by Golden Corn in the form of land use rights, building, machinery and equipment, and as to US\$2,556,000 (equivalent to approximately RMB21,216,000) (51%) by CPI in the form of cash. CPI is an international renowned producer of corn-refined and starch-based ingredients with a corporate history of over 100 years and is listed on the New York Stock Exchange. Golden Far East has an initial operating duration of a period of 50 years (expiring on 24 September, 2054), which is extendible by unanimous consent of its board of directors with application for extension filed to the relevant government authority six months prior to its expiry.

On 24 February, 2005, it was agreed between Golden Corn and CPI to increase the registered capital of Golden Far East by an addition of US\$2,000,000 (equivalent to approximately RMB16,540,000), to be contributed by the two parties in the form of cash in proportion to their then respective percentage equity holding in Golden Far East. The additional capital contribution made was verified by the capital verification report dated 1 June, 2005, pursuant to which the registered capital of Golden Far East was increased to US\$7,010,000.

On 15 April 2007, Golden Corn and CPI agreed to increase the registered capital of Golden Far East by US\$2,590,000 (equivalent to approximately RMB19,813,500) to US\$9,600,000 (equivalent to approximately RMB73,440,000) to be contributed by the two parties in the form of cash in proportion to their then respective percentage equity holding in Golden Far East. The additional capital contribution made was verified by a capital verification report dated 28 May 2007. Golden Corn remains 49% owned by Golden Corn and 51% owned by CPI after the increase in registered capital.

As advised by our PRC legal adviser, the establishment and the subsequent capital enlargements of Golden Far East complied with all relevant PRC laws and regulations.

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Since its establishment, Golden Far East has been principally engaged in the manufacture and sales of modified starch. The board of directors of Golden Far East comprises five members, of which three (including the chairman of the board) are nominated by CPI and two (including the deputy chairman of the board) are nominated by Golden Corn.

In conjunction with the original joint venture contract entered into on 26 June, 2004, a number of agreements were also entered into in facilitation of the business and operations of Golden Far East:

- ***Non-compete agreement*** — entered into among CPI, Golden Corn and Juneng Electric Group (the minority shareholder of Golden Corn at the time of signing of the joint venture contract) pursuant to which each agreed to refrain from conducting, or procure any third party to conduct, any production or sales of modified starch in various provinces in the PRC so long as CPI and Golden Corn remain as the shareholders of Golden Far East;
- ***Trademark and technology license and technical assistance agreement*** — entered into between CPI and Golden Far East pursuant to which Golden Far East has been granted the right to use the trademarks and technologies owned and/or patented by CPI for the production and sales of its modified starch products in the PRC (excluding Taiwan, Hong Kong and Macau) for a fee equal to 2.5% of the revenue (net of any tax, transportation charges, insurance charges, loading charges and export duties) of Golden Far East in such jurisdiction. The trademark and technology license and technical assistance agreement has an initial term of 10 years effective from the date on which all conditions precedent for the injection of registered capital have been fulfilled, and is terminable by either party by written notice upon occurrence of, among other things, failure to remedy a breach of the term of the agreement within 30 days of receiving notice from the other party, the other party being under receivership, a summons to wind up the other party not being withdrawn within 30 days of its issue, voluntary winding up or winding up by court order of the other party or the other party having a net liability position. The agreement will be automatically renewed for a term of 10 years unless notice of termination is served within 60 days prior to expiry of the initial term or each 10 year term thereafter in accordance with the terms of the agreement.
- ***Utilities and services agreement*** — entered into between Golden Corn and Golden Far East for the provision by Golden Corn to Golden Far East in respect of:
 - (i) **starch paste** — at a price to be agreed between Golden Corn and Golden Far East on a monthly basis with reference to the average market price of that month;
 - (ii) **water** — at a fixed price per usage plus ancillary service charge and government surcharge, which are adjustable by mutual agreement with reference to changes in cost of services and rates of applicable government surcharges;
 - (iii) **steam** — at a price per usage with reference to the prevailing rate set by the relevant government body;

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- (iv) **electricity** (*note*) — at a fixed price per usage agreed between Golden Corn and Golden Far East with reference to the prevailing rate set by the relevant government body; and
- (v) **sewage treatment services** — at a fixed price per usage agreed between Golden Corn and Golden Far East, adjustable by mutual agreement with reference to changes in cost of services.

The utilities and services agreement is effective throughout the operating duration of Golden Far East unless terminated by Golden Far East by 180 days prior written notice in accordance with the terms of the agreement, or upon any breach of the terms of the agreement by either party and failure to remedy such breach within 30 days of the other party serving a written notice for remedy. It has been agreed that the prices charged by Golden Corn to Golden Far East for the provision of the above utilities and services could not be higher than the prices charged by Golden Corn to any third parties.

Note: Following the conversion of Golden Corn into a wholly foreign owned enterprise in September, 2006, Golden Corn has ceased its supply of electricity to Golden Far East.

- **Export distributor agreement** — entered into between CPI and Golden Far East for the appointment of CPI as the exclusive distributor of Golden Far East in respect of its products covering all regions outside of the PRC (for the purpose of the agreement, such regions include Hong Kong, Macau and Taiwan), pursuant to which CPI would purchase products of Golden Far East for its on-sale in such regions at the mutually agreed prices. The export distributor agreement is effective throughout the operating duration of Golden Far East (including any extension thereafter) unless terminated by either party with immediate effect by written notice upon occurrence of, among other things, certain force majeure events, termination of the joint venture, material breach of the terms of the agreement and failure to remedy such breach within 60 days of written notice by the other party, or CPI ceasing to have any investment in Golden Far East.
- **Employees arrangement agreement** — entered into between Golden Corn and Golden Far East, pursuant to which Golden Far East shall have the first priority and full discretion to select and recruit any number of existing employees of Golden Corn, whether currently employed by Golden Corn or contracted or assigned by another third party to work for Golden Corn, for employment with Golden Far East. Under the employees arrangement agreement, during the employment of the selected employees by Golden Far East, Golden Corn is required to provide the selected employees the same company housing benefits as those enjoyed by the employees of Golden Corn and the company housing benefits to which the employees were entitled prior to joining Golden Far East. In this respect, Golden Far East is required to pay Golden Corn annual fees, calculated in accordance with the actual cost of provision of the staff quarters, such as the cost of depreciation, property management, water, electricity and steam. The employees arrangement agreement is effective from the date of fulfillment of these conditions: (i) the execution of the employees arrangement agreement, (ii) the ratification and adoption of

CORPORATE DEVELOPMENT AND STRUCTURE

the employees arrangement agreement by the board of directors of Golden Far East, and (iii) the approval by and/or registration with the relevant government authorities of the employees arrangement agreement (if legally required). The employees arrangement agreement is terminated at the termination of the joint venture contract dated 26 June, 2004, or, among others, if Golden Corn breaches any provision of the employees arrangement agreement and such breach is not cured within 60 days of receipt of written notice by Golden Far East.

In addition to the above, Golden Corn and Golden Far East also entered into a sales representative agreement on 1 December, 2004, pursuant to which Golden Corn would act as the exclusive sales representative of Golden Far East in the PRC region. Under the agreement, Golden Corn is required to refer all the orders procured by it to Golden Far East in relation to products of Golden Far East, including oxydised starch, positively ionized starch, acidified starch, fabrics coating starch and acetic anhydride starch. Golden Far East would then in its sole discretion decide whether to accept or reject such orders, as well as to determine the prices and the terms and conditions of such sales. If Golden Far East accepts the orders referred to it by Golden Corn, Golden Corn would be entitled to a commission of 5% on sales procured by it (net of tax and all other applicable government surcharges). Golden Far East may reject the orders referred to it by Golden Corn in its sole discretion, and it shall have no liability to Golden Corn for sales commission or otherwise, unless it makes a sale comparable in volume, delivery or other material commercial terms to the same customer referred by Golden Corn within 30 calendar days after rejecting the order, in which case, it shall pay Golden Corn commission on the actual sale made. The agreement is for an initial term of six months extendible by written agreement by both parties, and is terminable by 30 days prior written notice from either party, or in the event of breach of the term of the agreement, by 15 days prior written notice provided that the breach was not remedied within the 15 days notice period. For each of the three years ended 31 December, 2006, commission income of Golden Corn arising from the sales support services provided to Golden Far East amounted to approximately RMB113,000, RMB3,227,000 and RMB3,379,000 respectively. The sales representative agreement was extended until August, 2006 and was terminated in accordance with its terms.

During the Track Record Period, Golden Far East offered various types of modified starch including oxydised starch, positively ionized starch, acidified starch, fabrics coating starch and acetic anhydride starch. These modified starch products are sold to, amongst other entities, paper, chemical and textile manufacturers principally in the PRC. As at 31 December, 2006, the annual modified starch production capacity of Golden Far East averaged to some 104,000 tonnes and was on average approximately 45% utilised. During the Track Record Period, Golden Far East reported unaudited turnover of approximately RMB2,859,000, RMB67,278,000, RMB112,241,000 and RMB44,608,000, and unaudited net loss after tax of about RMB18,000, unaudited net profit after tax of about RMB1,795,000, and unaudited net loss after tax of about RMB7,092,000 and RMB1,887,000, respectively.

The production site of Golden Far East, having a site area of approximately 17,493m², is situated adjacent to our production site. It houses two production plants with a gross floor area of 5,651m² and two warehouses with gross floor area of approximately 497m² and 2,646m² respectively.

CORPORATE DEVELOPMENT AND STRUCTURE

OPERATIONAL MILESTONES

- Our first cornstarch production line with an annual production capacity of about 100,000 tonnes was put into operation in late 1998 after the establishment of Golden Corn, and our sales of cornstarch commenced in 1999.
- We commenced our sales of steam and electricity in 1999 with our first power generator system (having a maximum electricity generating capacity of 6,000 kw) under the 併網協議書 (union network agreement*) entered into in October, 1998. Our first power generator system had served both our external sales as well as internal production needs.
- In conjunction with the construction of our second cornstarch production line (having an annual production capacity of about 100,000 tonnes) which was put into operation in late 1999, we also completed construction of our second power generator system (having a maximum electricity generating capacity of 15,000 kw) and entered into the corresponding 併網協議書 (union network agreement*) in September, 1999. Our second power generator system was put into operation thereafter principally serving our external sales of steam and electricity, leaving our first power generator system principally serving our internal production needs.
- During 2001, we completed technology improvements to our cornstarch production lines and increased our annual cornstarch production capacity to about 300,000 tonnes. Thereafter in 2002, we completed construction of our third power generator system (having a maximum electricity generating capacity of 15,000 kw) principally serving our internal production needs.
- In 2003, we successfully developed formulation of cornstarch which could be applied for sobital, pursuant to which we successfully established business relationship with Roquette (China) Co., Ltd. (羅蓋特(中國)精細化工有限公司).
- We commenced construction of our lysine production plant (having an initial annual production capacity of about 25,000 tonnes) in 2003 with the establishment of Golden Corn Bio-chem. In preparation of our business venture into the production and sales of lysine, we also commenced further technology improvements to our cornstarch production lines during the year, pursuant to which our annual cornstarch production capacity increased to about 357,000 tonnes.
- Due to aging and inefficiency, we disposed of our first power generating system in 2003, and commenced construction of our fourth power generator system in 2004 with more output efficiency and a maximum electricity generating capacity of 25,000 kw. As an interim measure, we installed an additional boiler for our second power generator system in 2004 with the aim of increasing its steam and electricity production capacity.

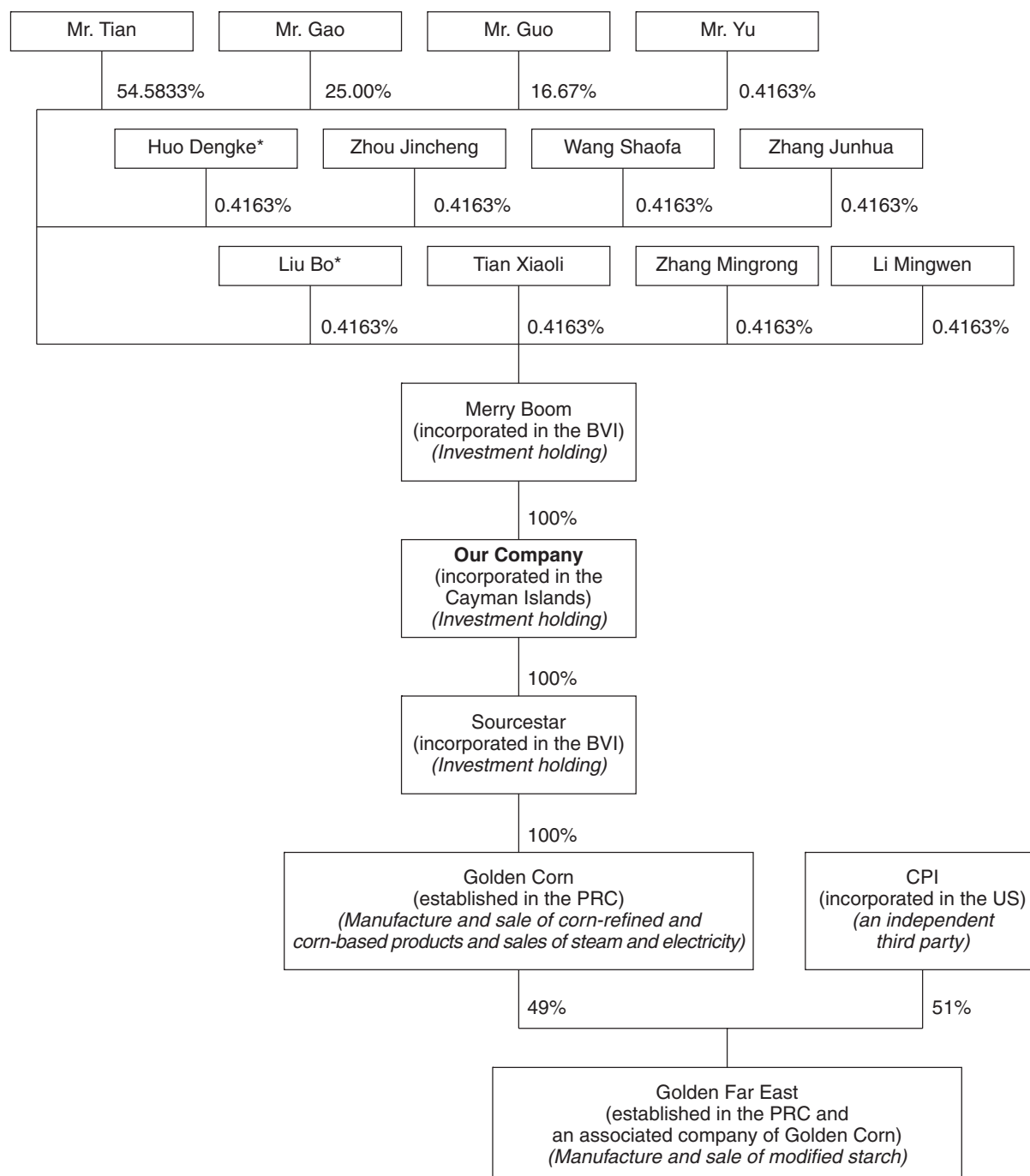
CORPORATE DEVELOPMENT AND STRUCTURE

- We successfully developed formations of cornstarch in 2004 which could be applied for beer and vermicelli production.
- Our fourth power generating system was put into initial operation in 2006. During the year, we also completed further technology improvements to our cornstarch and lysine production lines, pursuant to which our annual cornstarch production capacity increased to about 450,000 tonnes and our annual lysine production capacity increased to about 29,000 tonnes.
- In view of our intended business developments, we installed an additional boiler for our fourth power generator system in the second quarter of 2007 with the aim of increasing its steam and electricity production capacity.

CORPORATE DEVELOPMENT AND STRUCTURE

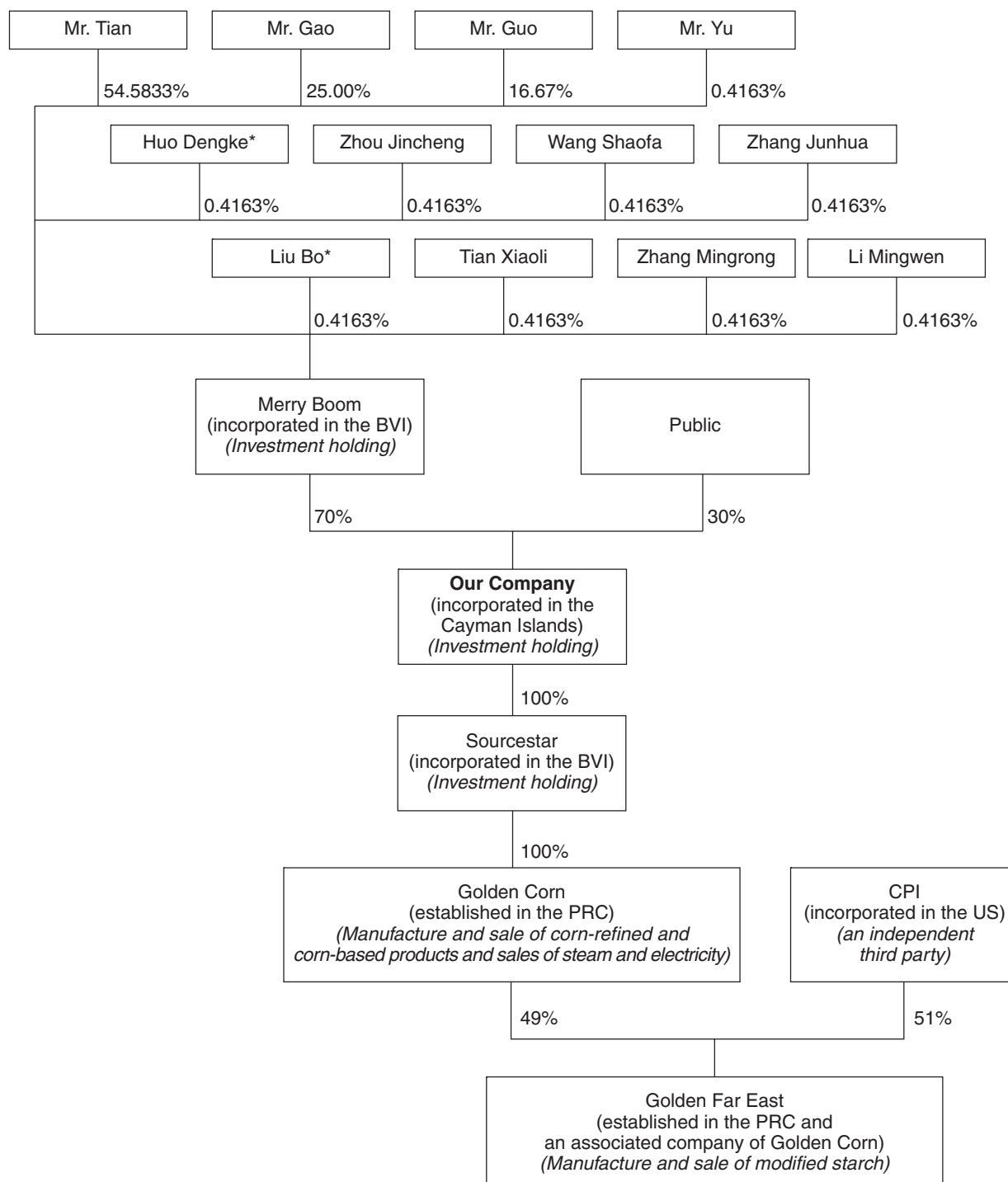
CORPORATE STRUCTURE

Set out below is the shareholding and corporate structure of our Group and our associated company as at the Latest Practicable Date:




CORPORATE DEVELOPMENT AND STRUCTURE

Upon completion of the Global Offering, the Loan Capitalisation Issue and the Capitalisation Issue (and assuming that the Over-allotment Option is not exercised at all), the shareholding of our Company shall be as follows:



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OVERVIEW

We are one of the leading manufacturers of cornstarch in the PRC. We were ranked by the China Starch Industry Association in December, 2006 as the third largest cornstarch producer in the PRC in 2005 in terms of cornstarch sales. In addition to cornstarch, we also manufacture 98.5% L-lysine hydrochloride salt and other ancillary corn-refined and corn-based products such as corn slurry, corn germ, corn fibre, corn gluten meal and agricultural fertilisers. Our corn-refined and corn-based products are marketed under the trademark .

During the Track Record Period, our major customers include manufacturers in the chemicals, paper, food and beverage, animal feeds and agricultural fertilisers industries, such as Roquette (China) Co., Ltd. (羅蓋特(中國)精細化工有限公司), Pucheng Chia Tai Biochemistry Co., Ltd. (浦城正大生化有限公司), Shandong Liuhe Group Co., Ltd. (山東六和集團有限公司), Shandong Huatai Paper Co., Ltd. (山東華泰紙業股份有限公司), 華潤雪花啤酒(浙江)股份有限公司 (China Resources Snow Breweries (Zhejiang) Co., Ltd. *), Yantai Beer Asahi Co., Ltd. (煙臺啤酒朝日(股份)有限公司), China Jiangsu Suntory Foods Company Limited (中國江蘇三得利食品有限公司), Zhouping Sanxing Oil & Fat Industrial Co., Ltd. (山東鄒平三星油脂工業有限公司) and 三井物產(中國)貿易有限公司 (Mitsui (China) Trading Co., Ltd.*). Leveraged on the quality of our products, we have been appraised by some of these major customers as having reliable and consistent product quality, as well as delivery and after-sales services.

While most of our corn-based and corn-refined products are sold within the PRC, some are exported to countries in Asia, North America, Central America, Southern and Northern Europe and the Middle East. To facilitate sales of our products to certain overseas countries with significant Muslim population, our products are certified by the Shandong Islamic Association (山東省伊斯蘭教協會) as “halal” (清真) in accordance with the Islamic Law for intake by Muslims.

In addition to the sales of corn-refined and corn-based products, we have been engaging in the sales of steam and electricity since 1999 serving principally local customers in Shouguang City. Our co-generation power plant comprised three power generator systems with sufficient capacity to cater for our external sales of steam and electricity as well as to support our internal production needs. Since the commencement of our sales of steam and electricity, this business segment has generated a continuous and steady stream of revenue and contributed significantly to the gross profit of our Group. Our Directors place emphasis on this business segment and have designated management with relevant experience to oversee its operations as part of our Group's ordinary course of business.

During the Track Record Period, our steam was sold, in addition to Golden Corn Bio-chem and Golden Far East, to over 80 customers including local commercial and industrial enterprises, hotels, banks, governmental departments and offices, hospitals and schools, as well as 山東壽光巨能特鋼有限公司 (Shandong Shouguang Juneng Special Steel Co., Ltd.*), a connected person of our Company to whom we commenced the provision of steam in September, 2006. On the other hand, save for the sales of electricity to Golden Corn Bio-chem and Golden Far East, all our electricity was sold to 壽光市供電公司 (Electricity Supply Company of Shouguang City*) during the Track Record Period via transmission to the local electricity network.

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The following table sets forth a breakdown of our turnover and gross profit margin by segment for the Track Record Period:

Product type	For the year ended 31 December,						For the four months ended 30 April,			
	2004 (audited)		2005 (audited)		2006 (audited)		2006 (unaudited)		2007 (audited)	
	Turnover/ Gross profit/ (loss) margin	% of total turnover	Turnover/ Gross profit/ (loss) margin	% of total turnover	Turnover/ Gross profit/ (loss) margin	% of total turnover	Turnover/ Gross profit/ (loss) margin	% of total turnover	Turnover/ Gross profit/ (loss) margin	% of total turnover
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Cornstarch and ancillary corn-refined products	727,595 11.4%	74.6	658,955 11.0%	69.5	728,409 14.0%	70.6	207,196 17.7%	70.2	263,565 12.5%	65.4
L-lysine hydrochloride salt and agricultural fertilisers (note)	141,457 (0.9)%	14.5	181,255 6.8%	19.1	225,846 31.5%	21.9	53,266 20.3%	18.1	96,556 32.1%	24.0
Steam and electricity	106,702 38.7%	10.9	107,995 33.3%	11.4	77,251 28.6%	7.5	34,509 27.2%	11.7	42,863 31.7%	10.6
Total	975,754	100.0	948,205	100.0	1,031,506	100.0	294,971	100.0	402,984	100.0

Note: During the period from 1 January, 2004 up to the date when we assumed the assets, liabilities and operations of Golden Corn Bio-chem, our L-lysine hydrochloride salt and agricultural fertilisers were manufactured under Golden Corn Bio-chem and sold to Golden Corn for on-sale to final customers. During the captioned period, Golden Corn Bio-chem was an associated company of our Group and its results were equity accounted for by our Group. As a result, the cost of goods sold for L-lysine hydrochloride salt and agricultural fertilisers reported by our Group during such period represented mainly the purchase cost of L-lysine hydrochloride salt and agricultural fertilisers from Golden Corn Bio-chem.

During the Track Record Period, our sales of cornstarch amounted to approximately RMB477,270,000, RMB486,107,000, RMB535,260,000 and RMB188,556,000 (and represented some 48.9%, 51.3%, 51.9% and 46.8% of our total turnover), while our sales of L-lysine hydrochloride salt amounted to approximately RMB131,544,000, RMB165,420,000, RMB210,700,000 and RMB91,925,000 (and represented some 13.5%, 17.4%, 20.4% and 22.8% of our total turnover), respectively.

During the Track Record Period, our sales of steam amounted to some RMB42,047,000, RMB49,284,000, RMB47,183,000 and RMB42,863,000 (and represented about 4.3%, 5.2%, 4.6% and 10.6% of our total turnover), while our sales of electricity amounted to some RMB64,655,000, RMB58,711,000, RMB30,068,000 and RMBnil (and represented about 6.6%, 6.2%, 2.9% and nil% of our total turnover), respectively.

We had temporarily suspended our sales of electricity since October, 2006 as it was excluded from the approved business scope of the revised business licence granted to Golden Corn pursuant to its conversion into a wholly foreign owned enterprise, pending confirmation from the relevant authority as to whether additional approval requirement was required for Golden Corn to continue its sales of electricity as a wholly foreign owned enterprise. As an interim measure, we had adjusted the production level of steam and electricity to increase our sales of steam. Following positive confirmation that no additional approval requirement was required, we have applied for, and have

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accordingly been granted a revised business licence of Golden Corn on 8 June, 2007 with an expanded business scope to include the sales of electricity. Since the grant of Golden Corn's revised business licence on 8 June, 2007, our connection cables for transmission of electricity to the local electricity network have been refurbished, pursuant to which we re-commenced our sales of electricity in August, 2007.

We adopt advanced production technology available in the corn refinery industry. In addition, we strongly believe that strict quality control and the provision of consistent, quality products are essential for us to maintain sustainable growth and excel in the corn refinery industry. We place strong emphasis on quality control throughout our production processes to ensure the quality of our products. Our cornstarch and L-lysine hydrochloride salt were named, in December, 2003 and October, 2004 respectively, the “山東名牌” (“Shandong Famous Brand”*) jointly by 山東省名牌戰略推進委員會 (Brand Name Strategic Promotion Committee of Shandong Province*) and 山東省質量技術監督局 (Quality and Technology Supervisory Board of Shandong Province*). Our cornstarch was also named the “中國名牌產品” (“China Top Brand Product”*) by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) in September, 2005. Our commitment to quality is further evidenced by the accreditation of ISO 9001:2000, ISO 14001:2004, ISO 22000:2005 and the grant of the Good Standardizing Practice Certificate (標準化良好行為證書) in 2006 by 山東省質量技術監督局 (Quality and Technology Supervisory Board of Shandong Province*).

Our annual production capacity of cornstarch averaged to some 357,000 tonnes, 357,000 tonnes and 404,000 tonnes respectively for each of the three years ended 31 December, 2006, and reached approximately 450,000 tonnes as at 31 December, 2006. On the other hand, our annual production capacity of lysine averaged to some 25,000 tonnes, 25,000 tonnes and 27,000 tonnes respectively for each of the three years ended 31 December, 2006, and reached approximately 29,000 tonnes as at 31 December, 2006.

The capacity of our co-generation power plant is convertible between the provision of steam and electricity, and we adjust our production level of steam and electricity according to the respective external demand as well as internal production needs from time to time. For each of the three years ended 31 December, 2006, our power plant was capable of generating a maximum of approximately 252,000,000 kwh, 252,000,000 kwh and 336,000,000 kwh of electricity, while its maximum capacity for steam generation (in the case where no electricity is generated) was approximately 1,260,000 tonnes, 1,260,000 tonnes and 2,620,000 tonnes, respectively.

We use corn kernels as our principal raw material for the production of cornstarch, during such process ancillary corn-refined products including corn slurry, corn germ, corn fibre and corn gluten meal are produced. Some of our cornstarch (in the form of starch paste) is applied internally as the principal raw material for the production of L-lysine hydrochloric salt, and supplied to Golden Far East as its principal raw material for the production of modified starch products. On the other hand, coal is our principal raw material for our production of steam and electricity.

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Our production site is strategically located in Shouguang City, Shandong Province, the PRC which is well-known for its abundance of agricultural output and is one of the top corn growing provinces in the PRC. Our production site houses, among other ancillary facilities, two cornstarch production plants, one lysine production plant, one fertiliser production plant and one co-generation power plant.

We own 49% of the equity interest of Golden Far East, our associated company, which is principally engaged in the manufacture and sale of modified starch. CPI, being our joint venture partner holding the remaining 51% equity interest of Golden Far East, is an international renowned producer of corn-refined and starch-based ingredients with a corporate history of over 100 years and is listed on the New York Stock Exchange. During the Track Record Period, Golden Far East offered various types of modified starch including oxydised starch, positively ionized starch, acidified starch, fabrics coating starch and acetic anhydride starch which were sold to, amongst others, paper, chemical and textile manufacturers principally in the PRC. As at 31 December, 2006, the annual modified starch production capacity of Golden Far East averaged to some 104,000 tonnes.

RECOGNITIONS AND AWARDS

Our commitment to quality products and management has earned us numerous recognitions and awards in the past, including:

Award/certificate	Date of grant	Grantor	Grantee	Remarks
“管理體系認證優秀單位” (Outstanding Enterprise of Management Systems Certification*)	January, 2007	山東認證協會 (Shandong Certification Association*), 山東質量認證中心 (Shandong Quality Certification Centre*) and 山東分公司 (“Shandong Branch”) of China Quality Mark Certification Group (方圓標誌認證集團)	Golden Corn	Not subject to application, evaluated and awarded by the grantor
GB/T 22000-2006/ ISO22000:2005 Certificate (for food safety management systems in respect of the manufacture of edible cornstarch and L-lysine hydrochloride salt as animal feed additive)	12 February, 2007 (Valid until 11 February, 2010)	China Quality Mark Certification Group (方圓標誌認證集團)	Golden Corn	To be renewed upon expiry subject to continued compliance of the relevant standards
Good Standardizing Practice Certificate (標準化良好行為證書) — in respect of “AA” grade compliance with State GB/T 15496-2003, GB/T 15497-2003, GB/T 15498- 2003 standards	12 June, 2006 (Valid until 12 June, 2009)	山東省質量技術監督局 (Quality and Technology Supervisory Board of Shandong Province*)	Golden Corn	To be renewed upon expiry subject to continued compliance of the relevant standards

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Award/certificate	Date of grant	Grantor	Grantee	Remarks
Certificate of Non-GMO Identity Preservation (非轉基因身份保持認證證書) in respect of the production of corn products with GMO threshold of 0.1% based on EU GMO Regulations of EC1829/2003 and EC1830/2003	2007 (Valid until 31 October, 2007)	CCIC Conformity Assessment Services Co., Ltd. (中國檢驗認證集團質量認證有限公司)	Golden Corn	To be renewed upon expiry subject to continued compliance of the relevant standards
GB/T 19001-2000 idt ISO 9001:2000 Certificate (for quality management system)	18 May, 2006 (Valid until 17 May, 2009)	China Quality Mark Certification Group (方圓標志認證集團)	Golden Corn	To be renewed upon expiry subject to continued compliance of the relevant standards
GB/T 24001-2004 idt ISO 14001:2004 Certificate (for environmental management system)	18 May, 2006 (Valid until 17 May, 2009)	China Quality Mark Certification Group (方圓標志認證集團)	Golden Corn	To be renewed upon expiry subject to continued compliance of the relevant standards
GB/T19022 idt ISO 10012 Certificate (for metering system in product quality, operational management and energy paving)	9 May, 2006 (Valid until 8 May, 2009)	中啟計量體系認證中心 (Zhong Qi Measurement Certification Centre*)	Golden Corn	To be renewed upon expiry subject to continued compliance of the relevant standards
“十佳龍頭企業” (“Ten Best Leading Enterprise”)	January, 2005	中共濰坊市委 (Republic of China Weifang City Committee*) and 濰坊市人民政府 (People’s Government of Weifang City*)	Golden Corn	Not subject to application, evaluated and awarded by the grantor
“中國名牌產品” (“China Top Brand Product”*) — in respect of our “聖玉牌” (“Sheng Yu Brand”*) cornstarch	September, 2005 (Valid until September, 2008)	General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局)	Golden Corn	Subject to application, evaluated and awarded by the grantor

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Award/certificate	Date of grant	Grantor	Grantee	Remarks
“山東名牌” (“Shandong Famous Brand”) — in respect of our “聖玉牌 ” (“Sheng Yu Brand”) L-lysine hydrochloride salt	October, 2004 (Valid until 11 October, 2007)	山東省名牌戰略推進委員會 (Brand Name Strategic Promotion Committee of Shandong Province*) and 山東省質量技術監督局 (Quality and Technology Supervisory Board of Shandong Province*)	Golden Corn	Subject to application, evaluated and awarded by the grantor
“山東名牌” (“Shandong Famous Brand”) — in respect of our “聖玉牌 ” (“Sheng Yu Brand”) cornstarch	December, 2003 (Expired in December, 2006)	山東省名牌戰略推進委員會 (Brand Name Strategic Promotion Committee of Shandong Province*) and 山東省質量技術監督局 (Quality and Technology Supervisory Board of Shandong Province*)	Golden Corn	Not to be renewed
“山東省農業產業化重點龍頭企業” (Shandong Province Highlighted Leading Enterprise on Industrialisation of Agricultural Industry*)	December, 2003	山東省農業廳 (Agricultural Department of Shandong Province*), 山東省發展和改革委員會 (Development and Reform Commission of Shandong Province*), 山東省財政廳 (Finance Department of Shandong Province*), 山東省經濟貿易委員會 (Economic and Trade Commission of Shandong Province*), Department of Foreign Trade and Economic Cooperation of Shandong Province (山東省對外貿易經濟合作廳), 山東省國家稅務局 (State Tax Bureau of Shandong Province*), 山東省地方稅務局 (Local Tax Bureau of Shandong Province*) et al.	Golden Corn	Not subject to application, evaluated and awarded by the grantor
“計量管理先進單位” (“Leading Enterprise in Metering Management”*)	2002	山東省質量技術監督局 (Quality and Technology Supervisory Board of Shandong Province*)	Golden Corn	Not subject to application, evaluated and awarded by the grantor

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Award/certificate	Date of grant	Grantor	Grantee	Remarks
“九五”企業技術改造優秀項目企業 (Ninth Five-Year Enterprise Technology Reform Outstanding Project Enterprise*)	June, 2001	山東省經濟貿易委員會 (Economic and Trade Commission of Shandong Province*)	Golden Corn	Not subject to application, evaluated and awarded by the grantor

As advised by our PRC legal advisers, we do not have any legal impediments to renew any of the above awards or certificates upon their respective expiry subject to continued compliance by us of the then applicable standards for renewal. Moreover, failure to renew or obtain any of the above awards or certificates would not preclude us from conducting any of our existing business activities.

OUR COMPETITIVE STRENGTHS

We believe our success can be attributed to the following factors:

Our leading position in the PRC cornstarch supply market

We were ranked by the China Starch Industry Association in December, 2006 as the third largest cornstarch producer in the PRC in 2005 in terms of cornstarch sales. As at 31 December, 2006, our annual production capacity of cornstarch amounted to some 450,000 tonnes per annum. During the year ended 31 December, 2006, we produced a total of some 357,000 tonnes of cornstarch, and our cornstarch production facilities were on average about 89% utilised. Our scale of production enables us to capitalise on the economies of scale for more effective cost control and more competitive pricing.

Our stringent quality control and systemic management

We strongly believe that strict quality control and the provision of consistent, quality products are essential for us to maintain sustainable growth and excel in the corn refinery industry. We place strong emphasis on quality control throughout our production processes and implement systemic management to ensure the quality of our products and the efficiency of our operations. Our commitment to quality is evidenced by the accreditation of ISO 9001:2000, ISO 14001:2004, ISO 22000:2005, as well as the grant of the Good Standardizing Practice Certificate (標準化良好行為證書) for our “AA” grade compliance with State GB/T 15496-2003, GB/T 15497-2003 and GB/T 15498-2003 standards.

Our quality products and recognised brandname

Our cornstarch was named the “中國名牌產品” (“China Top Brand Product”*) by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) in September, 2005. Our cornstarch and L-lysine hydrochloride salt were also named, in December, 2003 and October, 2004 respectively, the “山東名牌” (“Shandong Famous Brand”*) jointly by 山東省名牌戰略推進委員會 (Brand Name Strategic Promotion Committee of

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Shandong Province*) and 山東省質量技術監督局 (Quality and Technology Supervisory Board of Shandong Province*). Leveraged on the quality of our products, we have been appraised by some of our major customers, including Roquette (China) Co., Ltd. (羅蓋特(中國)精細化工有限公司), Shandong Liuhe Group Co., Ltd. (山東六和集團有限公司), Shandong Huatai Paper Co., Ltd. (山東華泰紙業股份有限公司), China Jiangsu Suntory Foods Company Limited (中國江蘇三得利食品有限公司) and Zhouping Sanxing Oil & Fat Industrial Co., Ltd. (鄒平三星油脂工業有限公司) as having reliable and consistent product quality, as well as delivery and after-sales services.

Our devotion to improving our product and production technologies

Leveraged on our devotion to continuous improvements in product and production technologies, we have successfully developed different formulations of cornstarch products according to the specific requirements of our customers. As an example, we have developed formulation(s) of cornstarch which can be applied by paper manufacturers such as Shandong Huatai Paper Co., Ltd. (山東華泰紙業股份有限公司) as their raw material for paper production. Moreover, we have developed formulation(s) of cornstarch with specific requirements on transparency and elasticity, which is applied by our customers such as 煙台珍珠龍口粉絲有限公司 (Yantai Pearl Longkou Vermicelli Co., Ltd.*) and 招遠三嘉粉絲蛋白有限公司 (Zhaoyuan Sanjia Vermicelli Protein Co., Ltd.*) for the manufacture of “LongKou” (龍口) vermicelli.

We operate our own co-generation power plant to provide steam and electricity for external sales and internal production needs

Leveraged on our corporate background with 壽光市供電公司 (Electricity Supply Company of Shouguang City*) and the previous working experience of certain of our executive Directors and senior management with 壽光市供電公司 (Electricity Supply Company of Shouguang City*), we have been operating our own power plant with sufficient capacity to cater for our external sales of steam and electricity as well as to support our internal production needs. Our co-generation power plant has enabled us to generate a continuous and steady stream of revenue and has contributed significantly to the gross profit of our Group. Moreover, our self-sufficiency in steam and electricity has also enabled us to minimise our reliance on external supply of utilities essential for our operations.

Our experienced and devoted management team

Our Directors and senior management possess extensive management experience and industry knowledge. A majority of our executive Directors and senior management have been with our Group since or shortly after its establishment. We believe that their valuable experience and devotion will enable us to capture the emerging market opportunities, operate our business efficiently, and take our Group for continuous growth.

BUSINESS

The strategic location of our production facilities

Our production facilities are strategically located in Shouguang, Shandong Province, the PRC which is well-known for its abundance of agricultural output and is one of the top corn growing provinces in the PRC. Our Directors believe that the proximity to the abundant supply of our principal raw material enables us to maintain a relatively stable raw material supply and control our sourcing and transportation costs more effectively.


CORN-REFINED AND CORN-BASED PRODUCTS

We classify our corn-refined and corn-based products into three broad categories: (i) cornstarch; (ii) L-lysine hydrochloride salt; and (iii) other ancillary corn-refined and corn-based products.

(i) *Cornstarch*

We manufacture both edible and industrial cornstarch. Our edible cornstarch mainly serves as a raw material for the food, beverage and pharmaceutical manufacturing industries. Our stringent quality control enables us to control the residual sulfur dioxide in our edible cornstarch to a level within 20 - 30 ppm, attaining the highest relevant PRC national standard.

Our industrial cornstarch, on the other hand, is used mainly in the medical, textile, paper and chemical manufacturing industries. We are capable of manufacturing industrial cornstarch with a fineness of over 99.8%, the level of residual protein controlled within the range of 0.25% - 0.30% and the residual colour level within 0.4 unit/cm², attaining the highest relevant PRC national standard.

Both our edible and industrial cornstarch are marketed under our  trademark and are sold principally in the PRC.



Edible cornstarch




Industrial cornstarch

(ii) *L-lysine hydrochloride salt*

Lysine is an essential amino acid derived from the hydrolysis of proteins that prompt the body for optimum growth. As an exogenous amino acid, lysine cannot be produced naturally within the body of human or animal.

Our L-lysine hydrochloride salt has a lysine content of 98.5%. It is applied principally as animal feed additive. Leveraged on our production technology and our commitment to stringent quality control, the residual chemicals level of our 98.5% L-lysine hydrochloride salt is within the health standard set by the European Union for imported animal feed products.

Our 98.5% L-lysine hydrochloride salt is marketed under our  trademark and is sold mainly to manufacturers of animal feeds both in the PRC as well as Europe, Central America, New Zealand and the Middle East.




L-lysine hydrochloride salt

BUSINESS

(iii) Other ancillary corn-based and corn-refined products

These are principally products generated ancillary to the production of our cornstarch and lysine.

(a) Corn slurry

Corn slurry is commonly used for production of animal feed products and lysine products. Our corn slurry is marketed under our  trademark and is either used internally for the production of lysine and corn fibre products or sold directly as a finished product.



Corn Slurry

(b) Corn germ


Our corn germs are marketed under our  trademark and sold principally to edible oil manufacturers in the PRC.



Corn germs

BUSINESS

(c) Corn fibre and corn gluten meal

Corn fibres and corn gluten meals are commonly used in the animal feed industry. While corn gluten meal is itself rich in nutrients, our corn fibres are processed with corn slurry to increase its nutritional value. Our corn fibres and corn gluten meals are marketed under our  trademark and are sold principally to manufacturers of animal feed in the PRC as well as Japan, Korea and Europe.




Corn fibres



Corn gluten meals

(d) Agricultural fertilisers

We offer three types of agricultural fertilisers: compound fertiliser, concentrated powder fertiliser and liquid fertiliser, all of which are marketed and sold within the PRC under our  trademark.



Compound fertiliser



Concentrated powder fertiliser

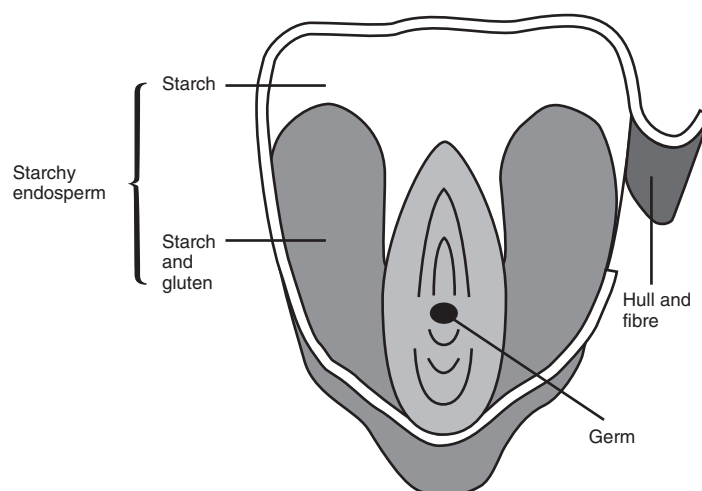


Liquid fertiliser

PRODUCTION OF CORN-REFINED AND CORN-BASED PRODUCTS

Introduction

Throughout our production processes, different components of corn kernels are extracted and processed into our final products. A corn kernel comprises principally three main components: the seed coat (hull and fibre), the endosperm and the germ:



The seed coat is the outer skin of the corn kernel which serves to protect the germ and is rich in fibre. The endosperm, which can be further divided into the opaque endosperm (comprising principally starch) and vitreous endosperm (comprising starch and gluten), serves mainly as the energy reserve and makes up about 80% of the total weight of the corn kernel. The seed or embryo of the corn kernel, commonly known as the germ, contains a miniature plant made up of a root-like portion wrapped around by embryonic leaves.

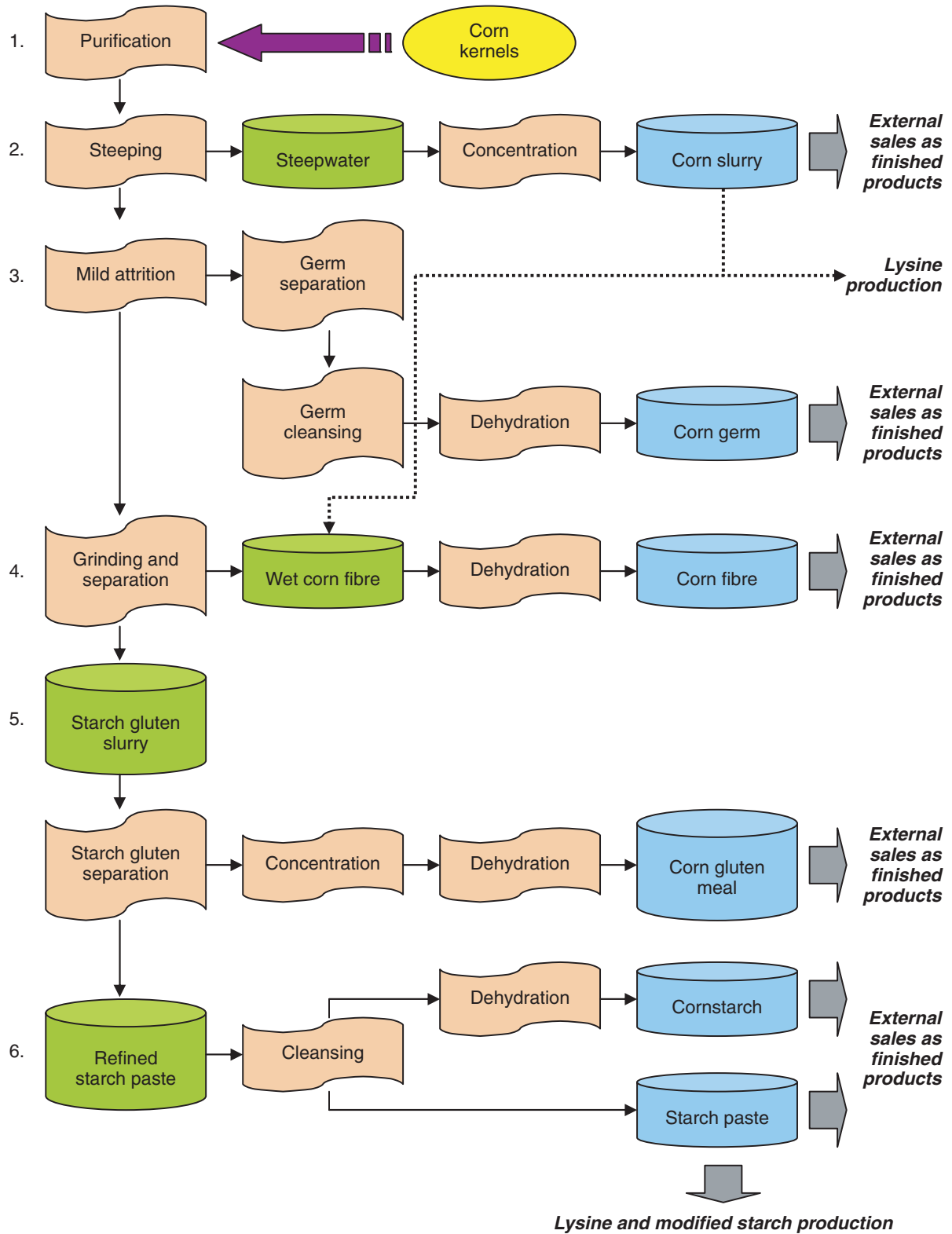
Our cornstarch and other ancillary corn-refined products are produced using the wet milling process whereby corn kernels are initially soaked and softened to allow for further separation into different components, and each such component is then further processed into our end products.

Some of our starch paste produced during the advanced stage of cornstarch production is applied as the principal raw material for the production of our 98.5% L-lysine hydrochloride salt as well as on-sold to Golden Far East for its production of modified starch products.

A more detailed description of our production processes in respect of our cornstarch and other ancillary corn-refined products, our 98.5% L-lysine hydrochloride salt and our agricultural fertilisers are presented below.

Production process

(i) Cornstarch and other ancillary corn-refined products



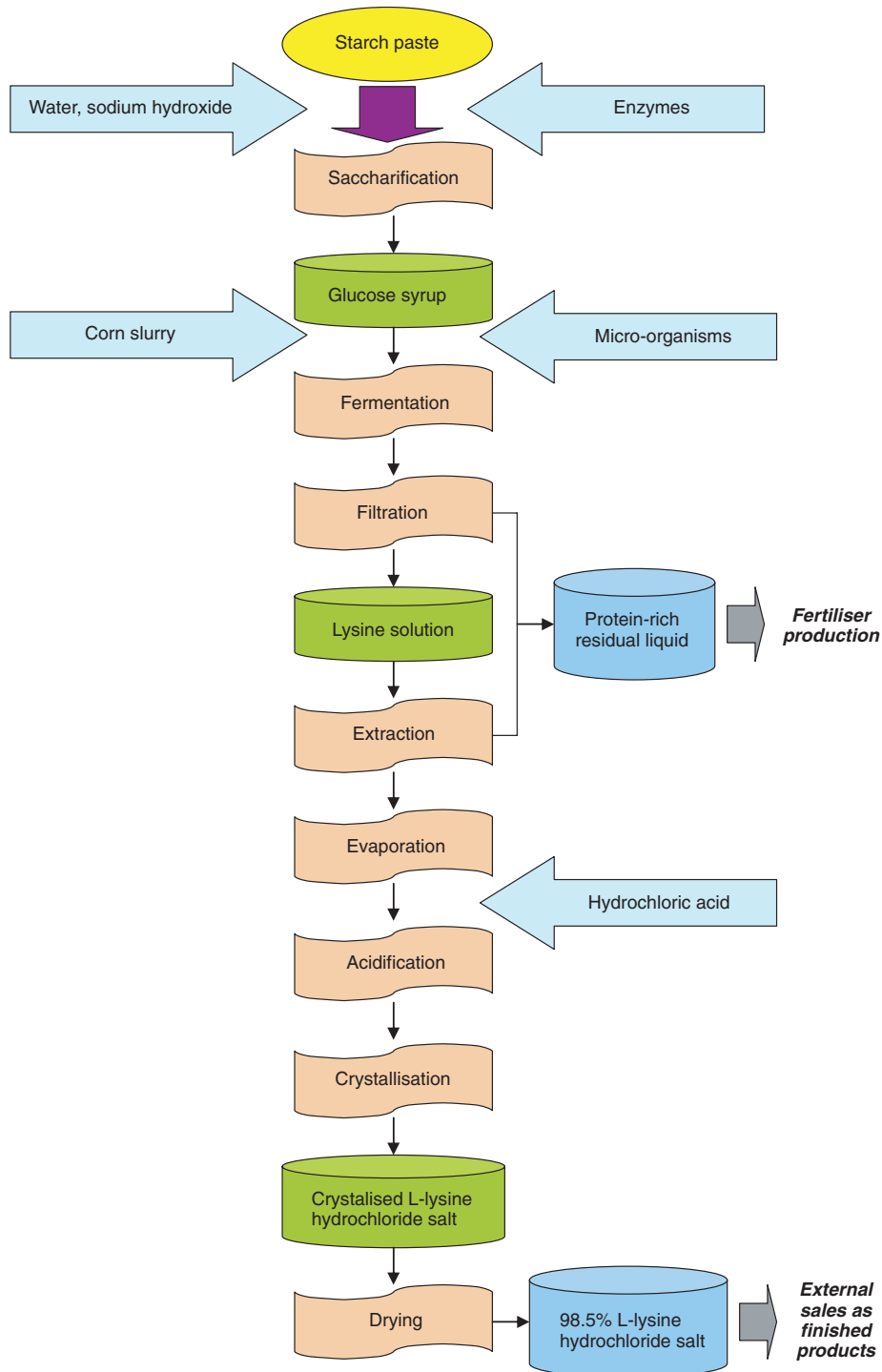
BUSINESS

- Step 1: *Purification.* Incoming corn kernels are first cleansed to remove impurities such as cob, dust, stray metal and other foreign materials.
- Step 2: *Steeping.* The cleansed corn kernels are then soaked in a liquid mixture of water and sulphur dioxide under controlled temperature. During this process, the corn kernels swell and soften to allow for further separation into different components. At the conclusion of steeping, the liquid solution, that is, steepwater, is drained and concentrated to form corn slurry. The corn slurry is either packaged for sale or applied to produce our lysine and corn fibre product.
- Step 3: The softened corn kernels go through a process of mild attrition to loosen the hull and free the corn germ from the starchy endosperm. The freed corn germs are then extracted by centrifugation, after that they will be cleansed and dried and packaged for sale.
- Step 4: The remaining mixture of hull and endosperm goes through further fine grinding and separation process to separate the hull (fibre) from the remaining slurry of starch and gluten. After separation, the nutrient-rich corn slurry from steeping are added to the wet corn fibre to increase its protein content. The mixture is then dried and crushed into grain form and package for sale as animal feeds.
- Step 5: The slurry of starch and gluten are further separated by centrifugation. The slurry containing gluten are concentrated and dehydrated to form corn gluten meal for sale.
- Step 6: The refined starch paste is cleansed again to remove residual substances. Powered form cornstarch are produced after final dehydration and drying of the cleansed starch paste, which are packaged and sold as finished products. Some of the cleansed starch paste is also transported through pipes to our lysine production plant and the modified starch production plant of Golden Far East for their respective onward production.

BUSINESS

(ii) 98.5% L-lysine hydrochloride salt

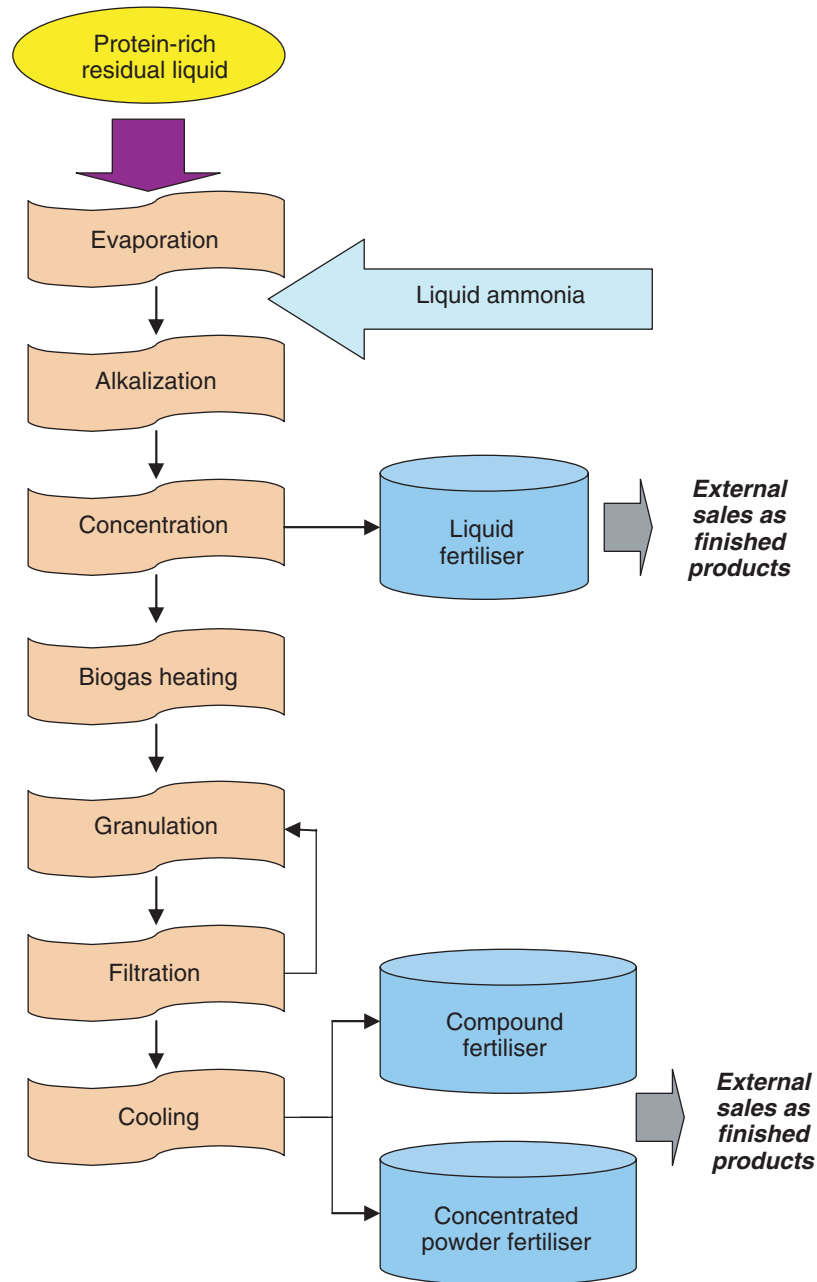
The production process of our 98.5% L-lysine hydrochloride salt involves seven major steps, namely, saccharification, fermentation, filtration, extraction, evaporation, crystallisation and drying.



BUSINESS

The starch paste piped from our cornstarch production plant is first diluted to a desirable concentration. Enzymes are then added and the diluted cornstarch solution undergoes saccharification whereby the complex carbohydrates contained in the cornstarch solution are broken down into glucose. Various micro-organisms are then added to the glucose solution for fermentation, after that protein and other impurities in the fermented solution are filtered out through a specific filtration system (particulars of which are discussed in the paragraph headed “Production technology” in this section headed “Business”), leaving a clear lysine solution. The clear lysine solution then goes through a process of ion exchange for further purification, while the protein-rich residual solution will be transported to our fertiliser production plant for fertiliser production. The purified lysine solution then goes through a process of concentration whereby excess water is evaporated. The lysine solution then goes through a process of acidification by the addition of hydrochloric acid and crystallised L-lysine hydrochloride salt forms as a result of crystallisation of the highly concentrated lysine solution. The crystallised L-lysine hydrochloride salt is dried and packaged for sale.

(iii) Agricultural fertiliser



BUSINESS

The protein-rich residual liquid filtered out during the lysine production process is first concentrated to a specific level of concentration. Liquid ammonia is then added to adjust the pH level of the concentrated protein paste. Following that, the protein-rich mixture is further concentrated. The concentrated liquid is either packaged and sold as liquid fertiliser, or is further processed into granulated form through a series of hot-blow, granulation and cooling procedures. The granules are then filtered, and those that do not conform with the prescribed size (which differs between the compound fertiliser and the concentrated powder fertiliser) are re-granulated. The filtered granules are cooled to below 50°C for final packaging and sale.

Production technology

The wet milling technology for the production of cornstarch is highly automated. We consider that the ability to finely separate and extract different components of corn kernels is essential to yielding quality corn-refined products. As such, we employ advanced imported equipment from Sweden and the US in the attrition, grinding and separation processes.

We consider the production of quality lysine depends on the formulations and the delicate technical conditions involved in the saccharification and fermentation processes. Golden Corn Bio-chem entered into a technology advisory agreement with Thai Biocharm Technical Engineering Co., Ltd. ("**Thai Biocharm**"), an independent third party, on 25 January, 2003 for, among other things, the overall design of our lysine production facilities, the provision of all technical parameters involved in the production of our L-lysine hydrochloride salt and the provision of technical training to our technical staff. Thai Biocharm is a company established in Thailand which is engaged in the provision of design and engineering consulting services for fermentation procedures and processes.

According to the advisory agreement, Thai Biocharm is required, among other things, to provide Golden Corn Bio-chem with (i) technology and technical advisory services which include, among other things, design of our lysine production facilities and provision of technical parameters; and (ii) follow-up services which include, among other things, technical training to our staff and quality inspection and maintenance. Pursuant to the advisory agreement, the process design, technologies and formulation involved in the production of our L-lysine hydrochloride salt and the corresponding water treatment will be kept confidential by both parties. Furthermore, it is a term of the advisory agreement that Thai Biocharm shall be refrained from providing any technical advisory or services on lysine production or the formulations relating thereto to any third parties within five years after the expiration of the advisory agreement. The advisory agreement is valid for 5 years from the date of signing and will be expired on 24 January, 2008.

The fees payable under the advisory agreement is RMB3,040,000. It is a term of the advisory agreement that Golden Corn Bio-chem is required to pay the remainder of all the fees payable under the agreement within one week from completion of the provision of technology and technical advisory services. In this respect, full amount of the advisory fees was effected by Golden Corn to Thai Biocharm as of 10 July, 2005 following completion of the provision of technology and technical advisory service mentioned in item (i) of the above paragraph in accordance with the terms of the advisory agreement. We are advised by our PRC legal advisers that Golden Corn is entitled to all rights originally entitled to by Golden Corn Bio-chem under the technology advisory agreement despite its deregistration on 23 January 2006. On 25 March 2007, a supplemental agreement was

BUSINESS

entered into between Golden Corn and Thai Biocharm confirming, among other matters, the rights of Golden Corn under the technology advisory agreement. As advised by our PRC legal advisers, we are not required to effect registration for the rights transferred under the technology advisory agreement under the PRC laws.

With the aim of ensuring quality of our products, some of the equipment employed for our lysine production is imported from US and Switzerland. To further enhance the efficiency of our lysine production and our product quality, we entered into an agreement with 江蘇久吾科技股份有限公司 (Jiangsu Jiu Wu Hi-Tech Company Limited*) (**“Jiangsu Jiu Wu”**), an independent third party, in January, 2006 for the installation, implementation, provision of technical parameters, training and after sales warranty of a ceramic membrane filtration system. In particular, the fermented lysine liquid generated after the fermentation process would go through this filtration system before undergoing further extraction (連續離交). One advantage of this filtration system is that the soluble residual protein and other impurities can be filtered out from the lysine using ceramic membranes which is inert to any acidic or alkaline agents, ensuring a stable pH environment for continuous micro-organic activities. Installation of this filtration system was completed in May, 2006. The price payable under the agreement is RMB6,600,000. In accordance with the terms of the agreement, RMB5,940,000 had been paid as of March, 2006, and the remaining RMB660,000 shall be payable in October, 2007. Pursuant to the agreement, Jiangsu Jiu Wu shall provide, among other things, free technical advisory, operational training, and cleaning formula and technology. Moreover, in case the system exhibits abnormal behavior, Jiangsu Jiu Wu shall arrive at Golden Corn’s site to solve the problem within 24 hours upon Golden Corn’s notification.

Production facilities

Our production site houses, among other ancillary facilities, two cornstarch production plants with a total gross floor area of about 11,120m², one lysine production plant with a gross floor area of about 16,434m² and one fertiliser production plant with a gross floor area of about 798m². It also houses two water treatment plants (which operate under one processing flow) for our cornstarch and lysine production with an overall water treatment capacity of about 6,900m³/day and utilisation rate of some 57%, 70%, 68% and 72% respectively during the Track Record Period, and an office building with a gross floor area of about 2,744m².

During each of the three years ended 31 December, 2006, our annual production capacity of cornstarch averaged to some 357,000 tonnes, 357,000 tonnes and 404,000 tonnes, with an average utilisation rate of about 89%, 92% and 89% respectively. More particularly, for each of the three years ended 31 December, 2006, the annual production capacity of our first cornstarch production plant averaged to some 169,000 tonnes, 169,000 tonnes and 180,000 tonnes with an average utilisation rate of about 93%, 94% and 91%, and the annual production capacity of our second cornstarch production plant averaged to some 188,000 tonnes, 188,000 tonnes and 224,000 tonnes with an average utilisation rate of about 86%, 89% and 86%, respectively. Our annual production capacity of cornstarch increased to approximately 450,000 tonnes as at 31 December, 2006.

BUSINESS

During each of the three years ended 31 December, 2006, our annual production capacity of lysine averaged to some 25,000 tonnes, 25,000 tonnes and 27,000 tonnes, with an average utilisation rate of about 39%, 65% and 78% respectively. The low utilisation rate of our lysine production facilities in 2004 was partly a result of the continuous fine-tuning of our production technologies and formulations during its initial stage of operations. While we achieved progress in expanding our lysine customer base supported by more stabilised production technologies and formulations for lysine production in 2005, general market acceptance of our lysine and development of our lysine market were still considered to be at a relatively early stage, and we were further refining our lysine formulations. Accordingly, we only achieved a moderate utilization rate in 2005. Our annual production capacity of lysine increased to about 29,000 tonnes as at 31 December, 2006.

STEAM AND ELECTRICITY

A majority of our executive Directors and certain of our senior management were originated from 壽光市供電公司 (Electricity Supply Company of Shouguang City*) prior to Golden Corn's establishment in 1998. Leverging on their years of previous experience in the field of power supply and having considered the potential of the local steam and electricity market in Shouguang City, Golden Corn commenced sales of steam and electricity in 1999 with its first power generator system (having a maximum electricity generating capacity of 6,000 kw) under the 併網協議書 (union network agreement*) entered into in October, 1998.

Faced with increasing market and internal demand for steam and electricity, we had constructed two additional power generating systems by 2001 each with a maximum electricity generating capacity of 15,000 kw. In 2003, we had disposed of our first power generating system due to aging and inefficiency, and commenced construction of our fourth power generating system in 2004 with more output efficiency and an electricity generating capacity of 25,000kw, which was put into initial operation in 2006.

Since the commencement of our sales of steam and electricity, this business segment has generated a continuous and steady stream of revenue and contributed significantly to the gross profit of our Group. Our Directors place emphasis on this business segment and have designated management with relevant experience to oversee its operations as part of our Group's ordinary course of business.

During the Track Record Period, our sales of steam and electricity amounted to some RMB106,702,000, RMB107,995,000, RMB77,251,000 and RMB42,863,000, and represented approximately 10.9%, 11.4%, 7.5% and 10.6%, respectively, of our turnover. More particularly, for each of the three years ended 31 December, 2006 and the four months ended 30 April, 2007, our sales of steam amounted to some RMB42,047,000, RMB49,284,000, RMB47,183,000 and RMB42,863,000 (which represented about 4.3%, 5.2%, 4.6% and 10.6% respectively of our total turnover), while our sales of electricity amounted to some RMB64,655,000, RMB58,711,000, RMB30,068,000 and RMBnil (and represented about 6.6%, 6.2%, 2.9% and nil% respectively of our total turnover). As advised by our PRC legal advisers, our sales of steam and electricity were conducted in compliance with the relevant PRC laws and regulations during the Track Record Period.

BUSINESS

During the Track Record Period, our steam was sold, in addition to Golden Corn Bio-chem and Golden Far East, to over 80 customers including local commercial and industrial enterprises, hotels, banks, governmental departments and offices, hospitals and schools, as well as 山東壽光巨能特鋼有限公司 (Shandong Shouguang Juneng Special Steel Co., Ltd.*), a connected person of our Company to whom we commenced the provision of steam in September, 2006 (for further details relating to the sales of surplus steam to 山東壽光巨能特鋼有限公司 (Shandong Shouguang Juneng Special Steel Co., Ltd.*), please refer to the section headed “Waivers in strict compliance with the Listing Rules” in this prospectus).

Our steam is transported from our power plant to our customers’ sites through steam pipelines. We generally undertake the construction of main steam pipelines involved for the purpose of connecting our power plant to our steam customers’ sites. In the case where we are to undertake construction of steam pipelines connecting our power plant to a specific customer, the customer is required to pay an amount of non-refundable steam pipeline construction fund at a rate determined on the basis prescribed by 壽光市人民政府 (People’s Government of Shouguang City*) from time to time.

In general, our steam customers would provide us with a steam provision request, pursuant to which our staff would visit the customer’s site for the purpose of estimating the quantity of steam demanded and routing of our steam pipelines. A steam provision contract would be entered into with the relevant customer before commencing our sales of steam. The steam price charged by us under the steam provision contracts is fixed at the prevailing charge rate prescribed by 壽光市物價局 (Commodity Pricing Bureau of Shouguang City*) from time to time. Major terms of our steam provision contracts generally include:

- a steam flow measuring meter to be installed by the customer at a designated point of the steam provision pipeline which shall be maintained jointly by Golden Corn and the customer;
- exclusive use of steam provided by Golden Corn for all steam powered appliances of the customer commencing from the date of commencement of steam provision by Golden Corn in accordance with the contract;
- the customer must apply to Golden Corn for, among other things, any changes in the level of steam usage, any cessation in using steam, or any changes in the nature or location of steam usage, before the 30th day of the relevant month;
- the customer must settle all outstanding steam charges and apply for cessation of steam provision in the case that the customer needs to cease using steam for over 6 months; and
- Golden Corn may immediately cease providing steam in the case that the customer uses steam outside the permitted area as stipulated in the steam provision contract, pursuant to which a fine will be levied by Golden Corn in accordance with the contract.

BUSINESS

Save for the sales of electricity to Golden Far East and Golden Corn Bio-chem, all our electricity was sold to 壽光市供電公司 (Electricity Supply Company of Shouguang City*) during the Track Record Period via transmission to the local electricity union network. In accordance with article 22 of the Electric Power Law (please refer to the paragraph headed “Principal laws, rules and regulations applicable to our operations in the PRC” under the section headed “Regulations” in this prospectus for further details), we have entered into 併網協議書 (union network agreements*) with 壽光市供電公司 (Electricity Supply Company of Shouguang City*) and 濰坊電業局 (Electricity Affairs Bureau of Weifang City*) for our transmission and sales of electricity through the local electricity union network.

During the Track Record Period, all our electricity transmitted to the local electricity union network for sale was generated from our second power generator system. Under the 併網協議書 (union network agreement*) of our second power generator system, sales of our electricity is to be charged at a rate approved by the relevant department vested with proper approval. The electricity prices payable under the agreement are settled by 濰坊電業局 (Electricity Affairs Bureau of Weifang City*) in accordance with the regulations on clearance of electricity prices currently in force. In addition thereto, the 併網協議書 (union network agreement*) in respect of our second power generator system also provides that:

- (i) Golden Corn is prohibited from supplying electricity directly to any third parties outside the production premises of Golden Corn, and all terms of sales of electricity (including the amount and the price) must be regulated and unified by 濰坊電業局 (Electricity Affairs Bureau of Weifang City*);
- (ii) the operation of the connection switch and gate between the electricity union network and Golden Corn’s second power generator system is subject to the regulation of 濰坊電業局 (Electricity Affairs Bureau of Weifang City*) and under the daily management of 壽光市供電公司 (Electricity Supply Company of Shouguang City*), and Golden Corn is not allowed to operate any of these equipment without permission;
- (iii) repair and maintenance work of the second power generator system of Golden Corn is subject to approval of 濰坊電業局 (Electricity Affairs Bureau of Weifang City*), and 壽光市供電公司 (Electricity Supply Company of Shouguang City*) shall be responsible for carrying out the repair and maintenance work; and
- (iv) prior approval from 濰坊電業局 (Electricity Affairs Bureau of Weifang City*) and 壽光市供電公司 (Electricity Supply Company of Shouguang City*) must be obtained before any changes are made to any equipment of the second power generator system of Golden Corn.

The union network agreement is valid and effective unless otherwise terminated.

BUSINESS

During the Track Record Period, our sales of steam and electricity to Golden Far East amounted to approximately RMB155,000, RMB2,786,000, RMB3,800,000 and RMB877,000 respectively. During each of the two years ended 31 December, 2005 (up to the assumption of assets, liabilities and operations of Golden Corn Bio-chem by Golden Corn in July, 2005), our sales of steam and electricity to Golden Corn Bio-chem amounted to approximately RMB41,078,000 and RMB23,402,000 respectively. Moreover, for the year ended 31 December, 2006 (when we first commenced sales of steam to 山東壽光巨能特鋼有限公司 (Shandong Shouguang Juneng Special Steel Co., Ltd.*) in September, 2006) and the four months ended 30 April, 2007, our sales of steam to 山東壽光巨能特鋼有限公司 (Shandong Shouguang Juneng Special Steel Co., Ltd.*), a connected person of our Company, amounted to approximately RMB11,556,000 and RMB22,235,000 respectively.

We are advised by our PRC legal advisers that Golden Corn had obtained all relevant approvals for the construction, capacity expansions and operations of our co-generation power plant prior to its conversion into a wholly foreign owned enterprise. According to the 《外商投資產業指導目錄 (2004年修訂)》 (Foreign Investment Projects Guidelines (2004 Amendments)*) issued by National Development and Reform Commission (國家發展和改革委員會), the construction and operations of heat and electricity co-generation projects are considered as encouraged foreign invested projects. However, we had temporarily suspended our sales of electricity since October, 2006 as it was excluded from the approved business scope of the revised business licence granted to Golden Corn pursuant to its conversion into a wholly foreign owned enterprise, pending confirmation from the relevant authority as to whether additional approval requirement was required for Golden Corn to continue its sales of electricity as a wholly foreign owned enterprise. As an interim measure, we had adjusted the production level of steam and electricity to increase our sales of steam.

We are advised by our PRC legal advisers that the continuous operation of our power plant (and our sales of electricity) following the conversion of Golden Corn into a wholly foreign owned enterprise do not require other special approvals other than the approval by the Department of Foreign Trade and Economic Cooperation of Shandong Province (山東省對外貿易經濟合作廳) for inclusion of such business activity as part of Golden Corn's approved business scope. Following positive confirmation from the Department of Foreign Trade and Economic Cooperation of Shandong Province (山東省對外貿易經濟合作廳) that no additional approval requirement was required, we have applied for, and have accordingly been granted by the Department of Foreign Trade and Economic Cooperation of Shandong Province (山東省對外貿易經濟合作廳), a revised business licence of Golden Corn on 8 June, 2007 with an expanded business scope to include the sales of electricity.

Since the grant of Golden Corn's revised business licence on 8 June, 2007, our connection cables for transmission of electricity to the local electricity network have been refurbished, pursuant to which we re-commenced our sales of electricity to 壽光市供電公司 (Electricity Supply Company of Shouguang City*) in August, 2007 pursuant to our 并網協議書 (union network agreement*) in respect of our second power generator system entered into with 壽光市供電公司 (Electricity Supply Company of Shouguang City*) and 濰坊電業局 (Electricity Affairs Bureau of Weifang City*) in September, 1999.

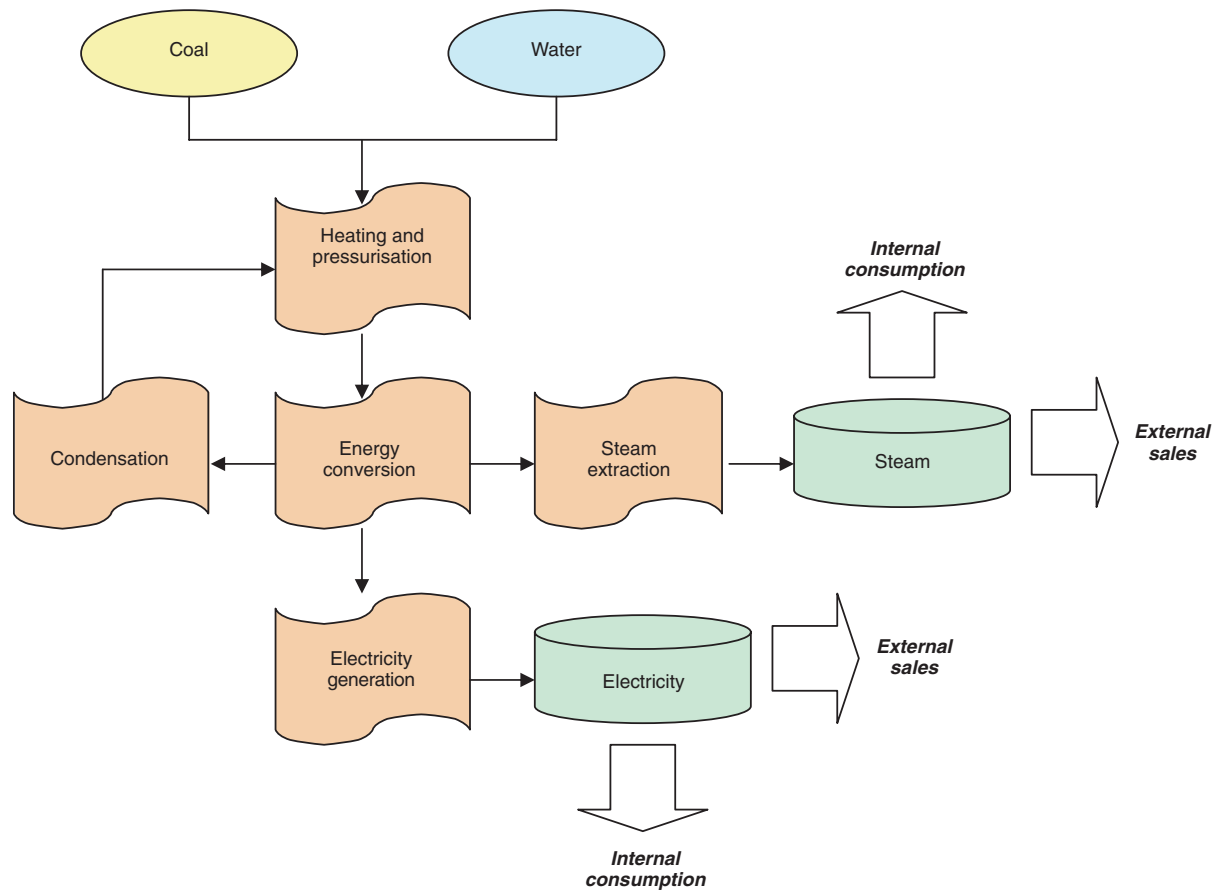
BUSINESS

During the four months ended 30 April, 2007, the average utilisation rate of our power plant remained at about 76%. With our fourth power generating system being put into full operation in 2007, our Directors consider that the Group has sufficient spare capacity in its steam and electricity production to cater for both our external sales and internal production needs in the near future. As regards our sales of electricity, since the approved charge rate of our second power generator system is higher than that of our third power generating system, for economic considerations, it is our present intention to continue to designate the capacity of our second power generator system in support of our external sales of electricity in the near future. In terms of our sales of steam, it is our present intention to continue to devote resources for market development for reason that (i) we enjoy more flexibility (compared to sales of electricity) in production arrangements among our four power generator systems as the approved charge rate for our sales of steam is not power generator system-specific; and (ii) we enjoy more autonomy in pursuing business developments in our steam provision market as it is unlike the case of our electricity sales where the level of electricity sold via transmission to the local electricity union network is subject to the unified organisation and management of 濰坊電業局 (Electricity Affairs Bureau of Weifang City*).

In addition to electricity which is required for powering our production facilities, steam is required during the production processes of both our cornstarch and lysine. In view of our intended developments in our cornstarch, lysine and steam businesses, our Directors intend to evaluate the rate of utilisation of our power plant capacity on an on-going basis, and may commence expanding our steam and electricity production capacity depending the future market demand for our steam and electricity and our internal production needs, with the aim of ensuring sufficient capacity to satisfy both our external sales and our internal consumption on steam and electricity.

Production process

A co-generation power plant differs from a traditional power plant in that the decompressed steam generated during the process of electricity generation is consumed or sold as an end product instead of re-condensing into water and wasting the heat energy contained in the steam. The following diagram illustrates the principal mechanism of our co-generation power plant:



Major equipment involved in our co-generation power plant includes boilers, turbines, electricity generators, dust removal systems, water cleansing systems and voltage transformers, which are all owned by our Group. Coal and water are the two principal raw materials for the production of steam and electricity. Water is first added to the boiler, where coal is used as the energy source to heat up the water and turn it into compressed steam. The compressed steam is used to drive the turbine (a process whereby heat energy is converted into kinetic energy), which in turn will drive the electricity generator in generating alternating current. While the electricity generated is either consumed internally or sold to third party customers, the used steam is either re-condensed into water and recycled into the boiler, or is extracted and sold as surplus steam to third parties or consumed internally.

Production facilities

Our power generating systems are housed in our power plant having a total gross floor area of about 13,165m², which is located within our production site. As our power generating systems are co-generation type, their respective capacity is convertible between the production of steam and electricity, and we adjust the production level of steam and electricity from time to time according to the respective external demand and internal production needs. For each of the three years ended 31 December, 2006, our power plant was capable of generating a maximum of approximately 252,000,000 kwh, 252,000,000 kwh and 336,000,000 kwh of electricity, while its maximum capacity for steam generation (in the case where no electricity is generated) was approximately 1,260,000 tonnes, 1,260,000 tonnes and 2,620,000 tonnes, respectively. For each of the three years ended 31 December, 2006, the overall utilisation rate of our power plant averaged to some 91%, 96% and 76% respectively. The apparently lower utilisation rate of our power plant in 2006 was partly a result of the increased capacity of our power plant following initial operation of our fourth power generator system.

For each of the three years ended 31 December, 2006 and the four months ended 30 April, 2007, our power plant generated electricity totaling approximately 211,388,000 kwh, 217,234,000 kwh, 179,033,000 kwh and 36,573,000 kwh, while steam generation totaled to approximately 855,000 tonnes, 983,000 tonnes, 1,081,000 tonnes and 610,000 tonnes, respectively. During the Track Record Period, our external tonnage sales of steam amounted to approximately 512,000 tonnes, 495,000 tonnes, 424,000 tonnes and 388,000 tonnes and represented approximately 59.9%, 50.4%, 39.2% and 63.6%, respectively, of our total production of steam. During the same periods, a total of approximately 156,214,000 kwh, 144,862,000 kwh, 75,970,000 kwh and nil kwh of electricity were sold externally, representing approximately 73.9%, 66.7%, 42.4% and nil%, respectively, of our total production of electricity. The notable reduction in external sales volume of electricity in 2006 was partly attributable to the full-year effect of the assumption of assets, liabilities and operations of Golden Corn Bio-chem which significantly increased our internal consumption and reduced our external sales to the corresponding extent, and our temporary suspension of the external sales of electricity since October, 2006. We did not have any external sales of electricity for the four months ended 30 April, 2007 because Golden Corn had yet to obtain its revised business licence with the approved business scope to conduct sales of electricity.

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PURCHASES AND SUPPLIERS

Raw materials

Our principal raw material is corn kernels, which are sourced in the PRC. During the Track Record Period, our total cost of corn kernels amounted to approximately RMB554,459,000, RMB523,844,000, RMB601,921,000 and RMB228,875,000, representing about 65.0%, 63.3%, 72.0% and 70.3%, respectively, of our cost of goods sold. We have established an internal procurement pricing committee to advise on, among other things, the pricing of our corn kernel purchases. When formulating our offer price, the committee would take into account, among other factors, (a) prices offered by other neighbouring corn kernel purchasers; (b) general market analysis of the prices of corn kernels in the PRC; (c) cost of transportation; (d) climate and corn harvesting conditions; (e) current State policies relating to corn export; and (f) our inventory level. While our monthly average purchase price of corn kernels fluctuated in the range of about RMB1,047 per tonne to RMB1,380 per tonne during the Track Record Period, it fluctuated within the range of about RMB1,068 and RMB1,268 in 2004 with an apparent peak in July and August followed by a general downward trend. Furthermore, we have noted, in general, a lower level of monthly average price in 2005, which fluctuated within the range of about RMB1,047 per tonne and RMB1,147 per tonne, followed by a progressive increase since 2006 from around RMB1,050 per tonne in January, 2006 to around RMB1,365 per tonne in April, 2007.

We also purchase consumables including various chemical agents, enzymes and packing materials. During the Track Record Period, our total cost of consumables represented about 1.3%, 3.8%, 5.7% and 6.1% respectively of our cost of goods sold.

In addition to the raw materials applied for the production of our products, we purchase coal for use in our power plant. Based on our experience, our purchase price for coal is mainly affected by: (a) State policies relating to coal production; (b) general market price for fuel; (c) cost of transportation; (d) quantity of the bulk purchases; (e) payment terms; (f) our inventory level; and (g) size of business of the coal suppliers. We have experienced a significant increase in the monthly average price per tonne of coal in 2004 from about RMB350 in January to about RMB477 in December. Nevertheless, our monthly average purchase price of coal had stabilised since 2005, which fluctuated in the range of about RMB430 per tonne and RMB495 per tonne up to April, 2007. During the Track Record Period, our total cost of coal amounted to approximately RMB93,661,000, RMB119,396,000, RMB105,792,000 and RMB46,677,000, representing some 11.0%, 14.4%, 12.7% and 14.3%, respectively, of our cost of goods sold.

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Our raw materials inventory comprises principally corn kernels, consumables and coal. The following table sets out the breakdown of our raw materials inventory as at 31 December, 2004, 2005 and 2006 and 30 April, 2007:

	As at 31 December,						As at 30 April,	
	2004		2005		2006		2007	
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%
Corn kernels	23,809	53.7	38,438	58.2	68,366	78.5	38,559	73.35
Coal	19,308	43.6	25,313	38.3	16,317	18.7	11,553	21.98
Consumables	459	1.0	1,100	1.7	1,310	1.5	1,220	2.32
Others	<u>759</u>	1.7	<u>1,226</u>	1.8	<u>1,083</u>	1.3	<u>1,236</u>	<u>2.35</u>
Ending raw materials inventory	44,335		<u>66,077</u>		<u>87,076</u>		<u>52,568</u>	

We have two in-door warehouses and 6 storage cylinders with a total storage capacity of approximately 32,000 tonnes for our corn kernel storage. Our coal inventory is stored in an open-site situated adjacent to our power plant with a site area of approximately 20,240 m².

We have adopted stringent policies in respect of our raw materials inventory management. In particular, quality inspections are conducted prior to acceptance of corn kernels and coal. Weekly sample testings are also performed on our corn kernel inventory to monitor their quality conditions. While the inventory level of our different raw materials are generally maintained with reference to our production schedules and consumption plans, it is our policy to keep them on or above certain minimum levels, which are reviewed periodically by our staff of our raw materials department taking into account factors such as estimated trend on future raw materials consumption, our inventory level and general market conditions, with the aim of minimising the risk of production interruptions due to shortage of raw materials supply or over-stocking.

Inventories

As at each of the three years ended 31 December, 2006 and the four months ended 30 April, 2007, we had ending inventories in the amount of about RMB53,266,000, RMB85,682,000, RMB115,915,000 and RMB100,885,000 respectively. In addition to raw materials, our work in progress constituted about RMB1,431,000, RMB5,650,000, RMB8,326,000 and RMB8,852,000 of our ending inventory, and our finished goods constituted about RMB7,500,000, RMB13,955,000, RMB20,513,000 and RMB39,465,000 of our ending inventory, respectively, as at each of the three years ended 31 December 2006 and the four months ended 30 April, 2007.

During the Track Record Period, our inventory turnover days calculated based on our cost of goods sold was approximately 23 days, 38 days, 51 days and 37 days respectively. Our Directors consider that the fluctuations in our inventory turnover days during the Track Record Period were mainly affected by our ending inventory of corn kernels and finished goods as at each of the three

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years ended 31 December, 2006 and the four months ended 30 April, 2007. Our ending inventory on finished goods increased generally in tandem with our growth in sales during the Track Record Period. In terms of raw materials, we generally stock up excess corn kernels inventory in the closing months of each year in preparation for the Chinese new year early in the following year. However, we slowed down our corn kernels inventory accumulation in the end of 2004 in anticipation of a decreasing trend of corn kernel prices in early 2005, which resulted in a lower inventory turnover days for the year ended 31 December, 2004 compared to that of 2005. On the other hand, during the closing months of 2006, we were anticipating an increasing trend of corn kernel prices in early 2007 and accordingly increased our corn kernels inventory, which led to the increased turnover days for the year ended 31 December, 2006 compared to that of 2005. As our excess corn kernels inventory accumulated in the year end of 2006 was gradually consumed subsequently, our inventory turnover days returned to a level comparable to that of the year ended 31 December, 2005 during the four months ended 30 April, 2007.

We assess periodically if the inventories have suffered from any impairment in accordance with the relevant accounting policy. Our management carries out an inventory review on a product-by-product basis at each balance sheet date, and makes allowances for obsolete and slow-moving inventory items. Our management estimates the net realisable value for such finished goods, work in progress and raw material primarily based on the estimated future selling price and market conditions.

Due to the relatively quick turnover of our inventories during the Track Record Period and our usage history, we did not make any provision for obsolete inventories during the Track Record Period.

Suppliers

We source our corn kernels principally from individual farmers. In general, we do not enter into supply contract for our corn kernel purchases. We believe that our proximity of location to corn farmers and our broad supplier base would enable us to maintain sufficient supply of corn kernels for our production, while providing more price flexibility in the absence of long term contractual arrangement. We purchase our coal and consumables generally by way of regular tenders with the aim of achieving better pricing.

We generally settle our corn kernel purchases on a cash-on-delivery basis. Our Directors believe that such settlement term would provide us with a better position for price negotiation, thereby reducing our corn kernel costs. We may settle our coal and consumables purchases on a cash-on-delivery basis or be given credit terms of up to 120 days for coal and six months after issuance of invoice for consumables. We settle our payment generally by way of cash and bank bills. During the Track Record Period, our creditors turnover days calculated based on our cost of goods sold was approximately 96 days, 42 days, 26 days and 18 days respectively. The long creditors turnover days for the year ended 31 December, 2004 was mainly a result of outstanding trade payables to Golden Corn Bio-chem which was eliminated when Golden Corn assumed all assets and liabilities of Golden Corn Bio-chem in 2005, and the relatively large sum of bills payables

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outstanding as at 31 December, 2004. As our cashflow continued to improve with our business growth, we advanced our settlement of payables to suppliers since 2006 with the aim of facilitating better trading relationships with them, and achieved a continuous trend of decreasing creditors turnover days throughout the remaining of the Track Record Period.

During the Track Record Period, purchases from our largest supplier accounted for approximately 2.2%, 3.4%, 2.6% and 4.3%, and purchases from our five largest suppliers accounted for approximately 6.9%, 10.6%, 7.5% and 11.0%, respectively, of our cost of goods sold. During the Track Record Period, our five largest suppliers were all related to our coal and consumables purchases.

山東壽光巨能電力燃料有限公司 (Shandong Shouguang Juneng Electricity Fuel Co., Ltd.*) (**“Juneng Electricity Fuel”**), which supplied coal to our Group, was established on 9 March, 2005 and had been our largest supplier for each of the two years ended 31 December, 2005 and 2006 and our second largest supplier for the four months ended 30 April, 2007, having transaction amounts totalled to approximately RMB28,507,000, RMB21,625,000 and RMB11,609,000 respectively. During the period from the date of its establishment up to 27 January, 2006, Juneng Electricity Fuel was owned as to 10% by Golden Corn and as to the remaining 90% by 山東壽光巨能電力建設有限責任公司 (Shandong Shouguang Juneng Electricity Construction Co., Ltd.*) (**“Juneng Electricity Construction”**). (The 10% minority investment of Golden Corn in Juneng Electricity Fuel (in the amount of RMB1,000,000) during the captioned period was reported as “available-for-sale investment” in the consolidated balance sheet of the Group as at 31 December, 2005. There was no gain or loss arising from the disposal of the said investment. Please refer to note 18 of the accountants’ report set out in Appendix I to this prospectus for further details.) For the period from 27 January 2006 and up to 26 December 2006, Juneng Electricity Fuel was 70% owned by Juneng Holding Group and 30% owned by Juneng Electricity Construction. For the period from 27 December 2006 up to the Latest Practicable Date, it was 10% owned by Juneng Holding Group and 90% owned by Juneng Electricity Construction. With respect to the shareholding structure of Juneng Electricity Construction, from the date of establishment of Juneng Electricity Fuel on 9 March, 2005 up to 26 October, 2005, Juneng Electricity Construction was 4.92% owned by Juneng Electric Group (which was in turn 98% owned by 壽光市供電公司 (Electricity Supply Company of Shouguang City*), and thereafter up to the Latest Practicable Date, it was 5.39% owned by Juneng Holding Group. Save as mentioned as aforesaid, none of Juneng Electricity Construction or any of its associates is related to 壽光市供電公司 (Electricity Supply Company of Shouguang City*). Accordingly, Juneng Electricity Fuel was a connected person for the purpose of Chapter 14A of the Listing Rules during the period from 27 January, 2006 up to 26 December, 2006 by virtue of the 70% equity interest of Juneng Electricity Fuel held by Juneng Holding Group. Mr. Yu was also the legal representative of Juneng Electricity Fuel during the period from March, 2005 to February, 2007. Save as disclosed above, none of our Directors, their respective associates or, so far as our Directors are aware, Shareholders who own more than 5% of the issued share capital of our Company (immediately following completion of the Global Offering, the Loan Capitalisation Issue and the Capitalisation Issue and taking no account of any Shares which may be taken up under the Global Offering or allotted and issued pursuant to the exercise of the Over-allotment Option) has any interest in any of the five largest suppliers of our Group during the Track Record Period.

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SALES AND MARKETING

Sales

During the Track Record Period, our turnover comprised principally sales of (i) cornstarch and ancillary corn-refined products; (ii), 98% L-lysine hydrochloride salt and agricultural fertilisers; and (iii) steam and electricity. The following table sets forth a breakdown of our turnover and gross profit margin by segment for the Track Record Period:

Product type	For the year ended 31 December,						For the four months ended 30 April,			
	2004 (audited)		2005 (audited)		2006 (audited)		2006 (unaudited)		2007 (audited)	
	Turnover/ Gross profit/ (loss) margin	% of total turnover	Turnover/ Gross profit/ (loss) margin	% of total turnover	Turnover/ Gross profit/ (loss) margin	% of total turnover	Turnover/ Gross profit/ (loss) margin	% of total turnover	Turnover/ Gross profit/ (loss) margin	% of total turnover
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Cornstarch and ancillary corn-refined products	727,595 11.4%	74.6	658,955 11.0%	69.5	728,409 14.0%	70.6	207,196 17.7%	70.2	263,565 12.5%	65.4
L-lysine hydrochloride salt and agricultural fertilisers (note)	141,457 (0.9)%	14.5	181,255 6.8%	19.1	225,846 31.5%	21.9	53,266 20.3%	18.1	96,556 32.1%	24.0
Steam and electricity	106,702 38.7%	10.9	107,995 33.3%	11.4	77,251 28.6%	7.5	34,509 27.2%	11.7	42,863 31.7%	10.6
Total	975,754	100.0	948,205	100.0	1,031,506	100.0	294,971	100.0	402,984	100.0

Note: During the period from 1 January, 2004 up to the date when we assumed the assets, liabilities and operations of Golden Corn Bio-chem, our L-lysine hydrochloride salt and agricultural fertilisers were manufactured under Golden Corn Bio-chem and sold to Golden Corn for on-sale to final customers. During the captioned period, Golden Corn Bio-chem was an associated company of our Group and its results were equity accounted for by our Group. As a result, the cost of goods sold for L-lysine hydrochloride salt and agricultural fertilisers reported by our Group during such period represented mainly the purchase cost of L-lysine hydrochloride salt and agricultural fertilisers from Golden Corn Bio-chem.

While of our revenue is substantially generated from domestic sales, some of our products are exported to countries in Asia, North America, Central America, Southern and Northern Europe and the Middle East. During the Track Record Period, our domestic sales represented approximately 93.7%, 95.2%, 88.5% and 89.1% of our turnover respectively.

Our overall turnover declined slightly in 2005 compared to 2004 for a combination of reasons. Despite a slight decline in our average selling price per tonne of cornstarch for 2005 which was in tandem with the decline of the prices of corn kernels during the year, we achieved a slight increase in sales of cornstarch due to increase in tonnage sales. Nevertheless, sales of our ancillary corn-refined products reduced in 2005 mainly due to the decline in sales of modified starch, which were principally taken over by Golden Far East following its commencement of business, and its results were equity accounted for by our Company. Our sales of lysine in 2005 increased significantly compared to 2004 despite a steep decline in our lysine selling price mainly as a result

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of increased tonnage sales. The said increase can be attributable to our comparably more stabilised production technologies and formulations for lysine production in 2005 which enabled us to increase our production, and our progress in expanding our customer base. Our sales of steam and electricity remained relatively stable for 2005 compared to 2004. Sales of steam and electricity to Golden Corn Bio-chem discontinued in the second half of 2005 due to our assumption of its assets, liabilities and operations. Such loss of sales revenue was compensated by a notable increase in sales of steam to other third parties.

While total turnover in 2006 improved moderately, sales of our two major products, namely cornstarch and L-lysine hydrochloride salt, improved significantly. The marginal decrease in tonnage sales of cornstarch caused mainly by the increased internal consumption for the production of lysine was more than compensated by the improved average selling price of cornstarch during the year. On the other hand, both the average selling price and tonnage sales of our lysine improved in 2006. The increased tonnage sales were mainly a result of increasing customer acceptance of our lysine and our expanded customer base. There was a notable decrease in our sales of steam and electricity in 2006 mainly as a result of our reduced sales of electricity, which our Directors attributed such reduced sales mainly to (i) the full-year effect of the assumption of assets, liabilities and operations of Golden Corn Bio-chem, which significantly increased our internal consumption and reduced our external sales to the corresponding extent; (ii) a slower external demand for our electricity during the year; and (iii) the suspension of sales of electricity since October, 2006 pursuant to the conversion of Golden Corn into a wholly foreign owned enterprise.

During the period from 1 January, 2004 up to the date when we assumed the assets, liabilities and operations of Golden Corn Bio-chem in 2005, we purchased L-lysine hydrochloride salt and agricultural fertilisers from Golden Corn Bio-chem, our then associated company for on-sale to final customers. During such period, our cost of goods sold in respect of these two products comprised principally purchases of finished goods from Golden Corn Bio-chem. With the aim of facilitating the penetration of Golden Corn Bio-chem's products into the market at its initial stage of establishment through the established brand name and market position of Golden Corn, Golden Corn Bio-chem entered into a sales agency agreement with Golden Corn for a period of two years effective from 1 January, 2004, pursuant to which Golden Corn would act as the sole representative of Golden Corn Bio-chem in respect of the sales of all its products. Under the agreement, Golden Corn would provide a sales plan to Golden Corn Bio-chem in advance on a monthly basis, whereby Golden Corn Bio-chem would arrange its production schedules accordingly. Products manufactured by Golden Corn Bio-chem would be sold to Golden Corn for onward sales to final customers. With the original view of supporting the development of Golden Corn Bio-chem at its initial stage of establishment, it was initially agreed that Golden Corn would purchase products from Golden Corn Bio-chem at the recommended selling prices to final customers proposed by an internal sales pricing committee formed by Golden Corn and Golden Corn Bio-chem, with the intention that profits generated from the sales of Golden Corn Bio-chem's products would be retained by it for its operations and development. However, the continuous decline in market price of lysine (and accordingly its by-products) had caused the final selling prices to fall below those recommended by the internal sales pricing committee from time to time, resulting in a minor gross loss position of Golden Corn in that respect. As a result, commencing from September, 2004, Golden Corn purchased products from Golden Corn Bio-chem at the selling prices to final customers.

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Although the costs of production of lysine were internalised in the second half of 2005, we only achieved minimal gross profit which was partly due to the depressed market price of lysine during the captioned year.

Marketing

As at the Latest Practicable Date, we had a team of 54 sales and marketing personnel responsible for procuring sales orders, maintaining customers' relationships, formulating our sales and marketing strategies, conducting market researches and organising our marketing functions. In addition to our headquarters in Shandong, we have marketing presence in Beijing, Guangzhou, Changsha and Wuxi to cover other major cities such as Beijing, Guangzhou, Shanghai, Chengdu, Hangzhou, Wuhan, Nanchang, Fuzhou, Nanning and Inner Mongolia in the PRC.

Our marketing personnel visits our PRC customers on a regular basis to maintain customer relationships, obtain feedbacks on the quality of our products, services and delivery, procure sales orders and keep abreast of the latest market conditions. Our overseas customers are procured generally through trade shows and trade fairs we have participated in promoting our products. As confirmed by our PRC legal advisers, we have obtained the requisite licences from the relevant PRC authority to conduct exports of our products. We also invite domestic and overseas customers to visit our production facilities to promote customers' relationship and confidence. Our senior management would set out monthly and quarterly sales targets and annual sales plan for our sales teams. Periodic reviews are conducted to evaluate the performance of our sales teams and their respective marketing personnel.

With the aim of further facilitating our export sales, we have entered into an exclusive distributorship agreement with Manufacturing Company NeoKorm ("**NeoKorm**"), a closed joint-stock company in the Russian Federation and an independent third party, on 10 November, 2006 to cover sales of our L-lysine hydrochloride salt by NeoKorm in the Russian Federation. It is agreed that our L-lysine hydrochloride salt will be sold to NeoKorm who will be responsible for further sale of our L-lysine hydrochloride salt in the Russian Federation. The agreement is valid for 2 years from the date when NeoKorm obtains permissions for import into, as well as sales within, the Russian Federation for our L-lysine hydrochloride salt. It is a term of the agreement that NeoKorm is required to register the lysine products of Golden Corn, receive a permit for import of the products into Russian Federation, and obtain a certificate for the sales of the products in Russian Federation. Golden Corn is required to pay the expenses incurred in such registrations. As at the Latest Practicable Date, the required permissions have not been obtained. Save for the registration expenses, Golden Corn is not required to make any payments or capital commitments to NeoKorm under the agreement. As at the Latest Practicable Date, no payments or expenses have been made or incurred pursuant to the agreement. The agreement shall be automatically renewed for another two-year period unless terminated by a written notice within 3 months before its expiration date. The price of the L-lysine hydrochloride salt payable by NeoKorm to Golden Corn shall be determined by further mutual agreement of the parties taking into account the market price of the L-lysine hydrochloride salt in the Russian market.

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Furthermore, we have entered into an exclusive distributorship agreement with Beijing Agriculture Marketing Service International Trade Co., Ltd. (北京阿姆斯特國際貿易有限公司) (“**Beijing Agriculture**”), a company established in the PRC and an independent third party, on 1 December, 2006 to cover sales of our L-lysine hydrochloride salt by Beijing Agriculture in Taiwan. It is agreed that our L-lysine hydrochloride salt will be sold to Beijing Agriculture who will be responsible for further sale of our L-lysine hydrochloride salt in Taiwan. The agreement is valid for 5 years from 1 December, 2006 to 30 November, 2011. Under the agreement, Beijing Agriculture has the right to renew the agreement upon its expiry. There is no stipulation as to the price of L-lysine hydrochloride salt payable by Beijing Agriculture to Golden Corn. Golden Corn is not required to make any payments or capital commitments to Beijing Agriculture under the agreement. As at the Latest Practicable Date, no payments or expenses have been made or incurred pursuant to the agreement. It is a term of the agreement that Beijing Agriculture is required to assist Golden Corn in the registration of the products of Golden Corn in Taiwan. Beijing Agriculture is required to pay the necessary registration fees. Our Directors advise that registration for our Group’s lysine products for sale in Taiwan is not necessary. Further in May, 2007, we obtained the Certificate of Free Sale (自由銷售證書) from the National Feed Industry Office of the PRC (全國飼料工作辦公室) granting permission for the export of our L-lysine hydrochloride salt to Taiwan. Our PRC legal advisers advised that as Beijing Agriculture holds a valid Business Licence and foreign trade operator registration certificate (對外貿易經營者備案登記表), Beijing Agriculture has obtained all the required approvals and permissions in the PRC for the export of our Group’s L-lysine hydrochloride salt to Taiwan. As at the Latest Practicable Date, sale of our lysine products has not yet commenced.

Customers

We have a well-established customer base. The following table sets out the general nature of the customers of our corn-refined and corn-based products:

Product	Nature of customers
Cornstarch	Food and beverage, pharmaceutical, textile, paper and chemical manufacturers
L-lysine hydrochloride salt	Animal feed manufacturers and wholesalers
Agricultural fertilisers	Fertiliser manufacturers and wholesalers
Corn slurry	Enzyme, animal feed, health products and food additive manufacturers
Corn germ	Edible oil manufacturers
Corn fibres	Animal feed manufacturers and wholesalers
Corn gluten meal	Animal feed manufacturers and wholesalers

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We have not entered into long term agreements with customers of our corn-refined and corn-based products save for the utilities and services agreement entered into with Golden Far East (particularly relating to the provision of starch paste, steam and electricity) which is effective throughout the operating duration of Golden Far East unless terminated in accordance with its terms. Except for small quantity cash sales and sales of agricultural fertilisers where full advanced payment or cash-on-delivery are generally required, our internal policy requires that we enter into sales contracts with customers of our corn-refined and corn-based products before delivery arrangements are made in accordance with the terms of the sales contracts, which normally take place within three months from the date of the relevant contracts.

Save for the sales of steam and electricity to Golden Far East and Golden Corn Bio-chem (up to the assumption of its assets, liabilities and operations by Golden Corn on 14 July, 2005), all our electricity was sold to 壽光市供電公司 (Electricity Supply Company of Shouguang City*), while our steam was sold to over 80 customers including local commercial and industrial enterprises, hotels, banks, governmental departments and offices, hospitals and schools, as well as 山東壽光巨能特鋼有限公司 (Shandong Shouguang Juneng Special Steel Co., Ltd.*), a connected person of our Company to whom we commenced the provision of steam in September, 2006. We have entered into 併網協議書 (union network agreements*) with 壽光市供電公司 (Electricity Supply Company of Shouguang City*) and 濰坊電業局 (Electricity Affairs Bureau of Weifang City*) in accordance with article 22 of the Electric Power Law for our transmission and sales of electricity through the local electricity union network (please refer to the paragraph headed “Principal laws, rules and regulations applicable to our operations in the PRC” under the section headed “Regulations” in this prospectus for further details). We generally enter into steam provision contracts with customers of our steam prior to commencement of our sales of steam.

While a majority of our customers have been trading with us since 2005, a majority of our major customers commenced their trading relationships with us on or before 2003. Our major customers include manufacturers in the chemicals, paper, food and beverage, animal feeds and agricultural fertilisers industries. The following are some of our major customers during the Track Record Period:

- **Roquette (China) Co., Ltd.** (羅蓋特(中國)精細化工有限公司) — a subsidiary of Roquette, the world largest producer of polyols;
- **Pucheng Chia Tai Biochemistry Co., Ltd.** (浦城正大生化有限公司) — a manufacturer of antibiotics in the PRC and one of the group companies of the Charoen Pokphand Group, a world recognised multinational conglomerate engaging in a wide range of businesses including agribusiness, aquaculture, seeds, telecommunications and retailing;
- **Shandong Liuhe Group Co., Ltd.** (山東六和集團有限公司) — a sizeable PRC conglomerate and a leader in the animal feed and breeding industry in China;

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- **Shandong Huatai Paper Co., Ltd.** (山東華泰紙業股份有限公司) — an A-Share company listed on the Shanghai Stock Exchange and a manufacturer of paper and paper-made products;
- 華潤雪花啤酒(浙江)股份有限公司 (**China Resources Snow Breweries (Zhejiang) Co., Ltd.***) — the manufacturer of “中華啤酒” (“Zhong Hua Beer”*) and “錢江啤酒” (“Qian Jiang Beer”*) and a subsidiary of China Resources Snow Breweries Limited (華潤雪花啤酒(中國)有限公司);
- **Yantai Beer Asahi Co., Ltd.** (煙臺啤酒朝日(股份)有限公司) — the joint venture company between Yantai Beer Group Co., Ltd. (煙臺啤酒集團有限公司) and the renowned Japan brewer Asahi Breweries, Ltd. in Shandong, and the manufacturer of “Yantai Beer” (“煙臺啤酒”) and “Asahi Super Dry Beer” (“朝日舒波樂啤酒”);
- **China Jiangsu Suntory Foods Company Limited** (中國江蘇三得利食品有限公司) — a sino-Japan joint venture and the manufacturer of the “王子” (“Prince”*) series and “新世紀” (“New Century”*) series beers in the PRC;
- **Zhouping Sanxing Oil & Fat Industrial Co., Ltd.** (鄒平三星油脂工業有限公司) — the producer of “長壽花” (“Longevity Flower”*) brand) corn-oil and the largest corn-oil producer in China in terms of production scale; and
- 三井物產(中國)貿易有限公司 (**Mitsui (China) Trading Co., Ltd.***), the PRC trading arm of Mitsui & Co., Limited (三井物產株式會社), being one of the largest multinational conglomerates in Japan.

Leveraged on the quality of our products, we have been appraised by some of these major customers as having reliable and consistent product quality, as well as delivery and after-sales services.

During the Track Record Period, sales to our largest customer accounted for approximately 11.5%, 13.5%, 13.2% and 9.0%, and sales to our five largest customers accounted for approximately 18.7%, 26.7%, 33.3% and 21.8%, respectively, of our turnover. Golden Far East, our 49% associated company, was one of our five largest customers for each of the two years ended 31 December, 2005 and 2006 and our largest customer for the four months ended 30 April, 2007. During the Track Record Period, our total sales to Golden Far East amounted to some RMB6,836,000, RMB49,132,000, RMB88,139,000 and RMB36,238,000, representing approximately 0.7%, 5.2%, 8.5% and 9.0% of our total turnover, respectively. More particularly, during the Track Record Period, sales of starch paste and other miscellaneous products to Golden Far East amounted to approximately RMB6,681,000, RMB46,346,000, RMB84,339,000 and RMB35,361,000, while sales of steam to Golden Far East amounted to approximately RMB72,000, RMB1,254,000, RMB2,556,000 and RMB877,000, and sales of electricity to Golden Far East amounted to approximately RMB84,000, RMB1,532,000, RMB1,244,000 and RMBnil, respectively. In addition

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thereto, during the three years ended 31 December, 2006, commission received from Golden Far East for our provision of sales support services, which was reported as other income of our Group, amounted to approximately RMB113,000, RMB3,227,000 and RMB3,379,000 respectively. We have ceased our provision of sales support services to Golden Far East following termination of the sales representative agreement in August, 2006 in accordance with its terms. Save as aforesaid, none of our Directors, their respective associates or, so far as our Directors are aware, shareholders who own more than 5% of the issued share capital of our Company (immediately following completion of the Global Offering, the Loan Capitalisation Issue and the Capitalisation Issue and taking no account of any Shares which may be taken up under the Global Offering or allotted and issued pursuant to the exercise of the Over-allotment Option) has any interest in any of the five largest customers of our Group during the Track Record Period.

Pricing and credit control

We have established an internal sales pricing committee to recommend prices of our products on a regular basis, other than corn germs. When formulating their recommendations, they take into account, among other factors, (a) our raw material costs; (b) cost of transportation; (c) prices of raw materials and end products offered by our competitors; (d) prevailing and estimated general price level of starch and lysine products; and (e) general market conditions. The price of our corn germs is generally fixed by way of regular tender submissions we organise for our corn germs customers. During the Track Record Period, our monthly average selling price per tonne of cornstarch fluctuated generally in tandem with the fluctuations of our monthly average purchase price per tonne of corn kernels, and averaged to some RMB1,600, RMB1,571, RMB1,758 and RMB1,923 respectively for each of the three years ended 31 December, 2006 and the four months ended 30 April, 2007. Our monthly average selling price per tonne of lysine, on the other hand, declined by over 50% from about RMB20,000 in January, 2004 to about RMB8,200 in December, 2005, which our Directors consider to be mainly a result of, among other factors, surplus in lysine production, the human case of pig streptococcus and the outbreak of the avian flu, leading to a downward trend on lysine price. Nevertheless, it had stabilised in the first nine months of 2006 which fluctuated within a range of about RMB9,100 and RMB10,500, then exhibited a brief improvement from about RMB9,300 for the month of September, 2006 to about RMB13,300 for the month of December, 2006, and returned to a level comparable to the first nine months of 2006 and fluctuated within the range of about RMB10,309 to about RMB10,698 during the four months ended 30 April, 2007.

Sales of our steam is charged at the prescribed rate set by 壽光市物價局 (Commodity Pricing Bureau of Shouguang City*) from time to time. Sales of our electricity is charged at the prescribed rate stipulated under 《關於調整熱電廠上網電價及非工業、普通工業用電價格的通知》(壽政發[2001]84號) (Notice on the Adjustment in Price Charged for the Supply of electricity to Electricity Union Network and Electricity Price Charged for Non-industrial and Ordinary Industrial Uses (Shouzhengfa [2001] No.84)*) issued by The People's Government of Shouguang City and approved by 山東省物價局 (Commodity Price Bureau of Shandong Province*).

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For non-regular domestic customers with small quantity purchases and customers of agricultural fertilisers, we generally require full advance payment before delivery of products or cash-on-delivery. We generally accept irrevocable letters of credit payable within 25 to 30 days after delivery for our overseas customers. For sizeable domestic customers and/or domestic customers with long trading relationship, good market standing or satisfactory payment histories, we may grant credit terms of up to 60 days after delivery and accept payments by cheques, bank drafts, telegraphic transfers or bank acceptance bills. For customers of steam and electricity, we generally accept payment terms of up to 30 days upon issuance of invoice, or we may require advance payment from small customers. For each of the three years ended 31 December, 2006 and the four months ended 30 April, 2007, our debtors turnover days was approximately 63 days, 46 days, 49 days and 51 days respectively. Should bills receivables be excluded for our calculation, our debtors turnover days would be approximately 38 days, 22 days, 18 days and 23 days respectively.

Receivables aging analysis is prepared and reviewed on a monthly basis in accordance with our internal policy. Our sales and marketing personnel would follow-up with customers having overdue receivables. Further steps such as personal visits in pursuit of payments and suspension of delivery may be taken as deemed appropriate. In determining whether allowance for bad and doubtful debts or direct write-off to bad debts is required, our Group takes into consideration the aging status and the likelihood of collection. Following the identification of doubtful debts, the responsible sales personnel would discuss with the relevant customers and report on the recoverability, and specific allowance or direct write-off to bad debt would be made for trade receivables that are unlikely to be collected. We generally provides fully for all receivables overdue one year, as historical experience is such that receivables that are past due beyond one year are generally not recoverable. No allowance is generally provided for the receivables between the expiry of credit period and one year from the date of transaction as we consider that such receivables are likely to be recovered based on the historical experience. Due to our stringent credit control and our collection efforts, we only expensed bad debts in the amount of approximately RMB25,000, RMB45,000, RMB290,000 and RMB134,000, and collected previously expensed bad debts in the amount of some RMB1,711,000, RMB620,000, RMB911,000 and RMB73,000, respectively, during the Track Record Period.

QUALITY CONTROL

We strongly believe that strict quality control and the provision of consistent, quality products are essential for us to maintain sustainable growth and excel in the corn refinery industry. We place strong emphasis on quality control throughout our production process to ensure the quality of our products. Our cornstarch and L-lysine hydrochloride salt were named, in December, 2003 and October, 2004 respectively, the “山東名牌” (“Shandong Famous Brand”*) jointly by 山東省名牌戰略推進委員會 (Brand Name Strategic Promotion Committee of Shandong Province*) and 山東省質量技術監督局 (Quality and Technology Supervisory Board of Shandong Province*). Our cornstarch was also named the 中國名牌產品 (“China Top Brand Product”*) by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) in September, 2005. Our commitment to quality is further evidenced by the accreditation of ISO 9001:2000, ISO 14001:2004, ISO 22000:2005 and the grant of the Good Standardizing Practice Certificate (標準化良好行為證書) by 山東省質量技術監督局 (Quality and Technology Supervisory Board of Shandong Province*).

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We implement stringent quality control and assurance measures throughout our production processes, covering from raw materials acceptance to finished goods inspection. We have established and implemented quality control systems for each of our products to ensure that they meet our customers' and/or other applicable PRC (or where not applicable, internal) quality standards. To ensure that our quality control checkings are carried out effectively, some of our equipment and measurement apparatuses are imported from countries including the US, Japan and Sweden. Key measurement apparatuses are subject to regular examinations by qualified government apparatus testing centres to ensure their functionality, accuracy and reliability.

Raw materials

We perform sample quality inspection on each truck-load of corn kernels for starch concentration, water content, impurities and other defects. Imported apparatus is used to assist in starch concentration and water content measurements. Corn kernels that fall within our acceptable quality range are accepted with price adjusted on a sliding scale according to the starch concentration and water content inspection results. Those fallen outside of our acceptable range are rejected.

We also perform quality control inspections on our consumables, such as chemical agents and enzymes for their concentration, impurity levels and other relevant parameters. In particular, raw materials used for the production of L-lysine hydrochloride salt must be accompanied with test reports provided by the relevant suppliers, and some of which are inspected again by our own quality control personnel before they are used in our production.

With the view of facilitating sales of our corn-refined and corn-based products to countries in the European Union, we have obtained the certificate of Non-GMO Identity Preservation (非轉基因身份保持認證證書) in respect of our production of corn products with GMO threshold of 0.1% based on EU GMO Regulations of EC1829/2003 and EC1830/2003. The certificate, which evidences our adoption of the Non-GMO Identity Preservation System, is valid until 31 October, 2007 and is subject to renewal. With the view of ensuring continuous compliance with the system, we have adopted the following measures:

- adopted a specific internal procedural guideline which was compiled with the assistance of CCIC Conformity Assessment Services Co., Ltd. for the purpose of ensuring that corn kernels supplied by our corn kernel suppliers are not genetically modified;
- conduct site visits to the Group's corn kernels suppliers (who are principally individual farmers) for the purpose of confirming the source of their corn seeds; and
- sample corn kernels are sent to the certificate issuing agency on a monthly basis for testing of genetic modifications.

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Production process and finished products

(i) Cornstarch and other ancillary corn-refined products

As at the Latest Practicable Date, we had 39 quality control personnel responsible for the quality control and assurance of our cornstarch and other ancillary corn-refined products. Quality control checkpoints are established in major production procedures and are reported on a daily basis. Significant quality deviations from our standards, if noted, are followed up by further investigations. Each of our finished products, including cornstarch, corn slurry, corn germs, corn fibres and corn gluten meal, are inspected by our qualified quality control personnel for parameters such as water contents, whiteness, fineness, concentration and purity levels using advanced equipment to ensure that they comply with the applicable PRC quality standards or quality standards established by us where State standards are not available.

(ii) Lysine and agricultural fertilisers

As at the Latest Practicable Date, we had 18 quality control personnel responsible for the quality control and assurance of our L-lysine hydrochloride salt and agricultural fertilisers production. Quality control checkpoints are established for each production procedure of our L-lysine hydrochloride salt given the delicacy of formulations and technical conditions involved. In particular, various parameters such as pH value, temperature, concentration and glucose level would be observed and monitored during our quality control checking. Quality control checking is performed at intervals between four to eight hours on certain checkpoints in the saccharification and fermentation processes for timely adjustments, if needed. In respect of our agricultural fertilisers production, quality checking on pH level and lysine concentration are performed both before the protein-rich residual liquid filtered out during the lysine production process are applied for the production of fertilisers and after the alkalization and concentration processes.

Our finished L-lysine hydrochloride salt and compound fertilisers are inspected for compliance with the relevant PRC quality standards before they are packaged for sale. As there is no prevailing State quality standard for our other types of agricultural fertilisers, they are inspected against our internal quality standards prior to packaging and sale.

Our Directors confirm that due to our stringent quality control, we have not suffered any loss or had any sales return from our customers in relation to substandard product quality during the Track Record Period.

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RESEARCH AND DEVELOPMENT

As at the Latest Practicable Date, we had a total of 16 research and development personnel responsible for our product developments and production technology refinements. A majority of our research and development personnel possess university education in areas such as biochemistry, fermentation, chemistry and inspection technology. During the Track Record Period, our research and development personnel had successfully developed different formulations of cornstarch for various industrial applications and improved our production technologies and efficiency. At present, our research and development department personnel is mainly engaged in the research and development of threonine, a kind of amino acid which, similar to lysine, is applied as animal feed additive, and fructose-glucose, a substitute of cane sugar which has been widely accepted by developed countries. While we did not have any capitalised research and development expenditure during the Track Record Period, we reported expenses in the amount of approximately RMB136,000, RMB161,000 and RMB5,990,000 and write-back of about RMB22,000, respectively, in research and testing during the captioned periods.

In order to protect the confidentiality of technologies developed by us, our research and development staff and some of the senior staff of our production department have entered into technology confidentiality agreements with Golden Corn, under which: (a) all technical information known to the relevant staff shall be kept confidential; and (b) Golden Corn shall have all rights to any new technology developed during the research, development and/or production process. The technology confidentiality agreements are for a term of 10 years.

We have been approved by 山東省人事廳 (Personnel Office of Shandong Province*) in July, 2006 for the establishment of a 博士後科研工作站 (Post-Doctorate Scientific Research Station*) (the “**Research Station**”). Pursuant to the approval, we are entitled to engage post-doctorate researchers for scientific research in our facilities. The purpose of the Research Station is to strengthen our collaborations with educational and research institutes for new research and development projects. According to the 《企業博士後工作管理暫行規定》 (“Provisional Management Policy on Post-Doctorate Scientific Research”*) (the “**Provisional Management Policy**”) issued by the 全國博士後管理委員會 (National Post-Graduate Management Committee*) on 8 October, 1997, a Research Station should file an application to the relevant approval authority prior to commencement of any research project conducted thereunder. Moreover, the Research Station is responsible for the fees and expenses relating to the research projects and the engagement of post-doctorate researchers at a rate not lower than the minimum rates prescribed by the relevant State standards. The Provisional Management Policy also stipulates that if the research project is conducted principally in the Research Station and that the Research Station bears the costs of research and engagement of post-graduate researchers, the intellectual properties resulting from the research project is, in principle, to belong to the Research Station. For research projects involving collaborations between the Research Station and the relevant educational or research institute or transfer of research results by the relevant educational or research institute to the Research Station, the parties to such arrangements should agree on the respective rights to the intellectual properties that may arise from the research project. The Provisional Management Policy further provides that post-graduate researchers participating in the scheme should comply with the confidentiality requirements in accordance with the applicable PRC laws and regulations and those imposed by the Research Station.

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In order to strengthen our research resources, we have also established strategic alliance with 山東輕工業學院 (Light Industry Institute of Shandong Province*), Tianjin University of Science and Technology (天津科技大學), 青島大學化學化工與環境學院 (The Chemistry, Industrial Chemistry and Environment Institute of Qingdao University*) and 吉林省石油化工設計研究院 (The Petro-Chemical Design Research Institute of Jilin Province*) to tap on their research capabilities and research talents. In particular, it is agreed that we would be provided with research services in respect of our existing products and production technologies as well as new product and production technology developments. On the other hand, it is also agreed that students graduating from these institutes would enjoy employment priority from our Group in accordance with our business development needs.

COMPETITION

Based on our Directors' industry knowledge, the PRC corn refinery industry is segmented, comprising a number of large enterprises which dominate a majority of the market share and numerous small-to-medium-sized players sharing the remaining market share. Our Directors consider that these large PRC corn refiners can be further classified by their different product focus, such as starch-based sweeteners, lysine, modified starch and cornstarch, although most (if not all) of them have a variety of product mix. Our Directors have not noted any government official statistics on the historical market share of the major players in the corn refinery industry, let alone cornstarch producers. That said, our Directors noted that based on information from various market researches, the top five enterprises in each of the cornstarch, lysine and starch-based sweeteners industry sectors have accounted for over 50% of the market share of their respective industry segment. In this connection, we were ranked by the China Starch Industry Association in December, 2006 as the third largest cornstarch producer in the PRC in 2005 in terms of cornstarch sales.

Cornstarch and ancillary corn-refined products constituted around 70% of our total turnover during the Track Record Period. As stipulated in our future plans, it is our intention to maintain this product focus in the future. With our annual production capacity in cornstarch reaching 450,000 tonnes as at 31 December, 2006, we consider that we are in direct competition with medium to large sized corn refiners with a principal product focus in cornstarch and ancillary corn-refined products. Having said that, since our L-lysine hydrochloride salt constituted around 20% of our total turnover

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in the year ended 31 December, 2006, we consider we are also in competition with other medium to large sized lysine producers in the lysine market. To this end, we consider the following companies to be our potential competitors:

Company	Major product offerings
Global Bio-chem Technology Group Company Limited (大成生化科技集團有限公司) — listed on the Hong Kong Stock Exchange	Lysine, protein lysine, corn sweeteners, modified starch, corn-based chemicals, cornstarch and other ancillary corn-refined products
山東諸城興貿玉米開發有限公司 (Shandong Zhucheng Xingmao Corn Developing Co., Ltd.*)	Cornstarch and other ancillary corn-refined products, modified starch, corn sweeteners
China Resources (Jilin) Bio-Chemical Co., Ltd. (吉林華潤生化股份有限公司) — listed on the Shanghai Stock Exchange	Cornstarch and other ancillary corn-refined products, corn oils, corn sweeteners
西安國維澱粉有限責任公司 (Xi'an Guowei Cornstarch Co., Ltd.*)	Cornstarch and other ancillary corn-refined products
China Sun Bio-Chem Technology Group Company Ltd. (峻煌生化科技集團有限公司) — listed on the Singapore Stock Exchange	Modified starch, cornstarch and other ancillary corn-refined products
Xiwang Sugar Holdings Company Limited (西王糖業控股有限公司) — listed on the Hong Kong Stock Exchange	Lysine, corn sweeteners, ancillary corn-refined products

It should be noted that while our product offerings fall within those offered by these potential competitors, some of them have different product focus. While cornstarch remains a major product focus of the three non-listed PRC domestic enterprises listed as our potential competitors, the remaining three listed companies, namely Global Bio-chem Technology Group Company Limited, China Sun Bio-Chem Technology Group Company Limited and Xiwang Sugar Holdings Company Limited, are generally known for other primary product focus. More particularly, according to the understanding of our Directors, Global Bio-chem Technology Group Company Limited is more focused on lysine, protein lysine and corn sweeteners, while China Sun Bio-Chem Technology Group Company Limited is more focused on modified starch, and Xiwang Sugar Holdings Company Limited is largely focused on crystalised glucose. In this respect, the cornstarch produced by these manufacturers serves, to a large extent, as the raw material for the production of their major end products.

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The PRC corn refinery industry has been growing continuously, leading to an upward pricing pressure on corn in the recent years. With the aim of suppressing the speed of increase of corn price in the PRC, the National Development and Reform Commission (國家發展和改革委員會) issued a notice on 8 December, 2006 to halt approval and filing of any new corn refinery projects in order to prevent further overheating the demand of corn in the PRC. Moreover, the notice also stipulated that the existing four ethanol producers cannot increase their production capacity before government's approval. On the other hand, the notice encouraged large corn refinery enterprises to acquire small and non-profitable corn refinery companies in order to consolidate and increase the production efficiency of the whole industry.

Our Directors consider that corn refinery can, in general, enjoy economies of scale. We have noted that several of the major corn refinery industry players in the PRC have expanded their production capacity in the recent years. We believe the corn refinery industry will continue to be highly competitive, with sizeable players in the industry continue to expand its production capacity (either organically or by way of consolidation) to cater for the increasing market demand. In order to remain competitive and actively participate in the capturing of increasing market demand, it is part of our business plan to expand our production capabilities in cornstarch and lysine production taking advantage of the policy direction stipulated in the notice of the National Development and reform Commission (國家發展和改革委員會).

In terms of operating environment, we have noted that the principal places of operation of some our competitors are located in regions of high corn production such as Jilin and Shandong, ensuring proximity to the supply of principal raw materials. Our Directors also believe that as corn refiners located in the PRC, our Group and its competitors are subject to similar product and/or raw materials market pricing fluctuations. On the other hand, as around 90% of our products were sold domestically during the Track Record Period, our Group may be less susceptible to export policy changes as those competitors whose product markets are more export oriented. Overall, we believe our competitiveness lies with our commitment to provide consistent, quality products and our efficient cost control. We further believe that a listing on the Stock Exchange would enhance our corporate image and strengthen our market position.

ENVIRONMENTAL PROTECTION

We place strong emphasis on environmental protection. Our production activities mainly concern two aspects of environmental protection measures, namely sewage and gas. Sewage is mainly generated from (i) the steeping and separation processes of our cornstarch production; (ii) the filtration and extraction processes of our lysine production; and (iii) the concentration process of our agricultural fertilisers production, while gas is mainly generated from the coal burning process of our steam and electricity generation. In this respect, we have invested approximately RMB8,205,000, RMB4,067,000, RMB1,423,000 and RMBnil for the purpose of upgrading our water treatment plants, and approximately RMB3,406,000, RMB1,163,000, RMB300,000 and RMB200,000 for the purpose of upgrading our air pollution control measures in our power plant, respectively, during the Track Record Period. With a view to limiting waste disposal and promoting the philosophy of recycling, most of the residual materials generated from our production of

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cornstarch and lysine are applied for the production of other ancillary corn-refined and corn-based products. Furthermore, the biogas generated from our water treatment plant is recycled as fuel for use in our fertilisers production, and the steam used in our various production processes is condensed and re-used with the view to reducing water usage.

We have two water treatment plants (which operate under one processing flow) with an overall water treatment capacity of about 6,900m³/day and utilisation rate of some 57%, 70%, 68% and 72% respectively during the Track Record Period. Sewage generated from our production of cornstarch, lysine and agricultural fertilisers is transferred to our water treatment plants. Through a series of chemical reactions with various enzymes, the concentrated organic matters in the sewage would be substantially decomposed, pursuant to which the COD and ammonia-nitrogen (NH₃-N) level contained in the sewage would be reduced to a residual level within the benchmarks of the relevant environmental protection measures prior to discharge.

During the Track Record Period (save for the month of July, 2005 where one of our water treatment plants was temporarily closed down for upgrading work and our ammonia-nitrogen (NH₃-N) level was above 50 mg/litre in 7 days), our sewage ammonia-nitrogen (NH₃-N) level fluctuated within the range of about 13 mg/litre to 46 mg/litre. We received an order from 壽光市環境保護局 (Environmental Protection Bureau of Shouguang City*) dated 2 September, 2005 for the suspension of our lysine production due to non-compliance of sewage ammonia-nitrogen (NH₃-N) level. Although our Directors consider that the production theories and process of lysine products resemble those of MSG which involve a considerably higher level of ammonia-nitrogen (NH₃-N) discharge compared to cornstarch production, given that there was no State water pollution standard for the production of lysine products, we had applied for and were accordingly required by 山東省環境保護局 (Environmental Protection Bureau of Shandong Province*) to comply with standard level two under the《污水綜合排放標準》("Consolidated Discharge Standards on Polluted Water"*) (GB8978-1996), the standard applicable to our cornstarch production having a prescribed ammonia-nitrogen (NH₃-N) level of ≤ 25 mg/litre, for our lysine production prior to suspension. While we were granted the approval from 山東省環境保護局 (Environmental Protection Bureau of Shandong Province*) to re-commence partial operation of our lysine production plant for trial production from 23 September, 2005, we applied to and was granted the approval by 山東省環境保護局 (Environmental Protection Bureau of Shandong Province*) on 2 November, 2005 for the adoption of the《味精工業污染物排放標準》("Pollutants Discharge Standards for MSG Industry"*) (GB19431-2004) for our lysine production (subject to any subsequent standards that may be promulgated by the State in respect of pollutants discharge for lysine production), which our Directors consider is more appropriate given the nature of production technology and process involved, and which is more lenient on the ammonia-nitrogen (NH₃-N) level of the discharged sewage having a prescribed level of ≤ 50 mg/litre. Pursuant to a further approval from 濰坊市環境保護局 (Environmental Protection Bureau of Weifang City*) dated 3 November, 2005, the total ammonia-nitrogen (NH₃-N) level for our discharged sewage from both our cornstarch and lysine production was approved to be at the level of ≤ 55 mg/litre. Pursuant to the passing of the inspection conducted by 山東省環境保護局 (Environmental Protection Bureau of Shandong Province*), full operation of our lysine production plant was approved to commence from 9 November, 2005. The Directors confirmed that no fine was imposed on the Group for the captioned non-compliance.

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Pursuant to the requirement of the approval for full resumption of operation of our lysine production from 山東省環境保護局 (Environmental Protection Bureau of Shandong Province*), we are required to complete the installation of ammonia-nitrogen ($\text{NH}_3\text{-N}$) level automatic detector. However, such installation is subject to the unified government environmental protection plans of 《環境保護目標責任書(2006-2010)》 (Document of Responsibilities in relation to Environmental Protection Targets (2006-2010)*) agreed between 壽光市人民政府 (The Peoples' Government of Shouguang City*) and 壽光市經濟貿易局 (Economic and Trade Bureau of Shouguang City*) as well as the 《壽光市“十一·五”水污染物總量削減目標責任書(2006-2010)》 (“Document of Responsibilities in relation to the “Eleventh-Five” Water Pollutants Reduction Targets of Shouguang City”*) jointly published by 壽光市人民政府 (The People's Government of Shouguang City*) and 濰坊市人民政府 (The People's Government of Weifang City*) in November, 2006. It was stipulated in a notice from 壽光市環境保護局 (Environmental Protection Bureau of Shouguang City*) dated 17 June, 2007 that in accordance with a notice issued by 壽光市人民政府 (The People's Government of Shouguang City*) dated 19 May, 2007, installation of our ammonia-nitrogen ($\text{NH}_3\text{-N}$) level automatic detector was scheduled to be completed by end of July, 2007. Under the unified organisation of 壽光市環境保護局 (Environmental Protection Bureau of Shouguang City*), installation of our ammonia-nitrogen ($\text{NH}_3\text{-N}$) automatic detector was completed on 13 August, 2007.

Our Directors consider the impact of the temporary suspension to our lysine production to be insignificant given the limited period involved and our ability to fulfill our sales and delivery schedules during the period of suspension using our then available finished lysine inventory. Our PRC legal advisers have confirmed that since we have (i) rectified our non-compliance with the relevant environmental measures on ammonia-nitrogen ($\text{NH}_3\text{-N}$); (ii) taken remedial measures in accordance with the terms of the administrative penalty; (iii) maintained our level of ammonia-nitrogen ($\text{NH}_3\text{-N}$) within the level prescribed under the relevant environmental protection standards; and (iv) complied with the relevant PRC laws and regulations, we will not be subject to any further penalty, administrative sanctions or suspensions imposed by the relevant PRC authorities for the non-compliance of sewage ammonia-nitrogen ($\text{NH}_3\text{-N}$) level in the past, and that the aforesaid incident would not have an impact on our business and operations or our legal subsistence.

Our pollutant gas emission level is governed by the 3rd time-zone standard under the 《火電廠大氣污染物排放標準》 (“Coal-Fire Power Plant Pollutant Emission Standard”*) (GB13223-1996), having a prescribed COD emission level of $\leq 200\text{mg/m}_3$ and sulphur-dioxide (SO_2) emission level of $\leq 2,100\text{mg/m}_3$. During the Track Record Period, our monthly average COD emission level fluctuated within the range of about 112 mg/m_3 and 128 mg/m_3 , and our monthly average sulphur-dioxide (SO_2) emission level fluctuated within the range of about $1,009\text{ mg/m}_3$ and $1,189\text{ mg/m}_3$. We commenced construction of our fourth power generator system in 2004 without preparing for the 環境影響報告書 (Report on Environmental Impact*) and applying for approval prior to our commencement. As advised by our PRC legal advisers, the relevant authority in charge of the administration of environmental protection could suspend construction of the relevant facility and order to comply with the filing requirement within a specified time frame in this regard, and in the event of failure to comply with the order, our Group could be liable to a fine of between RMB50,000 and RMB200,000. In this respect, we had subsequently filed a 環境影響報告書 (Report on Environmental Impact*) on 31 March, 2004 within the time frame ordered by 山東省環境保護局 (Environmental Protection Bureau of Shandong Province*), and received the approval from 山東省環境保護局 (Environmental Protection Bureau of Shandong Province*) on 16 June, 2004.

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agreeing to the construction of our fourth power generator system. On 12 April, 2007, we received the certification from 山東省環境保護局 (Environmental Protection Bureau of Shandong Province*) certifying completion of and granting approval to the operation of our fourth power generator system, and no fine was levied on our Group for the aforesaid incident of non-compliance. On 25 April, 2007, we were further confirmed by 壽光市環境保護局 (Environmental Protection Bureau of Shouguang City*) that no monetary penalty would be imposed on us by 山東省環境保護局 (Environmental Protection Bureau of Shandong Province*) as the non-compliance has been rectified. Our PRC legal advisers have confirmed that the aforesaid incident would not have an impact on our business and operations or our legal subsistence.

According to our PRC legal advisers, based on the applicable environmental laws and regulations of the PRC and the requests of the relevant environmental bureaus, we are required to adopt the following environmental protection measures:

- strengthen the recycling of sewage to reduce sewage discharge;
- control noise pollution and ensure broad compliance;
- ensure normal operation of the on-line COD density detection device;
- install on-line pollutant gas detection device;
- ensure the use of de-sulphur additives to remove sulphur residuals;
- install ammonia-nitrogen (NH₃-N) level automatic detector connecting to the relevant environmental bureau; and
- install high-efficiency anti-dust device.

In response to the above, we have taken and implemented the following measures (in addition to those already in place):

- we have established a special division in August, 2006, headed by Mr. Zhang Junhua (張軍華), Mr. Gao, Ms. Wei Guoying (魏國英) and Mr. Hu Jing* (胡靖), all being directors of Golden Corn, for the management, supervision, implementation and monitoring of environmental protection compliance measures, formulation of guidelines in relation to environmental protection compliance, as well as maintaining regular communications with the relevant environmental protection bureau, supervising the operations, repair and maintenance of our environmental facilities and monitoring and analysing our pollutants emission levels;
- our internal guidelines on environmental protection had since been revised for the purpose of delineating the responsibility in relation to environmental protection compliance of each of our departments and detailing the scope of work and procedures for periodic compliance reviews;

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- we have completed the installation of an automatic on-line COD density detection device so that the COD density is under continuous supervision;
- we have completed the installation of an automatic on-line pollutant gas detection device;
- we have further invested in improving our control of sewage odor emission level; and
- we have since maintained regular contact and communication with the relevant environmental protection bureau for the purpose of keeping abreast of any further development and changes in environmental laws and regulations.

Our Directors confirm that all environmental protection measures as required based on the applicable environmental laws and regulations of the PRC and the requests of the relevant environmental bureaus have been in place as at the Latest Practicable Date. In addition thereto, our environmental protection measures have been confirmed by 壽光市環境保護局 (Environmental Protection Bureau of Shouguang City*) to be comprehensive and structural for the purpose of satisfying the relevant environmental protection requirements.






At present, we have over 20 managerial and operational staff responsible for continuous monitoring and implementation of environmental protection measures of our power plant and ensuring compliance of, among other things, the COD and sulphur-dioxide (SO₂) emission levels. We also have over 30 managerial and operational staff responsible for continuous monitoring and implementation of environmental protection measures of our two water treatment plants and ensuring compliance of, among other things, the sewage ammonia-nitrogen (NH₃-N) level. Some of these managerial and operational staff process university or post-secondary educational background. In addition to the daily preparation of monitoring reports to ensure timely adjustments to our production and pollutant treatment processes, monthly analysis reports are also prepared for review by our management.

On the basis set out above, our Directors do not anticipate incurrence of any significant capital expenditure in relation to environmental protection for the remaining of the year ending 31 December, 2007 and the following year ending 2008 unless there is change in the environmental protection laws and regulations in the PRC demanding more stringent requirements to be complied with by us in relation to environmental protection.

Our Directors confirm that our Group did not have any accidents or fatalities resulting from environmental protection measures during the Track Record Period. Our Directors further confirm that none of our customers during the Track Record Period had imposed any environmental protection measures on our Group. We have been advised by our PRC legal advisers that we have rectified all past breaches of the relevant environmental protection laws and regulations, and that they have not noted any non-compliance of the relevant environmental protection laws and regulations on the part of our Group as at the Latest Practicable Date.

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INTELLECTUAL PROPERTY RIGHTS

We conduct our business principally under our trademarks , which are registered in the PRC. We have applied for registration of the trademarks  in Hong Kong and  in both Hong Kong and the PRC. As at the Latest Practicable Date, we have completed registration of the trademarks  and  in Hong Kong.

As at the Latest Practicable Date, our Group was the registered proprietor and beneficial owner of the following patent:

Title of Patent	Place of registration	Patent number	Authorised announcement date
纖維擠乾機 (Fibre Dry-Squeeze Equipment*) — 實用新型專利 (Utility model patent*) (Note)	PRC	ZL 2006 2 0086616.6	25 July, 2007

Note: Our Directors advised that as Mr. Liu had participated in the research and development of the patent on the Fibre Dry-Squeeze Equipment and possessed the necessary understanding and knowledge on the patent, the patent application was first made in the name of Mr Liu Xianggang as the patent holder on behalf of our Group in order to facilitate the provision of information on the patent to the relevant PRC authority in connection with the patent application. Subsequent application was made in February 2007 to 中華人民共和國國家知識產權局 (the State Intellectual Property Office of the PRC) effecting a change in the name of the patent holder from Mr Liu Xianggang to our Company.

In addition, we have applied for registration the following patents in the PRC:

Title of patent	Date of application
用於澱粉生產的刮刀撇液處理裝置 (Equipment with blades used in the starch paste separation process of cornstarch production*)	30 December, 2006
用於澱粉生產的主分離機頂流處理裝置 (Equipment for the top-flow separation process of cornstarch production*)	30 December, 2006
用冷凝水冷卻灰渣的熱能綜合利用裝置 (Heat energy-leveraged equipment that applies cold condensed water to cool dusty residuals*)	30 December, 2006
纖維降溫裝置 (Fibre cooling equipment*)	30 December, 2006
加強纖維脫水裝置 (Fibre dehydration enhancement equipment*)	30 December, 2006
98.5% 賴氨酸和 65% 賴氨酸共綫生產裝置 (Combined production line for 98.5% lysine and 65% lysine*)	30 December, 2006
蒸汽減溫裝置 (Steam temperature reduction equipment*)	30 December, 2006

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As at the Latest Practicable Date, we have not been granted the registration of the above patents.

Further information relating to the trademarks and patents of our Group is set forth in the paragraph headed “Intellectual property rights of our Group” under the section headed “Further information about our Company and our subsidiaries” in Appendix V to this prospectus.

PROPERTY INTERESTS

Our production site is strategically located in Shouguang City, Shandong Province, the PRC which is well-known for its abundance of agricultural output and is one of the top corn growing provinces in the PRC. As at the Latest Practicable Date, we owned and occupied one industrial complex erected upon seven plots of land with a total site area of approximately 378,138 sq.m. According to seven State-owned land use rights certificates issued by Shouguang Municipal Land Resource Bureau, the land use rights of the industrial complex have been granted to Golden Corn for various terms with the latest expiring on 3 January, 2056 for coal storage, industrial and residential uses.

As at the Latest Practicable Date, we owned and occupied a number of production buildings, composite buildings and ancillary buildings within the industrial complex with a total gross floor area of approximately 138,424 sq.m.. According to 21 building ownership certificates issued by Shouguang Municipal Real Estate Administrative Bureau, the building ownership of the said production, composite and ancillary buildings are vested in Golden Corn. As advised by our PRC legal advisers, we have obtained proper title certificates for all our owned land and buildings, that the land use rights certificates and building ownership certificates obtained in relation to our property interests are legal and valid, and that we are entitled to occupy, use, transfer, mortgage and lease our property interest.

As at the Latest Practicable Date, we also leased four residential units in Beijing, Guangzhou, Changsha and Wuxi having floor areas in the range of approximately 90 sq.m. to 149 sq.m. as place of residency for our salespersons stationed in those respective cities. We are advised by our PRC legal advisers that the tenancies entered into between our Group and the respective lessors of the four residential units comply with the relevant PRC laws and are legal, valid and binding on the relevant parties. However, none of these leased residential units have been registered with the relevant government authorities as the landlords of these properties are not willing to effect the required registrations upon request by our Group. As advised by our PRC legal advisers, our Group will not be subject to any fine or liability or be evicted despite the non-registration of these tenancy agreements. Our Directors confirm that these leased properties are not crucial to the operations of our Group because (i) their annual rental charge in aggregate represented only approximately 0.023% of our total assets as at 31 December, 2006 and approximately 0.17% of our net profit after tax but before minority interests for the year ended 31 December, 2006, which are considered to be insignificant; (ii) there would not be any material difficulty for our Group to find suitable replacements for these residential units at reasonable prices for relocation if required, and (iii) they are not crucial to our operations.

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Further particulars of our property interests are set out in the valuation certificate on our property interests prepared by DTZ Debenham Tie Leung Limited, the text of which is set out in Appendix III to this prospectus.

INSURANCE

We maintain insurance covering our major plant and machineries, motor vehicles and goods in transit. We also provide social insurance to our full-time employees in accordance with the relevant PRC laws and regulations. We have not maintained any insurance coverage for product liability or business interruption, as we are not legally required to have such insurances under the PRC law, and our Directors believe that it is not standard industry practice in the PRC at present. Further, since our products are mostly sold to manufacturers and wholesalers who are not ultimate users, we consider it unlikely that we would be successfully claimed against by end-consumers for liability arising from our defective intermediary products. However, if any consumer claims against any producer for liability arising from defective products and that such defects are then proven to be caused by the defects of our products (as one of the raw materials), the relevant producer may claim against us for damage.

Our Directors confirm that during the Track Record Period, we had not experienced any claim relating to our product liability.

COMPETING BUSINESS OF CONTROLLING SHAREHOLDERS

Immediately after completion of the Global Offering, the Loan Capitalisation Issue and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised at all), Merry Boom will be interested in approximately 70% of the enlarged issued share capital of our Company. As Mr. Tian is the controlling shareholder of Merry Boom having a shareholding interest of approximately 54.5833%, for the purposes of Rule 10.07(1) of the Listing Rules, Merry Boom and Mr. Tian will be the controlling shareholders of our Company.

Merry Boom

Merry Boom is an investment holding company incorporated in the BVI on 28 September, 2006 with its principal asset being its 100% indirect shareholding interest in Golden Corn. The Directors confirm that Merry Boom was not interested in any business apart from the business of our Group which competes or is likely to compete with us as at the Latest Practicable Date.

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Juneng Holding Group

As at the Latest Practicable Date, Mr. Tian was interested in 55% of the equity interest of Juneng Holding Group. Juneng Holding Group is an investment holding company established in the PRC on 10 October, 2005, and became a minority shareholder of Golden Corn on 27 October, 2005 having an equity interest of approximately 8.33% in Golden Corn. As part of the Reorganisation, Juneng Holding Group disposed of its equity interest in Golden Corn on 24 August, 2006 to Sourcestar. The following table summarises the equity investment of Juneng Holding Group as at the Latest Practicable Date:

Name of company	Major approved business scope	Approximate attributable beneficial interest	Directorship of Mr. Tian
壽光市巨能電力工程有限公司 (Shouguang Juneng Electricity Project Co., Ltd.*)	Design and installation of electricity systems	72%	Nil
山東壽光巨能特鋼有限公司 (Shandong Shouguang Juneng Special Steel Co., Ltd.*)	Manufacture and sales of steel, and pig iron and sintered ore	59%	From December, 2002 to April, 2004
山東壽光巨能電力設備有限公司 (Shandong Shouguang Juneng Electricity Equipment Co., Ltd.*)	Manufacture and sales of compound insulates, lightning equipment and switches	55%	From April, 2001 to June, 2005
山東壽光巨能電氣有限公司 (Shandong Shouguang Juneng Electricity Steam Co., Ltd.*)	Manufacture and sales of insulate lightning equipment, switches, electric cables, high-voltage switch equipment and electricity transformation equipment; installation of electricity transformation stations	54%	From December, 2002 to June, 2005
山東壽光巨能熱電發展有限公司 (Shandong Shouguang Juneng Heat and Electricity Development Co., Ltd.*)	Production of electricity	33%	From May, 2005 to July, 2005

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Name of company	Major approved business scope	Approximate attributable beneficial interest	Directorship of Mr. Tian
山東壽光巨能電力燃料有限公司 (Shandong Shouguang Juneng Electricity Fuel Co., Ltd.*)	Sales of coal, construction materials, electric cables and steel	15%	Nil
山東壽光巨能電力建設有限責任公司 (Shandong Shouguang Juneng Electricity Construction Co., Ltd.*)	Sales of steel, minerals, construction materials, metals and inflammable liquids	5%	From December, 2003 to October, 2005
壽光巨能電力建築安裝有限公司 (Shouguang Juneng Electricity Building Installation Co., Ltd.*)	Installation of equipment, central air conditioning installation, manufacture and installation of aluminium windows and doors and sales of electrical materials	5%	Nil

Our Directors confirm that as at the Latest Practicable Date, the respective remaining equity interest of each of the above companies were held by independent third parties. Our Directors confirm that Mr. Tian did not have any other personal investment save for his approximately 54.5833% attributable beneficial interest in Golden Corn and his 55% direct equity interest in Juneng Holding Group as at the Latest Practicable Date.

The board of directors of Juneng Holding Group comprises five directors, namely Mr. Tian, Mr. Liu Bo (劉波), Mr. Yu, Mr. Zhang Junhua (張軍華) and Mr. Zhang Mingrong (張明榮). Mr. Tian and Mr. Yu, both being directors of Juneng Holding Group, are also our Directors and directors of Golden Corn. Mr. Zhang Junhua (張軍華), being a director of Juneng Holding Group, is also a director of Golden Corn.

Despite the common directors between our Group and Juneng Holding Group, our Directors are of the view that the management and operations of our Group are independent from that of Juneng Holding Group as:

- Our Group's management, operations and affairs are headed, managed and controlled independently, from any individual Director, by and under the overall supervision of the Board. The Board's decisions are taken by our Directors as a collective body and under the code provisions of the Code on Corporate Governance Practices set out in the Listing

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Rules, objectively in the interests of our Shareholders (including the minority Shareholders). No individual Director can alone take any decision for and on the Board's behalf and/or for his personal interests. Any view of a Director will be checked and balanced by the view of the other members of the Board.

- The Board will upon Listing, comprise eight members, out of which only two are also directors of Juneng Holding Group, namely, Mr. Tian and Mr. Yu. A majority of the Board, that is, 75%, will not be directors of Juneng Holding Group, any of our subsidiaries or associated companies. Save for Mr. Tian and Mr. Yu, the other members of the Board did not hold any management position in Juneng Holding Group, any of our subsidiaries or associated companies as at the Latest Practicable Date. As at the Latest Practicable Date, none of our Directors or members of our senior management is a director or a member of senior management of Juneng Heat & Electricity Development.
- We have appointed four independent non-executive Directors to carry out supervisory role and to check and balance the interests of our Shareholders.
- In discharging its role, the Board is also assisted and supported by our senior management, all of whom do not hold any management position in Juneng Holding Group, any of our subsidiaries or associated companies. Our senior management is responsible for the daily management and operations of our Group and the implementation of the business plan and strategy as laid down by the Board. The day-to-day management and operations of our Group are independent from that of Juneng Holding Group and the business operations and decisions of our Group are performed or made independently from Juneng Holding Group.
- Despite Mr. Tian and Mr. Yu (both being our Directors) and Mr. Zhang Junhua (張軍華) (being a director of Golden Corn) are also directors of Juneng Holding Group, each of them will and our Directors are of the view that they can devote sufficient amount of their time, attention and abilities as may reasonably be required of them in the administration, supervision and management of the business of our Group.
- Under the Listing Rules, every director of a listed issuers must abstain from voting on any board resolution in which he or any of his associates have a material interests and that he shall not be counted in the quorum present at the board meeting. Save as otherwise provided in the Articles of Association, a Director who has a conflict of interest in any contract or arrangement which he or any of his associate(s) has a material interest shall not attend the meeting of Directors at which any of such contract or arrangement is to be considered. Both of Mr. Tian and Mr. Yu will abstain from attending and voting in the Board meeting at which any matter which they have a material interest and with potential conflicting interests between our Group and Juneng Holding Group is to be considered.
- Given that Mr. Tian and Mr. Yu are two of the eight Directors that comprise the Board, and their influence over the decisions of the Board in relation to any matter which any of them

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or their respective associates may have interests will further be regulated by our Articles of Association, the Listing Rules and the code provisions of the Code on Corporate Governance Practices as set out in the Listing Rules, our Directors consider that the Board will be able to operate independently of Juneng Holding Group.

- As the controlling shareholder of Juneng Holding Group, that is, Mr. Tian, will procure its board of directors to formulate its own internal control policies to ensure that its management and employees will comply with the non-competition undertakings as set out in the paragraph headed “Non-competition undertakings” below.

Juneng Heat & Electricity Development

山東壽光巨能熱電發展有限公司 (Shandong Shouguang Juneng Heat and Electricity Development Co., Ltd.*) (“**Juneng Heat & Electricity Development**”) was established in May, 2005 with an approved business scope of “production of electricity” and having a registered capital of RMB300,000,000. Juneng Heat & Electricity Development is owned as to approximately 33% by Juneng Holding Group (which is 55% owned by Mr. Tian), and the remaining approximately 67% being held by seven independent third parties as to 12% by 鞠明江 (Ju Mingjiang), 11.5% by each of 李國華 (Li Guohua) and 鄧兆星 (Qie Zhaoxing), 10% by 韓新華 (Han Xinhua) and 7.33% by each of 李樹明 (Li Shuming), 袁悅明 (Yuan Yueming) and 王金良 (Wang Jinliang). According to the PRC audited accounts of Juneng Heat & Electricity Development, its turnover for each of the two years ended 31 December, 2006 amounted to approximately RMB90,793,000 and RMB313,175,000, while turnover generated from our sales of steam and electricity amounted to about RMB107,995,000 and RMB77,251,000, respectively, for the same period. Juneng Heat & Electricity Development also reported net profit after tax of approximately RMB7,785,000 and RMB32,492,000 for each of the two years ended 31 December, 2006, while our segment results in respect of the sales of steam and electricity amounted to some RMB35,999,000 and RMB22,125,000, respectively, for the same period. As at each of the two years ended 31 December, 2006, Juneng Heat & Electricity reported total assets of some RMB429,758,000 and RMB633,621,000, as compared to the segment assets in respect of our steam and electricity segment of some RMB203,146,000 and RMB177,670,000, respectively, as at the same dates respectively. The board of directors of Juneng Heat & Electricity Development comprises five members, with 田勇 (Tian Yong*) (who was a director of Golden Corn up to October, 2005) as chairman of the board and the remaining four members of the board all being independent third parties.

Our Directors advise that Juneng Heat & Electricity Development is principally engaged in the provision of electricity to the provincial power grid, the amount of electricity provided is subject to the unified organisation and management of, and sold to, Shandong Electric Power Corporation (山東電力集團公司), which is a state-controlled enterprise established and operated under State Grid Corporation of China and is responsible for the planning, construction and operation of power grids and supply of electricity in Shandong Province. On the other hand, our sales of electricity is conducted only locally in Shouguang City, the amount of electricity supplied (save for the sales of electricity to Golden Far East and, for the period up to July, 2005, Golden Corn Bio-chem) is subject to the unified organisation and management of 濰坊電業局 (Electricity Affairs Bureau of Weifang City*) and sold to 壽光市供電公司 (Electricity Supply Company of Shouguang City*). Shandong Electric Power Corporation (山東電力集團公司) and 壽光市供電公司 (Electricity Supply Company of Shouguang

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City*) are both state-enterprises under the auspice of 國家電網公司 (State Electricity Network Company*) and the People's Government of Shouguang City respectively and they are not related to each other in terms of shareholding and equity owners. Pursuant to the management agreement entered into between Shandong Electric Power Corporation (山東電力集團公司), the People's Government of Shouguang City and 壽光市供電公司 (Electricity Supply Company of Shouguang City*), 壽光市供電公司 (Electricity Supply Company of Shouguang City*) is managed by Shandong Electric Power Corporation (山東電力集團公司) for and on behalf of the People's Government of Shouguang City. Despite the management arrangement, 壽光市供電公司 (Electricity Supply Company of Shouguang City*) remains as a separate legal person and ownership to its assets remains unchanged.

According to an explanatory letter issued by Shandong Electric Power Corporation (山東電力集團公司) on 14 July, 2007, power generator systems in Shandong Province with capacity of less than 50,000 kw may only enter into 併網協議 (union network agreements*) with the electricity supply company of the relevant city (市供電公司) for transmission of electricity to the relevant local electricity union network. On the other hand, power generator systems with capacity of more than 50,000 kw should enter into 併網協議 (union network agreements*) directly with Shandong Electric Power Corporation (山東電力集團公司) for transmission of electricity to the provincial power grid for onward supply of electricity on a provincial scale. Moreover, each power generator system in Shandong Province may only enter into one 併網協議 (union network agreements*), and multiple 併網協議 (union network agreements*) for any one power generator system is specifically prohibited.

According to the explanatory letter, based on the capacity of individual power generator systems, Golden Corn may only transmit its electricity to the Shouguang City local electricity union network, while Juneng Heat & Electricity Development may only supply its electricity to Shandong Electric Power Corporation (山東電力集團公司) through transmission to the provincial power grid. In the case where there is a shortage of electricity supply in Shouguang City, Shandong Electric Power Corporation (山東電力集團公司) may arrange electricity on the provincial power grid to address such shortage.

We are advised by our PRC legal advisers that Shandong Electric Power Corporation (山東電力集團公司) is a non-governmental body under the auspices of 國家電網公司 (State Electricity Network Company*). We are further advised by our PRC legal advisers that Article 21 of the Electric Power Law provides that the operation of electricity network shall be subject to unified regulations and be administered at different levels. Shandong Electric Power Corporation (山東電力集團公司) as an enterprise under the auspices of 國家電網公司 (State Electricity Network Company*) is the relevant electricity network management and regulatory authority in the Shandong Province of the PRC. Pursuant to 《關於電網與發電廠、電網與電網並網運行的規定(試行)》 (“Temporary Measures In Relation To Union Network Operations Between Electricity Network and Power Plant and Between Electricity Networks” *) issued by 電力工業部 (Electricity Industry Bureau*) in May 1994, the provincial electricity network management authority is vested with the authority to determine with whom an electricity producer shall enter into union network agreement according to, among other matters, the generating capacity of the relevant power generating system. Shandong Electric Power Corporation (山東電力集團公司) as the electricity network management and regulatory authority of Shandong Province is therefore vested with authority to regulate and stipulate, among other matters, the

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conditions for signing of electricity union network agreements, including with whom an electricity producer should enter into union network agreement according to its generating capacity as in the case of Golden Corn and Juneng Heat & Electricity Development, whose determination is binding on and enforceable against Golden Corn and Juneng Heat & Electricity Development.

We are further advised by our PRC legal advisers that under article 9 of the Administration of Electricity Network Regulation Provisions 《電網調度管理條例》 issued by the State Council in June 1993, power plant must follow the regulation of relevant authority which it is subject to. Under article 11 of the Implementation Measures on the Administration of Electricity Network Regulation Provisions 《電網調度管理條例實施辦法》 issued by 電力工業部 (Electricity Industry Bureau*) in October 1994, every power plant must follow the regulation of the regulatory authority which it is directly subject to and it is only in emergency case shall a power plant be subject to the regulation of a regulatory authority of a higher hierarchy. As such, every power generating system shall enter into only one union network agreement, and the entering into of multiple union network agreement is specifically prohibited unless in emergency cases.

The Directors consider that:

- (i) As Juneng Heat & Electricity Development is engaged in the provision of electricity to the provincial power grid, it is considered to be operating under a different electricity supply system as that of Golden Corn.
- (ii) While the sole customer of Juneng Heat & Electricity Development is Shandong Electric Power Corporation (山東電力集團公司) the sole customer of the Group's electricity provision is 壽光市供電公司 (Electricity Supply Company of Shouguang City*), therefore there is no overlapping of customers between the two companies.
- (iii) Based on the explanatory letter issued by Shandong Electric Power Corporation (山東電力集團公司), under the present operating arrangement, it is considered by the Directors and confirmed by Shandong Electric Power Corporation (山東電力集團公司) that there is no direct competition between the Group and Juneng Heat & Electricity Development.
- (iv) Due to the Group's relatively long historical presence in Shouguang City, its acquaintance with other local establishments as existing and potential steam users and its long standing relationship with 壽光市供電公司 (Electricity Supply Company of Shouguang City*), the Directors consider it more beneficial for the Group to continue focusing its management resources to serve the local community in respect of its steam and electricity provision business.
- (v) As Juneng Holding Group only has a 33% equity interest in Juneng Heat & Electricity Development, Juneng Holding Group do not enjoy absolute control over the management and business of Juneng Heat & Electricity Development.

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- (vi) The economic benefits expected to be generated from the injection of the minority stake in Juneng Heat & Electricity Development is not presently anticipated to be significant in comparison to the Group's overall financial position.
- (vii) The present and future interest of the Group in respect of its electricity provision business is considered to be sufficiently protected under the non-competition undertakings provided by, among other covenantors, Juneng Heat & Electricity Development, Juneng Holding Group and Mr. Tian.

On the bases set out above, our Group has no present intention to acquire from Juneng Holding Group its 33% equity interests of Juneng Heat & Electricity Development into our Group.

NON-COMPETITION UNDERTAKINGS

In order to protect our Group from any potential competition from any of Juneng Holding Group, Juneng Heat & Electricity Development, Merry Boom, Mr. Tian, Mr. Guo, Mr. Gao, Mr. Yu and Mr. Liu Xianggang (劉象剛) (collectively the “**Covenantors**” and each a “**Covenantor**”), each of the Covenantors has given an irrevocable non-competition undertaking in favour of our Company on 5 September, 2007 pursuant to which each of the Covenantors has, among other matters, irrevocably, unconditionally and severally undertaken with us that, at any time during the Relevant Period (as defined below), each of the Covenantors shall, and shall, to the extent within their respective voting powers in the relevant associate, procure that their respective associates (other than our Group) shall:

- (i) save for the Permitted Investments (as defined below), not, either on his/its own account or in conjunction with or on behalf of any corporation, individual, firm or other association (other than our Group), by means of setting up any joint venture, corporation, partnership, contracting or leasing, directly or indirectly, invest in, operate, be engaged in or participate in any business or activity which competes or may compete with the business currently engaged by our Group (“the **Restricted Business**”), including but not limited to the investment, research and development, manufacturing, marketing, sales, distribution and/or supply of any of our product;
- (ii) not, without our consent, make use of any information pertaining to the Restricted Business which may come to his/its knowledge and/or his/its associates' knowledge, whether or not in his/its capacity as our controlling shareholder and/or Director or, as the case may be, their respective associates, for the purpose of competing with the Restricted Business;
- (iii) in respect of any order or any part of it undertaken or proposed to be undertaken by him/it (and/or his/its associates (other than our Group)) in relation to any of the Restricted Business, use reasonable endeavours to procure such customer(s) to contract directly with our Company or the relevant member of our Group in relation to such Restricted Business; and

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- (iv) refer to our Company or the relevant member of our Group all enquiries and actual or potential business opportunities in relation to any of the Restricted Business (“**New Business Opportunity**”) received, identified or being offered to participate by him/it (and/or his/its associates (other than our Group)) by giving written notice (“**Referral Notice**”) to us within 14 days after he/it (and/or his/its associate(s) (other than our Group)) has identified, has been proposed or offered to participate in all or any of the New Business Opportunities (which shall contain all information of, and the relevant terms and conditions for, the New Business Opportunity to enable our Company or the relevant member of our Group to reach an informed view and assessment on such New Business Opportunity). If we (for ourselves and on behalf of other members of our Group) decline to proceed with or participate in the New Business Opportunity so referred to in the Referral Notice within 30 days after the date of our receipt of the Referral Notice, the relevant Covenantor and/or the relevant associates may participate in or proceed with the New Business Opportunity to the extent that it has been declined by our Group and on terms no more favourable than that specified in the Referral Notice.

Only our independent non-executive Directors will decide whether or not our Group would accept and/or pursue any New Business Opportunity and their decision will be decided on by a majority vote. In the event that our independent non-executive Directors decide that our Group would not accept and/or pursue any New Business Opportunity, we shall announce such decision by way of announcement setting out our reasons for not taking up such New Business Opportunity. Our Company will also disclose the decisions, if any, on matters reviewed by our independent non-executive Directors relating to the enforcement of the non-competition undertakings in our annual report or by way of announcements.

Under the non-competition undertakings, each of the Covenantors further undertakes to our Company:

- (i) to allow, and shall procure that the relevant associates (excluding our Group) to allow, our Directors and auditors (or their respective authorised representatives) to have access to such financial records and corporate records of such Covenantors and/or their respective associates as may be necessary for our Company to determine whether the terms of the non-competition undertakings have been complied with; and
- (ii) to provide to us with an annual confirmation for inclusion by us in our annual report, in respect of his/its compliance with the terms of the non-compete undertakings.

Our Directors and the Sponsor consider that the terms of the non-competition undertakings are fair and reasonable as far as our Company and the Shareholders are concerned.

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For the above purpose:

- (A) the “**Relevant Period**” means the period commencing from the Listing Date and shall expire on the earliest of the dates below:
- (a) in relation to each of Mr. Tian and Mr. Gao, the date on which he and/or his associates (other than our Group) directly or indirectly hold or control, in aggregate, less than 10% of the issued share capital of our Company and ceases to be a Director;
 - (b) in relation to Mr. Guo, the date on which he and/or his associates (other than our Group) directly or indirectly hold or control, in aggregate, less than 10% of the issued share capital of our Company;
 - (c) in relation to each of Mr. Yu and Mr. Liu Xianggang, the date on which he ceases to be a Director;
 - (d) in relation to each of Juneng Holding Group and Juneng Heat & Electricity Development, the date when Mr. Tian and/or his associates (other than our Group) directly or indirectly hold or control, in aggregate less than 10% of its issued share capital or our Company and ceases to be a Director;
 - (e) in relation to Merry Boom, the date when it and/or its associates directly or indirectly hold or control, in aggregate less than 10% of the issued share capital of our Company or, the date when Mr. Tian and/or his associates (other than our Group) directly or indirectly hold or control, in aggregate less than 10% of its issued share capital or our Company and ceases to be a Director; and
 - (f) the date on which the Shares ceases to be listed on the Stock Exchange or (if applicable) other stock exchange;
- (B) the “**Permitted Investments**” means any of the following businesses:
- (a) the direct or indirect investments of any Covenantor and/or his associates (excluding our Group) in any member of our Group or Juneng Holding Group;
 - (b) the supply and/or provision of any products by any Covenantor and/or his associates (excluding our Group) to or for our Group in the PRC;
 - (c) the sales of electricity in the Shandong Province of the PRC with power generator system with capacity of more than 50,000 kw but not less; and
 - (d) the investments of any Covenantor and/or his associates in any company listed on any stock exchange having a business which is of a competing nature with the

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business currently engaged by our Group (excluding any investments in any member of our Group), provided that the total investments in each of such companies must not be equal to or more than 5% of the issued share capital of that company.

The non-competition undertakings are only to take effect from the Listing Date.

PAST AND PRESENT ADMINISTRATIVE PROCEEDINGS

During the Track Record Period, we have been involved in the following administrative proceedings:

- As disclosed in the paragraph headed “Environmental protection” in this section, we were ordered by the 壽光市環境保護局 (Environmental Protection Bureau of Shouguang City*) in September, 2005 for the suspension of our lysine production as a result of non-compliance with the sewage ammonia-nitrogen ($\text{NH}_3\text{—N}$) discharge level with the then applicable standard, which standard was considered by our Directors as being not appropriate for lysine production. The suspension order was subsequently lifted and our lysine production resumed its full operation in November, 2005. We have been advised by our PRC legal advisers that since we have rectified our non-compliance with the relevant environmental measures on ammonia-nitrogen ($\text{NH}_3\text{—N}$) by taking remedial measures in accordance with the terms of the administrative penalty and maintained our ammonia-nitrogen ($\text{NH}_3\text{—N}$) discharge level within the discharge level prescribed under the relevant environmental protection standards in compliance with the relevant PRC laws and regulations, we will not be subject to any further penalty, administrative sanctions or suspensions imposed by the relevant PRC authorities for the non-compliance of the sewage ammonia-nitrogen ($\text{NH}_3\text{—N}$) level in the past, and that the aforesaid incident would not have an impact on our business and operations or our legal subsistence. Please refer to the said paragraph for further details of this incident of sewage ammonia-nitrogen ($\text{NH}_3\text{—N}$) discharge level.
- As disclosed in the sub-paragraph headed “Golden Corn” under the paragraph headed “Corporate development” in the section headed “Corporate development and structure” in this prospectus, Golden Corn was fined for RMB20,000 for the late filing of the six trust agreements, as mentioned in the same sub-paragraph, which were entered into between Mr. Tian and (i) each of Mr. Yu, 田勇 (Tian Yong*), 王保華 (Wang Baohua*) on 29 December, 2003; and (ii) each of Liu Xianggang (劉象剛), 劉炳忠 (Liu Bingzhong*) and 胡靖 (Hu Jing*) on 30 October, 2005 by 壽光市工商行政管理局 (Shouguang Administration for Industry and Commerce*) pursuant to the 《行政處罰決定書》 (Administrative Penalty Decision Paper*) issued by 壽光市工商行政管理局 (Shouguang Administration for Industry and Commerce*) on 29 December 2005. On the same date, the six trust arrangements were filed and our PRC legal advisers confirmed that the penalty was settled in full on 13 February 2006.

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Other than the administrative proceedings as mentioned above, none of the members of our Group have been involved in any administrative proceedings and no administrative proceeding is known to the Directors to be pending or threatened against any member of our Group.

DISCLOSEABLE CONTINUING CONNECTED TRANSACTION

During the Track Record Period, Juneng Electric Group and Juneng Holding Group had provided staff provision service to our Group, which were under their respective employment, for the period prior to 1 January 2006 and for the period from 1 January 2006, respectively. During the Track Record Period, payments in the amount of about RMB11,413,000, RMB12,818,000, RMB14,844,000 and RMB2,711,000 respectively were made by Golden Corn to Juneng Electric Group and Juneng Holding Group for the provision of staff. On 5 September 2007, Golden Corn entered into a manpower provision agreement (“**Manpower Provision Agreement**”) with Juneng Holding Group for the purpose of such staff provision service. The term of the Manpower Provision Agreement is for a period commencing from the date of its signing and ending on 31 December 2008.

As Juneng Holding Group is owned as to 55% by Mr. Tian, who is an executive Director and a controlling shareholder of our Company, Juneng Holding Group is a connected person of our Company for the purpose of Chapter 14A of the Listing Rules. The Manpower Provision Agreement will therefore constitute a continuing connected transaction for our Company under Rule 14A.34 of the Listing Rules and is subject to the reporting and announcement requirements but exempted from the independent shareholders’ approval requirements.

The proposed annual cap for the Staff Provision Agreement in respect of each of the two years ending 31 December, 2008 is RMB8,000,000 and RMB7,000,000, which is estimated primarily based on (a) the historical amount of payments made by Golden Corn for the staff provision service for the three years ended 31 December, 2006 and the four months ended 30 April, 2007; (b) the intention of our Group to migrate the relevant staff provided by Juneng Holding Group to our own employment; and (c) our estimates on the time required for a full migration of such staff to our own employment. Our Company will comply with the relevant requirements under the Listing Rules with regard to the Manpower Provision Agreement for so long as the relevant provisions of the Listing Rules apply to our Company.

The terms of the Manpower Provision Agreement (including the price) are on normal commercial terms and determined between Golden Corn and Juneng Holding Group on an arm’s length basis. According to the Manpower Provision Agreement, Golden Corn shall pay to Juneng Holding Group, for each staff provided, a fixed monthly rate determined with reference to the average monthly salary of staff of Golden Corn engaging in similar functions. The monthly fee payable for each staff provided can be adjusted subject to the written consents by both parties to the Manpower Provision Agreement but shall, in any event, not exceed the average monthly salary of staff of Golden Corn engaging in similar functions or fees chargeable by independent third parties providing similar service. Our Directors consider it appropriate to make reference to the average monthly salary of staff of Golden Corn because it is indicative of a salary level which is acceptable to workers performing similar functions. Should the length of service of a particular staff provided by Juneng Holding Group be less than a whole calendar month, the monthly fee payable as described

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above shall be determined and paid to Juneng Holding Group on a pro rata basis. Our Directors are given to understand that Juneng Holding Group would retain a minor portion of the fess paid by Golden Corn to cover its administrative and other cost for providing such staff to Golden Corn, while the remaining portion will be effected to those staff as their salary.

Under the terms of the Manpower Provision Agreement, Golden Corn has the right to terminate the Manpower Provision Agreement by giving three months' written notice to Juneng Holding Group and either party to the Manpower Provision Agreement can effect a termination of the Manpower Provision Agreement in the event of breach by the other party by serving not less than three months' written notice to the other. For the purpose of safeguarding our Group's interest in the event of any potential risk of temporary labour shortage as a result of Juneng Holding Group terminating the Manpower Provision Agreement within a short period of time, however remote the possibility may be, Juneng Holding Group has no right to effect a termination of the Manpower Provision Agreement otherwise than by the default of Golden Corn under the terms of the Manpower Provision Agreement.

Pursuant to the terms of the Manpower Provision Agreement, Juneng Holding Group is to provide the details of potential staff for review and selection by Golden Corn on a regular basis. The staff as selected by Golden Corn will be provided for use by Golden Corn but under the employment of Juneng Holding Group. As the staff provided are under the employment of Juneng Holding Group, it is a term of the Manpower Provision Agreement that Juneng Holding Group shall be responsible for their salaries under the employment contracts entered into between Juneng Holding Group and the relevant staff and in no event shall our Group be held responsible for that. Juneng Holding Group shall inform Golden Corn of any non-compliance by such staff in the performance of their employment contract with Juneng Holding Group.

The staff provision service had been providing the flexibility of allowing our Group to cease using any of the staff provided at any time without payment of any compensation or other payment. The staff provided by Juneng Holding Group under the staff provision service is principally engaged in the production and other administrative positions which do not require high level of technical skills. Historically, such production and administrative staff were considered relatively mobile and unstable. As Juneng Holding Group would be responsible for the processing of employment of such staff, it was considered that the staff provision arrangement would lessen the work load of our personnel department. While the duties required of these staff are basically the same as those employed by our Group in the same level of positions, since they are under the employment of Juneng Holding Group and not our Group, they are not entitled to the staff benefits provided by our Group. As advised by our PRC legal advisers, since the staff are not under the employment of our Group, we are not obliged to provide staff benefits to them. Taking into account the flexibility and the historical satisfactory result of the arrangement, our Directors consider that the provision of staff by Juneng Holding Group has been beneficial to our Group.

Despite the aforesaid, our Directors consider it appropriate to migrate the relevant staff provided by Juneng Holding Group to our own employment in view of the Listing. We have, since 2007, commenced discussions with certain of these staff for possible migration and has achieved positive progress. However, due to the estimated time involved for full migration of these staff (which our Directors currently anticipate will be completed by the end of 2008), our Group will continue to subscribe to the manpower provision service of Juneng Holding Group following the Listing.

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We are further advised by our PRC legal advisers that:

- Provision of staff by one entity to another is permitted under the PRC laws. The provider of such services shall be responsible for all salaries and staff benefits of the staff so provided under the PRC laws.
- The arrangement between our Group and each of Juneng Electric Group and Juneng Holding Group in relation to the staff provision service (including the fact that our Group does not need to provide staff benefits to the staff provided under the staff provision service) is legal and valid under the PRC laws.

FUTURE PLANS AND USE OF PROCEEDS

OUR BUSINESS STRATEGIES

Leveraged on our established position in the PRC cornstarch market and our recognised brand name, we aim to capture an increasing market share and expand our business scope to become a market leader in the PRC corn-refinery industry. To achieve our goal, we have formulated the following business strategies:

Expand our production capacity of cornstarch and lysine products

During the year ended 31 December, 2006, our annual production capacity of cornstarch and lysine averaged to about 404,000 tonnes and 27,000 tonnes, with an average utilisation rate of approximately 89% and 78%, respectively. Our annual production capacity of cornstarch and lysine increased to approximately 450,000 tonnes and 29,000 tonnes respectively as at 31 December, 2006. In order to facilitate our goal to capture an increasing market share, we intend to increase our annual production capacity of cornstarch and lysine to about 800,000 tonnes and 35,000 tonnes by the end of 2007, and further to about 1,050,000 tonnes and 55,000 tonnes by the end of 2008, respectively. On such basis, our Directors expect that our annual production capacity of cornstarch and lysine shall achieve an average of some 500,000 tonnes and 31,000 tonnes respectively for the year ending 31 December, 2007, and some 800,000 tonnes and 50,000 tonnes respectively for the year ending 31 December, 2008.

To facilitate the above planned expansion in production capacity, we intend to enter into arrangements to sub-contract the operations of a small-to-medium-sized cornstarch factory, which should serve to increase our production capacity in a short time frame. We also plan to acquire additional production capacity from small-to-medium-sized cornstarch and/or lysine producer(s), possibly by way of direct equity acquisition(s) or setting up new joint venture(s) with such producer(s) to acquire or subcontract their existing production facilities. Additionally, we intend to expand our existing cornstarch and lysine production facilities by way of acquiring additional machineries and equipment and/or constructing additional production lines.

As at the Latest Practicable Date, we have conducted preliminary market research and initial studies on a number of potential candidates for possible subcontracting, cooperation and/or acquisitions. More particularly, we are in discussion with a PRC enterprise in Shandong Province for the forming of a joint venture to subcontract certain manufacturing facilities and to engage in the business of production and sales of cornstarch, and are in discussion with another PRC enterprise also in Shandong Province for the subcontracting of its existing cornstarch production facilities. Moreover, we have commissioned preliminary studies on, and have entered into a letter of intent with, a PRC enterprise in Hebei Province having production capacities on cornstarch and lysine to explore the possibility of joint venture cooperation or direct equity acquisition. Having said that, we have not entered into any binding agreement with respect to possible acquisitions or forming of joint ventures. We will comply with the applicable disclosure and/or shareholders' approval requirements in accordance with the Listing Rules as and when those requirements arise.

FUTURE PLANS AND USE OF PROCEEDS

Expand our product pipeline

In order to achieve our goal to become a leader in the PRC corn-refinery industry, we consider it important to develop a more comprehensive product pipeline. In this respect, we intend to continue to develop cornstarch of variable formulations, expand our lysine product offerings to include 65% lysine and threonine (a kind of amino acid which is generally applied as animal feed additive) and, depending on future developments in market conditions, expand vertically into the provision of starch-based sweeteners in a longer run. That said, we do not intend to research into the production of ethanol in the near future. At present, we are at an initial research and development stage for threonine and glucose-fructose slurry. We believe that leveraging on our knowledge on the production technologies of, and our experience in producing cornstarch and 98.5% L-lysine hydrochloride salt, we should achieve success in broadening our product pipeline.

Expand our sales and marketing force and our market coverage

We strongly believe it is essential that our sales and marketing force should expand in tandem with our increased production capacity and broadened product pipeline, such that our increased production capacity will be supported by increased sales, and our new products will be effectively promoted to our targeted customers. In this respect, we intend to establish new sales offices and/or marketing presence in Hong Kong and the central region of the PRC to enhance our inland and overseas market coverage. We also intend to devote additional resources on various marketing and promotion activities such as advertisements, participation and/or hosting of trade shows and exhibitions and arranging for more frequent customers' factory visits. In particular, we have recently hosted the Sixth Annual Meeting of the China Starch Industry Association (中國澱粉工業協會第六屆大會) in Shanghai in April, 2007. We also intend to employ additional sales and marketing personnel in support of our expanded sales and marketing activities.

Enhance our research and development capability

We intend to enhance our research and development capability to support our continuous growth and to achieve our goal of becoming a leading player in the PRC corn refinery industry. In this respect, we intend to acquire additional testing equipment and apparatuses and employ additional qualified research and development personnel. We intend to focus our research and development efforts to enhance our production technologies on cornstarch. In addition, we intend to research into other fermentation technologies with the aim of improving our lysine production efficiency and developing a wider range of amino acid-based products.

REASONS FOR THE GLOBAL OFFERING AND USE OF PROCEEDS

We believe that the Listing will enhance the corporate profile and public awareness of our Group. Additionally, the net proceeds from the Global Offering will strengthen our financial structure and fund our business expansions.

FUTURE PLANS AND USE OF PROCEEDS

The net proceeds from the Global Offering, after deduction of related fees and expenses, are estimated to be approximately HK\$284 million based on the Offer Price of HK\$2.08, being the mid-point of the indicative Offer Price range. We intend to apply the net proceeds in the following manner:

- approximately HK\$177 million for acquisition(s) of other manufacturer(s) and/or as registered capital injections for the forming of operating subsidiary(ies) and/or joint venture(s) with other manufacturer(s) to subcontract or acquire production facilities;
- approximately HK\$73 million to acquire new machineries and equipment, such as various attrition and grinding machineries, filtration systems, connection piping and dehydration equipment, and/or conduct production technology enhancements on the newly acquired production facilities;
- approximately HK\$20 million to acquire new machineries and equipment for the purpose of expanding our existing cornstarch and lysine production facilities; and
- the balance of approximately HK\$14 million as general working capital of our Group.

In the event that the Offer Price is finally determined at the minimum Offer Price of HK\$1.85 per Offer Share, the net proceeds from the Global Offering will be reduced by approximately HK\$34 million to about HK\$250 million, as compared with the above computation (which is based on the mid-point of the indicative Offer Price range). In such event, no proceeds will be allocated for the acquisition of new machineries and equipment for the purpose of expanding our existing cornstarch and lysine production facilities, and general working capital of our Group.

In the event that the Offer Price is finally determined at the maximum Offer Price of HK\$2.31 per Offer Share, we will receive additional net proceeds of approximately HK\$34 million, as compared with the above computation (which is based on the mid-point of the indicative Offer Price range). It is the present intention of our Directors to apply such additional net proceeds as to:

- approximately HK\$20 million as additional funds for the purchases of raw materials and general production expenses of the newly acquired production facilities; and
- the balance of approximately HK\$14 million as general working capital of our Group.

To the extent that the net proceeds from the Global Offering are not immediately applied for the above purposes, it is the present intention of our Directors to place such proceeds on short-term deposits with authorised financial institutions and/or licensed banks in Hong Kong and/or the PRC.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

DIRECTORS

Executive Directors

Mr. Tian Qixiang (田其祥), aged 43, is one of the Founding Shareholders and the chairman of our Board principally responsible for our Group's strategic positioning. He is also responsible for formulating our Group's business development objectives and ensuring that such objectives are implemented by our Board accordingly. Mr. Tian was the chairman of the board of directors of Golden Corn during the period from July, 2003 (when he first joined our Group) up to October, 2005. He was re-appointed as director of Golden Corn in December, 2005 and has been the chairman of the board since August 2006. Mr. Tian has also been the authorised representative and chairman of the board of directors of Juneng Holding Group since its establishment in October, 2005. Additionally, he was the authorised representative of Juneng Electric Group, one of the initial founders of Golden Corn established under the state-owned enterprise 壽光市供電公司 (Electricity Supply Company of Shouguang City*), since February, 2000 up to its de-registration in November, 2006. Mr. Tian has been working for 壽光市供電公司 (Electricity Supply Company of Shouguang City*) since 1984. He was appointed as the deputy manager of 壽光市供電公司 (Electricity Supply Company of Shouguang City*) in October, 1985, and was further appointed as its deputy party secretary in May, 1990. Mr. Tian has been the manager and party member of 壽光市供電公司 (Electricity Supply Company of Shouguang City*) since March, 2000. Mr. Tian possesses substantial experience in corporate management. Mr. Tian did not hold any directorship with any listed company during the Track Record Period.

Mr. Tian completed his study of 電力排灌 (Electricity and Water Irrigation*) from 山東省水利機電學校 (Water and Electricity Machinery School*) in 1981 and graduated from 中國共產黨山東省委員會黨校 (The Shandong Province Party Committee School of the People's Republic of China*) with a diploma on 經濟管理 (Economics Management*) in 1996. Mr. Tian obtained the qualification as a senior economist in December, 2002. Mr. Tian was named the “山東省電力十大傑出青年” (“Ten Outstanding Youths of Electricity of Shandong Province”) in April, 2003, the “山東省優秀企業家稱號” (“Excellent Entrepreneur of Shandong Province”) in April, 2005, the “濰坊市第十四屆優秀人大代表” (“Excellent Representative of the Fourteenth People's Representatives Meeting of Weifang City”) in December, 2004 and the “濰坊市優秀共產黨員榮譽稱號” (“Excellent Communist Party Member of Weifang City”) in June, 2006.

Mr. Gao Shijun (高世軍), aged 39, is one of the Founding Shareholders and the chief executive officer of our Company. Mr. Gao is principally responsible for overseeing our Group's operations and business management. Mr. Gao joined 壽光市供電公司開關廠 (The Switch Factory of the Electricity Supply Company of Shouguang City*) as a technician in July, 1989, and was promoted to deputy factory manager in July, 1992. Mr. Gao left 壽光市供電公司開關廠 (The Switch Factory of Electricity Supply Company of Shouguang City*) in May, 1997 and joined Golden Corn in August, 1998, and was later appointed as the deputy manager of Golden Corn in January, 2000. Mr. Gao has been a director of Golden Corn since July, 2003 and its general manager since May, 2005. He was also a director of Golden Corn Bio-chem since its establishment up to the date of its de-registration. Mr. Gao graduated from Shandong University (山東大學) in 1989 with an undergraduate degree in Physics (物理). Mr. Gao did not hold any directorship with any listed company during the Track Record Period.

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Mr. Yu Yingquan (于英全), aged 38, is one of the Founding Shareholders. He is principally responsible for the overall management in investment and corporate finance of our Group. Mr. Yu first joined our Group as a director of Golden Corn during the period from July, 2003 to October, 2005, and was re-appointed as director in 17 March, 2007. Mr. Yu had worked in the accounting and internal audit departments of 壽光市供電公司 (Electricity Supply Company of Shouguang City*) since August, 1990 holding positions as deputy supervisor of audit department, deputy supervisor and supervisor of finance department and deputy chief accountant. Mr. Yu was the chief accountant of Juneng Electric Group during the period from December, 2004 up to October, 2005, when he took up the position as chief accountant of Juneng Holding Group upon its establishment to oversee the financial reporting and performance of all its investments. Mr. Yu is also a director of Juneng Holding Group since October, 2005. Mr. Yu graduated from 山東水利專科學校 (Shandong Hydro Institute*) in 1990 with a diploma in 水利經濟與財務管理 (Hydro Economic and Financial Management*), and obtained a diploma in 財務管理 (Finance Management*) from 山東省經濟管理幹部學校院 (Shandong Economics Management Institute*) in 1998. Mr. Yu obtained the Certificate of Accounting Professional of the PRC (中華人民共和國會計從業資格證書) issued by 壽光財政局 (Finance Bureau of Shouguang City*) in 1997. Mr. Yu did not hold any directorship with any listed company during the Track Record Period.

Mr. Liu Xianggang (劉象剛), aged 38, has been a director of Golden Corn since October, 2005 principally responsible for our Group's production technology developments and our cornstarch production. Mr. Liu has been an employee of Golden Corn since August, 1998 holding positions as factory supervisor, technical department supervisor, deputy chief engineer, chief engineer, deputy general manager and factory manager. Mr. Liu had worked in the production technology department of 壽光市供電公司 (Electricity Supply Company of Shouguang City*) from July, 1990 to July, 1997 as technical staff responsible for production management and production route design. From July, 1997 to August, 1998, Mr. Liu worked in 新城熱電廠 (New Town Heat and Electricity Factory*) of 壽光市供電公司 (Electricity Supply Company of Shouguang City*) as supervisor of the steam factory. Mr. Liu graduated from 山東工業大學 (Shandong Industrial University*) in 1990 with an undergraduate degree in 工業管理工程 (Industrial Management*), and obtained a post-graduate diploma in 產業經濟學 (Industrial Economics*) from the Economics School of Shandong University (山東大學經濟學院) in 2003. Mr. Liu also obtained the qualification as senior engineer in December, 2002. Mr. Liu has been named the “2006-2010 年度壽光市專業技術拔尖人才” (2006-2010 Top Technology Professionals of Shouguang City*) by People's Government of Shouguang City (壽光市人民政府), and is the deputy supervisor of the 玉米澱粉專業委員會 (Cornstarch Professionals Committee*) of China Starch Industry Association. Mr. Liu did not hold any directorship with any listed company during the Track Record Period.

Independent non-executive Directors

Ms. Dong Yanfeng (董延豐), aged 70, has been appointed as our independent non-executive Director on 5 September, 2007. Ms. Dong was granted the qualification as senior engineer by 國家醫藥管理局 (State Medical Control Bureau*) in 1988, and is currently the chief secretary of China Starch Industry Association responsible for its general management as well as organising and supervising the execution of its annual plans. She had served 華北製藥廠 (North China Pharmaceutical Factory*) and 華北製藥廠淀粉分廠 (Starch Branch Factory of North China Pharmaceutical Factory*) in various technical and managerial positions for about 30 years. Over the

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years, Ms. Dong had won several technology awards, including 科技成果三等獎 (Third Level Award on Technology Results*) and 科技進步三等獎 (Third Level Award On Technology Advancement*) in 1984 and 1986 respectively granted by 河北省科學技術委員會 (Science and Technology Committee of Hebei Province*), 科技進步一等獎 (First Level Award on Technology Advancement*) in 1986 granted by 河北省醫藥總公司 (Chief Medical Company of Hebei Province*), and 三等獎 (Third Level Award*) in 1987 granted by 國家科學技術進步獎評審委員會 (Evaluation Committee of the State Science and Technology Advancement Awards*). Ms. Dong's achievements in technologies was also evidenced by the grant of a special financial grant from the State Council in 1993 for her contributions in engineering technologies. Ms. Dong did not hold any directorship with any listed company during the Track Record Period.

Ms. Yu Shumin (余淑敏), aged 66, has been appointed as our independent non-executive Director on 5 September, 2007. Ms. Yu graduated from 北京化學工業學校 (Beijing Chemical Technical Institute*) in 1963 with a diploma in 分析化學 (Chemical Analysis*). During the years of 1963 to 1988, Ms. Yu worked as the 技術幹部 (technical supervisor*) of 北京市飴糖廠 (Beijing Shiyi Sugar Factory*), and was promoted to its 生產技術廠長 (production technology factory manager*) during the years of 1988 to 1993. Ms. Yu obtained the qualification as engineer in 分析化學 (Chemical Analysis*) in 1988. Ms. Yu has served the China Fermentation Industry Association for over 13 years. She was the 秘書長 (Head of Secretary*) of the association's 澱粉糖分會 (Cornstarch Sweetener Sub-association*) from 1994 to 1999, and was appointed as the senior engineer of the association in April, 2001. Ms. Yu is currently the 副理事長 (Deputy General Manager*) of the association and the 理事長 (General Manager*) of the association's 澱粉糖分會 (Cornstarch Sweetener Sub-association*) and 多元醇分會 (Polyol Sub-association*). Ms. Yu did not hold any directorship with any listed company during the Track Record Period.

Mr. Cao Zengong (曹增功), aged 44, has been appointed as our independent non-executive Director on 5 September, 2007. Mr. Cao graduated from Qinghua University (清華大學) in 1984 with an undergraduate degree in electrical engineering specialising in power system and automation (電力系統及其自動化). He had worked as system control room deputy supervisor (系統室副主任) of 山東電力研究院 (Shandong Electric Power Research Institute*) from August, 1984 to June, 1992 principally responsible for power system adjustment, maintenance, research and development, and had worked as deputy chief engineer (副總工程師) of Shandong Electric Power Engineering Consulting Institute (山東電力工程諮詢院) from June, 1992 to July, 2005 principally responsible for planning, design, analysis and automation of power and voltage transformer systems. Mr. Cao has been the supervisory engineer (主任工程師) of the development planning department (發展策劃部) of 山東電力集團公司 (Shandong Electric Power Corporation*) since July, 2005 principally responsible for power system planning, feasibility analysis and electricity network management, and has been appointed as a specialist of the specialist committee of 山東電力集團公司 (Shandong Electric Power Corporation*) in October, 2006. Mr. Cao was awarded the 三等獎 (Third Level Award*) for his thesis on “標準化設計 — 城網建設與改造的關鍵” (Standardised Design — Keys to City Electricity Network Construction and Re-modeling*) by Shandong Society for Electrical Engineering

DIRECTORS, SENIOR MANAGEMENT AND STAFF

(山東電機工程學會) in 2001. Mr. Cao was also granted honorary certificates by 中國電力規劃設計協會 (Electric Power Design Association*) in 2003 and 2004 for his participation in two award-winning projects, namely the 濟南城市電網發展規劃 (Jinan City Electricity Network Development Plan*) and the 黃河北 (濱州) 500kv 變電所工程 (Yellow River North (Bingzhou) 500kv Transformer Station Project*), respectively. Mr. Cao has been named by the People's Government of Shandong Province (山東省人民政府) as “2005 年度山東省有突出貢獻的中青年專家” (“2005 Mid-Youth Specialist with Outstanding Contributions of Shandong Province”) in February, 2006. Mr. Cao did not hold any directorship with any listed company during the Track Record Period.

Mr. Yue Kwai Wa, Ken (余季華), aged 42, has been appointed as our independent non-executive Director on 5 September, 2007. Mr. Yue is a director of Winkas Capital Limited, a financial and management consulting company. Mr. Yue is also an independent non-executive director of Byford International Limited and Sungreen International Holdings Limited, both of which are listed on the Growth Enterprise Market of the Stock Exchange. Mr. Yue was an independent non-executive director of Wealthmark International (Holdings) Limited, a company listed on the Main Board of the Stock Exchange, during the period from January, 2005 to June, 2005, and was also an independent non-executive director of Loulan Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange, during the period from August, 2004 to January, 2006. Mr. Yue is a Certified Public Accountant with over 15 years of experience in accounting, auditing and corporate finance. Mr. Yue is also a member of the American Institute of Certified Public Accountants, a member of the Colorado State Society of Certified Public Accountants and a member of the Hong Kong Securities Institute holding a specialist certificate and a practicing certificate in corporate finance.

Directors' remuneration

The following table sets out our Directors' emoluments for the year ended 31 December, 2006:

Name	Basic salaries and allowances	Retirement benefit contribution	Total
Mr. Tian	—	—	—
Mr. Gao	RMB137,000	RMB5,000	RMB142,000
Mr. Yu	—	—	—
Mr. Liu Xianggang (劉象剛)	RMB115,000	RMB6,000	RMB121,000

Mr. Tian and Mr. Yu have been remunerated under Juneng Holding Group since its establishment, as they had been assuming their respective management role in our Group as representatives of Juneng Holding Group. As the amounts involved were immaterial, the said remuneration arrangements did not cease following disposal by Juneng Holding Group of its equity interest in Golden Corn in August, 2006 mainly for ease of administration. During each of the three years ended 31 December, 2006, the emoluments of Mr. Tian amounted to approximately RMB195,000, RMB256,000 and RMB308,000, and the emoluments Mr. Yu amounted to approximately RMB90,000, RMB141,000 and RMB177,000, respectively.

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Each of Mr. Tian, Mr. Gao, Mr. Yu and Mr. Liu Xianggang (劉象剛), being all the executive Directors, has entered into a service contract with our Company pursuant to which they agreed to act as executive Directors for an initial term of three years with effect from 5 September, 2007. Each of our executive Directors is entitled to a basic salary and a discretionary management bonus.

The following table sets out the respective basic annual salary of each of our executive Directors payable under their service contracts with our Company:

<u>Name</u>	<u>Basic annual salary</u>
Mr. Tian	RMB516,000
Mr. Gao	RMB360,000
Mr. Yu	RMB300,000
Mr. Liu Xianggang (劉象剛)	RMB252,000

Each of our independent non-executive Directors has been appointed for an initial term of two years commencing from 5 September, 2007. The following table sets out the respective director's fee of each of our independent non-executive Directors:

<u>Name</u>	<u>Annual salary</u>
Ms. Dong Yanfeng (董延豐)	RMB50,000
Ms. Yu Shumin (余淑敏)	RMB50,000
Mr. Cao Zenggong (曹增功)	RMB30,000
Mr. Yue Kwai Wa, Ken (余季華)	HK\$100,000

Save for directors' fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding their offices as independent non-executive Directors.

During the year ended 31 December, 2006, the aggregate emoluments paid and benefits in kind granted by our Group to our Directors amounted to approximately RMB263,000. The aggregate emoluments paid and benefits in kind granted by our Group to our Directors for the year ending 31 December, 2007 is currently estimated to amount to approximately RMB443,000, exclusive of any discretionary management bonus.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

DIRECTORS, SENIOR MANAGEMENT AND STAFF

SENIOR MANAGEMENT TEAM

Mr. Guo Zhibo (郭智博), aged 41, is one of the Founding Shareholders and has been a director of Golden Corn since October, 2005. Mr. Guo was first appointed as the deputy manager of the sales and marketing department of Golden Corn shortly after its establishment in August, 1998, and was re-assigned as the deputy chief engineer of Golden Corn in January, 2000. Mr. Guo has been in charge with our Group's sales and marketing activities since July, 2003.

Mr. Zhang Junhua (張軍華), aged 45, is one of the Founding Shareholders and has been a director of Golden Corn since its establishment in July, 1998. Mr. Zhang is principally responsible for overseeing our Group's overall production and procurement management. He is also the deputy chairman of the board of directors of Golden Far East and a director of Juneng Holding Group. Mr. Zhang graduated from 華北水利水電學院 (Northern China Water and Electricity Institute*) in 1984 with an undergraduate degree in 工學 (Engineering*), and obtained the qualification as engineer in 1993. Mr. Zhang was named the “濰坊市優秀企業家稱號” (“Excellent Entrepreneur of Weifang City”*) in June, 2005 and “山東省優秀企業家稱號” (“Excellent Entrepreneur of Shandong Province”*) in April, 2006.

Ms. Wei Guoying (魏國英), aged 38, has been a director of Golden Corn since October, 2005. Ms. Wei joined our Group in December, 1998 and had since taken up various positions in our accounting department as department deputy supervisor, department supervisor and deputy chief accountant. Ms. Wei was appointed as our Group's chief accountant and department supervisor in June, 2004, and is responsible for overseeing the accounting and financial reporting of Golden Corn. Ms. Wei graduated from 山東省會計幹部中等專業學校 (Intermediate Institute of Accountancy of Shandong Province*) with a diploma in 會計專業 (Professional Accounting*) in 1989, and obtained an adult higher education diploma in 會計學 (Accounting*) from 山東財政學院 (Shandong Finance Institute*) in 2004. Ms. Wei obtained the qualification as accountant in May, 1996.

Mr. Hu Jing* (胡靖), aged 38, has been a director of Golden Corn since July, 2003. He is principally responsible for the overall operations of our lysine production plant and our power plant. Mr. Hu worked for 壽光市供電公司 (Electricity Supply Company of Shouguang City*) during the period from July, 1989 to November, 1996 holding positions such as repair and maintenance technician and procurement planner, and was the factory supervisor of the steam and electricity factory of 山東壽光巨能熱電有限公司 (Shandong Shouguang Juneng Heat and Electricity Co., Ltd.*) during the period from November, 1996 to January, 1998. Mr. Hu has been with our Group since August, 1998 holding various positions as power plant supervisor, cornstarch factory manager and power plant manager. Mr. Hu obtained the qualification as accountant in May, 1996, and a diploma on 經濟管理 (Economics Management*) from 中國共產黨山東省委員會黨校 (The Shandong Province Party Committee School of the People's Republic of China*) in 1996.

Mr. Liu Bingzhong* (劉炳忠), aged 44, joined our Group in November, 1998. Mr. Liu was the deputy general manager of 山東華寶食品集團公司 (Shandong Huabao Food Group Co., Ltd.*), the minority shareholder of Golden Corn at the time of its establishment, prior to 1998. He graduated from 中國共產黨山東省委員會黨校 (The Shandong Province Party Committee School of the People's Republic of China*) with a diploma in 農業經濟管理 (Agricultural Economics Management*) in 2000.

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Mr. Liu was appointed as the chief engineer and deputy manager of the sales and marketing department of Golden Corn in 2000, and was re-assigned as a deputy manager of Golden Corn in 2003. He was appointed as the factory manager of the modified starch factory of Golden Corn in December, 2002, and has been the general manager of Golden Far East as well as its director representing the interest of Golden Corn since August, 2004.

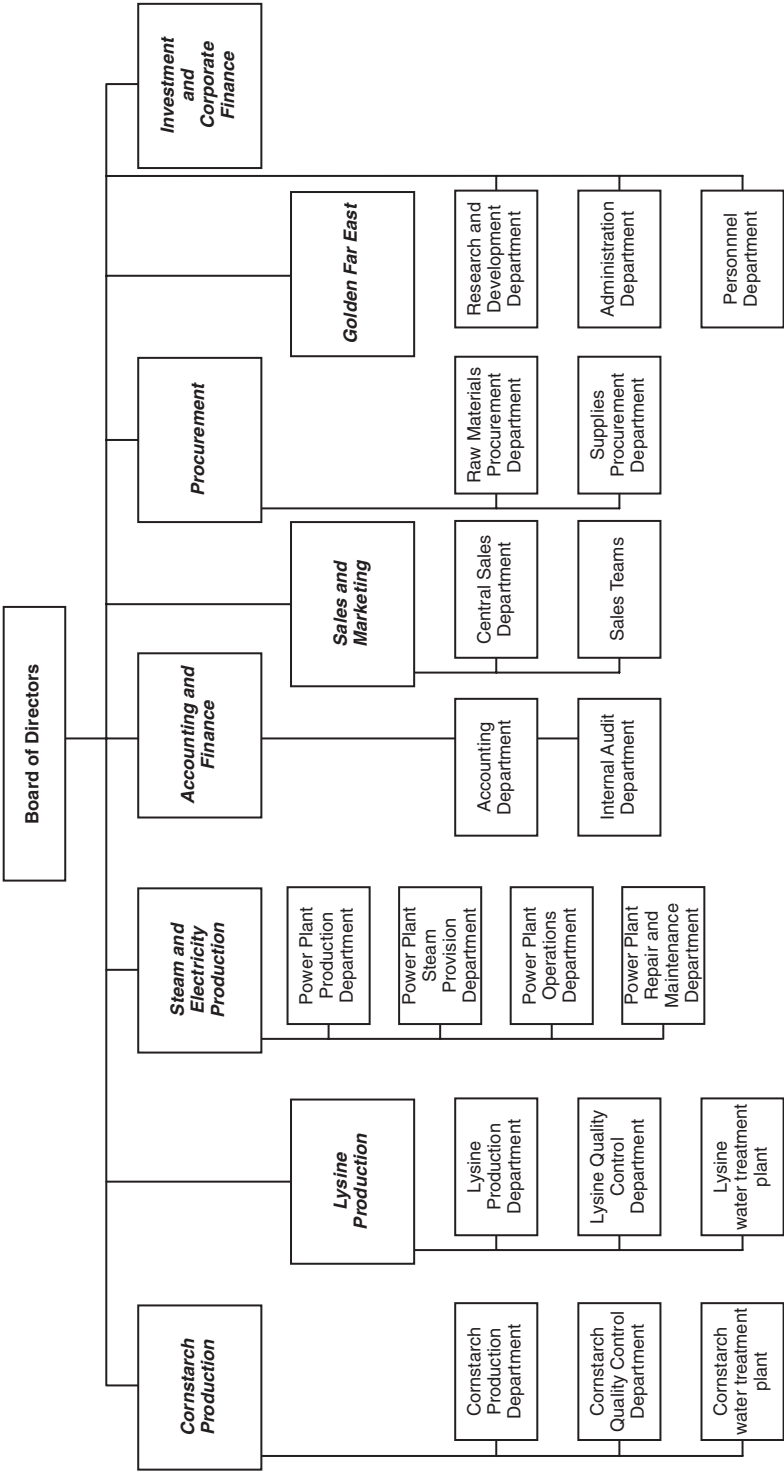
Mr. Su Tao* (蘇濤), aged 41, has been with our Group in August, 1998 and is currently responsible for our raw materials and accessories procurement. He had held various positions under 壽光市供電公司 (Electricity Supply Company of Shouguang City*) since 1985, including the factory manager of its 開關廠 (switch factory*) and the deputy supervisor of its 物資公司 (materials procurement company*). Mr. Su was assigned to Golden Corn as the 主任 (supervisor*) of its Guangzhou sales team in August, 1998, and was re-assigned as the assistant to manager in April, 2002. He was appointed as deputy manager of the sales and supplies department of Golden Corn in December, 2002, and was later appointed as the 主任 (supervisor*) of Golden Corn's supplies department in July, 2003. He was appointed as assistant to general manager in January, 2005, and was promoted to deputy manager of Golden Corn in January, 2007. Mr. Su has been the supervisor (監事) of Golden Corn since 17 March, 2007.

Mr. Wang Guoliang* (王國良), aged 32, joined our Group in June, 2004 as a technical supervisor and is currently responsible for our corporate management, quality and safety control and environmental protection. He graduated from 山東工業大學 (Shandong Industrial University*) with an undergraduate degree in 熱能工程 (Heat Engineering*) in 1997, and has obtained the qualification as engineer in 2002.

Mr. Lau Wing Ling (劉永寧), aged 45, has been with our Group since November, 2006 as the financial controller and company secretary of our Company on a full-time basis. Mr. Lau graduated from the Hong Kong Polytechnic in 1986 with a professional diploma in accountancy. Mr. Lau is a registered certified public accountant under the Hong Kong Institute of Certified Public Accountants, and is a fellow of The Chartered Association of Certified Accountants and a member of the Hong Kong Society of Accountants. Mr. Lau has more than 20 years of experience in accounting and finance. Mr. Lau had held positions as group finance manager and finance director in a number of listed and private companies in the past, and had been the audit manager of Lau Leigh Choi & Co. CPA during the period from November, 1993 up to December, 2000. Mr. Lau has also been a director of Lau Leigh Choi Consultants Limited since May, 1992.

ORGANISATIONAL STRUCTURE

The following sets out the organisational structure of our Group:



DIRECTORS, SENIOR MANAGEMENT AND STAFF

STAFF

As at the Latest Practicable Date, we had a total of 1,497 full-time staff, of which 1,063 were under employment of our Group, and 434 were provided by Juneng Holding Group. The following table sets out a breakdown of our staff by functions as at the Latest Practicable Date:

	Number of staff under employment of our Group	Number of staff under the Recruitment Contract	Total Number of staff
General management	10	—	10
Production	740	364	1,104
Quality control and assurance	57	—	57
Sales and marketing	54	—	54
Procurement and warehousing	36	—	36
Research and development	16	—	16
Finance and accounting	41	—	41
Administration and human resources	109	70	179
Subtotal	<u>1,063</u>	<u>434</u>	<u>1,497</u>

Staff provided by Juneng Holding Group

During the Track Record Period, Juneng Electric Group and Juneng Holding Group had provided staff for use by Golden Corn, which were under their respective employment, for the period prior to 1 January, 2006 and for the period from 1 January, 2006, respectively. Such arrangement had provided flexibility of allowing us to cease using any of the staff provided at any time without payment of any compensation or other payment.

As at the Latest Practicable Date, we had 364 production staff and 70 administrative staff provided by Juneng Holding Group. While the duties required of those staff are principally the same as those employed by our Group in the same level of positions, since they are under the employment of Juneng Holding Group, they are not entitled to the staff benefits provided by our Group. Taking into account the flexibility and the historical satisfactory result of the arrangement, our Directors consider that the provision of staff by Juneng Holding Group has been beneficial to our Group.

While the production and administrative staff provided by Juneng Holding Group is principally engaged in positions which do not require high level of technical skills, a majority of the staff and all staff of managerial level of our Group is under direct employment of the Group. In this respect, our personnel department is generally responsible for duties and functions such as human resources management, staff training, personnel records management and other administrative functions.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Despite the provision of staff by Juneng Holding Group having been considered as beneficial to our Group, our Directors consider it appropriate to migrate these staff to our own employment in view of the Listing. We have, since 2007, commenced discussions with certain of these staff for possible migration and has achieved positive progress. However, due to the estimated time involved for full migration of these staff (which our Directors currently anticipate will be completed by the end of 2008), our Group will continue to subscribe to the manpower provision service of Juneng Holding Group following the Listing. Accordingly on 5 September, 2007, Golden Corn entered into a manpower provision agreement (the “**Manpower Provision Agreement**”) with Juneng Holding Group for the purpose of such staff provision service. (For further details on the terms of the Manpower Provision Agreement, please refer to the paragraph headed “Discloseable continuing connected transaction” under the section headed “Business” in this prospectus.)

We have noted that there were incidents when Juneng Holding Group (or, as the case may be, Juneng Electric Group) had failed to comply with the relevant laws and regulations in relation to the employment of staff provided to us, including the failure to effect contribution to the social security fund. As advised by our PRC legal advisers, as those staff were under the employment of Juneng Holding Group (or, as the case may be Juneng Electric Group), we will not be held liable for any of such violation. Despite the non-liability on the part of our Group in respect of any such violation, under the terms of the Manpower Provision Agreement, we have the right to review, and to request for review from time to time, the employment contracts made between Juneng Holding Group and the staff, proof of payments by Juneng Holding Group of the relevant social security fund and other funds of similar nature and the provision of other proof of compliance by Juneng Holding Group of the relevant laws and regulations in relation to the employment of staff provided by Juneng Holding Group. Prior to the taking up of staff provided by Juneng Holding Group, we would review the relevant employment made between Juneng Holding Group and the staff.

In the event that any of the staff should fail to perform their obligations under their employment contract, it would be a matter for Juneng Holding Group and not Golden Corn as the employment of the relevant staff is with Juneng Holding Group. Despite the aforesaid, we consider that the flexibility of the arrangement in allowing Golden Corn to cease using any of the staff provided by Juneng Holding Group at any time is sufficient in safeguarding our interest should the failure of the staff in performing their employment contracts with Juneng Holding Group affect their performance and the operation of our Group.

In respect of any potential risk of a temporary labour shortage as a result of Juneng Holding Group terminating the Manpower Provision Agreement with a short period of notice, we consider such contingency to be practically remote as:

- the relevant staff currently provided by Juneng Holding Group are in general engaged in basic production, factory security and catering activities which do not require high level of technical skills;
- labour supply is abundant in the local market and their recruitment, if necessary, should not be a problem; and
- we have not experienced any shortage in labour supply during the Track Record Period.

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Having said that, we have taken into consideration the possibility of such contingency despite its remoteness and accordingly, it is a term of the Manpower Provision Agreement that Juneng Holding Group has no right to effect a termination of the Manpower Provision Agreement otherwise than by the default of Golden Corn.

Relationship with staff

We maintain good working relationships with our staff and have not experienced any significant problems with our staff or disruptions to our operations due to labour disputes, staff retention problems or recruitment difficulties. Whilst we do not encourage our full-time staff to engage in other business on employment, it is our general policy to require our full-time staff to seek consent from the Group prior to engaging in other business or employment during the course of his/her employment with us.

Training

Our new staff would undergo orientation before commencement of work with the aim of familiarising them with the operations of our Group and their respective responsibilities. We also provide on-the-job training to our staff to keep them abreast with our quality standards and the skills and knowledge required of them in their jobs.

Staff quarters

We offer two types of staff quarters, namely, basic dormitory units and family suites, to our staff. These quarters are constructed by us and are offered to our staff for application on a periodic basis (depending on the phase of construction). The basic dormitory units are generally occupied by staff on a shared basis. The family suites are only eligible for applications by married staff as those quarters are designed for family occupancy. Qualification requirements for application of our family suites are stipulated in our 《職工宿舍樓分配辦法》 (“Policy on Allocation of Family Suites”*) (the “**Allocation Policy**”). Both types of staff quarters are open to staff applications on a voluntary basis and do not form a pre-condition for employment.

During the Track Record Period, each successful applicant of the basic dormitory units was required to place a damage deposit with us in the amount of RMB3,000 for free occupancy until the earlier of cessation of employment or voluntary return of the room. Official receipts are issued to the relevant staff occupants for the damage deposits placed with us. The damage deposits received are placed in bank accounts of our Group and utilised as part of our working capital. As at each of the three years ended 31 December, 2006 and the four months ended 30 April, 2007, our balance of damage deposits received for occupancy of basic dormitory units amounted to approximately RMB2,014,000, RMB2,429,000, RMB2,720,000 and RMB2,814,000 respectively.

Successful applicants of the family suites are also entitled to free occupancy with family members until the earlier of cessation of employment or voluntary return of the suites. Successful applicants of the family suites are also required to place occupancy deposits (the “**Employee Housing Deposit**”) with us. Due to the excess demand for our family suites and the relatively substantial construction costs involved, we have devised a point-based deposit and tender system,

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the principal terms of which are set out in the Allocation Policy. A basic deposit (the “**Basic Deposit Portion**”, which form the whole or part of the Employee Housing Deposit) for occupancy is first determined with reference to the reference price per sq.m. as stipulated in local government housing policy documents from time to time, the general market price of property for sale in Shouguang City per sq.m., the financial ability of the Group’s employees in meeting the Basic Deposit Portion requirements and the floor area of the family suite in concern. Historically, the Basic Deposit Portion of the Employee Housing Deposit set by our Group ranged from about RMB800 per sq.m. to about RMB1,100 per sq.m.

Eligibility points are then assigned to each applicant on a prescribed scale as stipulated in the Allocation Policy, the principal scale of which can be summarised as follows:

Factors	Eligibility points
applicant’s year of service with our Group	2 points for each year of service
applicant’s spouse also working in our Group	1 point for each year of service of the applicant’s spouse (in addition to the points awarded to the applicant who has higher eligibility points of his/her own)
applicant who is a postgraduate	20 points
applicant who is an undergraduate	15 points
applicant with diploma qualification	10 points

According to the Allocation Policy, applicants are also allowed to purchase additional eligibility points at RMB2,000 for each additional eligibility point, the amount of which will be treated as additional deposit for occupancy (the “**Installment Portion**” which, if provided at the sole discretion of the relevant staff applicant, would form the part of the Employee Housing Deposit in addition to the Basic Deposit Portion).

In general, we engaged construction design institutes such as 壽光市建築設計研究院 (The Construction and Design Research Institute of Shouguang City*) for the construction design of some of our family suite dormitory buildings, and engaged professional construction supervision firms to oversee the construction process with the aim of ensuring quality of our dormitory buildings. The family suites are provided with basic renovation for immediate move-ins.

Periodically after completing construction of the family suite dormitory building(s), those suites would be put forth to eligible staff for tender applications, whereby applicants with the highest points would have priority in choosing a particular suite. Payments of the Employee Housing Deposit would be effected by successful staff applicants in the form of cash. Official receipts are provided for Employee Housing Deposit received, and occupancy agreements would be entered into between our Group and the successful staff applicants prior to occupancy. With the aim of promoting long

DIRECTORS, SENIOR MANAGEMENT AND STAFF

service with our Group, the Allocation Policy also provides that the Installment Portion would be refunded to staff by installments in the following manner: 30% to be refunded at the end of each of the third and fourth year from the signing of the occupancy agreements, with the remaining 40% to be refunded at the end of the fifth year from the signing of the occupancy agreements. In the case where the family suites are returned to our Group (either voluntarily or due to cessation of employment), the Employee Housing Deposit placed by the relevant outgoing staff occupant then outstanding (including the Basic Deposit Portion and any un-refunded Installment Portion) will be returned to the relevant staff forthwith. In the case where any staff participant withdrew from the occupancy arrangement after the Employee Housing Deposit was placed with us but before occupying the family suite, the Employee Housing Deposit received will be fully returned to the relevant staff participant.

We have been providing staff quarters principally adopting the abovesaid arrangement since 1998. Our housing arrangement originated from local government policies for staff acquisition of public housing then applicable to state-owned enterprises. While titles of our family suites remain with our Group (as our dormitory buildings were all erected within the land site of our production facilities), our housing arrangement had been designed in such a way that the Basic Deposit Portion (the amount of which was determined with reference to the reference prices per sq.m. of local public housing as stipulated in local government housing policy documents) would be required to be placed with us in exchange for rent-free occupancy of the family suites. Moreover, we had also made reference to certain features of the local public housing policies in arriving at our point-based deposit and tender system, such as providing points for years of service and the five-year period for full refund of the Installment Position.

Historically, some of our family suites were offered to eligible staff provided by Juneng Holding Group for applications but none of the applications received was successful. Additionally, certain staff of Golden Far East were entitled to participate in our housing benefit schemes in accordance with the terms of the employees arrangement agreement entered into between Golden Corn and Golden Far East in conjunction with the original joint venture contract of Golden Far East (please refer to the sub-paragraph headed “Golden Far East” under the paragraph headed “Corporate development” in the section headed “Corporate development and structure” in this prospectus for further details).

As at the Latest Practicable Date, we had a total of 10 blocks of dormitory buildings providing a total of 124 basic dormitory units (with floor areas of about 20 sq.m. and 90 sq.m.) with over 1,050 occupants, and 324 family suites (with floor area ranging from about 85 sq.m. to 120 sq.m.) housing over 310 families. As at the Latest Practicable Date, about 610 occupants of our basic dormitory units were employees of Golden Corn, while about 370 occupants were among the staff provided by Juneng Holding Group, and about 70 occupants were employees of Golden Far East. Moreover, as at the Latest Practicable Date, a total of 297 family suites were occupied by families of employees of Golden Corn (representing approximately 28% of the total number of employees of our Group on the assumption of one employee of Golden Corn per family suite), while 14 family suites were occupied by families of employees of Golden Far East. Total cost of construction for the 10 blocks of dormitory buildings totaled to some RMB49,223,000. During the Track Record Period, repair and maintenance costs (including cost of provision of utilities) amounted to approximately RMB629,000,

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RMB813,000, RMB945,000 and RMB358,000 respectively. As at the Latest Practicable Date, we had no immediate plan to construct additional dormitory buildings, but we may consider constructing additional basic dormitory units and/or family suites in the future as deemed appropriate depending on the future growth in our headcounts and the demand of our family suites.

During the Track Record Period, the Employee Housing Deposits received were placed with bank accounts of our Group and utilised as part of our working capital. Our Directors do not consider the use of working capital as an indication of difficulties faced by our Group in obtaining bank financing as we had sufficient unutilised banking facilities to cover the full amount of our Employee Housing Deposit outstanding as at each of the three years ended 31 December, 2006. As at each of the three years ended 31 December, 2006 and the four months ended 30 April, 2007, balance of the Basic Deposit Portion of our Employee Housing Deposit amounted to approximately RMB17,021,000, RMB16,935,000, RMB27,292,000 and RMB26,956,000, out of which approximately RMB566,000, RMB566,000, RMB1,476,000 and RMB1,476,000, respectively, were contributed by staff occupants of Golden Far East. As at each of the respective year/period end, balance of the Installment Portion of our Employee Housing Deposit amounted to approximately RMB18,484,000, RMB15,892,000, RMB25,453,000 and RMB25,342,000, out of which approximately RMB473,000, RMB399,000, RMB1,417,000 and RMB1,417,000, respectively, were contributed by staff occupants of Golden Far East. Due to the structured launch dates of the family suites (and accordingly the placements of deposits), we have been able to plan our funding requirements for refunds of the relevant portion of the Employee Housing Deposit in accordance with the terms of the Allocation Policy and the occupancy agreements largely in advance. Since the establishment of Golden Corn in 1998, we had not experienced in sudden or large number of staff resignations. Moreover, since the launch of the Group's staff quarter scheme in 1998, there were less than 20 cases of return of family suites. That said, our Directors consider that taking into consideration our Group's general level of working capital and available banking facilities, our Group will be able to adhere to the terms of refunds should there be a large number of family suites returned to our Group in a short period of time.

As at each of the three years ended 31 December, 2006, refunds of the Installment Portion and, where applicable, Basic Deposit Portion of the Employee Housing Deposit, which amounted to RMB1,328,000, RMB4,016,000 and RMB2,640,000 respectively, were made in accordance with the terms of the Allocation Policy and the occupancy agreements. In addition, refunds of 30% of the Installment Portion of the Employees Housing Fund received in May, 2004, which amounted to approximately RMB3,857,000, were made in May 2007 in accordance with the terms of the Allocation Policy. The aforementioned refunds were funded by our internal resources. The Directors confirm that all staff that had returned their respective family suites or had moved out of the basic dormitory units were fully refunded with their deposits, and that throughout the Track Record Period, the relevant current and non-current Installment Portion of the Employee Housing Deposits were refunded to the respective staff occupants in accordance with the terms of the Allocation Policy when fell due. The Directors further confirm that our Group had not received any complaints in relation to untimely refund of deposits since the commencement of our housing scheme.

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As the Allocation Policy provides for a specific time frame for refund of the Installment Portion of the Employee Housing Deposit which is over one year, the Directors consider it appropriate to adjust the nominal amount received to its fair value at initial recognition based on the imputed interest rate per annum in accordance with Generally Accepted Accounting Principles in Hong Kong. On the other hand, the damage deposits in relation to the single occupancy units of our Group and the Basic Deposit Portion of the Employee Housing Deposit are considered repayable on demand as there is no specific time frame for refund. Accordingly their nominal amounts, which are considered by our Directors to approximate their respective fair value, are reported as at the relevant balance sheet dates in accordance with Generally Accepted Accounting Principles in Hong Kong. Moreover, while the damage deposits in relation to the single occupancy units of our Group are recorded as other payables upon receipt, the Basic Deposit Portion and the Installment Portion of the Employee Housing Deposit are disclosed as separate line items in the consolidated balance sheet of our Group principally for reason of their specific nature.

As advised by our PRC legal advisers, borrowings between citizens and non-financial institutions are protected under the PRC laws save in the case where non-financial institutions conduct illegal fund raising with its employees (“**Illegal Fund Raising**”). According to our PRC legal advisers, our Group’s housing scheme is a non-statutory and non-mandatory benefit scheme established voluntarily by our Group and offered to our staff for voluntary participation. The receipt of Employee Housing Deposit in accordance with the terms of the Allocation Policy is not considered borrowings from employees and there is no debtor and creditor relationship between the Group and the participating employees. The Employee Housing Deposit does not constitute the Group raising funds from its employees and accordingly, it does not contravene any applicable PRC laws and regulations.

We have not entered into any loan agreements with our relevant staff in respect of the Employee Housing Deposit received. Nevertheless, the Allocation Policy and the occupancy agreements that we have entered into with our relevant staff have provided for the full return of the Employee Housing Deposit to our relevant staff. On such basis, our PRC legal advisers advised that the right of our relevant staff for the return of their Employee Housing Deposit paid to us is protected under the PRC laws for reason that they have the contractual right to demand for the return of the Employee Housing Deposit and in the event of non-payment by us in accordance with the terms, legal proceedings could be instituted against us for the return of the Employee Housing Deposit under the provisions of the Law of Civil Proceedings of the PRC (《中華人民共和國民事訴訟法》).

We are advised by our PRC legal advisers that the terms of the Allocation Policy and the abovementioned staff occupancy arrangement are governed by the PRC Contract Law (《中華人民共和國合同法》). and the rights and liabilities of the parties thereto should be regulated by the PRC Contract Law (《中華人民共和國合同法》). We are further advised by our PRC legal advisers that since neither the Allocation Policy nor the occupancy agreements provide any term to restrict use of the Employee Housing Deposits received or the placement of the Employee Housing Deposits received into separate accounts, (a) our Group has the right to determine how to apply the Employee Housing Deposit received for our family suites; (b) the application of the Employee Housing Deposit by our Group as our working capital prior to their return to the relevant staff does not violate the

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Allocation Policy or the occupancy agreements; (c) we are not required under the terms of the Allocation Policy, the occupancy agreements or the laws of the PRC to have the Employee Housing Deposit received under the abovementioned occupancy arrangement placed in a separate account.

Moreover, operations of our housing scheme in respect of the single dormitory units are governed by our 《職工集體宿舍管理規定》 (“Management Policy on Shared Staff Dormitories”*) (the **“Shared Dormitories Policy”**). Although no occupancy agreements are entered into between our Group and staff occupants of our single dormitory units, we are advised by our PRC legal advisers that the Shared Dormitories Policy constitutes a contract between our Group and each of the relevant staff, which is agreed to by the relevant staff voluntarily and acted upon by both parties. As such, the Shared Dormitories Policy is binding on our Group and the relevant staff and their respective rights, including the right of the relevant staff for the refund of the damage deposits upon their return of the dormitory units, are protected under the PRC Contract Law (《中華人民共和國合同法》). In the event of non-refund of the damage deposit by us in accordance with the Shared Dormitories Policy, legal proceedings could be instituted against us for the return of the damage deposit by the relevant staff under the Law of Civil Proceedings of the PRC (《中華人民共和國民事訴訟法》).

Under the deed of indemnity entered into by Merry Boom, Mr. Tian, Mr. Gao and Mr. Guo with and in favour of our Company, each of Merry Boom and Mr. Tian agreed to provide indemnities on a joint and several basis, in respect of, among other matters, any damages, loss or liability which is or hereafter becomes payable by any member of the Group as a direct or indirect result of legal actions initiated by any person or any actions taken by or any penalties imposed by any PRC governmental authorities in relation to any arrangement (including any payment, refund or application) of any deposits or loans (or any money in the nature of deposits or loans) received from or payable to any occupants of the staff quarters of the Group from time to time. (For further details on the terms of the deed of indemnity, please refer to the paragraph headed “Estate duty, tax and other indemnity” in Appendix V to this prospectus.)

Welfare benefits

We have contributed retirement benefits for staff under the employment of our Group in the PRC in accordance with the applicable PRC rules and regulations, and will enroll in a mandatory provident fund scheme for our employees in Hong Kong in accordance with the applicable Hong Kong laws and regulations. We have complied, in all material aspects, with all statutory requirements on retirement contribution in the jurisdictions where we operate.

Share Option Scheme

Our company has conditionally adopted the Share Option Scheme which, in the opinion of our Directors, will enable our Group to recruit and retain high calibre staff and to improve employee loyalty. A summary of the principal terms of the Share Option Scheme which is set out in the paragraph headed “Share Option Scheme” under the section headed “Other information” in Appendix V to this prospectus.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

AUDIT COMMITTEE

We have established an audit committee on 5 September, 2007 with written terms of reference in compliance with Rule 3.21 of Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of our Group and to provide recommendations and advises to our Board. The audit committee comprises four independent non-executive Directors, namely Mr. Yue Kwai Wa, Ken (余季華) as chairman of the audit committee, Ms. Dong Yanfeng (董延豐), Ms. Yu Shumin (余淑敏) and Mr. Cao Zenggong (曹增功).

REMUNERATION COMMITTEE

We have established a remuneration committee on 5 September, 2007 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee include, among other things, (i) evaluating the performance and making recommendations on the remuneration package of our Directors and senior management; and (ii) evaluating and making recommendations on any share option schemes that may be adopted by our Company from time to time. The remuneration committee comprises five Directors, namely Mr. Yue Kwai Wa, Ken (余季華) as chairman of the remuneration committee, Mr. Tian, Ms. Dong Yanfeng (董延豐), Ms. Yu Shumin (余淑敏) and Mr. Cao Zenggong (曹增功).

NOMINATION COMMITTEE

We have established a nomination committee on 5 September, 2007 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duty of the nomination committee is to make recommendations to our Board regarding candidates to fill vacancies on our Board. The nomination committee comprises five Directors, namely Mr. Yue Kwai Wa, Ken (余季華) as chairman of the nomination committee, Mr. Tian, Ms. Dong Yanfeng (董延豐), Ms. Yu Shumin (余淑敏) and Mr. Cao Zenggong (曹增功).

COMPLIANCE ADVISER

We have appointed CCBIC as our Company's compliance adviser pursuant to Rule 3A.19 of the Listing Rules to advise our Company on the following matters in accordance with Rule 3A.23 of the Listing Rules:

- (1) before the publication of any regulatory announcement, circular or financial report;
- (2) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;

DIRECTORS, SENIOR MANAGEMENT AND STAFF

- (3) where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results of operations deviate from any forecast, estimate or other information in this prospectus; and
- (4) where the Stock Exchange makes an inquiry under Rule 13.10 of the Listing Rules (regarding, among other things, unusual movements in the price or trading volume of our Shares).

The terms of appointment of CCBIC as our Company's compliance adviser will commence on the Listing Date and end on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Global Offering, the Loan Capitalisation Issue and the Capitalisation Issue and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted under the Share Option Scheme, the following persons will have an interest or a short position in the Shares or underlying Shares which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or who will be, directly or indirectly, interested in 10% or more of the Shares.

Name	Capacity/nature of interest	Number and class of securities ⁽¹⁾	Approximate percentage of shareholding
Merry Boom	Beneficial owner	350,000,000 Shares	70%
Mr. Tian	Interest of a controlled corporation	350,000,000 Shares ⁽²⁾ (L)	70%

Notes:

(1) The letter “L” denotes long position in the Shares.

(2) These Shares will be held by Merry Boom. Merry Boom is owned as to approximately 54.5833% by Mr. Tian. Mr. Tian is deemed to be interested in all the Shares held by Merry Boom under the SFO.

Save as disclosed above, our Directors are not aware of any other person who will, immediately following completion of the Global Offering, the Loan Capitalisation Issue and the Capitalisation Issue and taking no account of any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted under the Share Option Scheme, be a substantial shareholder (as defined in the Listing Rules) of our Company.

SHARE CAPITAL

The authorised and issued share capital of our Company are as follows:

HK\$

Authorised:

1,000,000,000	Shares	100,000,000
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Issued and to be issued, fully paid or credited as fully paid:

1,500,000	Shares in issue	150,000
500,000	Shares to be issued under the Loan Capitalisation Issue	50,000
348,000,000	Shares to be issued under the Capitalisation Issue	34,800,000
<u>150,000,000</u>	<u>Shares to be issued under the Global Offering</u>	<u>15,000,000</u>
 <u>500,000,000</u>	 Shares	 <u>50,000,000</u>

Assumptions

This table assumes completion of the Global Offering, the Loan Capitalisation Issue and the Capitalisation Issue and the issue of Shares pursuant thereto is made as described herein.

It takes no account of any Shares which may be allotted and issued under the Over-allotment Option or the options which may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors as referred to below or otherwise.

Ranking

The Offer Shares, the Shares to be allotted and issue under the Loan Capitalisation Issue and the Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme will rank equally with all of the Shares now in issue or to be issued, and will qualify for all dividends or other distributions declared, made or paid on the Shares after the date of this prospectus, except for the entitlements under the Capitalisation Issue.

Share Option Scheme

Our Company has conditionally adopted the Share Option Scheme. A summary of the principal terms of the Share Option Scheme is set out in the paragraph headed “Share Option Scheme” under the section headed “Other Information” in Appendix V to this prospectus.

SHARE CAPITAL

General mandate to issue Shares

Conditional on the Global Offering becoming unconditional, the Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with a total nominal value of not more than the sum of:

- i. 20% of the aggregate amount of Shares in issue immediately following completion of the Global Offering, the Loan Capitalisation Issue and the Capitalisation Issue but excluding any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted under the Share Option Scheme; and
- ii. the aggregate nominal amount of the Shares repurchased by our Company (if any) pursuant to the repurchase mandate (as referred to below).

The allotment and issue of Shares under a rights issue or pursuant to the exercise of any subscription rights, warrants which may be issued by our Company from time to time, scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association, or on the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme do not generally require the approval of Shareholders in general meeting and the aggregate nominal amount of Shares which the Directors are authorised to allot and issue pursuant to this mandate will not be reduced by the allotment and issue of such Shares.

This mandate will expire:

- at the end of our Company's next annual general meeting;
- at the end of the period within which our Company is required by law or the Articles of Association to hold our next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, see the paragraph headed "Resolutions in writing of the sole Shareholder of our Company passed on 5 September, 2007" in the section headed "Further information about our Company and our subsidiaries" in Appendix V to this prospectus.

SHARE CAPITAL

General mandate to repurchase Shares

Conditional on the Global Offering becoming unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the total nominal amount of the Shares in issue immediately following completion of the Global Offering, the Loan Capitalisation Issue and the Capitalisation Issue but excluding any Shares to be issued under the Over-allotment Option and the options which may be granted under the Share Option Scheme.

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed “Securities repurchase mandate” in the section headed “Further information about our Company and our subsidiaries” in Appendix V to this prospectus.

This mandate will expire:

- at the end of our Company’s next annual general meeting;
- at the end of the period within which our Company is required by law or the Article of Association to hold our next annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

For further details of this repurchase mandate, see the paragraph headed “Resolutions in writing of the sole Shareholder of our Company passed on 5 September, 2007” in the section headed “Further information about our Company and our subsidiaries” in Appendix V to this prospectus.

FINANCIAL INFORMATION

This section should be read in conjunction with the audited financial information of our Group, including the notes thereto, as set forth in the accountants' report, the text of which is set out in Appendix I to this prospectus. This prospectus contains certain forward-looking statements relating to our Group's plans, objectives, expectations and intentions, which involve risks and uncertainties. Our Group's financial condition could differ materially from those discussed in this prospectus. For factors that could cause or contribute to such differences, please refer to the section headed "Risk factors" and elsewhere in this prospectus.

OVERVIEW

Our Group was founded on 25 July, 1998 when Golden Corn was established to engage in, among other things, the manufacture and sales of cornstarch and ancillary corn-refined products. During the Track Record Period, our corn-refined product pipeline mainly included cornstarch, corn slurry, corn germ, corn fibre and corn gluten meal. Our annual production capacity in respect of cornstarch for each of the three years ended 31 December, 2006 averaged to some 357,000 tonnes, 357,000 tonnes and 404,000 tonnes, with an average utilisation rate of about 89%, 92% and 89% respectively. Our annual production capacity of cornstarch increased to approximately 450,000 tonnes as at 31 December, 2006. During the Track Record Period, our sales of cornstarch amounted to some RMB477,270,000, RMB486,107,000, RMB535,260,000 and RMB188,556,000, representing approximately 48.9%, 51.3%, 51.9% and 46.8%, respectively, of our turnover. For each of three years ended 31 December, 2006 and the four months ended 30 April 2007, our monthly average selling price per tonne of cornstarch fluctuated generally in tandem with the fluctuations of our monthly average purchase price per tonne of corn kernels, and averaged to some RMB1,600, RMB1,571, RMB1,758 and RMB1,923 respectively for each of the three years ended 31 December, 2006 and the four months ended 30 April, 2007. Our sales of other ancillary corn-refined products during the Track Record Period amounted to approximately RMB250,325,000, RMB172,848,000, RMB193,149,000 and RMB75,009,000 and represented approximately 25.7%, 18.2%, 18.7% and 18.6%, respectively, of our turnover. During the Track Record Period, our gross profit margin in respect of the sales of cornstarch and ancillary corn-refined products was about 11.4%, 11.0%, 14.0% and 12.5% respectively.

We expanded into the manufacture and sales of 98.5% L-lysine hydrochloride salt and agricultural fertilisers, an ancillary corn-based product of lysine, through the establishment of Golden Corn Bio-chem on 26 March, 2003, in which Golden Corn had a 70% equity interest at the time of its establishment. Our equity interest in Golden Corn Bio-chem was reduced to 50% pursuant to our equity transfer in November, 2003, as a result of which Golden Corn Bio-chem became our associated company. We assumed the assets and liabilities of Golden Corn Bio-chem and commenced taking over its lysine and agricultural fertilisers production in 2005. Golden Corn Bio-chem was formally de-registered on 23 January, 2006 (Further details relating to the corporate development of Golden Corn Bio-chem are set out in the sub-paragraph headed "Golden Corn Bio-chem" under the paragraph headed "Corporate development" in the section headed "Corporate development and structure" in this prospectus.)

FINANCIAL INFORMATION

Since the establishment of Golden Corn Bio-chem up to the date when we assumed its assets, liabilities and operations, Golden Corn purchased the finished 98.5% L-lysine hydrochloride salt and agricultural fertilisers from Golden Corn Bio-chem for on-sale to final customers. During the Track Record Period, our sales of 98.5% L-lysine hydrochloride salt amounted to some RMB131,544,000, RMB165,420,000, RMB210,700,000 and RMB91,925,000, representing approximately 13.5%, 17.5%, 20.4% and 22.8%, respectively, of our turnover. Annual production capacity in respect of our 98.5% L-lysine hydrochloride salt for each of the three years ended 31 December, 2006 averaged to some 25,000 tonnes, 25,000 tonnes and 27,000 tonnes, with an average utilisation rate of about 39%, 65% and 78%, respectively. Our annual production capacity in respect of 98.5% L-lysine hydrochloride salt increased to about 29,000 tonnes as at 31 December, 2006. While our monthly average selling price per tonne of lysine declined by over 50% from about RMB20,000 for January, 2004 to about RMB8,200 for December, 2005, it had stabilised in the first nine months of 2006 which fluctuated between the range of about RMB9,100 and RMB10,500, then exhibited a brief improvement from about RMB9,300 for the month of September, 2006 to about RMB13,300 for the month of December, 2006, and returned to a level comparable to the first nine months of 2006 and fluctuated within the range of about RMB10,309 to RMB10,698 during the four months ended 30 April, 2007. Sales of agricultural fertilisers, on the other hand, amounted to some RMB9,913,000, RMB15,835,000, RMB15,146,000 and RMB4,631,000 and represented approximately 1.0%, 1.7%, 1.5% and 1.2%, respectively, of our turnover during the Track Record Period. Based on the audited financial results of our Group, during the Track Record Period (for which the results of Golden Corn Bio-chem during the period from 1 January, 2004 up to the date when we assumed its assets, liabilities and operations in 2005 was equity accounted for), our sales of L-lysine hydrochloride salt and agricultural fertilisers achieved a gross profit/(loss) margin of approximately (0.9)%, 6.8%, 31.5% and 32.1% respectively. For the year ended 31 December, 2004 and during the period from 1 January, 2005 up to the date when we assumed its assets, liabilities and operations, Golden Corn Bio-chem reported unaudited turnover of approximately RMB142,380,000 and RMB85,076,000 and unaudited profit after tax of approximately RMB5,989,000 and RMB1,820,000 respectively, and contributed approximately RMB2,995,000 and RMB910,000 respectively to our share of results from associates.

In addition to the sales of corn-refined and corn-based products, we have been engaging in the sales of steam and electricity since 1999 serving principally local customers in Shouguang City. Our co-generation power plant comprised three power generator systems with sufficient capacity to cater for our external sales of steam and electricity as well as to support our internal production needs. During the Track Record Period, our sales of steam and electricity amounted to some RMB106,702,000, RMB107,995,000, RMB77,251,000 and RMB42,863,000 and represented approximately 10.9%, 11.4%, 7.5% and 10.6%, respectively, of our turnover. More particularly, for each of the three years ended 31 December, 2006 and the four months ended 30 April, 2007, our sales of steam amounted to some RMB42,047,000, RMB49,284,000, RMB47,183,000 and RMB42,863,000, while our sales of electricity amounted to some RMB64,655,000, RMB58,711,000, RMB30,068,000 and RMBnil, respectively. We had temporarily suspended our sales of electricity since October, 2006 following conversion of Golden Corn into a wholly foreign owned enterprise, pending confirmation from the relevant authority as to whether additional approval requirement was required for Golden Corn to continue its sales of electricity as a wholly foreign owned enterprise. As an interim measure, we had adjusted the production level of steam and electricity to increase our sales of steam. Following positive confirmation that no additional approval requirement was

FINANCIAL INFORMATION

required, we have applied for, and have accordingly been granted a revised business licence of Golden Corn on 8 June, 2007 with an expanded business scope to include the sales of electricity. Since the grant of Golden Corn's revised business licence on 8 June, 2007, our connection cables for transmission of electricity to the local electricity network have been refurbished, pursuant to which we re-commenced our sales of electricity in August, 2007. During the Track Record Period, sales of steam and electricity reported gross profit margin of approximately 38.7%, 33.3%, 28.6% and 31.7% respectively.

We also own 49% of the equity interest of Golden Far East, our associated company established on 25 September, 2004, which is principally engaged in the manufacture and sales of modified starch. CPI, being our joint venture partner holding the remaining 51% equity interest of Golden Far East, is an international renowned producer of corn-refined and starch-based ingredients with a corporate history of over 100 years and is listed on the New York Stock Exchange. Golden Corn had provided starch paste (as a major raw material for the production of modified starch), water, steam, electricity, water treatment services and sales support services to Golden Far East during the Track Record Period. During the Track Record Period, Golden Far East reported unaudited turnover of approximately RMB2,859,000, RMB67,278,000, RMB112,241,000 and RMB44,608,000, and unaudited net loss after tax of about RMB18,000, unaudited net profit after tax of about RMB1,795,000 and unaudited net loss after tax of about RMB7,092,000 and RMB1,887,000, respectively. Contributions from Golden Far East to our share of results/(loss) from associates during the Track Record Period amounted to some (RMB9,000), RMB880,000, (RMB3,475,000) and (RMB1,237,000) respectively. As at 31 December, 2006, the annual modified starch production capacity of Golden Far East averaged to some 104,000 tonnes.

FACTORS AFFECTING OUR FINANCIAL RESULTS

Set out below are factors which our Directors consider have affected our business and historical financial results, and which may also affect our future financial results:

The prices of corn kernels and coal

Corn kernel is the principal raw material for the production of our corn-refined and corn-based products. During the Track Record Period, we consumed a total of about 468,000 tonnes, 475,000 tonnes, 508,000 tonnes and 170,000 tonnes, respectively, of corn kernels for our products sold. While our monthly average purchase price of corn kernels fluctuated in the range of about RMB1,047 per tone to about RMB1,380 per tonne during the Track Record Period, it fluctuated within the range of about RMB1,068 and RMB1,268 in 2004 with an apparent peak in July and August followed by a general downward trend. Furthermore, we have noted, in general, a lower level of monthly average price in 2005, which fluctuated within the range of about RMB1,047 per tonne and RMB1,147 per tonne, followed by a progressive increase since 2006 from around RMB1,050 per tonne in January, 2006 to around RMB1,365 per tonne in April, 2007. During the Track Record Period, our total cost of corn kernels amounted to approximately RMB554,459,000, RMB523,844,000, RMB601,921,000 and RMB228,875,000, representing about 65.0%, 63.3%, 72.0% and 70.3%, respectively, of our cost of goods sold.

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We also operate our own power plant which consumes coal as its principal raw material. During the Track Record Period, we consumed a total of some 219,000 tonnes, 249,000 tonnes, 228,000 tonnes and 97,000 tonnes of coal respectively. We have experienced a significant increase in the monthly average price per tonne of coal in 2004 from about RMB350 in January to about RMB477 in December. Nevertheless, our monthly average purchase price of coal had stabilised since 2005, which fluctuated in the range of about RMB430 per tonne and RMB495 per tonne up to April, 2007. During the Track Record period, our total cost of coal amounted to approximately RMB93,661,000, RMB119,396,000, RMB105,792,000 and RMB46,677,000, which represented some 11.0%, 14.4%, 12.7% and 14.3%, respectively, of our cost of goods sold.

While the continuous growth in the PRC corn refinery industry has exerted an upward pricing pressure on corn in the recent years, the State intends to suppress the speed of increase of corn price in the PRC. In particular, the National Development and Reform Commission (國家發展和改革委員會) issued a notice on 8 December 2006 (taking effect on the same date) to halt approval and filing of any new corn refinery projects in order to prevent further overheating the demand of corn in the PRC, and it is anticipated that the national corn price in 2007 will have a steady growth. Nonetheless, should there be any substantial increase in our purchase prices of corn kernels and/or coal in the future and we are unable to pass on the increased cost to our customers without significantly affecting the demand for our products, our financial results would be adversely affected.

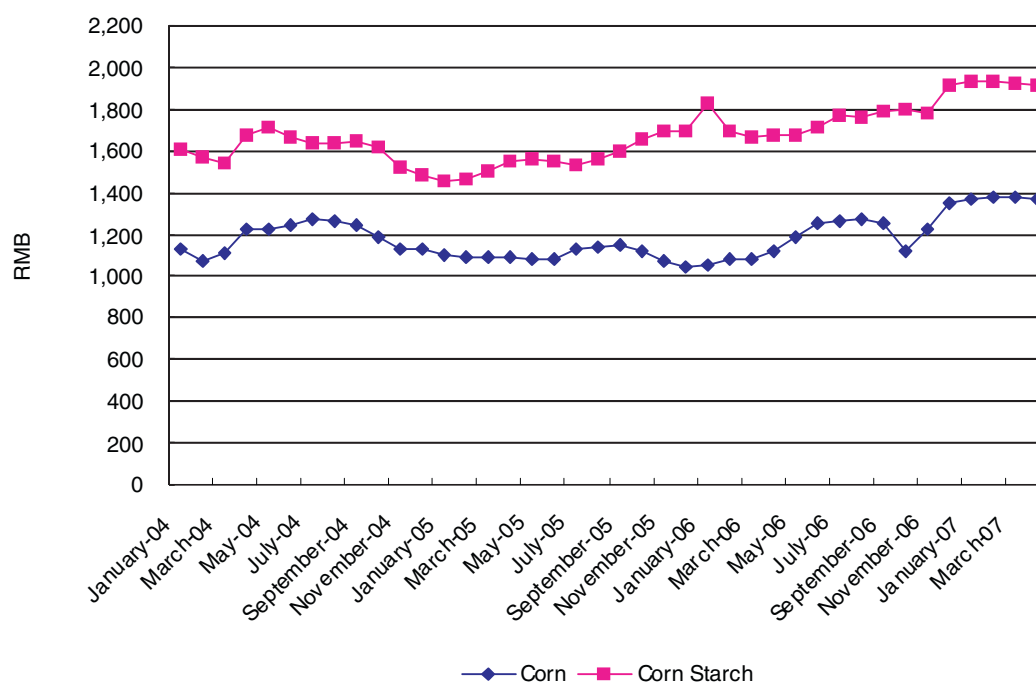
The supply of corn kernels

We source our corn kernels principally from individual farmers in the PRC. Due to the rapid growth in China's corn demand, the total sown area of farmland dedicated for corn growing in the PRC increased from approximately 23.1 million hectares to approximately 26.4 million hectares during the years between 2000 and 2005, resulting in an increase in the annual corn production volume. In particular, during the years between 2000 and 2005, total annual corn output in the PRC increased from approximately 106 million tonnes to approximately 139 million tonnes. Our production base is situated in Shandong province which is one of the top corn growing provinces in the PRC, which enables us to maintain a relatively stable supply of corn kernels and control our sourcing and transportation costs more effectively. That said, based on the industry experience of our Directors, the supply of corn kernels may be affected by general market conditions, government policies and natural disasters such as droughts, floods or earthquakes. Any significant shortage in the supply of corn kernels in the future may result in disruption in our production or significantly increasing our cost of corn kernel purchases, adversely affecting our business and financial results.

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The selling price of our cornstarch and 98.5% L-lysine hydrochloride salt

During the Track Record Period, our monthly average selling price per tonne of cornstarch fluctuated generally in tandem with the fluctuations of our monthly average purchase price per tonne of corn kernels, and averaged to some RMB1,600, RMB1,571, RMB1,758 and RMB1,923 respectively for each of the three years ended 31 December, 2006 and the four months ended 30 April, 2007. The following chart sets out the movements of our average selling prices of cornstarch against our average purchase prices of corn during the Track Record Period:



The prices of cornstarch in China has been on an upward trend. Fueled by anticipated growth in the production of ethanol and glucose as well as other cornstarch consumption industries such as pharmaceutical, industrial chemical, food and beverage and paper, the price of cornstarch is expected to continue to grow in the coming years.

China had experienced a sluggish lysine market in 2005 due to, among other factors, surplus in lysine production, the human case of pig streptococcus and the outbreak of the avian flu, leading to a downward trend on lysine price. Our monthly average selling price per tonne of lysine declined by over 50% from about RMB20,000 in January, 2004 to about RMB8,200 in December, 2005. Nevertheless, it had stabilised in the first nine months of 2006 which fluctuated between a range of about RMB9,100 and RMB10,500, then exhibited a brief improvement from about RMB9,300 for the month of September, 2006 to about RMB13,300 for the month of December, 2006, and returned to a level comparable to the first nine months of 2006 and fluctuated within the range of about RMB10,309 to about RMB10,698 during the four months ended 30 April, 2007.

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Our internal sales pricing committee provides recommendations for selling price of our cornstarch and lysine on a regular basis. When formulating their recommendations, they take into account, among other factors, the prevailing and estimated general price level of starch and lysine products. Therefore, the selling prices of our cornstarch and lysine are susceptible to such general price levels prevailing in the market. Should there be a significant decline in prices of our cornstarch and lysine in the future and we are unable to pass on the pricing pressure to our raw materials suppliers, our financial results may be adversely affected.

Our production capacity

During each of the three years ended 31 December, 2006, our annual production capacity of cornstarch averaged to some 357,000 tonnes, 357,000 tonnes and 404,000 tonnes, with an average utilisation rate of about 89%, 92% and 89% respectively. During the corresponding periods, our annual production capacity of 98.5% L-lysine hydrochloride salt averaged to some 25,000 tonnes, 25,000 tonnes and 27,000 tonnes, with an average utilisation rate of about 39%, 65% and 78% respectively. As at 31 December, 2006, our annual cornstarch and lysine production capacity increased to approximately 450,000 tonnes and 29,000 tonnes respectively. It is one of our business strategies to increase our annual cornstarch and lysine production capacity to about 800,000 tonnes and 35,000 tonnes respectively by the end of 2007, and further to about 1,050,000 tonnes and 55,000 tonnes respectively by the end of 2008.

To facilitate the above planned expansion in production capacity, it is part of our future plan to acquire additional production capacity from small-to-medium-sized cornstarch and/or lysine producers(s). In formulating this business strategy, our Directors have taken into account the notice issued on 8 December, 2006 (taking effect on the same date) by the National Development and Reform Commission (國家發展和改革委員會), which aims to halt approval and filing of any new corn refinery projects and only allow those plants that meet relevant production and environmental standards to continue the production, and recommends large corn refinery enterprises to acquire those small and non-profitable corn refinery companies in order to consolidate and increase the production efficiency of the whole industry.

We consider that our future success depends, to a large extent, on our ability to materialise our planned expansion in production capacity to support our goal of capturing an increasing market share.

Our ability to successfully develop and commercialise new products

It is one of our business strategies to expand our product pipeline to include cornstarch of variable formulations and/or other types of starch products, expand our product offerings to include 65% lysine and threonine and, depending on future developments of market conditions, expand vertically into the provision of starch-based sweeteners in a longer run. We consider that these proposed new products are generally founded on similar production technologies we already possess. That said, there is no assurance that we may be able to successfully develop and

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commercialise any or all such new products in the time frame as deemed favourable to our Group. There is no assurance that we would be successfully granted with all necessary licenses, approvals and permits to engage in the production of any or all such new products, or that we would be able to procure customers and orders for these new products to our satisfaction following their commercialisation. The successful development, commercialisation and marketing of our new products will have a material impact on our future business prospects and financial performance.

CRITICAL ACCOUNTING POLICIES

The consolidated financial statements of our Group have been prepared on the historical cost basis.

The consolidated financial statements of our Group have been prepared in accordance with the following accounting policies which conform to the new Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). These policies have been consistently applied throughout the Track Record Period. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Companies Ordinance. The principal accounting policies adopted by our Group in preparation of the financial statements are set out in note 3 to the accountants’ report, the text of which is set out in Appendix I to this prospectus.

In the application of our Group’s accounting policies, our management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily available from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The following are the critical accounting policies of our Group which we believe involve the most significant estimates and judgements used in the preparation of our financial statements.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes income statement items that are never taxable or deductible. Our Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Property, plant and equipment

Property, plant and equipment, other than those under construction, are stated at cost less subsequent depreciation and impairment losses.

Properties and equipment under construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of items of property, plant and equipment other than those under construction on a straight-line basis as follows:

Buildings	15 to 35 years
Plant and machinery	8.33% to 20% per annum
Motor vehicles	16.67% per annum
Other machinery	10% to 25% per annum

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continue use of the assets. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

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Impairment loss (other than goodwill)

At each balance sheet date, our Group reviews the carrying amounts of our assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using weighted average method.

Our Group assesses periodically if the inventories have been suffered from any impairment in accordance with the relevant accounting policy. Our management reviews an aging analysis at each balance sheet date, and makes allowances for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. Our management estimates the net realisable value for such finished goods, work in progress and raw material primarily based on the estimated future selling price and market conditions. Our Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete and slow-moving items. Where the estimates of the net realisable value are less than expected, a material allowance may arise. No impairment was recognised as of 31 December, 2004, 2005 and 2006 and 30 April, 2007.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Our Group's financial assets are classified into either loans and receivables or available-for-sale investments.

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Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be readily measured are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss where there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, bank acceptance bills receivable, amounts due from a subsidiary or related companies, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definition of a financial liability and an equity instrument. An equity instrument is any contract that evidence a residual interest in the assets of the group after deducting all of its liabilities.

Financial liabilities

Financial liabilities including bank and other borrowings, trade and other payables and bills payable are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by our Company are recorded at the proceeds received, net of direct issue costs.

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Trade and notes receivables

Trade and notes receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows as expected by management discounted at the original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Our Group's major financial instruments include equity investments, borrowings, trade receivables, trade and bills payables, bank balances and cash amount due from/to related companies or subsidiary. Details of these financial instruments are disclosed in respective notes to the accountants' report, the text of which is set out in Appendix I to this prospectus. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Our management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Capital risk management

Our Group manages its capital to ensure that entities in our Group will be able to continue as a going concern while maximising the return to our shareholders through the optimisation of the debt and equity balance.

The capital structure of our Group consists of debt, which includes loans and borrowings, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained profits and the consolidated statements of changes in equity.

The management of our Group reviews the capital structure periodically. As a part of this review, our management considers the cost of capital and the risks associated with each class of capital. Our Group will balance its overall capital structure through the payment of dividends, new share issues as well as issue of new debt. Our Group's overall strategy remains unchanged from 2006.

Financial risk management objectives and policies

Our Group's major financial instruments include borrowings, trade and note receivables, trade and bills payables, pledged bank deposit, bank balances and cash and amounts due from to related companies or subsidiary. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Our management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

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Credit risk management

Our Group's maximum exposure to credit risk which will cause a financial loss to our Group due to failure to discharge an obligation by the counterparties and financial guarantees issued by our Group is arising from:

- the carrying amounts of the respective recognised financial assets as stated in the consolidated balance sheet; and
- the amount of the financial guarantees contingent liabilities.

Before accepting any new customer, our Group assesses the creditability of each of the potential customer's credit quality and defines credit limits by customer. Credit limit and terms are reviewed on an on-going basis.

In order to minimise the credit risk, the management of our Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In determining whether allowance for bad and doubtful debts is required, our Group takes into consideration the aging status and the likelihood of collection. Following the identification of doubtful debts, the responsible sales personnel discuss with the relevant customers and report on the recoverability, specific allowance is only made for trade receivable that are unlikely to be collected. In this regards, our Directors are satisfied that this risk is minimal and adequate allowance for doubtful debts, if any, has been made in the financial statements after assessing the collectability of individual debts. The credit risk on liquid funds is limited because the counterparties are reputable banks in the PRC.

Our Group has no significant concentration of credit risk in respect of the trade and other receivables, with exposure spread over a number of counterparties and customers.

Our Group reviews the recoverable amount of the amount due from an associate at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amount. In this regard, our Directors consider that our Group's credit risk is significantly reduced.

Liquidity risk management

To manage the liquidity risk, our Group monitors and maintains a level of cash and cash equivalents deemed adequate by our management to finance our Group's operations and mitigate the effects of fluctuations in cash flows.

Our Group relies on borrowings as a significant source of liquidity.

Interest rate risk

Our Group has exposed to fair value and cash flow interest rate risks due to the fluctuation of the prevailing market interest rate on bank deposits and bank borrowings which comprise both fixed, subject to negotiation on annual basis, and variable rates borrowings. Our Group's fair value interest rate risk relates primarily to our fixed rate bank borrowings. Our Group has not used any derivative contracts to hedge our exposure to interest rate risk. Our Group has not formulated a policy to manage the interest rate risk.

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Our bank borrowings comprise both fixed, subject to negotiation on annual basis, and variable rates borrowings, thus exposing our Group to fair value and cash flow interest rate risks.

Foreign currency risk management

Our Group undertakes certain transactions denominated in foreign currencies, hence, exposures to exchange rate fluctuations arise. Our Group manages the foreign currency risk by closely monitoring the movement of the foreign currency rate. Our Group is mainly exposed to United State Dollars (US Dollars) and Hong Kong Dollars.

Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

Our Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Except as detailed in the following table, our Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values:

	At 31 December						At 30 April	
	2004		2005		2006		2007	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities:								
Employee housing deposits								
— Installment portion	16,344	16,707	14,319	14,582	22,509	22,656	22,671	22,736
Loan from Merry Boom Group Limited	—	—	—	—	123,644	123,897	123,977	124,151

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

Turnover

Turnover represents sales of cornstarch, ancillary corn-refined products, lysine, agricultural fertilisers and steam and electricity, and is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts and sales related taxes. Sales of goods are recognised when goods are delivered and title has passed.

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Cost of goods sold

Cost of goods sold includes cost of corn kernels, coal, consumables, utilities, labour, depreciation, as well as other manufacturing costs that relate to our sales of cornstarch, ancillary corn-refined products, lysine, agricultural fertilisers and steam and electricity.

Other income

Other income comprises principally sales of scrap materials, commission income, government grants, certain gain and discount arising from our investments in associated companies, and amortisation of staff quarter rental income and steam pipeline construction income.

Investment income

Investment income comprises interest on bank deposits and amounts due from a related company.

Distribution expenses

Distribution expenses comprise mainly transportation charges, salaries and commissions, export expenses and other expenses.

Administrative expenses

Administrative expenses comprise mainly salary and staff benefits, entertainment, depreciation and amortisation, research and testing, and other expenses.

Finance costs

Finance costs represent interests on bank borrowings and loans from related companies, as well as imputed interests on deposits received for occupancy of staff quarters and loan from shareholder.

Share of results of associates

Share of results of associates comprises our Company's share of results of Golden Corn Bio-chem and Golden Far East.

Taxation

We are subject to the income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of our Group are domiciled and operate. We were not liable for income tax in Hong Kong as we did not have assessable income arising in Hong Kong during the Track Record Period.

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TRADING RECORD

Set out below is a summary of the audited consolidated financial statements of our Group for the Track Record Period, which is extracted from the accountants' report set forth in Appendix I to this prospectus:

Consolidated Income Statements

	Notes	Year ended 31 December,			Four months ended 30 April,	
		2004	2005	2006	2006	2007
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i>
Turnover						
- Cornstarch and by-products		727,595	658,955	728,409	207,196	263,565
- Lysine and by-products		141,457	181,255	225,846	53,266	96,556
- Steam and electricity		106,702	107,995	77,251	34,509	42,863
		975,754	948,205	1,031,506	294,971	402,984
Cost of goods sold		(852,903)	(827,650)	(836,267)	(238,209)	(325,339)
Gross profit		122,851	120,555	195,239	56,762	77,645
Other income		9,212	9,033	10,631	3,207	2,212
Investment income		1,009	2,411	4,632	1,709	878
Distribution expenses		(26,792)	(26,720)	(31,944)	(9,120)	(11,892)
Administrative expenses		(12,338)	(17,180)	(25,568)	(6,645)	(10,508)
Finance costs		(6,100)	(12,403)	(16,359)	(5,600)	(6,413)
Share of results of associates		2,986	1,790	(3,475)	(198)	(1,237)
Profit before taxation		90,828	77,486	133,156	40,115	50,685
Taxation		(26,883)	3,105	(18,766)	(11,374)	—
Profit for the year		<u>63,945</u>	<u>80,591</u>	<u>114,390</u>	<u>28,741</u>	<u>50,685</u>
Attributable to:						
Parent		31,979	40,918	66,574	15,688	50,685
Minority interests	1	<u>31,966</u>	<u>39,673</u>	<u>47,816</u>	<u>13,053</u>	<u>—</u>
		<u>63,945</u>	<u>80,591</u>	<u>114,390</u>	<u>28,741</u>	<u>50,685</u>
Dividends	2	<u>—</u>	<u>—</u>	<u>108,000</u>	<u>108,000</u>	<u>20,793</u>

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		Year ended 31 December,			Four months ended 30 April,	
Notes		2004	2005	2006	2006	2007
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Attributable to:						
Parent		—	—	58,950	58,950	20,793
Minority interests		—	—	49,050	49,050	—
		<u>—</u>	<u>—</u>	<u>108,000</u>	<u>108,000</u>	<u>20,793</u>
Earnings per share - basic	3	RMB0.1218	RMB0.1559	RMB0.2536	RMB0.0598	RMB0.1931

Notes:

- (1) The aggregate ultimate beneficial interest of our Founding Shareholders in our Group (which represented 100% equity interest in Golden Corn) has remained unchanged since 27 October, 2005. However, on the basis of Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants in November, 2005, our audited consolidated financial statement reported minority interests of approximately RMB31,966,000, RMB39,673,000 and RMB47,816,000 respectively for each of the three years ended 31 December, 2006, which represented: (i) the equity interest of approximately 20.82%, 20.83% and 8.33% of Golden Corn held by Zhang Junhua (張軍華), Li Mingwen (李明文) and Juneng Electricity Group respectively during the period from 1 January, 2004 up to 26 October, 2005; and (ii) the equity interest of 25.00% and approximately 16.67% of Golden Corn held by Mr. Gao and Mr. Guo respectively, together with the aggregate equity interest of approximately 3.75% of Golden Corn attributable to the shareholders of Juneng Holding Group other than Mr. Tian during the period from 27 October, 2005 up to 28 November, 2006, being the day immediately preceding the date of incorporation of our Company and completion of the Reorganisation. Upon completion of the Reorganisation on 29 November, 2006, Golden Corn became an indirect wholly owned subsidiary of our Company. Therefore, there was no minority interest since 29 November, 2006 from the perspective of our Company and we ceased to have any minority interest thereafter.
- (2) On 10 January, 2006, Golden Corn declared dividends to its then shareholders in the amount of RMB108,000,000 in respect of the financial year ended 31 December, 2005 which were fully paid out as at 31 July, 2007 funded by internal resources. On 20 March, 2007, our Company declared dividends to Merry Boom in the amount of HK\$21,000,000 which were fully paid out as at 31 March, 2007 funded by internal resources.
- (3) The calculation of basic earnings per share is based on the consolidated profit attributable to parent of our Company for the Track Record Period and on 262,500,000 Shares in issue, assuming the Capitalisation Issue as described in the section headed “Statutory and General information” in Appendix V to this prospectus occurred on 1 January, 2004.

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Consolidated Balance Sheet

	The Group			
	At 31 December,			At 30 April,
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	326,567	443,885	433,876	421,014
Prepaid lease payments	25,025	36,034	35,099	34,739
Interests in associates	55,586	24,919	21,875	20,782
Available-for-sale investment	—	1,000	—	—
Deferred tax assets	6,108	8,614	1,368	1,368
Investment in a subsidiary	—	—	—	—
Amount due from a subsidiary	—	—	—	—
	<u>413,286</u>	<u>514,452</u>	<u>492,218</u>	<u>477,903</u>
Current assets				
Inventories	53,266	85,682	115,915	100,885
Prepaid lease payments	716	954	941	939
Trade and other receivables	168,867	121,671	138,352	173,182
Amounts due from related companies	174,398	40,891	2,000	99
Pledged bank deposits	20,060	67,685	37,500	2,000
Bank balances and cash	79,743	53,930	55,976	54,904
	<u>497,050</u>	<u>370,813</u>	<u>350,684</u>	<u>332,009</u>
Current liabilities				
Trade and other payables	257,448	137,397	99,537	111,833
Amounts due to related companies	31,233	—	14,265	1,818
Dividend payable	24,983	1,271	78,500	48,500
Income tax payable	31,261	18,326	19,881	14,381
Employee housing deposits				
Basic deposit portion	17,021	16,935	27,292	26,956
Installment portion	2,589	2,640	4,153	4,042
Borrowings	199,955	303,166	101,608	44,252
	<u>564,490</u>	<u>479,735</u>	<u>345,236</u>	<u>251,782</u>
Net current assets/(liabilities)	<u>(67,440)</u>	<u>(108,922)</u>	<u>5,448</u>	<u>80,227</u>
Total assets less current liabilities	<u>345,846</u>	<u>405,530</u>	<u>497,666</u>	<u>558,130</u>

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	The Group			
	At 31 December,			At 30 April,
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current liabilities				
Employee housing deposits				
Installment portion	13,755	11,679	18,356	18,629
Borrowings	103,000	82,750	283,394	313,727
Deferred income	9,019	10,438	12,131	12,097
	<u>125,774</u>	<u>104,867</u>	<u>313,881</u>	<u>344,453</u>
Net assets	<u>220,072</u>	<u>300,663</u>	<u>183,785</u>	<u>213,677</u>
Capital and reserves				
Paid-in capital	60,012	65,500	—	—
Share capital	—	—	151	151
Reserves	43,464	53,610	149,317	149,317
Retained earnings	6,582	45,001	34,317	64,209
Equity attributable to parent	110,058	164,111	183,785	213,677
Minority interests	110,014	136,552	—	—
Total equity	<u>220,072</u>	<u>300,663</u>	<u>183,785</u>	<u>213,677</u>

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MANAGEMENT DISCUSSION AND ANALYSIS

Set out below is the discussion and analysis on the results of operations and major balance sheet items of our Group during the Track Record Period. The following discussion should be read in conjunction with the financial information of our Group, and related notes and other financial data in the accountants' report, the text of which is set out in Appendix I to this prospectus.

Results of operations of our Group

(a) Turnover

Turnover of our Group comprised principally sales of (i) cornstarch and ancillary corn-refined products; (ii) 98.5% L-lysine hydrochloride salt and agricultural fertilisers; and (iii) steam and electricity. The following is a breakdown on our turnover by product type during the Track Record Period:

	For the year ended 31 December,						For the four months ended 30 April,			
	2004 (audited)		2005 (audited)		2006 (audited)		2006 (unaudited)		2007 (audited)	
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%
Cornstarch	477,270	48.91	486,107	51.27	535,260	51.89	153,773	52.13	188,556	46.79
Ancillary corn-refined products:										
- Corn slurry	5,120	0.52	2,910	0.31	864	0.08	263	0.09	451	0.11
- Corn germ	79,883	8.19	68,903	7.26	78,991	7.66	20,863	7.07	33,312	8.26
- Corn fibre	42,397	4.35	33,755	3.56	41,571	4.03	12,135	4.11	18,532	4.60
- Corn gluten meal	79,241	8.12	67,253	7.09	71,602	6.94	20,162	6.84	22,714	5.64
- Modified starch	43,684	4.47	27	0.00	121	0.01	—	—	—	—
Total ancillary corn-refined products	250,325	25.65	172,848	18.22	193,149	18.72	53,423	18.11	75,009	18.61
L-lysine hydrochloride salt	131,544	13.48	165,420	17.45	210,700	20.43	47,352	16.05	91,925	22.81
Ancillary corn-based product:										
- Agricultural fertilisers	9,913	1.02	15,835	1.67	15,146	1.47	5,914	2.01	4,631	1.15
Steam and electricity	106,702	10.94	107,995	11.39	77,251	7.49	34,509	11.70	42,863	10.64
Total turnover	975,754	100.00	948,205	100.00	1,031,506	100.00	294,971	100.00	402,984	100.00

During the year ended 31 December, 2004, our sales of cornstarch amounted to some RMB477,270,000 and represented approximately 48.91% of our turnover. Sales of ancillary corn-refined products amounted to approximately RMB250,325,000 and represented approximately 25.65% of our total turnover. Corn germ and corn gluten meal were our major ancillary corn-refined products during the year, which together accounted for some 63.57% of our sales of ancillary corn-refined products. During the captioned financial year, sales of lysine amounted to about RMB131,544,000 and represented some 13.48% of our turnover, while sales of agricultural fertilisers were immaterial and contributed only about 1.02% to our total turnover. As our lysine

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production plant was still at its initial stage of operations, there had been continuous fine-tuning of our production technologies and formulations during the year. Moreover, we were still in the stage of initial market development for our lysine and ancillary products during the year. As a result, we only reported relatively limited sales of lysine and agricultural fertilisers.

For the year ended 31 December, 2004, our sales of steam and electricity amounted to approximately RMB106,702,000 and represented approximately 10.94% of our turnover. During the year, sales of steam totaled to about RMB42,047,000, out of which about RMB21,136,000 (about 50.27%) were arising from sales to Golden Corn Bio-chem, and about RMB72,000 (about 0.17%) were arising from sales to Golden Far East. Sales of electricity, on the other hand, totaled to about RMB64,655,000, out of which about RMB19,942,000 (about 30.84%) were arising from sales to Golden Corn Bio-chem, and about RMB84,000 (about 0.13%) were arising from sales to Golden Far East.

Overall turnover declined slightly by about 2.82% for the year ended 31 December, 2005 for a combination of reasons. Despite a slight decline in our average selling price per tonne of cornstarch for the captioned year which was in tandem with the decline of the prices of corn kernels during the year, we achieved a slight increase in sales of about RMB8,837,000 in cornstarch due to increase in tonnage sales, from about 298,365 tonnes in 2004 to about 309,474 tonnes in 2005. Our Directors attribute the said increase mainly to increased demand of our cornstarch from some of our customers and our expanded customer base. Nevertheless, sales of our ancillary corn-refined products reduced by about RMB77,477,000 in 2005 compared to that in 2004 mainly due to the decline in sales of modified starch. During the year, production and sales of modified starch were principally taken over by Golden Far East following its commencement of business, and its results were equity accounted for by our Company. During the year, corn germ and corn gluten meal continued to be our major ancillary corn-refined products and together accounted for some 78.77% of our sales of ancillary corn-refined products.

Compared to the previous financial year, our sales of lysine for the year ended 31 December, 2005 increased significantly by some 25.75% from approximately RMB131,544,000 in 2004 to approximately RMB165,420,000 in 2005 despite a steep decline in our lysine selling price (which averaged to some RMB14,731 per tonne for 2004 and RMB9,790 per tonne for 2005), mainly as a result of increased tonnage sales. In particular, sales in tonnage of lysine increased from about 8,929 tonnes in 2004 to 16,896 tonnes in 2005, represented an increase of about 89.23%. Sales of agricultural fertilisers also increased significantly by approximately 59.74% compared to that of the previous financial year, from approximately RMB9,913,000 in 2004 to approximately RMB15,835,000 in 2005. The said increases can be attributable to our comparably more stabilised production technologies and formulations for lysine production in 2005 which enabled us to increase our production, and our progress in expanding our customer base.

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Our overall sales of steam and electricity remained relatively stable for the year ended 31 December, 2005 compared to that of the previous financial year, which amounted to about RMB107,995,000 and represented approximately 11.39% of our total turnover. During the year, our sales of electricity reduced by about RMB5,944,000 (about 9.19%) to about RMB58,711,000 mainly due to the discontinuance of sales to Golden Corn Bio-chem following the assumption of its assets, liabilities and operations by Golden Corn in the second half of 2005. During the year, sales of electricity to Golden Corn Bio-chem and Golden Far East amounted to some RMB9,509,000 and RMB1,532,000, and represented approximately 16.20% and 2.61% respectively of our total sales of electricity. On the other hand, our sales of steam amounted to approximately RMB49,284,000 for the year ended 31 December, 2005, which represented an increase of some RMB7,237,000 (about 17.21%) from the previous financial year. The notable increase despite the discontinuance of sales to Golden Corn Bio-chem in the second half of 2005 was mainly a result of increased sales to other third parties (from about RMB20,839,000 in 2004 to about RMB34,137,000 in 2005). During the year, sales of steam to Golden Corn Bio-chem and Golden Far East amounted to some RMB13,893,000 and RMB1,254,000, and represented approximately 28.19% and 2.54% respectively of our total sales of steam to third parties.

While total turnover for the year ended 31 December, 2006 improved moderately by approximately 8.79% to about RMB1,031,506,000, sales of our two major products, namely cornstarch and L-lysine hydrochloride salt, improved significantly by some RMB49,153,000 (approximately 10.11%) and RMB45,280,000 (approximately 27.37%) respectively compared to the previous financial year. Although our tonnage sales of cornstarch reduced marginally from about 309,474 tonnes in 2005 to about 304,556 tonnes in 2006, our average selling price of cornstarch improved from about RMB1,571 per tonne for 2005 to about RMB1,758 per tonne in 2006, resulting in a net increase in sales revenue. While both our production capacity and actual production of cornstarch increased in 2006, our actual tonnage sales declined slightly mainly due to the increased internal consumption for the production of lysine. On the other hand, both the average selling price and tonnage sales of our lysine showed improvement for the year ended 31 December, 2006. Tonnage sales of our lysine increased from about 16,896 tonnes for 2005 to about 20,151 tonnes for 2006 and represented an increase of some 19.26%, mainly as a result of increasing customer acceptance of our lysine and our expanded customer base during the year. Average selling price per tonne of lysine also improved from around RMB9,790 for 2005 to about RMB10,456 for 2006. In particular, our average selling price of lysine improved rather significantly for the last three months of 2006 in tandem with the movement of general lysine market price, where it was increased from about RMB9,300 per tonne in September to about RMB13,300 per tonne in December, 2006.

There was a notable decrease in our sales of steam and electricity by some RMB30,744,000 (about 28.47%) for the year ended 31 December, 2006 mainly as a result of our reduced sales of electricity by some RMB28,643,000 (about 48.79%) to about RMB30,068,000. Our Directors attributed the said reduction in sales of electricity mainly to the following reasons: (i) the full-year effect of the assumption of assets, liabilities and operations of Golden Corn Bio-chem, which significantly increased our internal consumption and reduced our external sales to the corresponding extent; (ii) a slower external demand for our electricity during the year; and (iii) the suspension of sales of electricity since October, 2006 pursuant to the conversion of Golden Corn into a wholly foreign owned enterprise. During the year, sales of electricity to Golden Far East continued to remain insignificant and amounted to approximately RMB1,244,000. Our overall sales of steam for the year

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ended 31 December, 2006 reduced only marginally by about RMB2,101,000 (about 4.26%) to about RMB47,183,000 despite the full-year effect on the discontinuance of sales to Golden Corn Bio-chem. During the year, sales of steam to Golden Far East increased by over 103% to about RMB2,556,000 (although still considered by our Directors to be insignificant compared to the overall sales of steam). Moreover, we commenced sales of steam to 山東壽光巨能特鋼有限公司 (Shandong Shouguang Juneng Special Steel Co., Ltd.*) since September, 2006 and reported sales of some RMB11,556,000 for the captioned financial year. Sales of steam to other third parties decreased slightly by about RMB1,066,000 (about 3.12%) in 2006.

For the four months ended 30 April, 2007, we reported total turnover of about RMB402,984,000, representing an increase of some 36.62% compared to the same period in 2006, and some 17.20% when compared to the year ended 31 December, 2006 on an annualised basis. During the captioned period, sales of our cornstarch amounted to approximately RMB188,556,000, representing an increase of approximately 22.62% and 5.68% as compared to that of the same period in 2006 and the year ended 31 December, 2006 on an annualised basis, respectively. Our Directors attribute such increase mainly to the improved average selling price of cornstarch from approximately RMB1,758 for the year ended 31 December, 2006 to approximately RMB1,923 for the four months ended 30 April, 2007. While our tonnage sales of cornstarch for the four months ended 30 April, 2007 increased by about 7.48% compared to the same period last year, it decreased slightly by about 3.43% on an annualised basis when compared to the full year of 2006 mainly due to our increased internal consumption for the production of lysine during the four months ended 30 April, 2007. Sales of most of our ancillary corn-refinery products for the four months ended 30 April, 2007 also exhibited significant improvements both in comparison with the same period last year (an increase of some 40.41%) and with the whole year of 2006 on an annualised basis (an increase of some 16.51%), as a combined result of improved pricing and increased level of production.

Our sales of L-lysine hydrochloride salt continued to increase significantly for the four months ended 30 April, 2007 despite a decrease in our average selling price per tonne of L-lysine hydrochloride salt from about RMB10,456 in 2006 to about RMB10,398 during the captioned period. In particular, sales of lysine for the four months ended 30 April, 2007 represented an increase of about 94.13% compared to the same period last year, and about 30.89% on an annualised basis when compare to 2006. Our Directors attribute such improvement mainly to the improving market acceptance of our lysine and our expanded customer base. Sales of agricultural fertilisers, on the other hand, exhibited slight decline both in comparison with the same period last year and with the whole year of 2006 on an annualised basis, which our Directors consider can be attributed to our improved production efficiency of lysine following installation of our ceramic membrane filtration system, which resulted in a reduced lysine level in the residual liquid produced during the production process of lysine and used for the production of agricultural fertilisers, thus affecting its production and sales levels.

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For the four months ended 30 April, 2007, our segment sales of steam and electricity comprised solely of sales of steam (due to the temporary suspension on our sales of electricity during the captioned period) and amounted to approximately RMB42,863,000, representing an increase of some 24.21% and 66.46% as compared to that of the same period last year and the year ended 31 December, 2006 on an annualised basis, respectively. Our Directors attribute such significant improvement mainly to (i) the increased production capacity of our power plant (due to installation of additional boilers); (ii) the increased demand of steam from 山東壽光巨能特鋼有限公司 (Shandong Shouguang Juneng Special Steel Co., Ltd.*); and (iii) our expanded sales and marketing efforts. In particular, our sales of steam to 山東壽光巨能特鋼有限公司 (Shandong Shouguang Juneng Special Steel Co., Ltd.*) during the four months ended 30 April, 2007 amounted to approximately RMB22,235,000, which was almost two times of that for the previous four months of September, 2006 (when we first commenced sales of steam to 山東壽光巨能特鋼有限公司 (Shandong Shouguang Juneng Special Steel Co., Ltd.*) to December, 2006. Moreover, sales of steam to other third parties (other than Golden Far East), which amounted to about RMB19,751,000 for the four months ended 30 April, 2007, also increased significantly by approximately 20.79% compared to the same period last year (which amounted to about RMB16,352,000), and approximately 79.16% on an annualised basis compared to the full year of 2006 (which amounted to about RMB33,072,000).

Throughout the Track Record Period, sales of our cornstarch remained the largest contributor to our overall turnover and ranged from about 46.79% to 51.89%. L-lysine hydrochloride salt, while remained as our second largest turnover contributor throughout the Track Record Period, had contributed increasingly to our overall turnover from about 13.48% in 2004 to about 22.81% in the four months 30 April, 2007. Percentage turnover contribution from our third largest turnover contributor, namely steam and electricity, exhibited a decline in 2006 (and represented some 7.49% of our total turnover) partly due to the temporary suspension of our sales of electricity since October, 2006, but otherwise remained relatively stable in the range of about 10.64% and 11.39% throughout the Track Record Period. Due to the taking over by Golden Far East of the production and sales of modified starch in 2005, percentage turnover contribution from ancillary corn-refined and corn-based products in aggregate decreased moderately from about 25.65% in 2004 to 18.22% in 2005, and remained relatively stable throughout the year ended 31 December, 2006 and the four months ended 30 April, 2007.

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(b) Cost of goods sold and gross profit

During the Track Record Period, our cost of goods sold comprises mainly raw materials, utilities, labour, depreciation and other manufacturing overheads. Due to the nature of production processes involved, our cost of goods sold are principally divided into three major categories, namely (i) cornstarch and ancillary corn-refined products; (ii) L-lysine hydrochloride salt and agricultural fertilisers; and (iii) steam and electricity.

(i) Cornstarch and ancillary corn-refined products

The following table sets out the cost of goods sold and gross profit in respect of our sales of cornstarch and ancillary corn-refined products during the Track Record Period:

	For the year ended 31 December,						For the four months ended 30 April,			
	2004 (audited)		2005 (audited)		2006 (audited)		2006 (unaudited)		2007 (audited)	
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%
Sales	727,595		658,955		728,409		207,196		263,565	
Cost of goods sold:										
- Corn kernels	531,718	73.08	501,742	76.14	548,847	75.35	144,021	69.51	204,514	77.60
- Starch paste	26,885	3.70	—	—	—	—	—	—	—	—
- Consumables	10,331	1.42	7,501	1.14	7,576	1.04	1,916	0.93	3,162	1.20
- Utilities	37,842	5.20	45,238	6.87	39,547	5.43	13,351	6.44	12,716	4.82
- Labour cost	7,365	1.01	6,356	0.96	9,732	1.34	2,765	1.33	2,581	0.98
- Depreciation	16,795	2.31	13,402	2.03	9,043	1.24	3,331	1.61	3,461	1.31
- Government tax and surcharge	1,886	0.26	1,811	0.28	1,620	0.22	935	0.45	—	—
- Other manufacturing overheads	11,952	1.64	10,635	1.61	9,977	1.37	4,311	2.08	4,086	1.55
Total cost of goods sold	<u>644,774</u>	<u>88.62</u>	<u>586,685</u>	<u>89.03</u>	<u>626,342</u>	<u>85.99</u>	<u>170,630</u>	<u>82.35</u>	<u>230,520</u>	<u>87.46</u>
Gross profit	<u>82,821</u>	<u>11.38</u>	<u>72,270</u>	<u>10.97</u>	<u>102,067</u>	<u>14.01</u>	<u>36,566</u>	<u>17.65</u>	<u>33,045</u>	<u>12.54</u>

During the Track Record Period, our cost of goods sold in respect of cornstarch and ancillary corn-refined products remained relatively stable at around 88.62%, 89.03%, 85.99% and 87.46% respectively. Corn kernel is the principal raw material for our production and represented approximately 82.47%, 85.52%, 87.63% and 88.72% respectively of our cost of goods sold in respect of these products. Consumables mainly comprised packing materials. Utilities mainly represented the allocated cost of production of steam and electricity by our own power plant. Other manufacturing overhead comprised mainly repair and maintenance expenses, sewage charges and transportation charges.

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During the year ended 31 December, 2004 up to the establishment of Golden Far East, modified starch, being one of our ancillary corn-refined products using starch paste as its principal raw materials, was manufactured under Golden Corn. As a result, we saw a higher level of consumables purchases in 2004 compared to that in 2005 when we ceased to have starch paste as a component of the cost of goods sold in respect of our cornstarch and ancillary corn-refined products.

Although our corn kernel usage increased in 2005 compared to 2004 due to our increased tonnage sales of cornstarch, total cost of corn kernels actually reduced by about RMB29,976,000 (about 5.64%) from approximately RMB531,718,000 in 2004 to approximately RMB501,742,000 in 2005. Such reduction was mainly a result of the relatively lower average purchase prices of corn kernels during 2005, which was in line with the then market trend on corn kernel prices. During the year ended 31 December, 2005, we also noted an increase in cost of utilities mainly due to the surge of coal prices during the year. Our other components in cost of goods sold remained relatively stable in 2005 compared to those of 2004.

Our cost of corn kernels increased by some RMB47,105,000 (about 9.39%) to approximately RMB548,847,000 for the year ended 31 December, 2006 compared to that of the previous financial year mainly as a combined result of increased production of cornstarch and a relatively higher average purchase price of corn kernels (which was in line with the then market trend on corn kernel prices). While our average purchase price of coal for the year ended 31 December, 2006 remained relatively comparable with that of 2005, we have noted a reduction in our cost of utilities. During the year ended 31 December, 2006, our fourth power generator system, which adopted equipment with more output efficiency, was put into initial operation. This had resulted in an overall reduction in coal consumption and accordingly a lower allocated cost of production of steam and electricity compared to the previous financial year. Our cost of labour increased by about RMB3,376,000 (approximately 53.12%) from about RMB6,356,000 in 2005 to about RMB9,732,000 in 2006 as we recruited additional production workers and provided salary increments to our production workers.

For the four months ended 30 April, 2007, our cost of corn kernels amounted to approximately RMB204,514,000, representing an increase of some 42.00% and 11.79% as compared to that of the same period in 2006 and the year ended 31 December, 2006 on an annualised basis, respectively. Our Directors attribute such increase mainly to our increased tonnage consumption of corn kernels as a result of increased level of production, and the relatively higher average purchase price of corn kernels in the four months ended 30 April, 2007. Our cost of consumables for the four months ended 30 April, 2007 increased by some 65.03% compared to the same period last year, and some 25.21% as compared to that of the year ended 31 December, 2006 on an annualised basis, which can be attributable in part to the relative increase in the sales of powdered form cornstarch (versus the liquid form starch paste) which uses more packing materials. Despite a trend of increase in sales for the four months ended 30 April, 2007, our cost of utilities on an annualised basis remained at a level comparable to that of 2006 mainly as a result of the full four-months effect of the improved production efficiency of our power plant with our fourth power generator system being put into operation.

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Our Directors noted a decrease of some 20.44% in labour cost for the four months ended 30 April, 2007 as compared to 2006 on an annualised basis. Our Directors believe that such reduction in labour cost can be attributable to, among other things, (i) our increased production volume coupled with no significant increase in production manpower during the four months ended 30 April, 2007 had led to a reduced per unit allocation of labour cost to our finished cornstarch products; and (ii) our ceasing to be required statutorily to contribute certain staff benefits as a wholly foreign owned enterprise. Similarly, our depreciation expense for the four months ended 30 April, 2007 was also notably lower than the average level in 2006 mainly due to our increased production volume during the captioned period, which reduced the per unit allocation of depreciation expense to our finished cornstarch products. On the other hand, our other manufacturing overheads for the four months ended 30 April, 2007 on an annualised basis was about 22.86% higher than that of 2006, which our Directors consider to be mainly a result of our increased transportation cost due to our assumption of truck loading expenses of corn kernels in 2007 (which were previously borne by our suppliers) and, to a lesser extent, increased sewage charge. We ceased to have government tax and surcharge following conversion of Golden Corn into a wholly foreign owned enterprise in the last quarter of 2006, as a result we did not report any such expense for the four months ended 30 April, 2007.

(ii) *L-lysine hydrochloride salt and agricultural fertilisers*

The following table sets out the cost of goods sold and gross profit/(loss) in respect of our sales of L-lysine hydrochloride salt and agricultural fertilisers during the track record period:

	For the year ended 31 December,						For the four months ended 30 April,			
	2004 (audited)		2005 (audited)		2006 (audited)		2006 (unaudited)		2007 (audited)	
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%
Sales	141,457		181,255		225,846		53,266		96,556	
Cost of goods sold:										
- Purchase of finished products	142,741	100.91	80,876	44.62	—	—	—	—	—	—
- Starch paste	—	—	29,391	16.22	55,002	24.35	17,187	32.27	28,644	29.67
- Consumables	—	—	23,608	13.02	39,277	17.40	10,138	19.03	16,632	17.22
- Utilities	—	—	20,547	11.34	34,146	15.12	8,104	15.22	10,650	11.03
- Labour cost	—	—	2,019	1.11	4,696	2.08	950	1.78	1,461	1.51
- Depreciation	—	—	7,779	4.29	14,755	6.53	3,983	7.48	5,461	5.66
- Government tax and surcharge	—	—	272	0.15	502	0.22	241	0.45	—	—
- Other manufacturing overheads	—	—	4,476	2.47	6,421	2.84	1,855	3.48	2,674	2.77
Total cost of goods sold	<u>142,741</u>	<u>100.91</u>	<u>168,968</u>	<u>93.22</u>	<u>154,799</u>	<u>68.54</u>	<u>42,458</u>	<u>79.71</u>	<u>65,522</u>	<u>67.86</u>
Gross profit/(loss)	<u>(1,284)</u>	<u>(0.91)</u>	<u>12,287</u>	<u>6.78</u>	<u>71,047</u>	<u>31.46</u>	<u>10,808</u>	<u>20.29</u>	<u>31,034</u>	<u>32.14</u>

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During the period from 1 January, 2004 up to the date when we assumed the assets, liabilities and operations of Golden Corn Bio-chem in 2005, we purchased L-lysine hydrochloride salt and agricultural fertilisers from Golden Corn Bio-chem, our then associated company for on-sale to final customers. During such period, our cost of goods sold in respect of these two products comprised principally purchases of finished goods from Golden Corn Bio-chem.

With the aim of facilitating the penetration of Golden Corn Bio-chem's products into the market at its initial stage of establishment through the established brand name and market position of Golden Corn, Golden Corn Bio-chem entered into a sales agency agreement with Golden Corn for a period of two years effective from 1 January, 2004, pursuant to which Golden Corn would act as the sole representative of Golden Corn Bio-chem in respect of the sales of all its products. Under the agreement, Golden Corn would provide a sales plan to Golden Corn Bio-chem in advance on a monthly basis, whereby Golden Corn Bio-chem would arrange its production schedules accordingly. Products manufactured by Golden Corn Bio-chem would be sold to Golden Corn for onward sales to final customers. With the original view of supporting the development of Golden Corn Bio-chem at its initial stage of establishment, it was initially agreed that Golden Corn would purchase products from Golden Corn Bio-chem at the recommended selling prices to final customers proposed by an internal sales pricing committee formed by Golden Corn and Golden Corn Bio-chem, with the intention that profits generated from the sales of Golden Corn Bio-chem's products would be retained by it for its operations and development. However, the continuous decline in market price of lysine (and accordingly its by-products) had caused the final selling prices to fall below those recommended by the internal sales pricing committee from time to time, resulting in a minor gross loss position of Golden Corn in that respect. As a result, commencing from September, 2004, Golden Corn purchased products from Golden Corn Bio-chem at the selling prices to final customers.

Moreover, certain machineries and equipment relating to the Group's lysine production were originally contracted for by Golden Corn prior to the establishment of Golden Corn Bio-chem in 2003. At the time of establishment, Golden Corn Bio-chem was a 70% owned subsidiary of Golden Corn. With the original view of supporting the development of Golden Corn Bio-chem at its initial stage of establishment, Golden Corn resolved to provide those plant and equipment for use by Golden Corn Bio-chem free of charge. As a result, the depreciation charges relating to such machineries and equipment were accounted for under Golden Corn's cornstarch and ancillary corn-refined products segment prior to the assumption of assets, liabilities and operations of Golden Corn Bio-chem.

Following the assumption of assets, liabilities and operations of Golden Corn Bio-chem in July, 2005, the costs of production of our lysine and agricultural fertilisers were reflected directly in the accounts of Golden Corn. Accordingly, we reported cost components such as starch paste, consumables, utilities, labour cost and depreciation as part of our cost of goods sold in respect of our lysine and agricultural fertilisers for the second half of 2005, with annualised value roughly amounted to about RMB58,782,000, RMB47,216,000, RMB41,094,000, RMB4,038,000 and RMB15,558,000 respectively. Our consumables comprised mainly chemicals used in the production process of lysine and agricultural fertilisers, and our other manufacturing overheads comprised mainly repair and maintenance expenses and sewage charges. Although the production of L-lysine hydrochloride salt and agricultural fertilisers were internalised in the second half of 2005, we only achieved minimal gross profit of about 6.78%, which was partly due to the depressed market price of lysine during the captioned year.

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During the year ended 31 December, 2006, costs of starch paste and consumables (which comprised mainly various enzymes and chemicals) together accounted for approximately 60.90% of the cost of goods sold in respect of our L-lysine hydrochloride salt and agricultural fertilisers. Cost of utilities, which was principally the allocated cost of production of electricity and steam by our own power plant, represented approximately 22.06% of our cost of goods sold in respect of our L-lysine hydrochloride salt and agricultural fertilisers.

Despite increased tonnage sales of lysine, we have noted a decrease in cost of starch paste in 2006 by some RMB3,780,000 compared to the annualised cost of starch paste in 2005. Our Directors attribute such cost reduction mainly as a result of our significantly improved starch paste consumption efficiency due to improved production technology and the installation of the ceramic membrane filtration system. Our annualised cost of consumables in 2005 was significantly higher compared to that in 2006 (by a difference of some RMB7,939,000) mainly as a combined result of the generally high chemical prices in 2005 and our improved production technology in 2006. Due to the more efficient equipment adopted by our power plant in 2006, the allocated cost of utilities also reduced by some RMB6,948,000 in 2006 compared to the annualised cost of utilities in 2005. On the other hand, the increase in cost of labour in 2006 compared to the annualised cost in 2005 was mainly a result of salary increments to our production workers and additional recruitment of production workers.

During the year ended 31 December, 2006, there was a general improvement in our selling price of lysine, particularly during the last three months of 2006 where our monthly average selling price increased in tandem with the movement of general lysine market price, from about RMB9,300 per tonne in September, 2006 to about RMB13,300 in December, 2006. In anticipation of an increase in selling price of lysine, we made particular efforts to push our sales of lysine in the last quarter with the aim of achieving a better profitability. Moreover, during the year, we have installed a ceramic membrane filtration system for our production of lysine, which improved our production efficiency. As a result, we achieved a gross profit margin of some 31.46% for our lysine and agricultural fertilisers for the year ended 31 December, 2006.

For the four months ended 30 April, 2007, the overall gross profit margin of our sales of lysine and agricultural fertilisers remained relatively stable at around 32.14% compared to that of 2006 (about 31.46%). Our cost of starch paste for the four months ended 30 April, 2007 on an annualised basis increased significantly (by some 56.23%) compared to that of 2006. Aside from our increased sales of lysine, the increased cost of starch paste was partly attributable to the increased overall production cost of starch paste due to higher cost of corn kernels during the captioned four-months period. On the other hand, our cost of consumables for the four months ended 30 April, 2007 increased relatively in tandem with our increased level of sales.

For the four months ended 30 April, 2007, our cost of utilities on an annualised basis remained at a level relatively comparable to that of 2006 mainly as a result of, as in the case of our cornstarch and ancillary corn-refined products, the full four-months effect of overall improvement in production efficiency of our power plant with our fourth power generator system being put into operation. On the other hand, our depreciation expense for the captioned four months increased by some 37.11%

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compared to the same period in 2006 and, when annualised, was slightly higher than our overall 2006 level despite the dilution effect on the per unit allocation of depreciation expense due to increased level of sales. Our Directors attribute such increase mainly as a result of the full four-months of depreciation on additional fixed assets acquired and installed during 2006. Our other manufacturing overhead for the four months ended 30 April, 2007, when annualised, also increased by about 24.93% compared to that of 2006, which our Directors consider was relatively in line with our increased level of lysine sales.

(iii) *Steam and electricity:*

The following table sets out the cost of goods sold and gross profit in respect of our sales of steam and electricity during the Track Record Period:

	For the year ended 31 December,						For the four months ended 30 April,			
	2004 (audited)		2005 (audited)		2006 (audited)		2006 (unaudited)		2007 (audited)	
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%
Sales	106,702		107,995		77,251		34,509		42,863	
Cost of production:										
- Coal	57,017	53.44	62,786	58.14	42,448	54.95	19,199	55.63	23,916	55.80
- Consumables	753	0.71	672	0.62	407	0.53	181	0.53	159	0.37
- Labour cost	1,764	1.65	1,996	1.85	2,463	3.19	933	2.70	865	2.02
- Depreciation	3,001	2.81	3,269	3.03	7,690	9.95	2,087	6.05	3,735	8.71
- Government tax and surcharge	277	0.26	297	0.27	172	0.22	158	0.46	—	—
- Other manufacturing overheads	2,576	2.41	2,977	2.76	1,946	2.52	2,563	7.43	622	1.45
Total cost of goods sold	<u>65,388</u>	<u>61.28</u>	<u>71,997</u>	<u>66.67</u>	<u>55,126</u>	<u>71.36</u>	<u>25,121</u>	<u>72.80</u>	<u>29,297</u>	<u>68.35</u>
Gross profit	<u>41,314</u>	<u>38.72</u>	<u>35,998</u>	<u>33.33</u>	<u>22,125</u>	<u>28.64</u>	<u>9,388</u>	<u>27.20</u>	<u>13,566</u>	<u>31.65</u>

Coal is the principal cost component for our sales of steam and electricity, representing about 87.20%, 87.21%, 77.00% and 81.63% respectively of the relevant cost of goods sold during the Track Record Period. Our cost of coal increased by some 10.12% from approximately RMB57,017,000 in 2004 to approximately RMB62,786,000 in 2005 which was principally due to the surge in coal price in 2005. Coupled with small increases in depreciation expense, labour cost and other manufacturing overhead, our profit margin for sales of steam and electricity reduced from about 38.72% in 2004 to about 33.33% in 2005, resulting in a reduction in gross profit by about 12.87% from about RMB41,314,000 for the year ended 31 December, 2004 to about RMB35,998,000 for the year ended 31 December, 2005.

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During the year ended 31 December, 2006, our fourth power generator system, which adopted equipment with more output efficiency, was put into initial operation. This had resulted in an overall reduction in coal consumption as evidenced by a reduction in the overall tonnage use of coal in 2006 (approximately 228,000 tonnes) compared to 2005 (approximately 249,000 tonnes). Moreover, we saw a slight decline in average coal purchase price in 2006 (about RMB466 per tonne) compared to 2005 (about RMB478 per tonne). Coupled with a reduction in sales of steam and electricity in 2006, the cost of coal in conjunction with our sales of steam and electricity for the year ended 31 December, 2006 reduced by about RMB20,338,000 (approximately 32.39%) from about RMB62,786,000 in 2005 to about RMB42,448,000 in 2006. Notwithstanding that, the significant increase in depreciation (which was mainly arising from the additional fixed assets of our fourth power generator system) coupled with moderate increase in labour cost in 2006 resulted in a further reduction in our profit margin for sales of steam and electricity to about 28.64% in 2006.

The gross profit margin of our sales of steam and electricity improved from about 28.64% for the year ended 31 December, 2006 to about 31.65% for the four months ended 30 April, 2007 partly as a result of the operation of our more efficient fourth power generator system in the full four-months period, and our increased level of sales. For the four months ended 30 April, 2007, our segment sales of steam and electricity (which comprised solely of sales of steam) increased by some 24.21% compared to the same period of 2006, and significantly by some 66.46% on an annualised basis when compared to the full year of 2006, which had led to an increase in tonnage consumption of coal (of about 97,000 tonnes) during the period. Coupled with the increase in our average purchase price per tonne of coal from about RMB466 in 2006 to about RMB485 during the captioned period, our cost of coal increased by about 24.57% as compared to that of the same period last year, and substantially by some 69.03% as compared to that of the full year of 2006 on an annualised basis. Whilst our costs of consumables and labour (on an annualised basis) remained at a comparable level as that of 2006, our depreciation expense continued to increase (by about 45.71%) in the four months ended 30 April, 2007 when compared on an annualised basis to that of 2006 mainly as a result of the full four-months of depreciation on the additional fixed assets as regards our fourth power generator system.

Our other manufacturing overheads during the Track Record Period comprised mainly repair and maintenance costs, sewage charges and transportation charges. The relatively high level of other manufacturing overheads for the year ended 31 December, 2005 was mainly attributable to the increased level of repair and maintenance cost during the year partly due to the major repair work on one of our boilers. Our other manufacturing overheads for the year ended 31 December, 2006 reduced significantly by about 34.63% compared to 2005 partly as a result of reduced coal transportation cost. Our other manufacturing overheads continued to remain relatively stable for the four months ended 30 April, 2007.

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(c) Other income

Other income comprised principally sales of scrap of coal and oil, commission income, certain gain and discount arising from the investment of our associated companies, staff quarter rental income, steam pipeline construction income and government grants. The following is a breakdown of our other income during the Track Record Period:

	For the year ended 31 December,			For the four months ended 30 April,	
	2004 <i>(audited)</i>	2005 <i>(audited)</i>	2006 <i>(audited)</i>	2006 <i>(unaudited)</i>	2007 <i>(audited)</i>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Sales of scrap of coal and oil	655	1,572	645	224	339
Commission income	113	3,227	3,379	1,445	—
Government grant received for being a manufacturer of lysine and its related products	—	1,155	2,277	—	500
Government grant received for being engaged in agriculture industry	1,140	—	—	—	—
Discount on acquisition of business	—	993	—	—	—
Realised gain arising on injecting property, plant, equipment and land use right as capital to an associate	5,127	431	431	144	144
Amortisation of staff quarter rental income	483	483	714	161	270
Amortisation of steam pipeline construction income	308	1,006	1,129	354	377
Others	1,386	166	2,056	879	582
	<u>9,212</u>	<u>9,033</u>	<u>10,631</u>	<u>3,207</u>	<u>2,212</u>

While our other income remained relatively stable for the three years ended 31 December, 2006, the composition of which varied from year to year. Our other income for the year ended 31 December, 2004 comprised mainly the realised gain arising from the injection, as our 49% share of registered capital of Golden Far East, of certain property, plant and equipment with fair values in excess of their book values. On the other hand, our other income for each of the two years ended 31 December, 2006 comprised mainly the commission income received from Golden Far East for our provision of sales support services for its domestic sales under the sales representative agreement entered into between Golden Corn and Golden Far East on 1 December, 2004. We have ceased our provision of sales support service to Golden Far East following termination of the sales

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representative agreement in August, 2006 in accordance with its terms. We also reported discount on acquisition of business of some RMB993,000 as our other income in the year ended 31 December, 2005, which was primarily arising from the difference between the net asset value of Golden Corn Bio-chem as at the date of the acquisition and the consideration for the acquisition arrived at based on the amount of registered capital contributed by the relevant vendors. The notable decrease in other income for the four months ended 30 April, 2007 as compared to that of the same period last year (by about 31.03%) and the full year of 2006 on an annualised basis (by about 37.58%) was mainly a result of the discontinuance of our commission income following the cessation of our sales support services to Golden Far East. The apparent decrease in other income for the four months ended 30 April, 2007 was also contributed by the reduction of government grant received during the captioned period, which was granted to our Group at the discretion of the government and was not recurring in nature.

Amortisation of staff quarter rental income represented the portion of the difference between the nominal amount and the fair value of the deposits received from staff for occupancy of our family suites amortised during the year. Amortisation of steam pipeline construction income represented the amount of steam pipeline construction funds amortised during the year. Miscellaneous other income included mainly miscellaneous penalty income and sales of other scrap materials and fixed assets.

(e) *Investment income*

During the Track Record Period, our investment income comprised principally interests on bank deposits and amounts due from a related company as follows:

	For the year ended 31 December,			For the four months ended 30 April,	
	2004	2005	2006	2006	2007
	(audited)	(audited)	(audited)	(unaudited)	(audited)
	(RMB '000)	(RMB '000)	(RMB '000)	(RMB '000)	(RMB '000)
Interest income on:					
Bank deposits	1,009	1,977	2,636	965	878
Amount due from a related company	—	434	1,996	744	—
	<u>1,009</u>	<u>2,411</u>	<u>4,632</u>	<u>1,709</u>	<u>878</u>

During the year ended 31 December, 2005, we made loan advances to Juneng Holding Group which was unsecured, repayable within one year and carried interest at 5.58% per annum. The advances were fully settled during the year ended 31 December, 2006. As a result, we ceased to have any interest income in respect thereof for the four months ended 30 April, 2007

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(f) *Distribution expenses*

During the Track Record Period, our distribution expenses amounted to approximately RMB26,792,000, RMB26,720,000, RMB31,944,000 and RMB11,892,000, and represented approximately 2.75%, 2.82%, 3.10% and 2.95% respectively of our turnover, which our Directors considered to be relatively stable and in line with our business growth. The following table sets out a breakdown of our distribution expenses for the Track Record Period:

	For the year ended 31 December,						For the four months ended 30 April,			
	2004		2005		2006		2006		2007	
	(audited)		(audited)		(audited)		(unaudited)		(audited)	
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%
Transportation charges	18,193	67.90	14,006	52.42	19,177	60.04	5,302	58.14	7,639	64.24
Salaries and commissions	6,989	26.09	10,806	40.44	9,951	31.15	3,048	33.43	3,062	25.75
Export expenses	725	2.71	820	3.07	1,749	5.47	230	2.52	914	7.68
Entertainment expenses	129	0.48	155	0.58	182	0.57	78	0.85	55	0.46
Office and traveling expenses	216	0.81	273	1.02	274	0.86	56	0.61	62	0.52
Other distribution expenses	540	2.01	660	2.47	611	1.91	406	4.45	160	1.35
	<u>26,792</u>	<u>100.00</u>	<u>26,720</u>	<u>100.00</u>	<u>31,944</u>	<u>100.00</u>	<u>9,120</u>	<u>100.00</u>	<u>11,892</u>	<u>100.00</u>

Transportation charges was the main component of our distribution expenses during the Track Record Period. Our transportation charges mainly related to expenses for inland transportation of finished goods to customers. Salaries and commissions remained as the second major component of our distribution expenses during the Track Record Period, which represented principally salaries and commissions paid to our sales and marketing personnel. Export expenses represented various declaration and quality inspection charges relating to our export sales. Other distribution expenses included insurance expenses, rental expenses of our leased residential units in other cities of the PRC serving as the place of residency for our salespersons stationing in those cities, telephone charges, general promotional expenses and exhibition fees.

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Our transportation charges decreased notably from about RMB18,193,000 in 2004 to about RMB14,006,000 in 2005 and increased back to about RMB19,177,000 in 2006. During the year ended 31 December, 2005, there was an increase in orders with delivery arranged directly by customers. As a result, we incurred less transportation charges. Our transportation charges for the four months ended 30 April, 2007 increased relatively in line with our increased sales by about 44.08% compared to that of the same period last year and about 19.50% when annualised and compared to the full year of 2006.

There was a notable increase in salaries and commissions from about RMB6,989,000 in 2004 to about RMB10,806,000 in 2005 mainly due to our provision of sales support services to Golden Far East in respect of the domestic sales of their modified starch products. Our salary and commission expenses reduced slightly by about RMB855,000 from 2005 to 2006 and remained at around RMB3,062,000 for the four months ended 30 April, 2007 mainly for reason of the cessation of our sales support services to Golden Far East following the termination of our sales representative agreement with Golden Far East in August, 2006.

Our export expenses remained relatively stable for each of the two years ended 31 December, 2005, followed by a substantial increase of some 113.29% in 2006 (as compared to that of 2005) and a further increase of some 56.78% (as compared to that of 2006 on an annualised basis) for the four months ended 30 April, 2007 principally due to the increase in tonnage volume of export products.

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(g) Administrative expenses

During the Track Record Period, we reported administrative expenses in the amount of about RMB12,338,000, RMB17,180,000, RMB25,568,000 and RMB10,508,000, and represented approximately 1.26%, 1.81%, 2.48% and 2.61% respectively of our turnover. The following table sets out a breakdown on our administrative expenses during the Track Record Period:

	For the year ended 31 December,						For the four months ended 30 April,			
	2004		2005		2006		2006		2007	
	(audited)		(audited)		(audited)		(unaudited)		(audited)	
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%
Salary and staff benefits	5,899	47.82	9,116	53.06	8,192	32.04	2,715	40.85	2,347	22.34
Entertainment expenses	1,123	9.10	1,486	8.65	1,983	7.75	1,073	16.15	354	3.37
Depreciation and amortisation	2,481	20.11	3,104	18.07	2,404	9.40	601	9.05	816	7.77
Office and traveling expenses	405	3.28	494	2.88	911	3.56	222	3.33	473	4.50
Repair and maintenance	260	2.11	346	2.01	279	1.09	100	1.51	139	1.32
Research and testing	136	1.10	161	0.94	5,990	23.43	870	13.10	(22)	(0.21)
Bad debts written off/(written back)	(1,686)	(13.67)	(575)	(3.35)	(621)	(2.43)	50	0.75	61	0.58
Tax expenses	1,567	12.70	1,583	9.21	2,000	7.83	458	6.90	929	8.84
Other administrative expenses	2,153	17.45	1,465	8.53	4,430	17.33	556	8.36	5,411	51.49
	12,338	100.00	17,180	100.00	25,568	100.00	6,645	100.00	10,508	100.00

Salary and staff benefits was the main component of our administrative expenses during the Track Record Period. Our salary and staff benefits increased substantially by about RMB3,217,000 (approximately 54.53%) from 2004 to 2005 mainly as a result of the taking over of the business and operations of Golden Corn Bio-chem in 2005 which was, prior to that, our associated company and was equity accounted for by our Company.

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We noted a moderate increase in our depreciation and amortisation expense for the year ended 31 December, 2005 which was mainly due to the addition of three new blocks of dormitories for our employees and the fixed assets we assumed from Golden Corn Bio-chem during the year. Our depreciation and amortisation expenses reduced again in 2006 and remained at a comparable level for the four months ended 30 April, 2007 mainly because some of our fixed assets had been fully depreciated in the financial year of 2005.

Our research and testing expenses remained minimal during the two years ended 31 December, 2005, but increased substantially to RMB5,990,000 in 2006 for reason that we incurred some RMB5,940,000 for the research and development of our new products such as threonine and glucose-fructose slurry, and new enzymes for use in the fermentation process of our L-lysine hydrochloride salt.

During the Track Record Period, we expensed bad debts in the amount of approximately RMB25,000, RMB45,000, RMB290,000 and RMB134,000, while collected previously expensed bad debts in the amount of some RMB1,711,000, RMB620,000, RMB911,000 and RMB73,000, respectively. As a result, we reported net write-back of about RMB1,686,000, RMB575,000, RMB621,000, and a net write-off of about RMB61,000 of bad debts during the Track Record Period.

Tax expenses represented property tax, land-use tax and stamp duties incurred which are required under the applicable PRC tax laws to be reported under administrative expenses.

There was a continuous significant increase in office and traveling expenses and other administrative expenses for the year ended 31 December, 2006 and the four months ended 30 April, 2007, principally due to increased traveling and incurrence of expenses relating to the preparation of our Listing. In particular, included in our other administrative expenses for the year ended 31 December, 2006 were approximately RMB950,000 fees paid in relation to the audit of our Group's accounts for each of the three years ended 31 December, 2006. While we reported exchange gain of some RMB2,449,000 for the four months ended 30 April, 2007, our listing related expenses (including the initial listing application fee, progress fees paid to various professional parties involved in the preparation of the Listing and other related lodging and travelling expenses) totaled to about RMB6,711,000 during the captioned period.

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(h) Finance costs

Finance costs comprised principally (i) interest on bank borrowing; (ii) interest on loans from related companies; and (iii) imputed interests on loans from employees and shareholder. The following table details the breakdown of our finance costs during the Track Record Period:

	For the year ended 31 December,			For the four months ended 30 April,	
	2004	2005	2006	2006	2007
	(audited)	(audited)	(audited)	(unaudited)	(audited)
	(RMB '000)	(RMB '000)	(RMB '000)	(RMB '000)	(RMB '000)
Interest on bank borrowing wholly repayable within five years	5,383	11,200	11,032	4,437	3,440
Interest on loans from related companies	441	634	4,165	968	—
Imputed interest on employees housing deposit	276	569	937	195	273
Imputed interest on loan from shareholder	—	—	225	—	2,700
	<u>6,100</u>	<u>12,403</u>	<u>16,359</u>	<u>5,600</u>	<u>6,413</u>

Our interest on bank borrowing increased significantly in 2005 and remained relatively stable thereafter in 2006, which our Directors consider to be consistent with our movements in bank borrowings during the respective financial years. For the three years ended 31 December, 2006, we also incurred interest on loans from Juneng Holding Group, which were unsecured, repayable on demand with interest rates ranging from 0.72% to 5.58% per annum. The captioned loans were subsequently fully settled as at 28 February, 2007.

Staff occupants of certain type of our staff quarters are required to place employees housing deposit with us for occupancy of the captioned staff quarters. The employees housing deposit consists of two portions, the basic deposit portion which is interest free, unsecured and refundable one month upon the return of the staff quarter by the relevant staff occupant or cessation of employment, and the installment portion which is interest free, unsecured and refundable by installments as to 30% repayable at the end of the third and fourth year from the signing of occupancy agreements, and as to the remaining 40% repayable at the end of the fifth year from the signing of occupancy agreements. (Please refer to the sub-paragraph headed “Staff quarters” under the paragraph headed “Staff” in the section headed “Directors, senior management and staff” in this

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prospectus for further details.) Imputed interest on employees housing deposit represented the periodic amortised amount of the difference between original amount and fair value of the installment portion of the employees housing deposit received. The fair value of the Installment Portion is determined with reference to bank deposit rates.

The loan from shareholder represented the advance made by Merry Boom for the acquisition by Sourcestar of the entire equity interest of Golden Corn as part of the Reorganisation, which was unsecured and interest free and will be capitalised pursuant to the Loan Capitalisation Issue prior to the Listing.

(i) Share of results of associates

We had two associated companies during the Track Record period, namely Golden Corn Bio-chem and Golden Far East. For each of the three years ended 31 December, 2006 and the four months ended 30 April, 2007, our share of results/(loss) of associates amounted to approximately RMB2,986,000, RMB1,790,000, (RMB3,475,000) and (RMB1,237,000) respectively.

The share of results of associates for the year ended 31 December, 2004 was contributed mainly from Golden Corn Bio-chem (about RMB2,995,000), as Golden Far East was only established in September, 2004. The share of results of associates for the year ended 31 December, 2005 captured the full-year effect of Golden Far East (about RMB880,000), and only about half-year for Golden Corn Bio-chem (about RMB910,000) as we assumed the assets, liabilities and operations of Golden Corn Bio-chem in the latter half of 2005. The share of loss from associates for the year ended 31 December, 2006 and the four months ended 30 April, 2007 was solely arising from Golden Far East.

(j) Profit before tax

During the Track Record Period, profit before tax of our Group amounted to approximately RMB90,828,000, RMB77,486,000, RMB133,156,000 and RMB50,685,000 respectively. The decline in profit before tax of some RMB13,342,000 during the year ended 31 December, 2005 was principally due to an increase of about RMB4,842,000 and RMB6,303,000 in administrative expenses and finance costs, respectively. The substantial improvement in profit before tax for the year ended 31 December, 2006 was principally a result of our improved sales performance. During the year, our gross profit improved more than 60% by about RMB74,684,000 from that of 2005, which was mainly due to the substantially improved profit margin of lysine and agricultural fertilisers as a result of capturing the full-year effect on the assumption of Golden Corn Bio-chem's business operations, and to a lesser extent the increase in sales of cornstarch and lysine. Our profit before tax continued to improve for the four months ended 30 April, 2007 and reported an increase of approximately 26.35% compared to the same period last year. While gross profit of our cornstarch and ancillary corn-refined products segment remained relatively stable, our lysine and ancillary corn-based products segment and more so our steam and electricity segment experienced growth in both turnover and gross profit.

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(k) Taxation and profit after tax

For each of the three years ended 31 December, 2006 and the four months ended 30 April, 2007, our net profit after tax amounted to approximately RMB63,945,000, RMB80,591,000, RMB114,390,000 and RMB50,685,000, representing a net profit margin of about 6.55%, 8.50%, 11.09% and 12.58% respectively.

The following table details the calculation of our Group's taxation during the Track Record Period:

	For the year ended 31 December,			For the four months ended 30 April,	
	2004	2005	2006	2006	2007
	(RMB '000)	(RMB '000)	(RMB '000)	(RMB '000)	(RMB '000)
Profit before taxation:	90,828	77,486	133,156	40,115	50,685
Tax at the domestic income tax rate of 33%	29,973	25,570	43,942	13,238	—
Tax at the foreign enterprise income tax rate at 27%	—	—	—	—	13,685
Tax effect of share of results of associates	(985)	(591)	1,147	65	334
Tax effect of expenses that are not deductible in determining taxable profit	1,324	295	1,710	790	1,684
Tax effect of income not taxable	—	—	(902)	(401)	—
Change in tax rate	—	—	(4,511)	—	—
Tax exemption	—	—	(20,302)	—	(15,703)
Reduction of income tax in respect of tax benefit	<u>(3,429)</u>	<u>(28,379)</u>	<u>(2,318)</u>	<u>(2,318)</u>	<u>—</u>
Tax expense (credit) for the year/period:	<u>26,883</u>	<u>(3,105)</u>	<u>18,766</u>	<u>11,374</u>	<u>—</u>

Tax effect of expenses not deductible in determining taxable profit mainly represented the tax effect of certain operating expenses (comprising principally depreciation expenses) which had not been claimed for deduction in the year they incurred. These expenses cannot be claimed for deduction in the computation of income tax in subsequent period.

Tax effect of income not taxable mainly represented additional tax allowance on research and development expenses obtained.

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Tax exemption mainly represented the tax exemption for PRC Foreign Enterprise Income Tax granted to wholly foreign owned enterprise and tax credit granted in relation to the acquisition of advance technological machinery for lysine production and power generation.

For each of the two years ended 31 December, 2005 and for the period from 1 January, 2006 up to 25 September, 2006, Golden Corn was subject to the domestic income tax rate of 33%, and thereafter the foreign income tax rate of 27%. Pursuant to its conversion into a wholly foreign owned enterprise in 26 September, 2006, Golden Corn is entitled to exemption from PRC Foreign Enterprise Income Tax for two years commencing from its profit-making year, followed by a 50% relief for the next three years. The first profit-making year is claimed for the period from 26 September, 2006 to 31 December, 2006 and accordingly, Golden Corn is exempted from PRC Foreign Enterprise Income Tax up to 31 December, 2007, and thereafter a 50% relief ending on 31 December, 2010.

During the Track Record Period, we were not liable for income tax in Hong Kong as we did not have assessable income arising in Hong Kong.

Despite a decline in profit before tax for the year ended 31 December, 2005 as compared to that of the previous financial year, profit after tax for 2005 increased by some RMB16,646,000 principally due to the reduction of income tax in respect of tax benefit in the amount of about RMB28,379,000 granted to Golden Corn during the year under the 技術改造項目國產設備投資抵免企業所得稅暫行辦法 (Interim Measures Regarding the Enterprise Income Tax Deduction in Purchasing Domestic Equipment for Technical Renovation Projects*). As a result, we reported tax income of about RMB3,105,000 for the year ended 31 December, 2005. Our effective tax rate for the year ended 31 December, 2004 was approximately 29.60%.

During the year ended 31 December, 2006, we continued to enjoy reduction of income tax in respect of tax benefit in the amount of about RMB2,318,000 under the 技術改造項目國產設備投資抵免企業所得稅暫行辦法 (Interim Measures Regarding the Enterprise Income Tax Deduction in Purchasing Domestic Equipment for Technical Renovation Projects*). Moreover, Golden Corn was exempted from income tax for the period from 26 September, 2006 to 31 December, 2006, resulting in a further tax exemption of some RMB20,302,000. Coupled with our improved level of gross profit and profit before tax during the year, our net profit margin continued to improve for the year ended 31 December, 2006. Our effective tax rate for the year ended 31 December, 2006 was approximately 14.09%.

For the four months ended 30 April, 2007, we reported an improved net profit margin of some 12.58% as compared to approximately 11.09% for the year ended 31 December, 2006 principally as a result of the full exemption on income tax we enjoyed during the captioned period.

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(l) *Minority interests*

The aggregate ultimate beneficial interest of our Founding Shareholders in our Group (which represented 100% equity interest in Golden Corn) has remained unchanged since 27 October, 2005. However, on the basis of Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants in November, 2005, our audited consolidated financial statement reported minority interests of approximately RMB31,966,000, RMB39,673,000 and RMB47,816,000 respectively during the Track Record Period, which represented: (i) the equity interest of approximately 20.82%, 20.83% and 8.33% of Golden Corn held by Zhang Junhua (張軍華), Li Mingwen (李明文) and Juneng Electric Group respectively during the period from 1 January, 2004 up to 26 October, 2005; and (ii) the equity interest of approximately 25.00% and 16.67% of Golden Corn held by Mr. Gao and Mr. Guo respectively, together with the aggregate equity interest of approximately 3.75% of Golden Corn attributable to the shareholders of Juneng Holding Group other than Mr. Tian during the period from 27 October, 2005 up to 28 November, 2006, being the day immediately preceding the date of incorporation of our Company and completion of the Reorganisation. Upon completion of the Reorganisation on 29 November, 2006, Golden Corn became an indirect wholly owned subsidiary of our Company. Therefore, there were no minority interests since 29 November, 2006 from the perspective of our Company and we ceased to have any minority interest thereafter.

(m) *Accumulated loss as at 1 January, 2004*

During the year ended 31 December, 2003, we declared dividends in the amount of some RMB35,700,000 to Juneng Electric Group and 山東壽光巨能熱電有限責任公司 (Shandong Shouguang Juneng Heat and Electricity Co., Ltd.*), the two shareholder of Golden Corn prior to its first privatisation scheme in 2003. At the time of declaration of dividends, sufficient distributable reserves were available to cover the said dividends declaration according to the management accounts of Golden Corn.

Subsequently, during the course of compiling the consolidated financial statements of our Group for the Track Record Period in accordance with the Generally Accepted Accounting Principles in Hong Kong (“**HKGAAP**”), we noted that certain adjustments relating to our deferred taxation were required to be made for the purpose of financial reporting under HKGAAP. Moreover, we have noted that certain financial reporting errors occurred in the periods prior to 31 December, 2003, including understatements of depreciation, understatements of impairment provision on property, plant and equipment, understatement of Golden Corn’s share of loss of Golden Corn Bio-chem and cut-off errors on sales, distribution expenses and financial expenses. Consequently, prior year adjustments totaling a debit of some RMB44,500,000 were made to our Group’s HKGAAP financial statements, resulting in our reported accumulated loss attributable to parents as at 1 January, 2004.

Our Directors advise that our Group mis-applied certain impairment provisions in the periods prior to 31 December, 2003 which had led to the one-off prior year adjustments on impairment provision on property, plant and equipment as well as depreciation made to our retained earnings as at 1 January, 2004. Moreover, it was noted that our Group had failed to correctly report our share of

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loss of Golden Corn Bio-chem in accordance with the applicable accounting and reporting standards, which had led to the corresponding prior year adjustment made to our retained earnings as at 1 January, 2004. To prevent future occurrence of such understatements, our qualified accountant has been assigned to review the management accounts of our Group on a monthly basis with a view of ensuring compliance with all applicable accounting and reporting standards.

It is also noted that errors on calculation of depreciation charges may also have occurred through unchecked error entries made to our Group's computerised accounting system. In this respect, we have assigned appropriate personnel to check and endorse on the calculation of depreciation generated by the accounting system on a monthly basis with a view of minimising future entry errors.

In the past, our accounting entries were cut off before the last day of each month for ease of administration but unchecked and unadjusted subsequently, which had led to the one-off prior year adjustments on cut-off errors made to our retained earnings as at 1 January, 2004. To prevent occurrence of significant cut-off errors in the future, periodic review by appropriate personnel will be conducted on period-end cut-offs, and adjustments will be made (if any) on a timely basis.

Major balance sheet items

(a) Inventories

As at each of the three years ended 31 December, 2006 and the four months ended 30 April, 2007, our ending inventories amounted to approximately RMB53,266,000, RMB85,682,000, RMB115,915,000 and RMB100,885,000 respectively. The following table sets out our ending inventories by category as at each of the year-end date for the Track Record Period:

	As at 31 December,						As at 30 April,	
	2004		2005		2006		2007	
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%
Raw materials								
- Corn kernels	23,809	44.70	38,438	44.86	68,366	58.98	38,559	38.22
- Coal	19,308	36.25	25,313	29.54	16,317	14.08	11,553	11.45
- Consumables	459	0.86	1,100	1.28	1,310	1.13	1,220	1.21
- Others	759	1.42	1,226	1.43	1,083	0.93	1,236	1.23
Total raw materials	44,335	83.23	66,077	77.11	87,076	75.12	52,568	52.11
Work in progress	1,431	2.69	5,650	6.60	8,326	7.18	8,852	8.77
Finished goods	7,500	14.08	13,955	16.29	20,513	17.70	39,465	39.12
Ending inventory	<u>53,266</u>	<u>100.00</u>	<u>85,682</u>	<u>100.00</u>	<u>115,915</u>	<u>100.00</u>	<u>100,885</u>	<u>100.00</u>

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During the Track Record Period, our inventory turnover days calculated based on our cost of goods sold was approximately 23 days, 38 days, 51 days and 37 days respectively. Our Directors consider that the fluctuations in our inventory turnover days during the Track Record Period were mainly affected by our ending inventory of corn kernels and finished goods as at each of the three years ended 31 December, 2006 and 30 April, 2007. Our ending inventory on finished goods increased generally in tandem with our growth in sales during the Track Record Period. In terms of raw materials, we generally stock up excess corn kernels inventory in the closing months of each year end in preparation for the Chinese new year early in the following year. However, we slowed down our corn kernels inventory accumulation in the end of 2004 in anticipation of a decreasing trend of corn kernel prices in early 2005, which resulted in a lower inventory turnover days for the year ended 31 December, 2004 compared to that of 2005. On the other hand, during the closing months of 2006, we were anticipating an increasing trend of corn kernel prices in early 2007 and accordingly increased our corn kernels inventory, which led to the increased turnover days for the year ended 31 December, 2006 compared to that of 2005. As our excess corn kernels inventory accumulated in the year end of 2006 was gradually consumed subsequently, our inventory turnover days returned to a level comparable to that of the year ended 31 December, 2005 during the four months ended 30 April, 2007.

The following table sets out the status of our subsequent usage of inventories as at 31 July, 2007:

	Ending inventory as at 30 April, 2007			Subsequent usage as at 31 July, 2007			Unutilised inventory as at 31 July, 2007		
	<i>Raw materials</i>	<i>Work in progress</i>	<i>Finished goods</i>	<i>Raw materials</i>	<i>Work in progress</i>	<i>Finished goods</i>	<i>Raw materials</i>	<i>Work in progress</i>	<i>Finished goods</i>
0 — 30 days	52,568	8,852	39,465	52,568	8,852	39,465	—	—	—
30 — 60 days	—	—	—	—	—	—	—	—	—
Total	<u>52,568</u>	<u>8,852</u>	<u>39,465</u>	<u>52,568</u>	<u>8,852</u>	<u>39,465</u>	<u>—</u>	<u>—</u>	<u>—</u>

We assess periodically if the inventories have been suffered from any impairment in accordance with the relevant accounting policy. Our management reviews an aging analysis at each balance sheet date, and makes allowances for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. Our management estimates the net realisable value for such finished goods, work in progress and raw material primarily on the estimated future selling price and market conditions. Our Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete and slow-moving items.

Due to the relatively quick turnover of our inventories during the Track Record Period and our usage history, we did not make any provisions for obsolete inventories during the Track Record Period.

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(b) Trade, bills and other receivables

As at each of the three years ended 31 December, 2006 and the four months ended 30 April, 2007, our outstanding trade, bills and other receivables amounted to approximately RMB168,867,000, RMB121,671,000, RMB138,352,000 and RMB173,182,000 respectively. The following is a breakdown of our trade, bills and other receivables during the Track Record Period:

	As at 31 December,			As at
	2004	2005	2006	30 April,
	(RMB'000)	(RMB'000)	(RMB'000)	2007
				(RMB'000)
Trade receivables	48,416	41,593	33,718	41,600
Trade receivables from associates	6,935	11,936	18,147	36,197
Trade receivables from other related companies	47,250	4,798	—	—
Bank acceptance bills	<u>65,016</u>	<u>62,339</u>	<u>85,869</u>	<u>94,213</u>
Subtotal:	167,617	120,666	137,734	172,010
Other receivables	<u>1,250</u>	<u>1,005</u>	<u>618</u>	<u>1,172</u>
Total:	<u>168,867</u>	<u>121,671</u>	<u>138,352</u>	<u>173,182</u>

During the Track Record Period, our trade and bills receivables related mainly to our sales of cornstarch, ancillary corn-refined products, lysine, agricultural fertilisers and steam and electricity to third parties. Our other receivables comprised mainly prepayments to staff for their business related expenses.

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While our trade receivables from associates represented entirely receivables from Golden Far East which related mainly to sales of corn slurry, steam, electricity and provision of other ancillary services, the following sets out a breakdown of our trade receivables from other related parties during the Track Record Period:

	As at 31 December,			As at 30 April,
	2004	2005	2006	2007
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
壽光市供電公司 (Electricity Supply Company of Shouguang City*)	44,448	2,000	—	—
山東壽光巨能興業熱電有限公司 (Shandong Shouguang Juneng Xingye Heat and Electricity Co., Ltd.*)	2,721	2,711	—	—
Others	81	87	—	—
Total:	<u>47,250</u>	<u>4,798</u>	<u>—</u>	<u>—</u>

During the Track Record Period, trade receivables from 壽光市供電公司 (Electricity Supply Company of Shouguang City*) related principally to our sales of electricity, and trade receivables from 山東壽光巨能興業熱電有限公司 (Shandong Shouguang Juneng Xingye Heat and Electricity Co., Ltd.*) outstanding as at each of 31 December, 2004 and 2005 related to the sales of equipment.

The following sets out an aging analysis in respect of our trade and bills receivables during the Track Record Period, together with the status of subsequent settlement as at 31 July, 2007:

	Trade and bills receivables outstanding as at				Subsequent settlement by	Outstanding as at
	31 December,		30 April,		31 July,	
	2004	2005	2006	2007	2007	2007
	(RMB '000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
0 — 30 days	77,121	80,180	94,853	140,007	130,281	9,726
31 — 60 days	32,743	13,530	10,705	11,523	10,835	688
61 — 90 days	10,833	7,242	14,249	12,878	11,545	1,333
91 — 180 days	30,093	18,876	17,269	7,194	6,349	845
181 — 365 days	16,827	838	658	408	15	393
Total:	<u>167,617</u>	<u>120,666</u>	<u>137,734</u>	<u>172,010</u>	<u>159,025</u>	<u>12,985</u>

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During the Track Record Period, our debtors turnover days was approximately 63 days, 46 days, 49 days and 51 days respectively. Should bank acceptance bills be excluded for our calculation, our debtors turnover days would be approximately 38 days, 22 days, 18 days and 23 days respectively. As at 30 April, 2007, our total over-due trade receivables amounted to approximately RMB23,665,000, out of which approximately RMB20,911,000 (about 88.4%) were due from Golden Far East and were fully settled as at 31 May, 2007.

Out of the about RMB20,480,000 trade and bills receivables outstanding for over 60 days as at 30 April, 2007, approximately RMB13,225,000 (about 64.58%) were overdue trade receivables from Golden Far East which were fully settled as at 31 May, 2007, while approximately RMB4,944,000 (about 24.14%) were bank acceptance bills not due for redemption. Moreover, out of the total of approximately RMB12,985,000 trade and bills receivables outstanding as at 30 April, 2007 and remained unsettled as at 31 July, 2007, approximately RMB10,817,000 (about 83.30%) were bank acceptance bills not due for redemption, and that all trade receivables from associates outstanding as at 30 April, 2007 were fully settled as at 31 July, 2007.

Due to our stringent credit control and our collection efforts, we only expensed bad debts in the amount of approximately RMB25,000, RMB45,000, RMB290,000 and RMB134,000, and collected previously expensed bad debts in the amount of some RMB1,711,000, RMB620,000, RMB911,000 and RMB73,000, respectively during the Track Record Period.

(c) Amounts due from related companies

The following is a breakdown of our non-trade dues from related companies as at each of the three years ended 31 December, 2006:

	As at 31 December,			As at 30 April,
	2004	2005	2006	2007
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Golden Corn Bio-chem	156,000	—	—	—
Golden Far East	18,133	—	—	—
Juneng Electric Group	265	457	—	—
Juneng Holding Group	—	40,434	2,000	—
Merry Boom	—	—	—	99
	<u>174,398</u>	<u>40,891</u>	<u>2,000</u>	<u>99</u>

The advances to Golden Corn Bio-chem, Golden Far East and Juneng Electric Group as at the relevant year-end dates were interest-free, unsecured and repayable on demand. Pursuant to the assumption of Golden Corn Bio-chem's assets and liabilities in 2005, the advances outstanding from Golden Corn Bio-chem were assumed by Golden Corn and accordingly eliminated.

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The advances to Juneng Holding Group outstanding as at 31 December, 2005 was loan advance which was unsecured, repayable within one year and carried interest at 5.58% per annum. We have been advised by our PRC legal advisers that interest-bearing loan to Juneng Holding Group was in contravention with applicable PRC laws and could be subject to the People's Bank of China imposing a fine of one to five times of any illegitimate income earned. Our PRC legal advisers further advised that on the basis that we have obtained the 《對山東壽光巨能金玉米開發有限公司不予處罰的確認》(Confirmation on Not to Impose Penalty on Shandong Shouguang Juneng Golden Corn Development Co., Ltd.*) issued by the People's Bank of China Shouguang City Branch on 3 May, 2007, the making of the captioned interest-bearing loan advance to Juneng Holding Group would not result in Golden Corn having any legal liability.

The approximately RMB2,000,000 due from Juneng Holding Group outstanding as at 31 December, 2006 was interest-free and unsecured, and was fully settled as at 28 February, 2007. The amount due from Merry Boom of about RMB99,000 as at 30 April, 2007 was fully repaid as at 31 May, 2007.

(d) Trade, bills and other payables

As at each of the three years ended 31 December, 2006 and 30 April, 2007, our outstanding trade, bills and other payables amounted to approximately RMB257,448,000, RMB137,397,000, RMB99,537,000 and RMB111,833,000 respectively. The following is a breakdown of our trade, bills and other payables during the Track Record Period:

	As at 31 December,			As at
	2004	2005	2006	30 April,
	(RMB'000)	(RMB'000)	(RMB'000)	2007
				(RMB'000)
Trade payables	64,105	87,076	51,325	46,203
Trade payables to associates	109,168	—	—	—
Trade payables to other related companies	1,005	2,123	112	—
Bills payables	<u>50,000</u>	<u>6,300</u>	<u>9,000</u>	<u>2,000</u>
Subtotal:	224,278	95,499	60,437	48,203
Other payables	<u>33,170</u>	<u>41,898</u>	<u>39,100</u>	<u>63,630</u>
Total:	<u>257,448</u>	<u>137,397</u>	<u>99,537</u>	<u>111,833</u>

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During the Track Record Period, Our trade and bills payables related mainly to our trade purchases. While the entire amount of approximately RMB109,168,000 trade payables to associates represented payables to Golden Corn Bio-chem which related mainly to purchases of, among other things, finished lysine and agricultural fertilisers for on-sale to final customers, the following sets out a breakdown of our trade payables from related parties during the Track Record Period:

	As at 31 December,			As at
	2004	2005	2006	30 April,
	(RMB'000)	(RMB'000)	(RMB'000)	2007
				(RMB'000)
壽光巨能電氣有限公司 (Shouguang Juneng Electricity Steam Co., Ltd.*) (“Juneng Electricity Steam”)	—	711	36	—
山東壽光巨能電力燃料有限公司 (Shandong Shouguang Juneng Electricity Fuel Co., Ltd.*) (“Juneng Electricity Fuel”)	—	1,412	76	—
山東壽光巨能電力建設有限責任公司 (Shandong Shouguang Juneng Electricity Construction Co., Ltd*)	1,005	—	—	—
Total:	<u>1,005</u>	<u>2,123</u>	<u>112</u>	<u>—</u>

Trade payables to Juneng Electricity Steam related mainly to purchases of small tools. Trade payables to Juneng Electricity Fuel related mainly to purchases of coal (please refer to the sub-paragraph headed “Suppliers” in the paragraph headed “Raw materials and suppliers” under the section headed “Business” in this prospectus for further details).

As at the Latest Practicable Date, Juneng Electricity Steam was owned as to 51% by Juneng Holding Group and the remaining 49% by 山東壽光巨能電力建設有限責任公司 (Shandong Shouguang Juneng Electricity Construction Co., Ltd.*) (**“Juneng Electricity Construction”**), which in turn was 5.39% owned by Juneng Holding Group. As Juneng Holding Group is an associate of Mr. Tian, Juneng Electricity Steam is a connected person for the purpose of Chapter 14A of the Listing Rules. Our Directors confirm that during the period from 1 January, 2007 up to the Latest Practicable Date, there was no transaction contemplated between our Group and Juneng Electricity Construction. Our Directors confirm that our Company will comply with the relevant Listing Rule requirements for any future transactions contemplated between our Group and Juneng Electricity Construction following the Listing.

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Our other payables comprised mainly deposits and prepayments received from customers, suppliers, contractors and staff, tax and government surcharge payables, sales commission and other accrued expenses. Deposits received from suppliers were mainly from suppliers of successful tenders as anti-breach-of-contract deposits. Deposits received from contractors represented mainly damage deposits made by general mover contractors. Deposits received from staff represented the damage deposits from staff occupants of our single room quarters (more particulars of which are set out in the sub-paragraph headed “Staff quarters” under paragraph headed “Staff” in the section headed “Directors, senior management and staff” in this prospectus). Set out below is a breakdown of our other payables during the Track Record period:

	As at 31 December			As at 30 April,
	2004	2005	2006	2007
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Prepayments for sales received from customers	11,158	15,266	15,480	23,109
Deposits received from suppliers, contractors and staff	4,076	4,659	3,831	4,116
Sales commission	513	1,553	2,032	2,156
Other tax payables	7,557	6,315	6,739	18,850
Accrued expenses	3,098	4,842	1,662	3,694
Welfare payables	568	1,785	4,555	1,708
Others	6,200	7,478	4,801	9,997
Total:	<u>33,170</u>	<u>41,898</u>	<u>39,100</u>	<u>63,630</u>

The following is an aging analysis in respect of our trade and bills payables during the Track Record Period, together with the status of subsequent settlement as at 31 July, 2007:

	Trade and bills payables outstanding as at				Subsequent settlement by	Outstanding as at
	31 December,			30 April,	31 July,	
	2004	2005	2006	2007	2007	2007
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
0 — 60 days	114,752	64,771	36,040	29,651	24,829	4,822
61 — 90 days	35,841	2,934	6,744	1,398	759	639
Over 90 days	73,685	27,794	17,653	17,154	4,373	12,781
Total:	<u>224,278</u>	<u>95,499</u>	<u>60,437</u>	<u>48,203</u>	<u>29,961</u>	<u>18,242</u>

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During the Track Record Period, our creditors turnover days calculated based on our cost of goods sold was approximately 96 days, 42 days, 26 days and 18 days respectively. The long creditors turnover days for the year ended 31 December, 2004 was mainly a result of outstanding trade payables to Golden Corn Bio-chem which was eliminated when Golden Corn assumed all assets and liabilities of Golden Corn Bio-chem in 2005, and the relatively large sum of bills payables outstanding as at 31 December, 2004. As our cashflow continued to improve with our business growth, we advanced our settlement of payables to suppliers since 2006 with the aim of facilitating better trading relationships with them, and achieved a continuous trend of decreasing creditors turnover days throughout the remaining of the Track Record Period.

(e) Amounts due to related companies

As at 30 April, 2007, we had RMB1,818,000 due to Juneng Holding Group which had been fully settled as at 31 July, 2007.

(f) Borrowings

The following table sets out our borrowings as at each of the three years ended 31 December, 2006:

	As at 31 December			As at 30 April,
	2004	2005	2006	2007
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Bank loans	277,955	341,166	251,608	224,252
Government loan	—	9,750	9,750	9,750
Loan from a related company	25,000	35,000	—	—
Loan from a shareholder	—	—	123,644	123,977
Total:	<u>302,955</u>	<u>385,916</u>	<u>385,002</u>	<u>357,979</u>

During each of the three years ended 31 December, 2006 and the four months ended 30 April, 2007, our gearing ratio, calculated as our total borrowing at the end of the year divided by our total assets at the end of the corresponding year, was approximately 33.28%, 43.60%, 45.68% and 44.20% respectively.

During the Track Record Period, approximately RMB19,955,000, RMB20,866,000, RMB25,608,000 and RMB44,252,000 of the bank loans were secured by bank acceptance bills discounted to banks.

As at 30 April, 2007, bank loans in the aggregate amount of RMB180,000,000 were guaranteed by 壽光市供電公司 (Electricity Supply Company of "Shouguang City"). As at the Latest Practicable Date, we have obtained release of such guarantees from the relevant banks in the PRC.

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The government loan was provided to Golden Corn for its corn refinery processing by 壽光市財政部 (Finance Bureau of Shouguang City*) in April, 2004 on the basis that Golden Corn was listed as one of the recipients of the “2003 年第三批企業技術進步和產業升級國債項目資金計劃” (“2003 Third Batch of State Project Loans Plans for Enterprises with Technology Improvements and Industry Promotion”*) under the 《國家發展改革委、財政部關於下達 2003 年第三批企業技術進步和產業升級國債項目資金計劃的通知》(發改投資 [2003] 2178 號) (Notice of the National Development and Reform Commission and the State Finance Department Regarding the Delivery of the 2003 Third batch of State Project Loans Plans for Enterprises with Technology Improvements and Industry Promotion (Fa Gai To Zhi [2003] No.2178)*) issued jointly by National Development and Reform Commission and the State Finance Department on 10 December, 2003. The loan is non-recurring in nature, unsecured, interest free, with a term of 15 years repayable in 2019 by equal annual installment commencing from the fifth year of the loan and was provided to Golden Corn solely in the discretion of the relevant PRC government authority.

The amount of RMB123,977,000 loan from shareholder (being Merry Boom) as at 30 April, 2007 represented the fair value of the loan with a carrying amount of RMB140,148,000 and an imputed interest rate of 6.57% per annum. The loan from shareholder will be capitalised pursuant to the Loan Capitalisation Issue prior to the Listing.

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(g) Deferred income

Our deferred income comprised the deferred balance of (i) steam pipeline construction funds received from our steam customers for the construction of steam pipelines, which was amortised over the estimated useful life of the pipelines on a straight line basis; and (ii) the difference between the nominal amount and the fair value of the deposits received from staff for occupancy of our family suites, which was amortised over the expected occupancy period of the family suites by the staff on a straight line basis. The following is the movements of our deferred income during the Track Record Period:

	Family suites occupancy deposits	Steam pipeline construction funds	Total
	<i>(RMB '000)</i>	<i>(RMB '000)</i>	<i>(RMB '000)</i>
At 1 January, 2004	2,657	495	3,152
Additions	—	6,658	6,658
Amortisation for the year	(483)	(308)	(791)
At 1 January, 2005	2,174	6,845	9,019
Additions	—	2,908	2,908
Amortisation for the year	(483)	(1,006)	(1,489)
At 1 January, 2006	1,691	8,747	10,438
Additions	2,310	1,226	3,536
Amortisation for the year	(714)	(1,129)	(1,843)
At 1 January, 2007	3,287	8,844	12,131
Additions	—	613	613
Amortisation for the year	(270)	(377)	(647)
At 30 April, 2007	<u>3,017</u>	<u>9,080</u>	<u>12,097</u>

During the year ended 31 December, 2006, we offered a new block of family suite dormitory building for occupancy tenders by our staff and received occupancy deposits totaling about RMB 22,731,000, resulting in an addition of about RMB2,310,000 in deferred income. On the other hand, for each of the three years ended 31 December, 2006 and the four months ended 30 April, 2007, we received steam pipeline construction funds in the amount of about RMB6,658,000, RMB2,908,000, RMB1,226,000 and RMB613,000 for undertaking construction of main steam pipelines for the purpose of transporting our steam to relevant steam customers, resulting in the corresponding additions in deferred income.

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(h) Net current asset/liability position

During the three years ended 31 December, 2006, our fixed assets and capital expenditure were mainly financed by internal resources and short term borrowings, as a result of which we had net current liabilities of approximately RMB67,440,000 and RMB108,922,000 respectively as at each of the two years ended 31 December, 2005. During the last quarter of 2006, we successfully restructured our financing structure to replace a vast majority of our short term bank borrowings to long term bank borrowings, with the aim of better matching the nature of our investments and our financing tools. As a result, we reported net current assets of approximately RMB5,448,000 and RMB80,227,000 as at 31 December, 2006 and 30 April, 2007 respectively.

(i) Other financial ratios

Current ratio:

For each of the three years ended 31 December, 2006 and the four months ended 30 April, 2007, our current ratio was approximately 0.88, 0.77, 1.02 and 1.32 respectively. The continuous improvement in the current ratio since 2006 was mainly a result of our improved net current asset position as explained in item (h) above.

Return on assets:

Our return on assets exhibited continuous improvements for each of the three years ended 31 December, 2006 mainly due to our improved profitability. For each of the respective financial years, our return on assets was approximately 7.02%, 9.10% and 13.57% respectively.

Return on equity:

For each of the three years ended 31 December, 2006, our return on equity was approximately 29.06%, 26.80% and 62.24% respectively. The substantial improvement of return on equity for the year ended 31 December, 2006 was partly due to the Reorganisation which resulted in the elimination of all minority interests and reduced our total equity from about RMB300,663,000 as at 31 December, 2005 to about RMB183,785,000 as at 31 December, 2006.

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LIQUIDITY AND FINANCIAL RESOURCES

The following is the audited consolidated cash flow statement of our Group during the Track Record Period, which is extracted from the accountants' report, the text of which is set out in Appendix I to this prospectus:

Consolidated cash flow statements

	Year ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	<i>(Unaudited)</i>				
Operating activities					
Profit before tax	90,828	77,486	133,156	40,115	50,685
Adjustments for:					
Discount on acquisition of a business	—	(993)	—	—	—
Interest income	(1,009)	(2,411)	(4,632)	(1,709)	(878)
Finance costs	6,100	12,403	16,359	5,600	6,413
Share of results of associates	(2,986)	(1,790)	3,475	198	1,237
Depreciation of property, plant and equipment	22,833	28,084	43,948	15,023	15,433
Realised gain arising on injecting property, plant, equipment and land use right as capital to an associate	(5,127)	(431)	(431)	(144)	(144)
Loss(gain) on disposal of property, plant and equipment	(50)	287	266	(85)	4
Gain on sales of land use rights	—	—	—	—	(71)
Amortisation of prepaid lease payments	745	824	949	316	316
Amortisation of staff quarter rental income and steam pipeline construction income	(791)	(1,489)	(1,843)	(515)	(647)
Operating cash flows before movements in working capital	110,543	111,970	191,247	58,799	72,348

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	Year ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Increase in deferred income attributable to steam pipeline construction	6,658	2,908	1,226	548	613
Decrease (Increase) on inventories	20,425	(10,853)	(34,443)	27,509	15,030
Decrease (increase) in trade and other receivables	(163,040)	26,441	(33,279)	17,342	(39,802)
Increase (decrease) in trade and other payables	<u>178,392</u>	<u>(150,229)</u>	<u>(30,622)</u>	<u>(30,937)</u>	<u>12,729</u>
Cash generated from (used in) operations	152,978	(19,763)	94,129	73,261	60,918
Income taxes paid	<u>(8,200)</u>	<u>(12,336)</u>	<u>(9,531)</u>	<u>(1,066)</u>	<u>(5,500)</u>
Net cash from (used in) operating activities	<u>144,778</u>	<u>(32,099)</u>	<u>84,598</u>	<u>72,195</u>	<u>55,418</u>
Investing activities					
Interest received	1,009	2,411	4,632	965	878
Purchases of property, plant and equipment	(44,209)	(9,101)	(26,608)	(3,751)	(1,747)
Proceeds on disposal of property, plant and equipment	87	2,682	615	335	—
Proceeds on disposal of land use right	—	—	—	—	117
Purchase of available-for-sale investment	—	(1,000)	—	—	—
Deposit received for disposal of available-for-sale investment	—	1,000	—	—	—
Prepayment for land use right	(7,690)	—	—	—	—
Investment in an associate	—	(8,105)	—	—	—
Decrease (increase) in amounts due from related companies	(155,686)	7,875	38,891	(1,836)	1,901
Acquisition of business	—	(39,221)	—	—	—

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	Year ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>				
Decrease (increase) in pledged bank deposits	<u>(15,000)</u>	<u>(47,625)</u>	<u>30,185</u>	<u>(12,650)</u>	<u>35,500</u>
Net cash (used in) from investing activities	<u>(221,489)</u>	<u>(91,084)</u>	<u>47,715</u>	<u>(16,937)</u>	<u>36,649</u>
Financing activities					
Interest paid	(5,824)	(11,834)	(14,769)	(5,266)	(3,729)
Dividends paid	(10,729)	(21,712)	(25,271)	(24,500)	(46,793)
Proceeds from borrowings	300,956	394,611	587,590	90,000	60,000
Repayment of borrowings	(80,000)	(321,400)	(572,000)	(173,566)	(89,723)
Increase (decrease) in employee housing deposits	18,128	(2,678)	19,918	23,628	(447)
Increase (decrease) in amounts due to related companies	(86,567)	60,383	14,265	34,661	(12,447)
Prepayment made to shareholders upon the Group Reorganisation	<u>—</u>	<u>—</u>	<u>(140,000)</u>	<u>—</u>	<u>—</u>
Net cash from (used in) financing activities	<u>135,964</u>	<u>97,370</u>	<u>(130,267)</u>	<u>(55,043)</u>	<u>(93,139)</u>
Net increase (decrease) in cash and cash equivalents	59,253	(25,813)	2,046	215	(1,072)
Cash and cash equivalents at the beginning of the year/period	<u>20,490</u>	<u>79,743</u>	<u>53,930</u>	<u>53,930</u>	<u>55,976</u>
Cash and cash equivalents at the end of the year/period represented by bank balances and cash	<u>79,743</u>	<u>53,930</u>	<u>55,976</u>	<u>54,145</u>	<u>54,904</u>

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Major cash flow statement items

During the Track Record Period, we financed our operations and investments mainly with cash generated from our business operations and bank borrowings. As at 30 April, 2007, cash and cash equivalents of our Group amounted to approximately RMB54,904,000. The following table summarises our cash flow during the Track Record Period:

	For the year ended 31 December,			For the four months ended 30 April,	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents at the beginning of the year	20,490	79,743	53,930	53,930	55,976
Net cash from operating activities	144,778	(32,099)	84,598	72,195	55,418
Net cash (used in) from investing activities	(221,489)	(91,084)	47,715	(16,937)	36,649
Net cash (used in) from financing activities	<u>135,964</u>	<u>97,370</u>	<u>(130,267)</u>	<u>(55,043)</u>	<u>(93,139)</u>
Net increase (decrease) in cash and cash equivalents	<u>59,253</u>	<u>(25,813)</u>	<u>2,046</u>	<u>215</u>	<u>(1,072)</u>
Cash and cash equivalents at the end of the year	<u>79,743</u>	<u>53,930</u>	<u>55,976</u>	<u>54,145</u>	<u>54,904</u>

(a) Cash flow from operating activities

Our cash flow from operating activities related primarily to the sales of our cornstarch, 98.5% L-lysine Hydrochloride salt, other ancillary corn-refined and corn-based products and steam and electricity.

For the year ended 31 December, 2004, we had net cash inflow of about RMB144,778,000 from operating activities. Our profit before tax amounted to approximately RMB90,828,000 and our operating cash flows after adjustments of non-cash expense items was about RMB110,543,000. Settlements of our receivables and payables was comparatively slower during the year, as evidenced by a relatively long debtors turnover days of about 63 days and creditors turnover days of about 96 days. The relatively long receivables in 2004 was partly due to trade receivables from 壽光市供電公司 (Electricity Supply Company of Shouguang City*), which stood at around RMB44,448,000 as at 31 December, 2004. On the other hand, the long turnover in our payables was mainly due to our trade payables to Golden Corn Bio-chem of about RMB109,168,000 outstanding as at 31 December, 2004. The net effect of the slow settlements in both receivables and payables

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resulted in a net cash inflow of approximately RMB15,352,000. During the year, our movements in inventories resulted in a cash inflow of some RMB20,425,000. Moreover, we had approximately RMB6,658,000 additional steam pipeline construction funds received from customers for the construction of steam pipelines, and made tax payments of some RMB8,200,000.

We reported net cash outflow from operating activities in the amount of some RMB32,099,000 for the year ended 31 December, 2005. While our profit before tax reduced by about RMB13,342,000 to approximately RMB77,486,000, operating cash flows after adjustments of non-cash expense items was about RMB111,970,000, which was relatively comparable to that of the previous financial year. However, we have significantly accelerated the settlements of our receivables and payables with related parties during the year, which resulted in a net cash outflow of approximately RMB123,788,000. In particular, all our outstanding trade payables to Golden Corn Bio-chem (which stood at approximately RMB109,168,000 as at 31 December, 2004) immediately preceding the assumption of assets, liabilities and operations of Golden Corn Bio-chem during the year were assumed by us and accordingly eliminated. On the other hand, our trade receivables from 壽光市供電公司 (Electricity Supply Company of Shouguang City*) was reduced from about RMB44,448,000 as at 31 December, 2004 to a minimal of RMB2,000,000 as at 31 December, 2005. During the year, our movements in inventories resulted in a cash outflow of approximately RMB10,853,000. Moreover, we had approximately RMB2,908,000 additional steam pipeline construction funds received from customers for the construction of steam pipelines, and made tax payments of some RMB12,336,000.

The year ended 31 December, 2006 saw a substantial improvement in our net cash inflow from operating activities, which amounted to some RMB84,598,000. The substantial improvement was mainly a result of our improved profitability. While our profit before tax for the year ended 31 December, 2006 increased by about RMB55,670,000 from the previous financial year to approximately RMB133,156,000, operating cash flows after adjustments of non-cash expense items amounted to approximately RMB191,247,000. Nevertheless, our movements in inventories as at 31 December, 2006 resulted in a cash outflow of approximately RMB34,443,000, while the movements of our receivables and payables resulted in a further net cash outflow of some RMB63,901,000. During the year, we also made tax payments in the amount of some RMB9,531,000.

Although our profit before tax improved by some RMB10,570,000 to approximately RMB50,685,000 and our operating cash flows after adjustments of non-cash expense items improved by some RMB13,549,000 to approximately RMB72,348,000 as compared to the same period last year, our net cash inflow from operating activities reduced by some RMB16,777,000 to approximately RMB55,418,000 for the four months ended 30 April, 2007 mainly as a result of (i) the movements in our receivables and payables, which resulted in a larger amount of net cash outflow of some RMB27,073,000 as compared to that of some RMB13,595,000 during the same period last year; (ii) movements in our inventories which resulted in a lesser amount of cash inflow of some RMB15,030,000 as compared to that of some RMB27,509,000 for the same period last year; and (iii) an increase in payment of tax which amounted to some RMB5,500,000 as compared to that of about RMB1,066,000 for the same period last year.

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(b) Cash flow from investing activities

For the year ended 31 December, 2004, we reported net cash outflow from investment activities of about RMB221,489,000 which was contributed mainly by the advances made to Golden Corn Bio-chem which totalled to approximately RMB156,000,000. During the year, we also made payments of about RMB44,209,000 for purchases of property, plant and equipment and about RMB7,690,000 as prepayment for land use right, and had an increase of about RMB15,000,000 in pledged bank deposits.

Our net cash outflow from investment activities for the year ended 31 December, 2005 increased to about RMB91,084,000, comprising mainly (i) a cash outflow of approximately RMB39,221,000 arising from the dissolution of Golden Corn Bio-chem; (ii) about RMB8,105,000 injected into Golden Far East as our share of contribution to the increase in registered capital; and (iii) an increase in pledged bank deposits of about RMB47,625,000.

We had net cash inflow from investment activities in the amount of about RMB47,715,000 for the year ended 31 December, 2006 which was mainly a combined result of (i) a cash inflow of approximately RMB38,891,000 arising from the decrease in our non-trade dues from related companies as a result of our pursuit in accelerating settlements of non-trade dues from related companies; (ii) a decrease of some RMB30,185,000 in pledged bank deposits; and (iii) payments of approximately RMB26,608,000 for purchases of property, plant and equipment.

For the four months ended 30 April, 2007, we had net cash inflow from investing activities of some RMB36,649,000 which was mainly a result of the decrease of approximately RMB35,500,000 in pledged bank deposits during the period.

(c) Cash flow from financing activities

For the year ended 31 December, 2004, we had net cash inflow from financing activities in the amount of about RMB135,964,000. During the year, we had a net increase in borrowings of about RMB220,956,000 (comprising mainly bank borrowings), and paid dividends and interests in the amount of about RMB10,729,000 and RMB5,824,000 respectively. During the year, we had a decrease in our non-trade dues to related companies in the amount of approximately RMB86,567,000. We also had an increase of some RMB18,128,000 in loan from our employees, which were interest free and unsecured deposits made by our employees in exchange for occupancy of staff quarters owned by our Group.

Our net cash inflow from financing activities amounted to approximately RMB97,370,000 for the year ended 31 December, 2005. During the year, we made dividend and interest payments in the amount of some RMB21,712,000 and RMB11,834,000 respectively, and had a net increase of about RMB73,211,000 in borrowings. We also reported an increase of approximately RMB60,383,000 in our non-trade dues to related companies, which was partly attributable to the assumption of assets, liabilities and operations of Golden Corn Bio-chem during the year, pursuant to which all dues to/from Golden Corn Bio-chem were eliminated. As a result of the settlements of non-trade dues to

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related companies during the year, we did not have any non-trade dues to related companies outstanding as at 31 December, 2005. Our loan from employees, which were principally deposits for occupancy of staff quarters, reduced by some RMB2,678,000 during the year ended 31 December, 2005.

We had net cash outflow from financing activities in the amount of some RMB130,267,000 for the year ended 31 December, 2006, which was mainly attributable to the cash outflow of approximately RMB140,000,000 being payment made by Sourcestar to the then shareholders of Golden Corn for the acquisition of the entire equity interest of Golden Corn as part of the Reorganisation. In conjunction therewith, a shareholder's loan in the amount of approximately RMB140,148,000 (which formed part of our proceeds from borrowings) was advanced by Merry Boom for the purpose financing the said acquisition. During the year, we had net repayment of borrowings of about RMB15,590,000, made interest payments of about RMB14,769,000, and made dividend payments totaled to about RMB25,271,000. During the year, our non-trade dues to related companies increased by approximately RMB14,265,000, comprising entirely due to Juneng Holding Group, which were subsequently fully settled as at 28 February, 2007. We also had an increase of some RMB19,918,000 in loan from employees being deposits paid for occupancy of staff quarters.

We reported net cash outflow from financing activities of some RMB93,139,000 for the four months ended 30 April, 2007 which was mainly attributable to (i) our dividends payment of about RMB46,793,000; (ii) the net repayment of our borrowings of some RMB29,723,000; and (iii) the settlement of about RMB12,447,000 due to Juneng Holding Group. In addition, we also made interest payments of some RMB3,729,000 and reported a reduction of some RMB447,000 in deposits received for occupancy of staff quarters from employees during the period.

Financial resources and capital structure

(a) Net current assets

As at 31 July, 2007, based on the unaudited consolidated management accounts of our Group, we had net current assets of approximately RMB46,389,000. Our current assets comprised inventories of about RMB96,707,000, trade and other receivables of about RMB54,833,000, bills receivables of about RMB71,708,000, amounts due from related companies of about RMB206,000, prepaid lease payment of RMB939,000 and bank balance and cash of about RMB60,055,000. Our current liabilities comprised trade and other payables of about RMB84,981,000, tax payable of about RMB11,381,000, current portion of employees housing deposit of about RMB29,809,000 and current portion of borrowings of about RMB111,888,000.

(b) Banking facilities

As at 31 July, 2007, our Group had total banking facilities of approximately RMB438,000,000, of which approximately RMB124,000,000 were unutilised. As at 31 July, 2007, approximately RMB10,000,000 is due to mature in October 2007, approximately RMB16,000,000 is due to mature in December 2007 and approximately RMB98,000,000 is due to mature in May 2008. The Directors do not anticipate any significant difficulties that may be faced by our Group in renewing its existing banking facilities upon maturity if deemed necessary.

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(c) Hedging

As much of our revenue and expenses transactions are denominated in Renminbi, we have not implemented any hedging or other alternatives.

Capital expenditure

(a) Operating lease commitments

As at 31 July, 2007, we had operating lease commitments in the amount of approximately RMB125,500 comprising future minimum lease payments under non-cancellable operating lease falling due within one year. Our Directors consider the amount to be immaterial.

(b) Capital commitments

As at 31 July, 2007, our capital commitments comprised approximately RMB5,604,000 capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment. Our Directors consider the amount to be immaterial.

(c) Anticipated capital commitments

According to our future plans, we intend to expand our annual production capacity in respect of cornstarch and lysine to approximately 1,050,000 tonnes and 55,000 tonnes, respectively, by the end of 2008 by way of entering into arrangements to sub-contract operations of, direct equity acquisition(s) of, and/or setting up new joint venture(s) with small-to-medium sized cornstarch and/or lysine producers. It is also our intention to expand our existing cornstarch and lysine production facilities by way of acquiring additional machineries and equipment and/or constructing additional production lines. It is set out in the paragraph headed “Reasons for the Global Offering and use of proceeds” under the section headed “Future plans and use of proceeds” in this prospectus that approximately HK\$177 million will be allocated out of the net proceeds from the Global Offering for acquisition(s) of other manufacturer(s) and/or as registered capital injections for the forming of joint venture(s) with other manufacturer(s) to subcontract or acquire production facilities. It is also intended that approximately RMB73 million will be allocated out of the net proceeds from the Global Offering to acquire new machineries and equipment and/or conduct production technology enhancements on the newly acquired production facilities, and approximately RMB20 million for the acquisition of new machineries and equipment for the purpose of expanding our existing cornstarch and lysine production facilities. Subject to the successful Listing, it is currently envisaged the aforementioned anticipated capital commitments will be effected on or before the end of 2008.

(d) Working capital sufficiency

Taking into account the financial resources available to our Group, including internally generated funds, the available banking facilities and the estimated net proceeds from the Global Offering, our Directors are of the opinion that the working capital available to our Group is sufficient for its present requirements, that is for at least the next 12 months from the date of this prospectus.

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INDEBTEDNESS

As of 31 July, 2007, which is the latest practicable date for the purpose of calculating our indebtedness, we had RMB455,192,000 in outstanding borrowings, of which RMB 275,593,000 were bank loans, RMB123,906,000 were loans from the sole Shareholder of our Company, RMB45,943,000 were employee housing deposits and the remaining were government loans.

Borrowings

The following table sets forth our borrowings as of 31 July, 2007 indicated.

Carrying amount payable:	Total	Within 1 year	1-2 years	2-5 years	More than 5 years
	<i>(RMB '000)</i>	<i>(RMB '000)</i>	<i>(RMB '000)</i>	<i>(RMB '000)</i>	<i>(RMB '000)</i>
Bank loans	275,593	111,593	134,000	30,000	—
Loans from a Shareholder	123,906	123,906	—	—	—
Employee housing deposits	45,943	29,808	2,620	13,515	—
Government loan	<u>9,750</u>	<u>—</u>	<u>886</u>	<u>2,659</u>	<u>6,205</u>
	<u>455,192</u>	<u>265,307</u>	<u>137,506</u>	<u>46,174</u>	<u>6,205</u>

As at 31 July, 2007, there were bank loans of RMB275,593,000, of which RMB50,000,000 were guaranteed by 壽光市供電公司 (Electricity Supply Company of Shouguang City*) where Mr. Tian is the manager. As at the Latest Practicable Date, we have obtained the release of the aforementioned guarantee.

Loans from the sole Shareholder (being Merry Boom) is unsecured and will be capitalised pursuant to the Loan Capitalisation Issue prior to the Listing.

Bank loans of RMB31,593,000 at 31 July, 2007 were secured by certain bills receivables.

Bank loans of RMB114,000,000 at 31 July, 2007 were pledged by certain properties and land use rights.

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The Employees Housing Deposit represents advances from employees of the Group in exchange for occupancy of the staff quarters owned by the Group. The advances are interest free and unsecured. The Employees Housing Deposit is repayable one month upon the return of the staff quarter by the employees. In case the staff quarter is continuously occupied by the staff for more than five years, the Installment Portion of the Employees Housing Deposit will be repaid by installments with 30% repayable at the end of each of the third and fourth year from the signing of the occupancy agreements. The remaining 40% repayable at the end of the of the fifth year from the signing of the occupancy agreements.

The government loan was provided to Golden Corn for its corn refinery processing by 壽光市財政部 (Finance Bureau of Shouguang City*) in April, 2004 on the basis that Golden Corn was listed as one of the recipients of the “2003 年第三批企業技術進步和產業升級國債項目資金計劃” (“2003 Third batch of State Project Loans Plans for Enterprises with Technology Improvements and Industry Promotion”*) under the 《國家發展改革委、財政部關於下達2003年第三批企業技術進步和產業升級國債項目資金計劃的通知》發改投資 2003 2178號) (Notice of the National Development and Reform Commission and the State Finance Department Regarding the Delivery of the 2003 Third batch of State Project Loans Plans for Enterprises with Technology Improvements and Industry Promotion (Fa Gai To Zhi 2003 No.2178)*) issued jointly by National Development and Reform Commission and the State Finance Department on 10 December, 2003.

Contingent liabilities

As at 31 July, 2007, being the latest practicable date for ascertaining information for disclosure in this section, our Group did not have any contingent liabilities.

Disclaimer

Save as described in this section, as at 31 July, 2007, being the latest practicable date for ascertaining information for disclosure in this section, we did not have any outstanding mortgages, charges, pledges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, acceptance liabilities acceptance credits, any guarantees or other material contingent liabilities.

No material change

Our Directors confirm that there has not been any material change in the indebtedness and contingent liabilities of our Group since 31 July, 2007.

DIVIDEND POLICY

On 10 January, 2006, Golden Corn declared dividends to its then shareholders in the amount of RMB108,000,000 in respect of the financial year ended 31 December, 2005 which were fully paid out as at 31 July, 2007 funded by internal resources. On 20 March, 2007, our Company declared dividends to Merry Boom in the amount of HK\$21,000,000 which were fully paid out as at 31 March, 2007 funded by internal resources. On 20 July, 2007, our Company declared further dividends to Merry Boom in the amount of Hong Kong dollars equivalent to RMB50,000,000 which were fully paid out as at 31 July, 2007 funded by internal resources.

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After completion of the Global Offering, our Shareholders will be entitled to receive dividends declared by us. It is the present intention of our Directors to distribute not less than 30% of our distributable profit in each financial year. Nevertheless, the amount of dividends that may be declared in the future will be subject to, among other factors, the discretion of our Directors, the availability of distributable profits, our earnings, financial position and funding requirements and other factors as deemed relevant at such time by our Directors. Therefore prospective investors should not use our dividend payout history as a reference or basis to predict our future dividend payouts.

It should also be noted that our Company is a holding company and depends on its existing operating subsidiary, which is established and operated in the PRC (and any operating subsidiaries that may be established in the future, which would likely to be established in the PRC) for its ability to fund dividends. Each of the PRC law, Hong Kong law and BVI law limits the ability of a company incorporated (or established) in their respective jurisdiction to pay dividends for various reasons including the absence of surplus, sufficient distributable reserves or profits. In particular, our existing operating subsidiary (and any future subsidiaries to be established in the PRC) may only distribute dividends after offsetting the accumulated losses brought down from previous years, if any, and after making relevant appropriation(s) to the statutory surplus reserve fund at the rate(s) stipulated in the Company Law of the PRC. In addition, the profits available for distribution by companies established in the PRC are determined in accordance with PRC GAAP, which may differ from the amounts arrived at under HKFRS. In the event that the amount of profits determined under PRC GAAP in a given year is less than that determined under HKFRS, our Company may not have sufficient funds for distribution of profits to our Shareholders.

DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands on 29 November, 2006. As at 30 April, 2007, our Company had no reserves available for distribution to Shareholders.

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DISCLOSURE UNDER THE LISTING RULES

Disclosure under Rule 5.07 of the Listing Rules

The table below shows the reconciliation from the audited net book value of our property interests as at 30 April, 2007 to their carrying value as at 31 July, 2007 as stated in Appendix III to this prospectus.

	<u>RMB'000</u>
Audited net book value of the property interests of our Group as at 30 April, 2007	165,618
Movement for the period from 1 May, 2007 to 31 July, 2007	
Addition of land and building	0
Depreciation and amortisation	<u>(1,648)</u>
Unaudited net book value as at 31 July, 2007	163,970
Valuation surplus	<u>21,030</u>
Valuation as at 31 July, 2007, as per Appendix III of this prospectus	<u><u>185,000</u></u>

Note: The net book value of the property interests of our Group as at 30 April, 2007 represents a total net book value of prepaid lease payments for land use rights and buildings as at 30 April, 2007.

Disclosure under Rules 13.13 to 13.19 of the Listing Rules

Our Directors confirm that as at the Latest Practicable Date, there were no circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position or prospects since 30 April, 2007, being the date to which our Group's latest audited financial statements as set out in the accountants' report was made up, the text of which is set out in Appendix I to this prospectus.

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UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted net tangible assets of our Group which has been prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules for the purpose of illustrating the Listing as if it had taken place on 30 April, 2007 and based on the audited consolidated net tangible assets attributable to the equity holders of our Company as at 30 April, 2007 as shown in the accountants' report set out in Appendix I to this prospectus, and adjusted as described below:

	Audited combined net tangible assets attributable to equity holders of our Company as of 30 April, 2007 ⁽¹⁾	Estimated net proceeds from the issue of Offer Shares ⁽²⁾	Unaudited pro forma adjusted net tangible assets ⁽³⁾	Unaudited pro forma adjusted net tangible assets per Share ⁽⁴⁾
	(RMB '000)	(RMB '000)	(RMB '000)	(RMB)
Based on Offer Price of HK\$1.85 per share	213,677	246,250	459,927	0.9199
Based on Offer Price of HK\$2.31 per share	213,677	313,230	526,907	1.0538

Notes:

- (1) As of 30 April, 2007, our audited combined net tangible assets attributable to equity holders of our Company was equal to equity attributable to equity holders of our Company.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$1.85 and HK\$2.31 per Offer Share, respectively, after deduction of the underwriting fees and other related expenses payable by us and assuming the translation of Hong Kong dollars to Renminbi with the exchange rate at HK\$1.00 to RMB0.985. No account has been taken on the Shares which may be issued pursuant to any exercise of the Over-allotment Option.
- (3) By comparing the valuation of our property interests as of 31 July 2007 as set out in Appendix III to this prospectus and the unaudited net book value of these properties as of 30 April, 2007, without considering the movement of our property interest between 31 July 2007 and 30 April 2007, the valuation surplus was approximately RMB19 million, which has not been included in the above net tangible assets. The valuation surplus of our property interests will not be incorporated in our financial statements for the year ending 31 December, 2007. If the valuation surplus were to be included in our financial statements for the year ending 31 December, 2007, an additional depreciation charge of approximately RMB 40,000 per annum would be incurred.
- (4) The unaudited pro forma adjusted net tangible assets per Share is based on a total of 500,000,000 Shares expected to be in issue immediately after the completion of the Global Offering (assuming no exercise of the Over-allotment Option), the Loan Capitalisation Issue and the Capitalisation Issue.

UNDERWRITING

UNDERWRITERS

Names of Hong Kong Underwriters:

CCB International Capital Limited
BOCOM International Holdings Company Limited
China Merchants Securities (HK) Co., Ltd.
Guotai Junan Securities (Hong Kong) Limited
Kingsway Financial Services Group Limited
Mega Capital (Asia) Company Limited
Shenyin Wanguo Capital (H.K.) Limited
Taiwan Securities (Hong Kong) Company Limited
VC Brokerage Limited

Name of International Underwriter:

CCB International Capital Limited

HONG KONG PUBLIC OFFERING

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering initially 15,000,000 Shares (subject to adjustment) for subscription by way of Hong Kong Public Offering on and subject to the terms and conditions of this prospectus and the related Application Forms at the Offer Price.

Subject to, among other conditions, (i) the Listing Committee granting listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Loan Capitalisation Issue and the Capitalisation Issue, the Shares to be issued pursuant to the Global Offering and any Shares which may fall to be allotted and issued upon the exercise of the Over-allotment Option or the exercise of any options which may be granted under the Share Option Scheme; and (ii) certain other conditions set out in the Hong Kong Underwriting Agreement (including our Company and the Lead Manager (on behalf of the Underwriters) agreeing on the Offer Price), the Hong Kong Underwriters have agreed, severally and not jointly, to subscribe or procure subscribers, on the terms and conditions of this prospectus and the related Application Forms, for their respective applicable proportions of the Hong Kong Public Offer Shares now being offered and which are not taken up under the Hong Kong Public Offering.

UNDERWRITING

Grounds for termination

The Lead Manager (on behalf of itself and the other Hong Kong Underwriters), in its absolute discretion, is entitled to terminate the Hong Kong Underwriting Agreement upon occurrence of the following events at any time at or before 8:00 a.m. on 27 September, 2007:

- (A) (1) there is any change or prospective change (whether or not permanent) in the business or in the financial or trading position or prospects of our Company or any other member of our Group;
- (2) any event or series of events resulting or representing or likely to result in any change or development (whether or not permanent) in local, national, regional or international financial, political, industrial, economic, currency, military, conflict related, legal, fiscal, exchange control, regulatory, equity or other financial market or other conditions, circumstances or matters shall have occurred, happened or come into effect;
- (3) any relevant new law or rule, guideline, regulation, opinion, notice, circular, order, judgment, decree or ruling of any court or any public, regulatory or governmental agency or authority (including, without limitation, the Stock Exchange and the SFC), other authority and any court at the national, provincial, municipal or local level (“Governmental Authority”) (“Laws”) or change (whether or not forming part of a series of changes) in existing Laws or any change in the interpretation or application thereof by any court or Governmental Authority of any relevant jurisdiction shall have been introduced or effected;
- (4) a change or development occurs involving a prospective change in taxation or exchange control (or in the implementation of any exchange control) or foreign investment regulations in Hong Kong, Japan, the PRC, the US, the European Union (or any member thereof), or elsewhere;
- (5) any event, act or omission which gives rise to or is likely to give rise to any liability of any of the warrantors of the Hong Kong Underwriting Agreement pursuant to the indemnity contained in the Hong Kong Underwriting Agreement;
- (6) the imposition of economic or other sanctions, in whatever form, directly or indirectly, by Japan, the US, the European Union (or any member thereof) or any other country or organisation in Hong Kong, the PRC, or any other jurisdiction relevant to our Group;
- (7) any event, or series of events, beyond the control of the Hong Kong Underwriters (including without limitation, any acts of God, acts of government, war, threat of war, riot, public disorder, civil commotion, fire, flooding, explosion, outbreak of diseases or epidemic (including but not limited to severe acute respiratory syndrome and H5N1 and such related or mutated forms), terrorism, strike or lockout) shall have occurred, happened or come into effect;

UNDERWRITING

- (8) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or crisis involving or affecting Hong Kong, Japan, the PRC, the US or the European Union (or any member thereof), or any other jurisdiction relevant to our Group;
- (9) the imposition or declaration of (i) any suspension or material limitation on dealings in shares or securities generally on the Stock Exchange, New York Stock Exchange, Inc., London Stock Exchange plc or any other major international stock exchange or (ii) any moratorium on banking activities or disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting Hong Kong, the PRC, New York, London or any other jurisdiction;
- (10) a demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity;
- (11) any loss or damage sustained by our Company or any other member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person);
- (12) any action, suit, proceeding, litigation or claim of any third party is pending, threatened or instigated against any member of our Group, any of the covenantors under the Hong Kong Underwriting Agreement or any of the executive Directors; or
- (13) a petition is presented for the winding-up or liquidation of our Company or any other member of our Group or our Company or any other member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of our Company or any other member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of our Company or any other member of our Group or anything analogous thereto occurs in respect of our Company or any other member of our Group,

which in the sole and absolute opinion of the Lead Manager:

- (a) is or shall or may individually or in the aggregate have a material adverse effect on the business, financial, trading or other condition or prospects of our Company taken alone or our Group taken as a whole and/or, in the case of sub-paragraph (4) above, to any present or prospective shareholder in its capacity as such;
- (b) has or shall or may have a material adverse effect on the success of the Hong Kong Public Offering, the International Placing or the level of the Offer Shares being applied for or accepted or the distribution of the Offer Shares; or
- (c) is or shall or may make it impracticable, inadvisable, inexpedient or not commercially viable (i) for any material part of the International Underwriting Agreement, the Hong

UNDERWRITING

Kong Underwriting Agreement, the Hong Kong Public Offering, the International Placing and/or the Global Offering to be performed or implemented as envisaged or (ii) to proceed with the Hong Kong Public Offering, the International Placing and/or the Global Offering on the terms and in the manner contemplated in this prospectus; or

- (B) any of the Hong Kong Underwriters shall become aware of the fact that, or have cause to believe that:
- (1) any of the warranties given by the warrantors of the Hong Kong Underwriting Agreement is untrue, inaccurate, misleading or breached in any respect when given or as repeated as determined by the Lead Manager in its sole and absolute discretion;
 - (2) any statement contained in this prospectus in respect of the Hong Kong Public Offering, the International Placing and/or the Global Offering was or is untrue, incorrect or misleading in any respect, or any matter arises or is discovered which would, if this prospectus was to be issued at that time, constitute a material omission therefrom as determined by the Lead Manager in its sole and absolute discretion; or
 - (3) there has been a breach on the part of any of the warrantors of the Hong Kong Underwriting Agreement of any of the provisions of the Hong Kong Underwriting Agreement or the International Underwriting Agreement as determined by the Lead Manager in its sole and absolute discretion.

Undertakings

1. Our Company has undertaken to the Hong Kong Underwriters that our Company shall, and each of the Controlling Shareholders and the executive Directors has undertaken to the Hong Kong Underwriters to procure that our Company shall, not at any time during the period commencing on the date by reference to which disclosure of the shareholding of the Controlling Shareholders is made in this prospectus and ending on the date which is six months from the Listing Date (the “**Lock-up Period**”), issue or create any mortgage, pledge, charge or other security interest or any rights in favour of any other person over, directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, any Shares or securities of our Company) or repurchase any Shares or securities of our Company or grant any options, warrants or other rights to subscribe for any Shares or other securities of our Company or agree to do any of the foregoing, except pursuant to the Global Offering, the Loan Capitalisation Issue, the Capitalisation Issue, the exercise of the subscription rights attaching to the Over-allotment Option or to the options that may be granted under the Share Option Scheme.

UNDERWRITING

2. Each of the Controlling Shareholders has undertaken to the Hong Kong Underwriters that:

- (A) he or it shall comply with all the applicable restrictions and requirements under the Listing Rules on the disposal by him or it or by any registered holder on his or its behalf, of any Shares or other securities of our Company in respect of which he or it is shown in this prospectus to be the beneficial owner (directly or indirectly);
- (B) except pursuant to the Stock Borrowing Agreement, neither him or it nor any of his or its associates or companies controlled by him or it has any present intention of disposing of any Shares or other securities of our Company in respect of which he or it is shown in this prospectus to be the beneficial owner (directly or indirectly) (or any beneficial interest therein); and
- (C) except pursuant to the Stock Borrowing Agreement, the Global Offering, the Loan Capitalisation Issue, the Capitalisation Issue, the exercise of the subscription rights attaching to the Over-allotment Option or to the options that may be granted under the Share Option Scheme, he or it shall not, without the prior written consent of the Lead Manager, on behalf of the Hong Kong Underwriters, directly or indirectly, and shall procure that none of his or its associates or companies controlled by him or it or any nominee or trustee holding in trust for him or it shall, offer for sale, sell, transfer, contract to sell, or otherwise dispose of (including without limitation by the creation of any option, right, warrant to purchase or otherwise transfer or dispose of, or any lending, charges, pledges or encumbrances over, or by entering into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition of effective economic disposition due to cash settlement or otherwise)) any of the Shares in respect of which he or it is shown in this prospectus to be the beneficial owner (directly or indirectly) or any other securities convertible into or exchangeable for or which carry a right to subscribe, purchase or acquire any such Shares or enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of the acquisition or ownership of any such Shares or such securities at any time during the Lock-up Period, subject always to compliance with the provisions of the Listing Rules, and in the event of a disposal of any Shares or such securities or any interest therein at any time during the six-month period immediately following the expiry of the Lock-up Period, (the “**Second Six Month Period**”), (1) such disposal shall not result in any of the Controlling Shareholders ceasing to be a controlling shareholder (as defined in the Listing Rules) of our Company at any time during the Second Six Month Period; and (2) he or it shall take all steps to ensure that any such act, if done, shall not create a disorderly or false market for any Shares or other securities of our Company or any interest therein.

UNDERWRITING

3. Each of the Controlling Shareholders has undertaken to the Hong Kong Underwriters that within the Lock-up Period and the Second Six Month Period he or it shall:
- (A) if and when he or it pledges or charges, directly or indirectly, any Shares or other securities of our Company beneficially owned by him or it (or any beneficial interests therein), immediately inform our Company and the Lead Manager in writing of such pledge or charge together with the number of such Shares or other securities so pledged or charged; and
 - (B) if and when he or it receives indications, either verbal or written, from any pledgee or chargee that any Shares or other securities in our Company (or any beneficial interests therein) pledged or charged by him or it shall be disposed of, immediately inform our Company and the Lead Manager in writing of such indications.
4. In accordance with Rule 10.07(1) of the Listing Rules, each of the Controlling Shareholders has undertaken to our Company and the Stock Exchange that he or it shall not and shall procure that the relevant registered holder(s) shall not:
- (A) except pursuant to the Stock Borrowing Agreement, the Global Offering, the Loan Capitalisation Issue, the Capitalisation Issue, the exercise of the subscription rights attaching to the Over-allotment Option or to the options that may be granted under the Share Option Scheme, in the period commencing on the date by reference to which disclosure of the shareholding of the Controlling Shareholders is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Shares in respect of which it/he is shown by this prospectus to be the beneficial owner; and
 - (B) in the period of six months commencing on the date on which the period referred to in paragraph 4(A) expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Shares referred to in paragraph 4(A) above if, immediately following such disposal or upon exercise or enforcement of such options, rights, interests or encumbrances, any of the Controlling Shareholders would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company.

UNDERWRITING

5. In accordance with note (3) to Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has undertaken to our Company and the Stock Exchange that within the period commencing on the date by reference to which disclosure of the shareholding of the Controlling Shareholders is made in this prospectus and ending on the date which is twelve months from the Listing Date, he or it will:
- (A) when he or it pledges or charges any Shares or securities of our Company beneficially owned by him or it, whether directly or indirectly, in favour of an authorised institution pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company of such pledge or charge together with the number of such Shares or securities of our Company so pledged or charged; and
 - (B) if he or it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares or securities of our Company will be disposed of, immediately inform our Company of such indications.

We shall notify the Stock Exchange as soon as our Company has been informed of such event by the Controlling Shareholders and shall make a public disclosure by way of announcement which is published in accordance with Rule 2.07C of the Listing Rules.

INTERNATIONAL PLACING

International Placing

In connection with the International Placing, it is expected that our Company will enter into the International Underwriting Agreement with, *inter alia*, the International Underwriter on or about 17 September, 2007. Pursuant to the International Underwriting Agreement, the International Underwriter will, subject to certain conditions, agree to subscribe or procure subscribers for the subscription of the International Placing Shares. It is expected that the International Underwriting Agreement may be terminated upon similar grounds as the Hong Kong Underwriting Agreement described above.

Over-allotment Option

Our Company will grant to the Lead Manager the Over-allotment Option, exercisable by the Lead Manager within 30 days after the last day for the lodging of applications under the Hong Kong Public Offering (which is expected to be 17 October, 2007), pursuant to which our Company may be required to allot and issue up to an aggregate of 22,500,000 additional new Shares (representing approximately 15% of the Shares initially being offered under the Global Offering) at the Offer Price to cover over-allocations in the International Placing and/or the obligations of the Lead Manager to return securities borrowed under the Stock Borrowing Agreement.

UNDERWRITING

COMMISSION AND EXPENSES

The Underwriters will receive an underwriting commission of 2.75% of the aggregate Offer Price of all the Offer Shares, out of which they will pay any sub-underwriting commission and selling concessions. Such commission, together with the Stock Exchange listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Global Offering, which are currently estimated to be in the range of approximately HK\$250 million to HK\$318 million in aggregate (based on the minimum and maximum offer price of HK\$1.85 per Offer Share and HK\$2.31 per Offer Share respectively and assuming that the Over-allotment Option is not exercised at all) is to be borne by our Company. In connection with the Global Offering, the Sponsor will also receive a financial advisory (sponsorship) and documentation fee.

Each of our Company and, among others, Merry Boom has agreed to indemnify the Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Underwriting Agreements and any breach by our Company of the Underwriting Agreements.

UNDERWRITERS' INTERESTS IN OUR COMPANY

Save as disclosed in this prospectus and save for their obligations under the Underwriting Agreements, as at the Latest Practicable Date, none of the Underwriters is interested directly or indirectly in any Shares or other securities of our Company or has any right or option (whether legally enforceable or not) to subscribe for, or nominate persons to subscribe for, any Shares or other securities of our Company. We have appointed CCBIC as our Company's compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Please refer to the paragraph headed "Compliance adviser" in the section headed "Directors, senior management and staff" in this prospectus for further details.

STRUCTURE OF THE GLOBAL OFFERING

OFFER PRICE AND PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$2.31 per Offer Share and is expected to be not less than HK\$1.85 per Offer Share. Based on the maximum Offer Price of HK\$2.31 per Offer Share, plus 1% brokerage fee, 0.004% SFC transaction levy and 0.005% Stock Exchange trading fee, one board lot of 2,000 Shares will amount to a total of HK\$4,666.61.

The Offer Price is expected to be determined by agreement between our Company and the Lead Manager (on behalf of the Underwriters) at or before the Price Determination Time. The Price Determination Time is expected to be at or before 5:00 p.m. (Hong Kong time) on Monday, 17 September, 2007 (or any other time not later than 8:00 a.m. (Hong Kong time) on Tuesday, 18 September, 2007 as agreed between the Lead Manager (on behalf of the Underwriters) and our Company.

If, based on the level of interest expressed by prospective professional, institutional and/or individual investors during the book-building process, the Lead Manager (on behalf of the Underwriters and with the consent of our Company) thinks it appropriate (for instance, if the level of interest is below the indicative Offer Price range), the indicative Offer Price range may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the *South China Morning Post* (in English) and the *Hong Kong Economic Times* (in Chinese) a notice of the reduction of the indicative Offer Price range. Such notice will also include confirmation or revision of the Global Offering statistics as currently set out in the section headed "Summary" in this prospectus, and any financial information which may change as a result of any such reduction. **If applications for Hong Kong Public Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, then even if the Offer Price range is so reduced, such applications cannot be subsequently withdrawn.**

If, for any reason, the Offer Price is not agreed between our Company and the Lead Manager (on behalf of the Underwriters) at or before the Price Determination Time, the Global Offering will not become unconditional and will lapse.

CONDITIONS

Acceptance of all applications for the Global Offering is conditional upon the fulfillment of the following conditions on or before the times and dates specified in the Underwriting Agreements:

- (i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, including any Shares which may fall to be allotted and issued pursuant to the Loan Capitalisation Issue, the Capitalisation Issue and upon the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme, and such listing and permission not subsequently being revoked prior to the Listing;

STRUCTURE OF THE GLOBAL OFFERING

- (ii) the Offer Price having been duly determined and the execution and delivery of the Price Determination Agreement at or before the Price Determination Time;
- (iii) the International Underwriting Agreement having been duly executed and delivered by the parties thereto on or before the Price Determination Time; and
- (iv) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including the waiver of any condition(s) by the Lead Manager on behalf of the Underwriters) and not being terminated in accordance with the terms thereof or otherwise,

unless and to the extent that such conditions are validly waived on or before such dates and times specified in the Underwriting Agreements, and in any event not later than the date which is 30 days after the date of this prospectus.

The consummation of each of the International Placing and the Hong Kong Public Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with their respective terms.

If any of the above conditions are not fulfilled on or before 12 October, 2007, or where applicable, waived by the Lead Manager (on behalf of the Underwriters), all application monies together with the related brokerage, Stock Exchange trading fee and SFC transaction levy received from applicants under the Hong Kong Public Offering will be refunded, without interest, on the terms set out in the paragraph headed “Despatch/collection of Share certificates and refund of application monies” under the section headed “How to Apply for Hong Kong Public Offer Shares” and on the terms set out under the paragraph headed “Refund of your money” on the Application Forms. Refund of monies will also be made in respect of wholly or partially successful applications in the event that the Offer Price, as finally determined, is less than the initial price per Hong Kong Offer Share (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee thereon) actually paid and in respect of wholly or partially successful application. In the meantime, such monies will be held in a separate bank account(s) with the receiving banks or other licensed bank(s) in Hong Kong or banks on Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

In the event that the Global Offering does not become unconditional, the Global Offering will lapse and a press announcement will be made by our Company as soon as possible. Details of the Hong Kong Underwriting Agreement and its conditions and grounds for termination are set out in the section headed “Underwriting” in this prospectus.

OFFER MECHANISM — BASIS OF ALLOCATION OF SHARES

The Global Offering

The Global Offering consists of the International Placing and the Hong Kong Public Offering. The 150,000,000 Shares initially offered will comprise 135,000,000 Shares being offered under the International Placing and 15,000,000 Shares being offered under the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

The 150,000,000 Shares being offered under the Global Offering will represent approximately 30% of our Company's enlarged issued share capital immediately after completion of the Global Offering, the Loan Capitalisation Issue and the Capitalisation Issue (without taking into account any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted under the Share Option Scheme). CCBIC is the Sponsor, bookrunner and Lead Manager of the Global Offering.

Subject to possible adjustment on the basis set forth below, 15,000,000 Shares, representing 10% of the total number of Shares initially being offered under the Global Offering, will be offered to the public in Hong Kong under the Hong Kong Public Offering. The Hong Kong Public Offering is open to all members of the public in Hong Kong as well as to institutional and professional investors. 135,000,000 Shares, representing 90% of the total number of Shares initially being offered under the Global Offering, will be placed with professional, institutional and/or individual investors in Hong Kong and elsewhere under the International Placing. Investors may apply for Shares under the Hong Kong Public Offering or indicate an interest for Shares under the International Placing, but may not do both. The International Placing Shares will be offered in Hong Kong and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S.

In connection with the Global Offering, it is expected that under the International Placing, our Company will grant to the Lead Manager the Over-allotment Option, exercisable by the Lead Manager within 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, pursuant to which our Company may be required to allot and issue up to an aggregate of 22,500,000 additional new Shares (representing 15% of the number of Shares initially being offered under the Global Offering) at the Offer Price to cover over-allocations in the International Placing and/or the obligations of the Lead Manager to return securities borrowed under the Stock Borrowing Agreement. The Lead Manager or any person acting for it may cover over-allocations in the International Placing by, among other means, making purchases in the secondary market or through stock borrowing arrangement from holder of Shares or exercising the Over-allotment Option in full or in part, or by any combination of these means or otherwise as may be permitted under applicable laws. Any such purchases will be made in compliance with all applicable laws and regulatory requirements, including the Securities and Futures (Price Stabilizing) Rules made under the SFO. The number of Shares that may be over-allocated will not exceed the maximum aggregate number of Shares which may be allotted and issued by our Company pursuant to the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 33% of our Company's enlarged issued share capital following the completion of the Global Offering and the full exercise of the Over-allotment Option.

If the Lead Manager decides to exercise the Over-allotment Option, it will be exercised solely to cover over-allocations in the International Placing and/or the obligations of the Lead Manager to return securities borrowed under the Stock Borrowing Agreement. The International Placing Shares (including any over-allocations) will be allocated prior to the commencement of trading of the Shares on the Stock Exchange.

STRUCTURE OF THE GLOBAL OFFERING

The levels of indication of interest in the International Placing and the basis of allotment and the results of application under the Hong Kong Public Offering are expected to be published in the *South China Morning Post* (in English) and in the *Hong Kong Economic Times* (in Chinese) on or before 25 September, 2007.

The net proceeds from the Global Offering, after deduction of related fees and expenses and assuming that the Over-allotment Option is not exercised at all, are estimated to be approximately HK\$284 million based on the Offer Price of HK\$2.08, being the mid-point of the indicative Offer Price range.

The International Placing

Our Company is initially offering 135,000,000 Shares at the Offer Price, representing 90% of the total number of Shares initially being offered in the Global Offering, for subscription by way of the International Placing. The International Placing is fully underwritten by the International Underwriter, subject to the terms and conditions of the International Underwriting Agreement.

The International Underwriter is soliciting from prospective professional, institutional and/or individual investors indications of interest in acquiring International Placing Shares under the International Placing. Prospective professional, institutional and/or individual investors will be required to specify the number of International Placing Shares they would be prepared to acquire either at different prices or at a particular price. This process is known as “book building”. In Hong Kong, retail investors should apply for Shares in the Hong Kong Public Offering, as retail investors applying for International Placing Shares, including retail investors applying through banks and other institutions, are unlikely to receive allocation of any International Placing Shares.

Allocation of the International Placing Shares pursuant to the International Placing is based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further and/or hold or sell its Shares after the Listing. Such allocation is generally intended to result in a distribution of the International Placing Shares on a basis which would lead to the establishment of a broad shareholder base to the benefit of our Company and the Shareholders as a whole.

If the Hong Kong Public Offering is not fully subscribed, the Lead Manager will have the absolute discretion to reallocate all or any unsubscribed Shares originally included in the Hong Kong Public Offering to the International Placing in such number as they deem appropriate. The total number of International Placing Shares to be allotted and issued pursuant to the International Placing may change as a result of the clawback arrangement referred to in the paragraph headed “The Hong Kong Public Offering” below, the exercise of the Over-allotment Option and any reallocation of unsubscribed Shares originally included in the Hong Kong Public Offering to the International Placing.

The International Underwriter shall, on behalf of our Company, conditionally place the International Placing Shares with professional, institutional/or individual investors. The International

STRUCTURE OF THE GLOBAL OFFERING

Placing of the International Placing Shares shall be subject to the restrictions in respect of the Global Offering set out under the section headed “Information about this Prospectus and the Global Offering” in this prospectus. The International Placing is conditional on the same conditions as set out in the paragraph “Conditions” above.

The Hong Kong Public Offering

Our Company is initially offering 15,000,000 Shares at the Offer Price, representing 10% of the total number of Shares initially being offered in the Global Offering, for subscription by way of the Hong Kong Public Offering. The Hong Kong Public Offer Shares are being offered at the Offer Price. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters, subject to the terms and conditions of the Hong Kong Underwriting Agreement.

The total number of Shares available for subscription under the Hong Kong Public Offering (after taking into account any reallocation referred to below) is to be divided equally into two pools for allocation purposes: pool A and pool B. The Hong Kong Public Offer Shares in pool A will be allocated on an equitable basis to successful applicants who have applied for the Hong Kong Public Offer Shares with an aggregate subscription price of HK\$5 million (excluding 1% brokerage, 0.004% SFC transaction levy and 0.005% Stock Exchange trading fee payable) or less. The Hong Kong Public Offer Shares in pool B will be allocated on an equitable basis to successful applicants who have applied for the Hong Kong Public Offer Shares with an aggregate subscription price of more than HK\$5 million (excluding 1% brokerage, 0.004% SFC transaction levy and 0.005% Stock Exchange trading fee payable) and up to the value of pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Hong Kong Public Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Hong Kong Public Offer Shares will be transferred to the other pool to satisfy demand in the pool and be allocated accordingly.

Applicants can only receive an allocation of the Hong Kong Public Offer Shares from either pool A or pool B but not from both pools and can only make applications of either pool A or pool B.

When there is over-subscription, allocation of the Hong Kong Public Offer Shares to investors under the Hong Kong Public Offering, both in relation to pool A and pool B, will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation in each pool may vary, depending on the number of Hong Kong Public Offer Shares validly applied for by each applicant, but, subject to that, will be made strictly on a pro-rata basis. The allocation of Hong Kong Public Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Public Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

Multiple or suspected multiple applications within either pool or between pools and any application for more than 7,500,000 Hong Kong Public Offer Shares, being 50% of the 15,000,000 Hong Kong Public Offer Shares initially being offered for subscription under the Hong Kong Public Offering will be rejected. Each applicant under the Hong Kong Public Offering will also be required

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to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not received any Shares under the International Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

The Shares initially allocated between the International Placing and the Hong Kong Public Offering is subject to adjustment.

If the number of Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the Hong Kong Public Offering, then Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of Shares available for subscription under the Hong Kong Public Offering will increase to 45,000,000 Shares, representing 30% of the Shares initially available for subscription under the Global Offering (assuming the Over-allotment Option is not exercised).

If the number of Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Shares initially available for subscription under the Hong Kong Public Offering, then the number of Shares to be reallocated to the Hong Kong Public Offering from the International Placing will be increased so that the total number of Shares available for subscription under the Hong Kong Public Offering will be 60,000,000 Shares, representing 40% of the Shares initially available for subscription under the Global Offering (assuming the Over-allotment Option is not exercised).

If the number of Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Shares initially available for subscription under the Hong Kong Public Offering, then the number of Shares to be reallocated to the Hong Kong Public Offering from the International Placing will be increased, so that the total number of Shares available for subscription under the Hong Kong Public Offering will increase to 75,000,000 Shares, representing 50% of the Shares initially available for subscription under the Global Offering (assuming the Over-allotment Option is not exercised).

In each such case, the additional Shares reallocated from the International Placing to the Hong Kong Public Offering will be allocated equally between pool A and pool B and the number of Shares available for subscription under the International Placing will be correspondingly reduced.

In addition, if the Hong Kong Public Offering is not fully subscribed, the Lead Manager in its absolute discretion may reallocate all or any unsubscribed Shares originally included in the Hong Kong Public Offering to the International Placing.

Allocation of Hong Kong Public Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Public Offer Shares validly applied for by applicants but, subject to that, will be made strictly on a pro-rata basis, although this

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could, where appropriate, consist of balloting. Balloting would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Public Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

OVER-ALLOTMENT OPTION AND STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, agree to purchase or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and if possible, to prevent a decline in the initial public offer prices of the securities. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements including those of Hong Kong. In Hong Kong, the stabilization price will not exceed the initial public offer price. In other jurisdictions, the stabilization price may or may not be higher than the initial public offer price.

In connection with the Global Offering, it is expected that under the International Placing, our Company will grant to the Lead Manager the Over-allotment Option, exercisable by the Lead Manager within 30 days after the last day for the lodging of applications under the Hong Kong Public Offering (which is expected to be 17 October, 2007), pursuant to which our Company may be required to allot and issue up to an aggregate of 22,500,000 additional new Shares (representing 15% of the total number of Shares initially available under the Global Offering) at the Offer Price to cover over-allocations in the International Placing and/or the obligations of the Lead Manager to return securities borrowed under the Stock Borrowing Agreement. Any new Shares allotted and issued pursuant to the exercise of the Over-allotment Option will be on the same terms and conditions as the Offer Shares. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 33% of our Company's enlarged issued share capital following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

In connection with the Global Offering, the Lead Manager, or any person acting for it, may over-allocate or effect transactions with a view to supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Lead Manager or any person acting for it to conduct any such stabilizing action. Such transactions, if commenced, may be discontinued at any time. The Lead Manager has been or will be appointed as stabilizing manager for the purpose of the Global Offering in accordance with the Securities and Futures (Price Stabilizing) Rules made under the SFO and, should stabilizing transactions be effected in connection with the Global Offering, this will be at the absolute discretion of the Lead Manager and will be effected in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

The Lead Manager or any person acting for it may cover any over-allocations in the International Placing by, among other means, making purchases in the secondary market or through stock borrowing arrangement from holder of Shares or exercising the Over-allotment Option in full or in part, or by any combination of these means or otherwise as may be permitted under applicable laws. Any such purchases will be made in compliance with all applicable laws and regulatory

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requirements, including the Securities and Futures (Price Stabilizing) Rules made under the SFO. The number of Shares that may be over-allocated will not exceed the maximum aggregate number of Shares which may be allotted and issued by our Company upon full exercise of the Over-allotment Option.

In order to facilitate the over-allocations in connection with the International Placing, the Lead Manager (or its affiliate(s)) may choose to borrow Shares from Merry Boom pursuant to the Stock Borrowing Agreement, or acquire Shares from other sources, including the secondary market or the exercise of the Over-allotment Option.

The possible stabilizing action which may be taken by the Lead Manager or any person acting for it in connection with the Global Offering may involve (among other things) (i) over-allocation of Shares, (ii) purchases of Shares, (iii) establishing, hedging and liquidating positions in Shares, (iv) exercising the Over-allotment Option in whole or in part, and/or (v) offering or attempting to do any of the foregoing. The stabilizing period is expected to end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering (which is expected to be 17 October, 2007).

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- (a) the Lead Manager may, in connection with any stabilizing action, maintain a long position in the Shares;
- (b) there is no certainty regarding the extent to which and the time period for which the Lead Manager will maintain such a position;
- (c) liquidation of any such long position by the Lead Manager may have an adverse impact on the market price of the Shares;
- (d) no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date and is expected to expire on the 30th day after the date expected to be the last day for the lodging applications under the Hong Kong Public Offering (which is expected to be 17 October, 2007). After this date, when no further action may be taken to support the price of the Shares, demand for the Shares, and therefore the price of the Shares, could fall;
- (e) the price of any securities (including the Shares) cannot be assured to stay at or above its Offer Price by the taking of any stabilizing action; and
- (f) stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

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Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

DISCLOSURE MADE PURSUANT TO RULE 10.07(3) OF THE LISTING RULES

On 11 September, 2007, the Stock Borrowing Agreement was entered into between Merry Boom and the Lead Manager, the terms and conditions of which are in compliance with the requirements set forth in Rule 10.07(3) of the Listing Rules. Its principal terms and conditions are as follows:

- such stock borrowing arrangement with Merry Boom will only be effected by the Lead Manager for settlement of over-allocations in the International Placing;
- the maximum number of Shares which may be borrowed from Merry Boom by the Lead Manager must not exceed the maximum aggregate number of Shares which may be allotted and issued by our Company upon full exercise of the Over-allotment Option (i.e. 22,500,000 Shares);
- the same number of Shares so borrowed must be returned to Merry Boom or its nominees, as the case may be, not later than three business days following the earlier of (i) the last day for exercising the Over-allotment Option; or (ii) the day on which the Over-allotment Option is exercised in full;
- the stock borrowing arrangement will be effected in compliance with all applicable Listing Rules, laws and other regulatory requirements; and
- no payment or other benefits will be made to Merry Boom by the Lead Manager in consideration for the borrowed shares.

DEALING ARRANGEMENT

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on 27 September, 2007, it is expected that the dealings in Shares on the Stock Exchange will commence on 27 September, 2007.

LISTING ON ANY OTHER STOCK EXCHANGE

The Directors are not considering any listing of the Shares or securities of our Company on any other overseas stock exchange. Our Company has not submitted any application nor obtained any approval for the listing of the Shares on any other overseas stock exchange.

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METHODS OF APPLYING FOR THE HONG KONG PUBLIC OFFER SHARES

There are two ways to make an application for the Hong Kong Public Offer Shares. You may apply for the Hong Kong Public Offer Shares by either using a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Public Offer Shares on your behalf. Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying using a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to **HKSCC**.

1. APPLYING BY USING A WHITE OR YELLOW APPLICATION FORM

Which Application Form to use

Use a **WHITE** Application Form if you want the Hong Kong Public Offer Shares to be issued in your own name.

Use a **YELLOW** Application Form if you want the Hong Kong Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant's stock account or your designated CCASS Participant's stock account.

Note: The Offer Shares are not available to existing beneficial owners of Shares in our Company, our Directors or chief executive of our Company or any of our subsidiaries or the associates of any of them.

Where to collect the WHITE and YELLOW Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, 12 September, 2007 until 12:00 noon on Monday, 17 September, 2007 from:

Any participant of the Stock Exchange;

or any of the following addresses of the Hong Kong Underwriters:

CCB International Capital Limited	Suites 2815-21, 28th Floor Two Pacific Place 88 Queensway Hong Kong
BOCOM International Holdings Company Limited	3rd Floor Far East Consortium Building 121 Des Voeux Road Central Hong Kong

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China Merchants Securities (HK) Co., Ltd.	48th Floor One Exchange Square Central Hong Kong
Guotai Junan Securities (Hong Kong) Limited	27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Kingsway Financial Services Group Limited	5th Floor Hutchison House 10 Harcourt Road Central Hong Kong
Mega Capital (Asia) Company Limited	Units 2213 - 2214 22nd Floor Cosco Tower 183 Queen's Road Central Hong Kong
Shenyin Wanguo Capital (H.K.) Limited	28th Floor Citibank Tower, Citibank Plaza 3 Garden Road Hong Kong
Taiwan Securities (Hong Kong) Company Limited	Room 1302-05, 13th Floor Tower II, Admiralty Centre 18 Harcourt Road Hong Kong
VC Brokerage Limited	28th Floor The Centrium 60 Wyndham Street Central Hong Kong

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or any of the following branches or sub-branches of **Standard Chartered Bank (Hong Kong) Limited** and **Bank of Communications Co., Ltd. Hong Kong Branch**:

Standard Chartered Bank (Hong Kong) Limited:

District	Branch name	Address
Hong Kong Island:	Des Voeux Road Branch	Standard Chartered Bank Building, 4-4A, Des Voeux Road Central, Central
	88 Des Voeux Road Branch	88 Des Voeux Road Central, Central
	Central Branch	Shop No. 16, G/F and Lower G/F, New World Tower, 16-18 Queen's Road Central, Central
	Hennessy Road Branch	399 Hennessy Road, Wanchai
	Leighton Centre Branch	Shop 12-16, UG/F, Leighton Centre, 77 Leighton Road, Causeway Bay
	Quarry Bay Branch	G/F, Westlands Gardens, 1027 King's Road, Quarry Bay
Kowloon:	Mongkok Branch	Shop B, G/F, 1/F & 2/F, 617-623 Nathan Road, Mongkok
	Tsimshatsui Branch	G/F, 10 Granville Road, Tsimshatsui
	Cheung Sha Wan Branch	828 Cheung Sha Wan Road, Cheung Sha Wan
	Kwun Tong Branch	1A Yue Man Square, Kwun Tong
	Yaumati Branch	546-550 Nathan Road, Yaumati
	Telford Gardens Branch	Shop P9-12, Telford Centre, Telford Gardens, Tai Yip Street, Kwun Tong
New Territories:	Tsuen Wan Branch	Shop C G/F & 1/F, Jade Plaza, No. 298 Sha Tsui Road, Tsuen Wan
	Shatin Centre Branch	Shop 32C, Level 3, Shatin Shopping Arcade, Shatin Centre, 2-16 Wang Pok Street, Shatin
	Metroplaza Branch	Shop Nos. 186-188, Level 1, Metroplaza, 223 Hing Fong Road, Kwai Chung

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Bank of Communications Co., Ltd. Hong Kong Branch:

District	Branch name	Address
Hong Kong Island:	Hong Kong Branch	20 Pedder Street, Central
	King's Road Sub-Branch	67-71 King's Road, North Point
	Chaiwan Sub-Branch	121-121A, Wan Tsui Road, Chaiwan
Kowloon:	Shamshuipo Sub-Branch	Shop G1, G/F, Golden Centre, 94 Yen Chow Street, Shamshuipo
	Hunghom Sub-Branch	1-3A, Tak Man Street, Whampoa Estate, Hunghom, Kowloon
	Lam Tin Sub-Branch	63-65 Kai Tin Road, Lam Tin
New Territories:	Tai Po Sub-Branch	Shop 1, Wing Fai Plaza, 29-35 Ting Kok Road, Tai Po
	Market Street Sub-Branch	53 Market Street, Tsuen Wan

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, 12 September, 2007 till 12:00 noon on Monday, 17 September, 2007 from:

The **Depository Counter of HKSCC** at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong

or your **stockbroker**, who may have such Application Forms and this prospectus available.

How to complete the WHITE and YELLOW Application Forms

There are detailed instructions on each Application Form. You should read those instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

You should note that by completing and submitting the **WHITE** and **YELLOW** Application Form, among other things:

- (a) you agree with our Company and each of our Shareholders, and our Company agrees with each of our Shareholders, to observe and comply with the Companies Law, the Companies Ordinance, the memorandum of our Company and the Articles of Association;

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- (b) you confirm that you have only relied on the information and representations contained in this prospectus and the Application Forms in making your application and will not rely on any other information or representations save as set out in any supplement to this prospectus;
- (c) you agree that none of our Company, the Sponsor, the Hong Kong Underwriters, their respective directors, officers, employees, advisers, agents, representatives and any other party or person involved in the Global Offering is or will be liable for any information and representations not contained in this prospectus or the Application Forms (and any supplement thereto);
- (d) you undertake and confirm that you (if the application is made for your benefit) or the person(s) or whose benefit you have made the application have not applied for or taken up, or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up, or indicate any interest in any International Placing Shares in the International Placing or otherwise participated in the International Placing; and
- (e) you agree to disclose to our Company, our share registrars, receiving bankers, the Sponsor, the Hong Kong Underwriters and their respective advisers and agents any personal data and any information which they require about you and the person(s) for whose benefit you have made the application.

In order for the **YELLOW** Application Forms to be valid:

- (a) **If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**
 - (i) the designated CCASS Participant or its authorized signatories must sign in the appropriate box in the Application Form; and
 - (ii) the designated CCASS Participant must endorse the form with this company chop (bearing its company name) and insert its participant I.D. in the appropriate box in the Application Form.
- (b) **If the application is made by an individual CCASS Investor Participant:**
 - (i) the Application Form must contain the CCASS Investor Participant's name and Hong Kong identity card number; and
 - (ii) the CCASS Investor Participant must insert its participant I.D. and sign in the appropriate box in the Application Form.

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(c) **If the application is made by a joint individual CCASS Investor Participant:**

- (i) the Application Form must contain all joint CCASS Investor Participants' names and the Hong Kong identity card number of all joint CCASS Investor Participants; and
- (ii) the participant I.D. must be inserted and the authorized signatory(ies) of the CCASS Investor Participant's stock account must sign in the appropriate box in the Application Form.

(d) **If the application is made by a corporate CCASS Investor Participant:**

- (i) the Application Form must contain the CCASS Investor Participant's company name and Hong Kong business registration number; and
- (ii) the participant I.D. and company chop (bearing its company name) endorsed by its authorised signatory(ies) must be inserted in the appropriate box in the Application Form.

Written signature(s), number of signatories and form of company chop, where appropriate, should match the records kept by the HKSCC. Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of authorised signatory(ies) (if applicable), participant I.D. or other similar matters render the application invalid.

If your application is made through a duly authorised attorney, we and the Lead Manager, the Hong Kong Underwriters and their respective agents or nominees as our agents may accept it at our discretion, and subject to any conditions we think fit, including evidence of the authority of your attorney. We, the Lead Manager and the Hong Kong Underwriters, in their capacity as our agents, and or agents and nominees will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

2. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Hong Kong Public Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling (852) 2979 7888 or through the **CCASS Internet System (<https://ip.ccass.com>)** (in accordance with the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

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HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Center
2nd Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application** instructions via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf.

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company and our registrar.

Giving electronic application instructions to HKSCC to apply for Hong Kong Public Offer Shares by HKSCC Nominees on your behalf

Where a **WHITE** Application Form is signed by **HKSCC** Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Public Offer Shares:

- (a) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (b) on behalf of the each such person HKSCC Nominees:
 - (i) agrees that the Hong Kong Public Offer Shares to be allotted shall be issued in the name of the HKSCC Nominees and deposited directly into CCASS for credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;
 - (ii) undertakes and agrees to accept the Hong Kong Public Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;

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- (iii) undertakes and confirms that that person has not indicated an interest for, applied for or taken up or indicated an interest for, any Shares under the International Placing nor otherwise participated in the International Placing;
- (iv) (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit);
- (v) (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person, and that that person is duly authorised to give those instructions as that other person's agent;
- (vi) understands that the above declaration will be relied upon by our Company, our Directors and the Lead Manager in deciding whether or not to make any allotment of Hong Kong Public Offer Shares in respect of the **electronic application instructions** given by that person and that person may be prosecuted if that person makes a false declaration;
- (vii) authorises our Company to place the name of HKSCC Nominees on our register of members as the holder of the Hong Kong Public Offer Shares allotted in respect of that person's **electronic application instructions** and to send Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between us and HKSCC;
- (viii) confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- (ix) confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf;
- (x) agrees that our Company, the Lead Manager, the Underwriters, their respective directors, officers, employees, agents, representatives and any other party involved in the Global Offering are liable only for the information and representations contained in this prospectus and any supplemental thereto;
- (xi) agrees to disclose that person's personal data to our Company, the Lead Manager and/or their respective agents and any information which they may require about that person;
- (xii) agrees (without prejudice to any other rights which that person may have) that once the application to HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;

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- (xiii) agrees that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable before the expiration of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that we will not offer any Hong Kong Public Offer Shares to any person before the expiration of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday, or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Hong Kong Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- (xiv) agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by our Company;
- (xv) agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Public Offer Shares;
- (xvi) agrees with our Company, for ourselves and for the benefit of each of our Shareholders (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of our shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Law, the Companies Ordinance, the memorandum of the Company and the Articles of Association; and
- (xvii) agrees that the person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;

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Effect of giving electronic application instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed an authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum offer price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the offer price per Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy and Stock Exchange trading fee, by crediting your designated bank account;
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

Multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your behalf, the number of Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for those purposes of considering whether multiple applications have been made.

Minimum subscription amount and permitted multiples

You may give or cause your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 2,000 Hong Kong Public Offer Shares. Such instructions in respect of more than 2,000 Hong Kong Public Offer Shares must be in one of the numbers or multiples set out in the table in the **WHITE** and **YELLOW** Application Forms. No application for any other number of Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

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Time for inputting electronic application instructions

CCASS Broker/Custodian Participants can input electronic application instructions at the following times on the following dates:

Wednesday, 12 September, 2007 — 9:00 a.m. to 8:30 p.m. ⁽¹⁾

Thursday, 13 September, 2007 — 8:00 a.m. to 8:30 p.m. ⁽¹⁾

Friday, 14 September, 2007 — 8:00 a.m. to 8:30 p.m. ⁽¹⁾

Saturday, 15 September, 2007 — 8:00 a.m. to 1:00 p.m. ⁽¹⁾

Monday, 17 September, 2007 — 8:00 a.m.⁽¹⁾ to 12:00 noon

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Broker/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Wednesday, 12 September, 2007 until 12:00 noon on Monday, 17 September, 2007 (24 hours daily, except the last application day).

Effect of bad weather on the opening of the application lists

The latest time for inputting your electronic application instructions will be 12:00 noon on Monday, 17 September, 2007, the last application day. If:

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning signal

is in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 17 September, 2007, the last application day will be postponed to the next Business Day which does not have either of these warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on such day.

Section 40 of the Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance).

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Personal Data

The section of the Application Form entitled “Personal Data” applies to any personal data held by us and our share registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

The application for the Hong Kong Public Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Our Company, our Directors, the Lead Manager, the Underwriters and any party or person involved in the Global Offering take no responsibility for the application and provided no assurance that any CCASS Participant will be allotted any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions to HKSCC through the CCASS Phone System or the CCASS Internal System, CCASS Investor Participants are advised not to wait until the last minute to input their electronic application instructions to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their electronic application instructions, they should either: (i) submit a **WHITE**, or **YELLOW** Application Form (as appropriate); or (ii) go to HKSCC’s Customer Service Center to complete an input request form for electronic application instructions before 12:00 noon on Monday, 17 September, 2007 or such later time as described under the sub-paragraph headed “Effect of bad weather on the opening of the application lists” above.

3. HOW MANY APPLICATIONS YOU MAY MAKE

You may make more than one application for the Hong Kong Public Offer Shares if and only if:

You are a nominee, in which case you may give electronic application instructions to HKSCC (if you are a CCASS Participant) and lodge more than one **WHITE** and **YELLOW** Application Form in your own name if each application is made on behalf of different beneficial owners. In the box on the Application Form marked “For nominees”, you must include:

- an account number; or
- some other identification code

for each beneficial owner or, in the case of joint beneficial owners, for each such beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

Otherwise, multiple applications are not allowed.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

It will be a term and condition of all applications that by completing and delivering an Application Form or giving **electronic application instructions** to HKSCC, you:

- (if the application is made for your own benefit) warrant that this is the only application which has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS;
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which has or will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application form or by giving **electronic application instructions** to HKSCC, and that you are duly authorised to sign the Application Form as that other person's agent.

Except where you are a nominee and provide the information required to be provided in your application, all of your applications for the Hong Kong Public Offer Shares (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**) will be rejected as multiple applications if you, or you and your joint applicant(s) together or any of your joint applicants:

- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Broker or Custodian Participant); or
- apply both (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and to give **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Broker or Custodian Participant); or
- apply (whether individually or jointly) on one **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Broker or Custodian Participant) for more than 7,500,000 Hong Kong Public Offer Shares, being 50% of the Hong Kong Public Offer Shares initially being offered for public subscription under the Hong Kong Public Offering, as more particularly described in the paragraph headed "The Hong Kong Public Offering" under the section headed "Structure of the Global Offering" in this prospectus; or
- have applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) any International Placing Shares under the International Placing or otherwise participated in the International Placing.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

All of your applications will also be rejected as multiple applications if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic instructions to HKSCC is made for your benefit (including the part of the application made by HKSCC acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company, then the application will be treated as being for your benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control in relation to a company means you:

- control the composition of the board of directors of that company; or
- control more than half of the voting power of that company; or
- hold more than half of the issued share capital of that company, without taking into account any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital.

4. HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

The maximum offer price is HK\$2.31 per Offer Share. You must also pay brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005% in full when you apply for the Hong Kong Public Offer Shares. This means that for every board lot of 2,000 Shares, you will pay approximately HK\$4,666.61. Each of the Application Forms has a table showing the exact amount payable for certain multiples of the Hong Kong Public Offer Shares up to 7,500,000 Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee in full upon application for the Shares by a cheque or a banker's cashier order in accordance with the terms set out in the Application Forms (if you apply by an Application Form).

If your application is successful, brokerage is paid to participants of the Stock Exchange, the SFC transaction levy and Stock Exchange trading fee are paid to the Stock exchange (in the case of the SFC transaction levy, collected on behalf of the SFC).

5. REFUND OF APPLICATION MONIES

If you do not receive any Hong Kong Public Offer Shares for any reason, we will refund your application monies, including brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%. No interest will be paid thereon. All interest accrued on such monies prior to the date of despatch or refund cheques will be retained for our benefit.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

If your application is accepted only in part, we will refund the appropriate portion of your application monies, including the related brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, without interest.

If the Offer Price as finally determined is less than HK\$2.31 per Offer Share, appropriate refund payments, including the brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005% attributable to the surplus application monies will be made to successful applicants, without interest. Details of the procedure for refund are set out below in the paragraph headed “Despatch/Collection of Share certificates and refund of application monies.”

In the contingency situation involving a substantial over-subscription, at the discretion of our Company and the Lead Manager, cheques for applications for certain small denominations of Hong Kong Public Offer Shares on Application Forms (apart from successful applications) may not be cleared.

Refund of your application monies (if any) will be made on 25 September, 2007 in accordance with the various arrangements as described in this section.

6. MEMBERS OF THE PUBLIC — TIME FOR APPLYING FOR HONG KONG PUBLIC OFFER SHARES

Completed **WHITE** or **YELLOW** Application Forms, together with payment attached, must be lodged by 12:00 noon on Monday, 17 September, 2007, or, if the application lists are not open on that day, then by the time and date stated in the paragraph headed “Effect of bad weather on the opening of the application lists” below.

Your completed Application Form, together with payment (be made payable to “**Horsford Nominees Limited — China Starch Public Offer**” and crossed “**Accounts Payee Only**”) attached, should be deposited in the special collection boxes provided at any of the branches of Standard Chartered Bank (Hong Kong) Limited or Bank of Communications Co., Ltd. listed under the section headed “Where to collect the **WHITE** and **YELLOW** Application Forms” above at the following times on the following dates:

Wednesday, 12 September, 2007 — 9:00 a.m. to 5:00 p.m.
Thursday, 13 September, 2007 — 9:00 a.m. to 5:00 p.m.
Friday, 14 September, 2007 — 9: 00 a.m. to 5:00 p.m.
Saturday, 15 September, 2007 — 9: 00 a.m. to 1:00 p.m.
Monday, 17 September, 2007 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, 17 September, 2007.

No proceedings will be taken on applications for the Shares and no allotment of any such Shares will be made until after the closing of the application lists.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

7. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists of the Hong Kong Public Offering will not open if there is:

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning signal

is in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on 17 September, 2007. Instead they will be open from 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

Business Day means a day that is not a Saturday, Sunday or a public holiday in Hong Kong.

8. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allotted the Hong Kong Public Offer Shares are set out in the notes attached to the relevant Application Forms (whether you are making your application by an Application Form or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf), and which you should read them carefully. You should note in particular the following situations in which the Hong Kong Public Offer Shares will not be allotted to you.

- **If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC, you agree that your application or the application made by HKSCC Nominees on your behalf is irrevocable on or before 12 October, 2007. This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form or give your **electronic application instructions** to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of we agreeing that we will not offer any of the Hong Kong Public Offer Shares to any person before 12 October, 2007 except by means of the procedures referred to in this prospectus.

You may only revoke your application earlier than 12 October, 2007 if a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus. If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the *South China Morning Post* (English)

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

and the *Hong Kong Economic Times* (Chinese) of the basis of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or the results of the ballot, respectively.

If any supplement to the prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their application. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of the prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the announcement of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

- **Full discretion of our Company or our agents to reject or accept your application:**

Our Company and the Lead Manager, the Hong Kong Underwriters and their respective agents and nominees as our agents, have full discretion to reject or accept any application, or to accept any part of any application.

Our Company, the Lead Manager and the Hong Kong Underwriters, in their capacity as our agents, and their respective agents and nominees, do not have to give any reason for any rejection or acceptance.

- **If the allotment of Hong Kong Public Offer Shares is void:**

The allotment of Hong Kong Public Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** or apply for a **YELLOW** Application Form) will be void if the Listing Committee does not grant permission to list the Shares either:

- within **three** weeks from the closing date of the application lists, or
- within a longer period of up to six weeks if the Listing Committee **notifies** our Company of that longer period within three weeks of the closing date of the application lists

- **You will not receive any allotment if:**

- you make multiple applications or suspected multiple applications;

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- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) any International Placing Shares under the International Placing. By filling in any of the **WHITE** or **YELLOW** Application Forms or applying by giving **electronic application instructions** to HKSCC, you agree not to apply for Hong Kong Public Offer Shares as well as the International Placing Shares. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received the International Placing Shares; and to identify and reject indications of interest in the International Placing from investors who have received Hong Kong Public Offer Shares in the Hong Kong Public Offering;
- your Application Form is not completed in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonored upon its first presentation;
- the Hong Kong Underwriting Agreement and the International Underwriting Agreement do not become unconditional;
- the Hong Kong Underwriting Agreement and the International Underwriting Agreement are terminated in accordance with their respective terms;
- our Company, the Lead Manager or the Hong Kong Underwriters believes that by accepting your application, they would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is completed and/or signed; or
- your application is for more than 100% of the Hong Kong Public Offer Shares initially offered for public subscription in either pool A or pool B.

9. PUBLICATION OF RESULTS

We expect to publish the final Offer Price, the level of applications of the Hong Kong Public Offering, the level of indication of interest in the International Placing and the basis of allotment of the Hong Kong Public Offer Shares on the *South China Morning Post* (in English) and the *Hong Kong Economic Times* (in Chinese) on or before Tuesday, 25 September, 2007.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Results of allocations in the Hong Kong Public Offering, including the final Offer Price, level of applications of the Hong Kong Public Offering, basis of allotment of the Hong Kong Public Offer Shares and successful applicants' identification document numbers (where applicable) will be made available at the times and dates and in the manner specified below:-

- results of allocations will be available from our Company's website at www.chinastarch.com.hk and on the website of the Stock Exchange at www.hkex.com.hk from 8:00 a.m. on Tuesday, 25 September, 2007;
- results of allocations will be available from our public offer website at www.tricor.com.hk/ipo on a 24-hour basis from 8:00 a.m. on Tuesday, 25 September, 2007 to 11:00 p.m. on Tuesday, 2 October, 2007 (excluding Saturday, Sunday and public holiday in Hong Kong). The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its Application Form to search for his/her/its own allocation result;
- results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applications may find out whether or not their applications have been successful and the number of Hong Kong Public Offer Shares allocated to them, if any, by calling **(852) 2980 1833** between 9:00 a.m. and 6:00 p.m. from Tuesday, 25 September, 2007 to Tuesday, 2 October, 2007 (excluding Saturday, Sunday and public holiday in Hong Kong); and
- special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of the branches from Tuesday, 25 September, 2007 to Tuesday, 2 October, 2007 (excluding Saturday, Sunday and public holiday in Hong Kong) of all the branches of the receiving banks at the addresses set forth under "How to apply for the Hong Kong Public Offer Shares — Where to collect the **WHITE** and **YELLOW** Application Forms" in this prospectus.

10. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price is finally determined is less than HK\$2.31 per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon) initially paid on application, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the paragraph headed "Conditions of the Hong Kong Public Offering" under the section headed "Structure of the Global Offering" in this prospectus or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

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You will receive one Share certificate for all the Hong Kong Public Offer Shares issued to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by electronic application instructions to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application but, subject to personal collection as mentioned below, in due course there will be sent to you (or, in the case of joint applications, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form.

(a) for applications on WHITE Application Forms:

- i. Share certificate(s) for all Hong Kong Public Offer Shares applied for, if the application is wholly successful; or
 - ii. Share certificate(s) for the number of Hong Kong Public Offer Shares successfully applied for, if the application is partially successful (for wholly successful and partially successful applications on **YELLOW** Application Forms; share certificates for the Shares successfully applied for will be deposited into CCASS as described below); and/or
- (b) for applications on **WHITE** or **YELLOW** Application Forms, refund cheque crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first named applicant) for (i) the surplus application monies for the Hong Kong Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful, or (ii) all the application monies, if the application is wholly unsuccessful; or (iii) the difference between the Offer Price and the maximum offer price per Offer Share paid on application in the event that the Offer Price is less than the offer price per Offer Share initially paid on application, in each case including brokerage of 1.0%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, attributable to such refund/surplus monies but without interest.

Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/ passport number of the first named-applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number/ passport number for encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of, or may invalidate, your refund cheque.

Subject to personal collection as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and the difference between the Offer Price and the offer price per Offer share initially paid on application (if any) under **WHITE**, or **YELLOW** Application Forms; and Share certificates

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

for wholly and partially successful applicants under **WHITE** Application Forms are expected to be posted on or around Tuesday, 25 September, 2007. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheques.

Share certificates will only become valid certificates of title at 8:00 a.m. on Thursday, 27 September, 2007 provided that the Hong Kong Public Offering has become unconditional in all respects and the right of termination described in the paragraph headed “Grounds for Termination” under the section headed “Underwriting” in this prospectus has not been exercised.

(c) If you apply using a WHITE application form:

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and have indicated your intention on your **WHITE** Application Form to collect your refund cheque (where applicable) and Share certificate(s) (where applicable) from Tricor Investor Services Limited and have provided all information required by your Application Form, you may collect your refund cheque (where applicable) and Share certificate(s) (where applicable) from Tricor Investor Services Limited at 26/F Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, 25 September, 2007 or such other date as notified by us in the newspapers as the date of collection/despatch of refund cheques/Share certificates. If you are an individual who opts for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your corporation’s chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Tricor Investor Services Limited. If you do not collect your refund cheque (where applicable) and/or Share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified in your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares or if you apply for 1,000,000 Hong Kong Public Offer Shares or more than but have not indicated your intention on your Application Form to collect your refund cheque (where applicable) and/or Share certificate(s) (where applicable) in person, your refund cheque (where applicable) and/or Share certificate(s) (where applicable) will be sent to the address on your Application Form on Tuesday, 25 September, 2007 by ordinary post and at your own risk.

(d) If you apply using a YELLOW Application Form:

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

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If you apply for less than 1,000,000 Hong Kong Public Offer Shares or if you apply for 1,000,000 Hong Kong Public Offer Shares or more than but have not indicated your intention on your Application Form to collect your refund cheque (where applicable) in person, your refund cheque (where applicable) will be sent to the address on your Application Form on Tuesday, 25 September, 2007 by ordinary post and at your own risk.

If you apply for Hong Kong Public Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you on your Application Form at the close of business on Tuesday, 25 September, 2007, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominee.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):

- for Hong Kong Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Public Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant:

- our Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described under the paragraph headed "Publication of results" in this section. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 25 September, 2007 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your stock account.

(e) If you apply by giving electronic application instructions to HKSCC

Allocation of Hong Kong Public Offer Shares

For the purposes of allocating Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead each CCASS Participant who gives electronic application instructions or each person for whose benefit each such instructions is given will be treated as an applicant.

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Deposit of Share certificates into CCASS and refund of application monies

- No temporary document of title will be issued. No receipt will be issued for application monies received.
- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give electronic application instructions on your behalf or your CCASS Investor Participant Stock Account at the close of business on Tuesday, 25 September, 2007, or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- We expect to publish the application results of CCASS Participants' applications (and in the case of CCASS Broker Participants and CCASS Custodian Participants, we will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporation) and the basis of allotment of the Hong Kong Public Offering in the manner described under the paragraph headed "Publication of results" in this section. You should check the results published by us and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 25 September, 2007 or such other date as shall be determined by HKSCC or HKSCC Nominees.
- If you have instructed your CCASS Broker Participant or CCASS Custodian Participant to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that CCASS Broker Participant or CCASS Custodian Participant.
- If you have applied as a CCASS Investor Participant, you can also check the number of the Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 25 September, 2007. Immediately after the credit of the Hong Kong Public Offer Shares to your CCASS Investor Participant stock account and the credit of refund monies to your designated bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the offer price per Offer Share initially paid on application, in each case including brokerage

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of 1.0%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, 25 September, 2007. No interest will be paid thereon.

11. COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares are expected to commence on Thursday, 27 September, 2007.

The Shares will be traded in board lots of 2,000 shares each. The stock code of the Shares is 3838.

12. SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the shares of the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from our Company's auditors and independent reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong. As described in the section entitled "Documents delivered to the Registrar of Companies in Hong Kong and Available for Inspection" in Appendix VI, a copy of the Accountants' Report is available for inspection.



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12 September 2007

The directors
China Starch Holdings Limited
CCB International Capital Limited

Dear Sirs,

We set out below our report on the financial information comprising section I to VI (the "Financial Information") relating to China Starch Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2006 and the four months ended 30 April 2007 (the "Relevant Periods") for inclusion in the prospectus of the Company dated 12 September 2007 (the "Prospectus").

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2004 Revision) Chapter 22 of the Cayman Islands on 29 November 2006. Through a group reorganisation as more fully explained in the paragraph headed "Group Reorganisation" in Appendix V to the Prospectus (the "Group Reorganisation"), the Company became the holding company of the Group on 29 November 2006.

As at the date of this report, the Company has the following indirectly owned subsidiaries and associate other than Sourcestar Worldwide Inc. which is a directly owned subsidiary of the Company:

Name	Place and date of incorporation/ registration	Issued and fully paid share capital/registered capital	Attributable equity interest held by the Company	Principal activities
Subsidiaries				
Sourcestar Worldwide Inc. ("Sourcestar")	British Virgin Islands 26 July 2006	US\$240	100%	Investment holding

Name	Place and date of incorporation/registration	Issued and fully paid share capital/registered capital	Attributable equity interest held by the Company	Principal activities
Shandong Shouguang Juneng Golden Corn Development Co., Ltd. 山东寿光巨能金玉米开发有限公司 ("Golden Corn") (formerly known as 山东巨能电力集团金玉米开发有限公司 (Shandong Juneng Electrics Power Group Golden Corn Development Co. Ltd.) and 山东寿光巨能金玉米开发有限责任公司)	People's Republic of China ("PRC") 25 July 1998	RMB120,000,000	100%	Manufacture and sale of corn starch, lysine and their related products
Associate				
寿光金远东变性淀粉有限公司 Shouguang Golden Far East Modified Starch Co., Ltd.	PRC 25 September 2004	US\$9,600,000	49%	Research, development, manufacture and sale of modified starches and their related products

No audited financial statements have been prepared for the Company since the date of incorporation as it has not carried on any business, other than the reorganisation referred to in Appendix V to the Prospectus. No audited financial statements have been prepared for Sourcestar Worldwide Inc. which was incorporated in a country where there is no statutory audit requirement. In accordance with the legal opinion issued by the Group's lawyers, non-preparation of audited financial statements for Sourcestar is in compliance with the relevant rules and regulations.

For the purpose of this report, we have, however reviewed all the relevant transactions of the Company and Sourcestar Worldwide Inc., since their respective dates of incorporation and carried out such procedures as we considered necessary for inclusion of the financial information relating to these companies in this report.

No audited financial statements have been prepared for Golden Corn for the period from 25 July 1998 to 31 December 2005 as there was no statutory requirement. In accordance with the legal opinion issued by the Group's lawyers, non-preparation of audited financial statements for Golden Corn is in compliance with the relevant rules and regulations. The statutory financial statements of Golden Corn for the year ended 31 December 2006 were prepared in accordance with the relevant accounting rules and financial regulations applicable to foreign owned enterprise registered in the PRC and were audited by 山东正德会计师事务所.

For the purpose of this report, we have, however, undertaken our own independent audits of the consolidated financial statements of the Company, prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the Relevant Periods (the "Underlying Financial Statements") in accordance with Hong Kong Standards on Auditing issues by the HKICPA.

We have examined the audited financial statements or, where appropriate, management accounts of the companies now comprising the Group for the Relevant Periods, or since their respective dates of incorporation to 30 April 2007, where this is a shorter period. Our examination was made in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The financial information of the Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in note 1 to the Financial Information, for the purpose of preparing our report for inclusion in the Prospectus. No adjustments are considered necessary to adjust the Underlying Financial Statements for the Relevant Periods for the preparation of the Financial Information.

The Underlying Financial Statements are the responsibility of the directors of the Company. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibilities to compile the Financial Information set out in this report from the Underlying Financial Statements to form an opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 to the Financial Information, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2004, 2005, 2006 and 30 April 2007 and that of the Company as at 31 December 2006 and 30 April 2007 and of the consolidated results and cash flows of the Group for the Relevant Periods.

The comparative consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the four months ended 30 April 2006 together with the notes thereon have been extracted from the Group's financial information for the same period (the "30 April 2006 Financial Information") which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the 30 April 2006 Financial Information in accordance with the Statement of Auditing Standard 700 "Engagements to review interim financial reports" issued by the HKICPA. Our review consisted principally of making enquiries of the Group's management and applying analytical procedures to the 30 April 2006 Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on 30 April 2006 Financial Information. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the 30 April 2006 Financial Information.

I. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

	Notes	Year ended 31 December			Four months ended 30 April	
		2004	2005	2006	2006	2007
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Turnover	6	975,754	948,205	1,031,506	294,971	402,984
Cost of goods sold		(852,903)	(827,650)	(836,267)	(238,209)	(325,339)
Gross profit		122,851	120,555	195,239	56,762	77,645
Other income	7	9,212	9,033	10,631	3,207	2,212
Investment income	8	1,009	2,411	4,632	1,709	878
Distribution expenses		(26,792)	(26,720)	(31,944)	(9,120)	(11,892)
Administrative expenses		(12,338)	(17,180)	(25,568)	(6,645)	(10,508)
Finance costs	9	(6,100)	(12,403)	(16,359)	(5,600)	(6,413)
Share of results of associates		2,986	1,790	(3,475)	(198)	(1,237)
Profit before taxation	10	90,828	77,486	133,156	40,115	50,685
Taxation	12	(26,883)	3,105	(18,766)	(11,374)	—
Profit for the year		<u>63,945</u>	<u>80,591</u>	<u>114,390</u>	<u>28,741</u>	<u>50,685</u>
Attributable to:						
Parent		31,979	40,918	66,574	15,688	50,685
Minority interests		<u>31,966</u>	<u>39,673</u>	<u>47,816</u>	<u>13,053</u>	<u>—</u>
		<u>63,945</u>	<u>80,591</u>	<u>114,390</u>	<u>28,741</u>	<u>50,685</u>
Dividends	13	<u>—</u>	<u>—</u>	<u>108,000</u>	<u>108,000</u>	<u>20,793</u>
Attributable to:						
Parent		—	—	58,950	58,950	20,793
Minority interests		<u>—</u>	<u>—</u>	<u>49,050</u>	<u>49,050</u>	<u>—</u>
		<u>—</u>	<u>—</u>	<u>108,000</u>	<u>108,000</u>	<u>20,793</u>
Earnings per share - basic (RMB)	14	<u>0.1218</u>	<u>0.1559</u>	<u>0.2536</u>	<u>0.0598</u>	<u>0.1931</u>

BALANCE SHEETS

		The Group				The Company	
		At 31 December			At 30 April	At 31 December	At 30 April
Notes		2004	2005	2006	2007	2006	2007
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets							
Property, plant and equipment	15	326,567	443,885	433,876	421,014	—	—
Prepaid lease payments	16	25,025	36,034	35,099	34,739	—	—
Interests in associates	17	55,586	24,919	21,875	20,782	—	—
Available-for-sale investment	18	—	1,000	—	—	—	—
Deferred tax assets	29	6,108	8,614	1,368	1,368	—	—
Investment in a subsidiary	19	—	—	—	—	159,121	159,121
Amount due from a subsidiary	20	—	—	—	—	123,419	123,807
		<u>413,286</u>	<u>514,452</u>	<u>492,218</u>	<u>477,903</u>	<u>282,540</u>	<u>282,928</u>
Current assets							
Inventories	21	53,266	85,682	115,915	100,885	—	—
Prepaid lease payments	16	716	954	941	939	—	—
Trade and other receivables	22	168,867	121,671	138,352	173,182	—	—
Amounts due from related companies	23	174,398	40,891	2,000	99	—	97
Pledged bank deposits	24	20,060	67,685	37,500	2,000	—	—
Bank balances and cash	24	<u>79,743</u>	<u>53,930</u>	<u>55,976</u>	<u>54,904</u>	<u>—</u>	<u>—</u>
		<u>497,050</u>	<u>370,813</u>	<u>350,684</u>	<u>332,009</u>	<u>—</u>	<u>97</u>
Current liabilities							
Trade and other payables	25	257,448	137,397	99,537	111,833	68	—
Amounts due to related companies	26	31,233	—	14,265	1,818	—	—
Dividend payable		24,983	1,271	78,500	48,500	—	—
Income tax payable		31,261	18,326	19,881	14,381	—	—
Employee housing deposits							
Basic deposit portion	27	17,021	16,935	27,292	26,956	—	—
Installment portion	27	2,589	2,640	4,153	4,042	—	—
Borrowings	28	<u>199,955</u>	<u>303,166</u>	<u>101,608</u>	<u>44,252</u>	<u>—</u>	<u>—</u>
		<u>564,490</u>	<u>479,735</u>	<u>345,236</u>	<u>251,782</u>	<u>68</u>	<u>—</u>
Net current assets/(liabilities)		<u>(67,440)</u>	<u>(108,922)</u>	<u>5,448</u>	<u>80,227</u>	<u>(68)</u>	<u>97</u>
Total assets less current liabilities		345,846	405,530	497,666	558,130	282,472	283,025

APPENDIX I
ACCOUNTANTS' REPORT

		The Group				The Company	
		At 31 December			At 30 April	At 31 December	At 30 April
Notes		2004	2005	2006	2007	2006	2007
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current liabilities							
Employee housing deposits							
Installment portion	27	13,755	11,679	18,356	18,629	—	—
Borrowings	28	103,000	82,750	283,394	313,727	123,644	123,977
Deferred income	30	9,019	10,438	12,131	12,097	—	—
		<u>125,774</u>	<u>104,867</u>	<u>313,881</u>	<u>344,453</u>	<u>123,644</u>	<u>123,977</u>
Net assets		<u>220,072</u>	<u>300,663</u>	<u>183,785</u>	<u>213,677</u>	<u>158,828</u>	<u>159,048</u>
Capital and reserves							
Paid-in capital	31	60,012	65,500	—	—	—	—
Share capital	31	—	—	151	151	151	151
Reserves	39	43,464	53,610	149,317	149,317	158,970	158,970
Retained earnings	39	<u>6,582</u>	<u>45,001</u>	<u>34,317</u>	<u>64,209</u>	<u>(293)</u>	<u>(73)</u>
Equity attributable to Parent		110,058	164,111	183,785	213,677	158,828	159,048
Minority interests		<u>110,014</u>	<u>136,552</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total equity		<u>220,072</u>	<u>300,663</u>	<u>183,785</u>	<u>213,677</u>	<u>158,828</u>	<u>159,048</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable To Parent								Minority Interests	Total
	Share capital	Paid-in capital	Special reserve	Capital reserve	Contributed surplus	Statutory surplus reserve	Statutory welfare reserve	Retained profits	Total	
	RMB '000	RMB '000	Note 1 RMB '000	Note 2 RMB '000	Note 3 RMB '000	Note 4 RMB '000	Note 4 RMB '000	RMB '000	RMB '000	RMB '000
At 1 JANUARY 2004	—	60,012	—	36,720	—	1,267	633	(20,553)	78,079	78,048
Profit for the year	—	—	—	—	—	—	—	31,979	31,979	31,966
Transfer to statutory reserves	—	—	—	—	—	3,229	1,615	(4,844)	—	—
At 31 DECEMBER 2004	—	60,012	—	36,720	—	4,496	2,248	6,582	110,058	110,014
Profit for the year	—	—	—	—	—	—	—	40,918	40,918	39,673
Transfer from acquisition of additional interest in a subsidiary by a controlling party (Note 5)	—	5,488	—	3,974	—	—	—	3,673	13,135	(13,135)
Transfer to statutory reserves	—	—	—	—	—	4,115	2,057	(6,172)	—	—
At 31 DECEMBER 2005	—	65,500	—	40,694	—	8,611	4,305	45,001	164,111	136,552
Profit for the year	—	—	—	—	—	—	—	66,574	66,574	47,816
Dividend	—	—	—	—	—	—	—	(58,950)	(58,950)	(49,050)
Issue of shares upon incorporation	—	2	—	—	—	—	—	—	2	—
Elimination of minority interests upon the Group Reorganisation (Note 5)	—	—	135,318	—	—	—	—	—	135,318	(135,318)
Elimination of the then paid-in capital upon the Group Reorganisation	—	(65,500)	(74,500)	—	—	—	—	—	(140,000)	—
Exchange of shares upon the Group Reorganisation	151	(2)	(149)	—	—	—	—	—	—	—
Contribution arising from interest free loan from shareholder	—	—	—	—	16,730	—	—	—	16,730	—
Transfer to statutory reserves	—	—	—	—	—	12,205	6,103	(18,308)	—	—
At 31 DECEMBER 2006	151	—	60,669	40,694	16,730	20,816	10,408	34,317	183,785	—
Profit for the period	—	—	—	—	—	—	—	50,685	50,685	—
Dividend	—	—	—	—	—	—	—	(20,793)	(20,793)	—
At 30 APRIL 2007	151	—	60,669	40,694	16,730	20,816	10,408	64,209	213,677	—
For the four months ended 30 APRIL 2006 (Unaudited)	—	—	—	—	—	—	—	—	—	—
At 1 JANUARY 2006	—	65,500	—	40,694	—	8,611	4,305	45,001	164,111	136,552
Profit for the period	—	—	—	—	—	—	—	15,688	15,688	13,053
Dividend	—	—	—	—	—	—	—	(58,950)	(58,950)	(49,050)
At 30 APRIL 2006	—	65,500	—	40,694	—	8,611	4,305	1,739	120,849	100,555

Notes:

1. Special reserve of the Group represents (i) the difference between the nominal value of the share capital and share premium issued by the Company and the aggregate of the share capital and share premium of the subsidiaries acquired upon the Group Recognition; and (ii) the difference between the consideration paid by the direct subsidiary for the entire registered capital of the indirect subsidiary and the amount of registered capital of the indirect subsidiary.
2. Capital reserve represents advances from previous shareholders being waived pursuant to shareholders resolution dated 21 March 2003.
3. Contributed surplus represents the difference between the nominal amount and the fair value of interest free loan from a shareholder upon initial recognition.
4. As stipulated by the relevant laws in the PRC, subsidiary company registered in the PRC is required to maintain three statutory reserves, being a statutory surplus reserve fund, discretionary surplus reserve fund and statutory welfare reserve fund which are nondistributable.

Appropriations to such reserves are made out of net profit after taxation as reported in the tax return submitted to the local tax bureau of the company while the amounts and allocation basis are decided by its board of directors annually. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

During the three years ended 31 December 2006, the allocation of statutory surplus reserve fund is based on 10% of net profit after taxation as reported in the tax return submitted to the local tax bureau.

During the three years ended 31 December, 2006, the allocation of statutory welfare reserve fund is based on 5% of net profit after taxation as reported in the tax return submitted to the local tax bureau.

The Group has not contributed to the discretionary surplus reserve fund.

5. Transfer from acquisition of additional interest in a subsidiary by a controlling party represents the additional 4.58% equity interest acquired by Mr. Tian from other shareholders during 2005. The remaining minority interests of 45.41% was fully eliminated upon the completion of the Group Reorganisation on 29 November 2006.

CONSOLIDATED CASH FLOW STATEMENTS

	Year ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Operating activities					
Profit before tax	90,828	77,486	133,156	40,115	50,685
Adjustments for:					
Discounted on acquisition of a business	—	(993)	—	—	—
Interest income	(1,009)	(2,411)	(4,632)	(1,709)	(878)
Finance costs	6,100	12,403	16,359	5,600	6,413
Share of results of associates	(2,986)	(1,790)	3,475	198	1,237
Depreciation of property, plant and equipment	22,833	28,084	43,948	15,023	15,433
Realised gain arising on injecting property, plant, equipment and land use right as capital to an associate	(5,127)	(431)	(431)	(144)	(144)
Loss(gain) on disposal of property, plant and equipment	(50)	287	266	(85)	4
Gain on sales of land use rights	—	—	—	—	(71)
Amortisation of prepaid lease payments	745	824	949	316	316
Amortisation of staff quarter rental income and steam pipeline construction income	(791)	(1,489)	(1,843)	(515)	(647)
Operating cash flows before movements in working capital	110,543	111,970	191,247	58,799	72,348
Increase in deferred income attributable to steam pipeline construction	6,658	2,908	1,226	548	613
Decrease (increase) on inventories	20,425	(10,853)	(34,443)	27,509	15,030
Decrease (increase) in trade and other receivables	(163,040)	26,441	(33,279)	17,342	(39,802)
Increase (decrease) in trade and other payables	178,392	(150,229)	(30,622)	(30,937)	12,729

	Year ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i>
Cash generated from (used in) operations	152,978	(19,763)	94,129	73,261	60,918
Income taxes paid	<u>(8,200)</u>	<u>(12,336)</u>	<u>(9,531)</u>	<u>(1,066)</u>	<u>(5,500)</u>
Net cash from (used in) operating activities	<u>144,778</u>	<u>(32,099)</u>	<u>84,598</u>	<u>72,195</u>	<u>55,418</u>
Investing activities					
Interest received	1,009	2,411	4,632	965	878
Purchases of property, plant and equipment	(44,209)	(9,101)	(26,608)	(3,751)	(1,747)
Proceeds on disposal of property, plant and equipment	87	2,682	615	335	—
Proceeds on disposal of land use right	—	—	—	—	117
Purchase of available-for-sale investment	—	(1,000)	—	—	—
Deposit received for disposal of available-for-sale investment	—	1,000	—	—	—
Prepayment of land use right	(7,690)	—	—	—	—
Investment in an associate	—	(8,105)	—	—	—
Decrease (increase) in amounts due from related companies	(155,686)	7,875	38,891	(1,836)	1,901
Acquisition of business	—	(39,221)	—	—	—
Decrease (increase) in pledged bank deposit	<u>(15,000)</u>	<u>(47,625)</u>	<u>30,185</u>	<u>(12,650)</u>	<u>35,500</u>
Net (used in) cash from investing activities	<u>(221,489)</u>	<u>(91,084)</u>	<u>47,715</u>	<u>(16,937)</u>	<u>36,649</u>

	Year ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i>
Financing activities					
Interest paid	(5,824)	(11,834)	(14,769)	(5,266)	(3,729)
Dividends paid	(10,729)	(21,712)	(25,271)	(24,500)	(46,793)
Proceeds from borrowings	300,956	394,611	587,590	90,000	60,000
Repayments of borrowings	(80,000)	(321,400)	(572,000)	(173,566)	(89,723)
Increase (decrease) in employee housing deposits	18,128	(2,678)	19,918	23,628	(447)
Increase (decrease) in amounts due to related companies	(86,567)	60,383	14,265	34,661	(12,447)
Prepayment made to shareholders upon the Group Reorganisation	—	—	(140,000)	—	—
Net cash from (used in) financing activities	<u>135,964</u>	<u>97,370</u>	<u>(130,267)</u>	<u>(55,043)</u>	<u>(93,139)</u>
Net increase (decrease) in cash and cash equivalents	59,253	(25,813)	2,046	215	(1,072)
Cash and cash equivalents at the beginning of the year/period	<u>20,490</u>	<u>79,743</u>	<u>53,930</u>	<u>53,930</u>	<u>55,976</u>
Cash and cash equivalents at the end of the year/period represented by bank balances and cash	<u><u>79,743</u></u>	<u><u>53,930</u></u>	<u><u>55,976</u></u>	<u><u>54,145</u></u>	<u><u>54,904</u></u>

NOTES TO THE FINANCIAL INFORMATION**1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION**

Pursuant to the Group Reorganisation, the Company became the holding company of the companies now comprising the Group since 29 November 2006. During the Relevant Periods, Mr. Tian Qixiang is regarded as the controlling party of Golden Corn with initial equity interest of 50.01%. On 27 October 2005, an additional 4.58% equity interest in Golden Corn was further acquired by Mr. Tian Qixiang from the former shareholders of Golden Corn. On 26 July 2006, Sourcestar was incorporated by the same shareholders of Golden Corn to commence the Group Reorganisation. On 24 August 2006, Sourcestar entered into a share acquisition agreement to exchange the entire equity interest in Golden Corn ("Agreement"). Pursuant to the terms of the Agreement, Sourcestar took over the 100% equity interest in Golden Corn from the former shareholders of Golden Corn at a consideration of RMB140,000,000 which took effect from 30 November 2006. The consideration paid represented the capital and reserves attributable to the 100% equity interest of Golden Corn. On 15 December 2006, the shareholders of Sourcestar transferred the entire equity interest in Sourcestar to the Company effected by means of an exchange of shares.

The Financial Information of the Group has been prepared on the basis as if the current group structure had been in existence throughout the Relevant Periods using the principles of merger accounting in accordance with Accounting Guideline 5 Merger Accounting for Common Control Combinations issued by the HKICPA with the details of the accounting policy as set out in note 3.

The consolidated income statements, consolidated statements of changes in equity and the consolidated cash flow statements for the Relevant Periods include the results, changes in equity and cash flows of the companies comprising the Group as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation or establishment where this is a shorter period, and taking into account the effective interest in Golden Corn held by Mr. Tian Qixiang prior to the Group Reorganisation and by Sourcestar upon the Group Reorganisation.

The consolidated balance sheets of the Group as at 31 December 2004 and 2005 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at 31 December 2004 and 2005 in accordance with the effective interest in Golden Corn held by Mr. Tian Qixiang as at these dates.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted all of new and revised Standards and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for the financial periods beginning on 1 January 2007, in the preparation of its financial information throughout the Relevant Periods.

At the date of this report, the HKICPA has issued the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and interpretations (“HK (IFRIC) - INT”) that are not yet effective for the Group’s financial year beginning on 1 January 2007. The Group has not early adopted these new or revised standards and interpretations in the preparation of the Financial Information. The directors of the Company have considered the following standards and interpretations and anticipate that the application of them will have no material effect on how the results of operations and financial position of the Group are prepared and presented.

HK (IFRIC) - INT 11	HKFRS 2: Group and Treasury Share Transactions ¹
HK (IFRIC) - INT 12	Service Concession Arrangements ²
HKAS 23 (Revised)	Borrowing Cost ³
HKFRS 8	Operating Segments ³

1. Effective for annual periods beginning on or after 1 March 2007
2. Effective for annual periods beginning on or after 1 January 2008
3. Effective for annual periods beginning on or after 1 January 2009

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis.

The Financial Information has been prepared in accordance with the following accounting policies which conform to HKFRSs issued by the HKICPA. These policies have been consistently applied throughout the Relevant Periods. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The Financial Information incorporated the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

Merger accounting for business combination under common control

The consolidated financial statements incorporate the financial statement items of the combining entities or business in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties’ perspective. No amount is recognised in respect of goodwill or excess of acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party’s interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Business combinations

The acquisition of subsidiaries or business other than those arising from the Group Reorganisation is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell. The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss, if any. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the period.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in the Financial Information using the equity method of accounting. Under the equity method, investments in associates are carried in the balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of the losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' right to receive payment have been established.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rental payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, leasehold land of which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease.

Prepaid lease payments

Prepaid lease payment represents payment for leasehold land and is amortised over the lease term on a straight-line basis. Prepaid lease payments which are to be amortised in the next twelve months or less are classified as current assets.

Foreign currency

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are deducted in arriving at the carrying amount of the relevant asset. Grants related to expense items are recognised in the same periods as those expenses are charged in the consolidated income statement and are reported separately as "other income".

Retirement benefit costs

Payments to defined contribution state-managed retirement benefit scheme are charged as an expense when employees have rendered service entitling them to the contribution.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Property, plant and equipment

Property, plant and equipment, other than those under construction, are stated at cost less subsequent depreciation and impairment losses.

Plant and equipment under construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of items of property, plant and equipment other than those under construction on a straight-line basis as follows:

Buildings	15 to 35 years
Plant and machinery	8.33% to 20% per annum
Motor vehicles	16.67% per annum
Other machinery	10% to 25% per annum

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continue use of the assets. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year/period in which the item is derecognised.

Impairment loss (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified into either loans and receivables or available-for-sale investments.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be readily measured are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss where there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, bank acceptance bills receivable, amounts due from a subsidiary or related companies, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective

evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definition of a financial liability and an equity instrument. An equity instrument is any contract that evidence a residual interest in the assets of the Group after deducting all of its liabilities.

Financial liabilities

Financial liabilities including bank and other borrowings, trade and other payables and bills payable are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgments, estimates and assumptions on the carrying amounts of assets and liabilities that are not readily available from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future, and other key sources of estimation uncertainty at 30 April 2007, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial periods are discussed below.

Impairment of trade and note receivables

Note 3 describes that trade and note receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows as expected by management discounted at the original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Valuation on inventories

The Group assesses periodically if the inventories have been suffered from any impairment in accordance with the accounting policy stated in note 3. The Group carries out an inventory review on a product-by-product basis at each

balance sheet date and makes allowance for obsolete and slow-moving items. The management estimates the net realisable value for such finished goods, work in progress and raw material primarily based on the estimated future selling price and market conditions. No impairment recognised as of 31 December 2004, 2005 and 2006 and 30 April, 2007. Where the estimates of the net realisable value are less than expected, a material allowance may arise.

5. FINANCIAL INSTRUMENTS

(a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes loans and borrowings as disclosed in notes 27 and 28, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained profits as disclosed in note 31 and the consolidated statements of changes in equity.

The management of the Group reviews the capital structure periodically. As a part of this review, the management considers the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues as well as issue of new debt. The Group's overall strategy remains unchanged from 2006.

Categories of financial instruments

	At 31 December			At 30 April
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Finance assets:				
Available-for-sale investment	—	1,000	—	—
Loans and receivables (including cash and cash equivalent)	443,068	284,177	233,828	230,185
Finance liabilities:				
Amortised cost	642,427	549,523	620,366	550,907

(b) Financial risk management objectives and policies

The Group's major financial instruments include borrowings, trade and note receivables, trade and bills payables, pledged bank deposit, bank balances and cash and amounts due from/to related companies or subsidiary. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(c) Credit risk management

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees issued by the Group is arising from:

- the carrying amounts of the respective recognised financial assets as stated in the consolidated balance sheet; and
- the amount of the contingent liabilities disclosed in note 36.

Before accepting any new customer, the Group assesses the creditability of each of the potential customer's credit quality and defines credit limits to each customer. Credit limit and terms are reviewed on on-going basis.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the aging status and the likelihood of collection. Following the identification of doubtful debts, the responsible sales personnel discuss with the relevant customers and report on the recoverability, specific allowance is only made for trade receivable that is unlikely to be collected. In this regards, the directors of the Company are satisfied that this risk is minimal and adequate allowance for doubtful debts, if any, has been made in the financial statements after assessing the collectability of individual debts. The credit risk on liquid funds is limited because the counterparties are reputable banks in the PRC.

The Group has no significant concentration of credit risk in respect of the trade and other receivables, with exposure spread over a number of counterparties and customers.

The Group reviews the recoverable amount of the amount due from an associate at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amount. In this regard, the directors of the Group consider that the Group's credit risk is significantly reduced.

(d) Liquidity risk management

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The Group relies on borrowings as a significant source of liquidity.

The Group has exposed to fair value and cash flow interest rate risks due to the fluctuation of the prevailing market interest rate on bank deposits and bank borrowings which comprise both fixed, subject to negotiation on annual basis, and variable rates borrowings. The Group's fair value interest rate risk relates primarily to its fixed rate bank borrowings (see note 28 for details of these borrowings). The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

At the respective balance sheet dates, if interest rates had been increased/decreased by 10% and all other variables were held constant, the Group's net profit would decrease/increase by RMB582,000, RMB1,183,000, RMB1,520,000 and RMB344,000 for the years ended 31 December 2004, 2005 and 2006 and the four months ended 30 April 2007 respectively. The fluctuation is solely attributable to the advance and repayment of principals during the Relevant Periods.

The Group undertakes certain transactions denominated in foreign currencies, hence, exposures to exchange rate fluctuations arises. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the respective balance sheet dates are as follow:

[illegible]

The following table details the Group's sensitivity to a 1.2% and 2% decrease in the RMB against the US Dollars and Hong Kong Dollars respectively. 1.2% and 2% are the sensitivity rates used when reporting foreign currency risk internally to key management personnel and represent management's assessment of the possible change in foreign

exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a change in foreign currency rates. The sensitivity analysis includes external loans, trade creditors as well as bank balances and trade receivables. The effect of the change in currency rate when the RMB strengthens against the relevant currency is as follows:

	Year ended 31 December			Four months ended 30 April
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
US Dollars				
Decrease in profit for the year/period	<u>(72)</u>	<u>(61)</u>	<u>(154)</u>	<u>(164)</u>
	At 31 December			At 30 April
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Hong Kong Dollars				
Increase in profit for the year/period	<u>—</u>	<u>—</u>	<u>2,473</u>	<u>2,480</u>

(g) Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

Except as detailed in the following table, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values:

	At 31 December						At 30 April	
	2004		2005		2006		2007	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities:								
Employee housing deposits								
— Installment portion	16,344	16,707	14,319	14,582	22,509	22,656	22,671	22,736
Loan from Merry Boom Group Limited	—	—	—	—	123,644	123,897	123,977	124,151

6. REVENUE AND SEGMENT INFORMATION

An analysis of the Group's revenue for the year/period is as follows:

	Year ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Corn starch and corn based by products	727,595	658,955	728,409	207,196	263,565
Lysine and its related products	141,457	181,255	225,846	53,266	96,556
Electricity and steam	106,702	107,995	77,251	34,509	42,863
Total	<u>975,754</u>	<u>948,205</u>	<u>1,031,506</u>	<u>294,971</u>	<u>402,984</u>

Business segments

For management purposes, the Group is currently organised into three operating divisions - corn starch, lysine, electricity and steam. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Corn starch	- the manufacture and sale of corn starch and its corn based by products
Lysine	- the manufacture and sale of lysine and its related products
Electricity and steam	- the production and sale of electricity and steam

During the period from 1 January 2004 to 13 July 2005, the Group acted as a sole distributor of its associate to sell lysine and its related products. Following the assumption of the assets, liabilities and operation of the associate on 14 July 2005, the Group acquired the business of the associate and engages in the manufacture and sale of lysine and its related products.

Segment information about these business is presented below.

2004

	Corn starch	Lysine	Electricity and steam	Elimination	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>		<i>RMB'00</i>
Revenue						
External sales	727,595	141,457	106,702	—	—	975,754
Inter-segment sales	—	—	40,455	(40,455)	—	—
	727,595	141,457	147,157	(40,455)	—	975,754
Inter-segment sales are charged at cost.						
Segment result	<u>65,546</u>	<u>(7,792)</u>	<u>41,315</u>	<u>—</u>	<u>—</u>	99,069
Unallocated distribution expenses						(2,702)
Administrative expenses						(12,338)
Share of results of associates		2,995			(9)	2,986
Investment income						1,009
Other income						8,904
Finance costs						<u>(6,100)</u>
Profit before tax						90,828
Income tax expenses						<u>(26,883)</u>
Profit for the year						<u>63,945</u>

Balance sheet

	<u>Corn starch</u>	<u>Lysine</u>	<u>Electricity and steam</u>	<u>Elimination</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'00</i>
Assets					
Segment assets	211,606	88,549	223,358	—	523,513
Interests in associates					15,504
Unallocated assets					<u>371,319</u>
Total assets					<u>910,336</u>
Liabilities					
Segment liabilities	11,709	50,000	144,389	—	206,098
Unallocated liabilities					<u>484,166</u>
Total liabilities					<u>690,264</u>

Other information

	<u>Corn starch</u>	<u>Lysine</u>	<u>Electricity and steam</u>	<u>Elimination</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'00</i>
Capital additions	2,774	46,645	65,533	—	114,952
Depreciation	<u>13,961</u>	<u>4,084</u>	<u>3,710</u>	<u>—</u>	<u>21,755</u>

The Group is principally operated in the PRC. Segment revenue from customers by geographical location for each of the countries other than PRC is less than 10% of the total revenue of the Group. Therefore, no geographical segment was presented.

2005

	Corn starch	Lysine	Electricity and steam	Elimination	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue						
External sales	658,955	181,255	107,995	—	—	948,205
Internal segment sales	—	—	60,173	(60,173)	—	—
	658,955	181,255	168,168	(60,173)	—	948,205
Inter-segment sales are charged at cost.						
Segment result	<u>59,067</u>	<u>6,011</u>	<u>35,999</u>	<u>—</u>	<u>—</u>	101,077
Unallocated distribution expenses						(6,236)
Administrative expenses						(17,180)
Share of results of associates		910			880	1,790
Investment income						2,411
Other income						8,027
Finance costs						<u>(12,403)</u>
Profit before tax						77,486
Income tax credit						<u>3,105</u>
Profit for the year						<u>80,591</u>

Balance sheet

	Corn starch	Lysine	Electricity and steam	Elimination	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets					
Segment assets	202,112	167,289	203,146	—	572,547
Interests in associates					24,919
Unallocated assets					<u>287,799</u>
Total assets					<u>885,265</u>
Liabilities					
Segment liabilities	20,050	44,244	16,784	—	81,078
Unallocated liabilities					<u>503,524</u>
Total liabilities					<u>584,602</u>

Other information

	Corn starch	Lysine	Electricity and steam	Elimination	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Capital additions	783	113,893	30,464	—	145,140
Depreciation	11,130	9,126	5,727	—	25,983

2006

	Corn starch	Lysine	Electricity and steam	Elimination	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue					
External sales	728,409	225,846	77,251	—	1,031,506
Internal segment sales	—	—	88,943	(88,943)	—
	<u>728,409</u>	<u>225,846</u>	<u>166,194</u>	<u>(88,943)</u>	<u>1,031,506</u>
Inter-segment sales are charged at cost.					
Segment result	<u>80,874</u>	<u>65,792</u>	<u>22,125</u>	<u>—</u>	168,791
Unallocated distribution expenses					(4,367)
Administrative expenses					(25,568)
Share of result of an associate					(3,475)
Investment income					4,632
Other income					9,502
Finance costs					<u>(16,359)</u>
Profit before tax					133,156
Income tax expenses					<u>(18,766)</u>
Profit for the year					<u>114,390</u>

Balance sheet

	Corn starch	Lysine	Electricity and steam	Elimination	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets					
Segment assets	256,013	158,489	177,670	—	592,172
Interests in associates					21,875
Unallocated assets					<u>228,855</u>
Total assets					<u>842,902</u>
Liabilities					
Segment liabilities	9,452	4,549	7,775		21,776
Unallocated liabilities					<u>637,341</u>
Total liabilities					<u>659,117</u>

Other information

	Corn starch	Lysine	Electricity and steam	Elimination	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Capital additions	7,577	9,592	2,193	—	19,362
Depreciation	11,101	14,659	16,691	—	42,451

APPENDIX I**ACCOUNTANTS' REPORT**

Four months ended 30 April 2006
(Unaudited)

	Corn starch	Lysine	Electricity and steam	Elimination	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue					
External sales	207,196	53,266	34,509	—	294,971
Internal segment sales	—	—	25,939	(25,939)	—
	<u>207,196</u>	<u>53,266</u>	<u>60,448</u>	<u>(25,939)</u>	<u>294,971</u>
Inter-segment sales are charged at cost.					
Segment result	<u>31,176</u>	<u>10,256</u>	<u>8,032</u>	<u>—</u>	49,464
Unallocated distribution expenses					(1,468)
Administrative expenses					(6,645)
Share of result of an associate					(198)
Investment income					1,709
Other income					2,853
Finance costs					<u>(5,600)</u>
Profit before tax					40,115
Income tax expenses					<u>11,374</u>
Profit for the period					<u>28,741</u>

Other information

	Corn Starch	Lysine	Electricity and steam	Elimination	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation	<u>3,707</u>	<u>5,269</u>	<u>5,314</u>	<u>—</u>	<u>14,290</u>

Four months ended 30 April 2007

	Corn starch	Lysine	Electricity and steam	Elimination	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue					
External sales	263,565	96,556	42,863	—	402,984
Internal segment sales	—	—	27,090	(27,090)	—
	<u>263,565</u>	<u>96,556</u>	<u>69,953</u>	<u>(27,090)</u>	<u>402,984</u>
Inter-segment sales are charged at cost.					
Segment result	<u>25,719</u>	<u>28,836</u>	<u>13,566</u>	<u>—</u>	68,121
Unallocated distribution expenses					(1,992)
Administrative expenses					(10,508)
Share of result of an associate					(1,237)
Investment income					878
Other income					1,836
Finance costs					<u>(6,413)</u>
Profit before tax					50,685
Income tax expenses					<u>—</u>
Profit for the period					<u>50,685</u>

Balance sheet

	Corn starch	Lysine	Electricity and steam	Elimination	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets					
Segment assets	220,300	157,114	165,804	—	543,218
Interests in associates					20,782
Unallocated assets					<u>245,912</u>
Total assets					<u>809,912</u>
Liabilities					
Segment liabilities	37,587	15,951	6,185		59,723
Unallocated liabilities					<u>536,512</u>
Total liabilities					<u>596,235</u>

Other information

	Corn starch	Lysine	Electricity and steam	Elimination	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Capital additions	198	741	507	—	1,446
Depreciation	3,880	5,155	5,458	—	14,493

7. OTHER INCOME

	Year ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Sales of scrap of coal & oil	655	1,572	645	224	339
Discount on acquisition of a business	—	993	—	—	—
Commission income	113	3,227	3,379	1,445	—
Government grant received for being a manufacture of lysine and its related products (notes a and b)	—	1,155	2,277	—	500
Government grant received for being engaged in agriculture industry (note c)	1,140	—	—	—	—
Amortisation of staff quarter rental income (note 30)	483	483	714	161	270
Amortisation of steam pipeline construction income (note 30)	308	1,006	1,129	354	377
Realised gain arising on injecting property, plant and equipment and land use right as capital to an associate (note 33(i))	5,127	431	431	144	144
Other	1,386	166	2,056	879	582
	<u>9,212</u>	<u>9,033</u>	<u>10,631</u>	<u>3,207</u>	<u>2,212</u>

Note a Government grant of RMB1,155,000, RMB1,377,000 and RMB500,000 for the years ended 31 December 2005, 2006 and four months ended 30 April 2007 respectively were paid to Golden Corn by Shouguang City Hall to support the use of advanced technology in the production of lysine. It was granted at the discretion of the government and was not recurring nature.

Note b Government grant of RMB900,000 for the year ended 31 December 2006 was paid to Golden Corn by Shouguang City Finance Bureau to support Golden Corn's expansion in lysine production capacity. It was granted at the discretion of the government and was not recurring nature.

Note c Government grant of RMB1,140,000 for the year ended 31 December 2004 was paid to Golden Corn by Shandong Province Finance Bureau to support Golden Corn being one of the largest agricultural business in Shandong Province. It was granted at the discretion of the government and was not recurring nature.

8. INVESTMENT INCOME

	Year ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interest income on:					
Bank deposits	1,009	1,977	2,636	965	878
Amount due from a related company	—	434	1,996	744	—
	<u>1,009</u>	<u>2,411</u>	<u>4,632</u>	<u>1,709</u>	<u>878</u>

9. FINANCE COSTS

	Year ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Imputed interest on employee housing deposits (note 27)	276	569	937	195	273
Imputed interest on loan from a shareholder (note 28)	—	—	225	—	2,700
Interest on bank borrowing wholly repayable within 5 years	5,383	11,200	11,032	4,437	3,440
Interest on loans from a related company (note 38(vii))	<u>441</u>	<u>634</u>	<u>4,165</u>	<u>968</u>	<u>—</u>
	<u>6,100</u>	<u>12,403</u>	<u>16,359</u>	<u>5,600</u>	<u>6,413</u>

10. PROFIT BEFORE TAXATION

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

	Year ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Net foreign exchange losses	113	328	523	74	(2,077)
Cost of inventories recognised as an expenses	814,192	789,664	791,409	229,219	299,473
Depreciation of property, plant and equipment	22,833	28,084	43,948	15,023	15,433
(Gain)/loss on disposal of property, plant and equipment	(50)	287	266	(85)	4
Gain on disposal of land use right	—	—	—	—	(71)
Auditors' remuneration in respect of special audit	—	—	950	—	1,125
Amortisation of prepaid lease payments	745	824	949	316	316

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments of directors during the Relevant Periods are analysed as follows:

	Year ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Other emoluments for executive directors					
— Basic salaries and allowances	137	198	252	75	87
— retirement benefits scheme contributions	9	11	11	4	4
	<u>146</u>	<u>209</u>	<u>263</u>	<u>79</u>	<u>91</u>

	Basic salaries and allowances	Retirement benefit contribution	Total
	RMB'000	RMB'000	RMB'000
For the year ended 31 December 2004			
<i>Name of director</i>			
田其祥	—	—	—
于英泉	—	—	—
刘象刚	68	4	72
高世军	69	5	74
	<u>137</u>	<u>9</u>	<u>146</u>

For the year ended 31 December 2005

<i>Name of director</i>			
田其祥	—	—	—
于英泉	—	—	—
刘象刚	96	5	101
高世军	102	6	108
	<u>198</u>	<u>11</u>	<u>209</u>

	Basic salaries and allowances	Retirement benefit contribution	Total
	RMB'000	RMB'000	RMB'000
For the year ended 31 December 2006			
<i>Name of director</i>			
田其祥	—	—	—
于英泉	—	—	—
刘象刚	115	6	121
高世军	137	5	142
	<u>252</u>	<u>11</u>	<u>263</u>
For the period ended 30 April 2006 (unaudited)			
<i>Name of director</i>			
田其祥	—	—	—
于英泉	—	—	—
刘象刚	36	2	38
高世军	39	2	41
	<u>75</u>	<u>4</u>	<u>79</u>
For the period ended 30 April 2007			
<i>Name of director</i>			
田其祥	—	—	—
于英泉	—	—	—
刘象刚	40	2	42
高世军	47	2	49
	<u>87</u>	<u>4</u>	<u>91</u>

The emoluments of employees during the Relevant Periods are analysis as follows:

	Year ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Employees					
— basic salaries and allowances	8,707	10,316	19,502	7,212	7,299
— retirement benefits scheme contributions	1,385	1,253	2,552	761	626
	<u>10,092</u>	<u>11,569</u>	<u>22,054</u>	<u>7,973</u>	<u>7,925</u>

During the Relevant Periods, no emolument was payable to independent non-executive directors of the Company.

The five highest paid individuals included two directors for the Relevant Periods, details of whose emoluments are set out above. The emoluments of the remaining three highest paid individuals for the Relevant Periods are as follows:

	Year ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Employees					
— basic salaries and allowances	181	281	346	138	116
— retirement benefits scheme contributions	17	15	16	8	5
	<u>198</u>	<u>296</u>	<u>362</u>	<u>146</u>	<u>121</u>

During the Relevant Periods, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as a compensation for loss of office. None of the directors has waived any emoluments during the Relevant Periods.

12. TAXATION

	Year ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Current tax	27,305	(599)	11,520	6,111	—
Deferred tax	(422)	(2,506)	7,246	5,263	—
Income tax expense (credit) for the year/period	<u>26,883</u>	<u>(3,105)</u>	<u>18,766</u>	<u>11,374</u>	<u>—</u>

The tax expense (credit) for the year/period can be reconciled to the accounting profit as follows:

	Year ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before taxation:	<u>90,828</u>	<u>77,486</u>	<u>133,156</u>	<u>40,115</u>	<u>50,685</u>
Tax at the domestic income tax rate of 33%	29,973	25,570	43,942	13,238	—
Tax at the foreign enterprise income tax rate at 27%	—	—	—	—	13,685
Tax effect of share of results of associates	(985)	(591)	1,147	65	334
Tax effect of expenses that are not deductible in determining taxable profit	1,324	295	1,710	790	1,684
Tax effect of income not taxable	—	—	(902)	(401)	—
Change in tax rate	—	—	(4,511)	—	—
Tax exemption	—	—	(20,302)	—	(15,703)
Reduction of income tax in respect of Tax Benefit	<u>(3,429)</u>	<u>(28,379)</u>	<u>(2,318)</u>	<u>(2,318)</u>	<u>—</u>
Tax expense (credit) for the year/period	<u>26,883</u>	<u>(3,105)</u>	<u>18,766</u>	<u>11,374</u>	<u>—</u>

The tax charge represents income tax in the PRC of Golden Corn.

Tax effect of income not taxable mainly represents additional tax allowance on research and development expenses obtained during the Relevant Periods.

Golden Corn was a domestic company during the years ended 31 December 2004 and 2005 and the period from 1 January to 25 September 2006. Accordingly, its taxable income was subject to domestic income tax rate of 33%.

On 26 September 2006 Golden Corn became a wholly foreign owned enterprise. Pursuant to the relevant law and regulations in the PRC, Golden Corn is subject to foreign enterprise income tax rate of 27% on the taxable income and is entitled to exemption from PRC Foreign Enterprise Income Tax for two years commencing from its profit-making year, followed by a 50% relief for the next three years. The first profit-making year is claimed for the period from 26 September 2006 to 31 December 2006.

In addition to the above, during each of three years ended 31 December 2006, additional tax credit ("Tax Benefit") of RMB3,429,000, RMB28,379,000 and RMB2,318,000 respectively, equivalent to 40% of the acquisition cost of advance technological machinery for lysine production and power generation acquired in that year was granted by the local tax bureau under 寿地税发[2004]第146号, [2005]第114号 and 137号, [2006]第150号 to reduce the income tax of Golden Corn. The Tax Benefit, however, was limited to the amount of additional income tax in the current period that is in excess of the prior period before taking into account of the Tax Benefit. Unutilised amount can be carried forward for a period of not more than five years from the year in which the advance technological machinery were acquired. There is no unutilised Tax Benefit as at 31 December 2004, 2005 and 2006.

In accordance with the Law of the PRC on Enterprise Income Tax (adopted at the 5th section of the 10th National People's Congress on 16 March 2007, promulgated by Order No. 63 of the President of the People's Republic of China and effective as of 1 January 2008), the applicable tax rate for Golden Corn will change to 25%, however, Golden Corn can still entitle the tax exemption of PRC Foreign Enterprise Income Tax for two years commencing from its first profit-making year, followed by a 50% relief for the next three years.

13. DIVIDENDS

Dividend of RMB108,000,000 was declared by Golden Corn to its then shareholders on 10 January 2006.

Dividend of RMB20,793,000 was declared by the Company to Merry Boom Group Limited on 20 March 2007.

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated profit attributable to parent of the Company for each of the Relevant Periods and on 262,500,000 shares in issue, assuming the capitalisation issue as described in the section headed "Statutory and general information" in Appendix V to the Prospectus occurred on the first day of the Relevant Periods.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Motor vehicles	Other machinery	Plant and equipment under construction	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1 January 2004	150,517	135,380	1,994	5,313	41,325	334,529
Additions	5,288	1,134	1,277	568	118,432	126,699
Transfer from plant and equipment under construction	8,457	45,272	—	292	(54,021)	—
Transfer to an associate as capital injection	(3,939)	(5,439)	—	(519)	—	(9,897)
Disposal	(217)	(2,514)	(922)	(35)	—	(3,688)
At 1 January 2005	160,106	173,833	2,349	5,619	105,736	447,643
Additions	4,956	2,097	221	714	27,120	35,108
Transfer from plant and equipment under construction	27,645	97,840	557	278	(126,320)	—
Acquisition of a subsidiary	43,110	65,572	664	651	1,378	111,375
Disposal	(421)	(709)	(55)	(3)	(352)	(1,540)
At 1 January 2006	235,396	338,633	3,736	7,259	7,562	592,586
Additions	400	3,190	905	1,269	29,311	35,075
Transfer from plant and equipment under construction	11,190	24,106	—	762	(36,058)	—
Disposal	(4)	(1,983)	(367)	(309)	(256)	(2,919)
At 31 December 2006	246,982	363,946	4,274	8,981	559	624,742
Additions	281	140	840	114	1,300	2,675
Transfer from plant and equipment under construction	879	—	—	—	(879)	—
Disposal	—	—	(420)	—	—	(420)
At 30 April 2007	<u>248,142</u>	<u>364,086</u>	<u>4,694</u>	<u>9,095</u>	<u>980</u>	<u>626,997</u>

	Buildings	Plant and machinery	Motor vehicles	Other machinery	Plant and equipment under construction	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accumulated depreciation and impairment						
At 1 January 2004	40,832	56,296	1,132	1,997	—	100,257
Depreciation charge for the year	3,927	17,708	323	875	—	22,833
Transfer to an associate as capital injection	(217)	(706)	—	(72)	—	(995)
Eliminated on disposal	(18)	(255)	(735)	(11)	—	(1,019)
At 1 January 2005	44,524	73,043	720	2,789	—	121,076
Depreciation charge for the year	6,789	20,106	399	790	—	28,084
Eliminated on disposal	(33)	(416)	(9)	(1)	—	(459)
At 1 January 2006	51,280	92,733	1,110	3,578	—	148,701
Depreciation charge for the year	8,117	34,207	577	1,047	—	43,948
Eliminated on disposal	(1)	(1,410)	(130)	(242)	—	(1,783)
At 31 December 2006	59,396	125,530	1,557	4,383	—	190,866
Depreciation charge for the period	3,516	11,372	202	343	—	15,433
Eliminated on disposal	—	—	(316)	—	—	(316)
At 30 April 2007	<u>62,912</u>	<u>136,902</u>	<u>1,443</u>	<u>4,726</u>	<u>—</u>	<u>205,983</u>
Net carrying value						
At 31 December 2004	<u>115,582</u>	<u>100,790</u>	<u>1,629</u>	<u>2,830</u>	<u>105,736</u>	<u>326,567</u>
At 31 December 2005	<u>184,116</u>	<u>245,900</u>	<u>2,626</u>	<u>3,681</u>	<u>7,562</u>	<u>443,885</u>
At 31 December 2006	<u>187,586</u>	<u>238,416</u>	<u>2,717</u>	<u>4,598</u>	<u>559</u>	<u>433,876</u>
At 30 April 2007	<u>185,230</u>	<u>227,184</u>	<u>3,251</u>	<u>4,369</u>	<u>980</u>	<u>421,014</u>

16. PREPAID LEASE PAYMENTS

	At 31 December			At 30 April
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Land in PRC held under medium-term lease	<u>25,741</u>	<u>36,988</u>	<u>36,040</u>	<u>35,678</u>
Analysed for reporting purposes:				
Current asset	716	954	941	939
Non current asset	<u>25,025</u>	<u>36,034</u>	<u>35,099</u>	<u>34,739</u>
	<u>25,741</u>	<u>36,988</u>	<u>36,040</u>	<u>35,678</u>

The amount represents the prepayment for land use rights situated in the PRC for periods ranged from 27 to 49 years.

17. INTERESTS IN ASSOCIATES

	At 31 December			At 30 April
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted investments, at cost	60,368	28,473	28,473	28,473
Less: Unrealised gain arising on injecting property, plant, equipment and land use right as capital contribution	(4,855)	(4,424)	(3,993)	(3,849)
Share of post-acquisition reserves and profits (losses), net of dividends received	73	870	(2,605)	(3,530)
Less: Eliminated unrealised profit on inventories	<u>—</u>	<u>—</u>	<u>—</u>	<u>(312)</u>
	<u>55,586</u>	<u>24,919</u>	<u>21,875</u>	<u>20,782</u>

APPENDIX I

ACCOUNTANTS' REPORT

Summarise of the financial information of the Group's associate for the Relevant Periods are as follows.

寿光金远东变性淀粉有限公司 (Shouguang Golden Far East Modified Starch Co., Ltd.), the details of this associate are disclosed in I-1:

	At 31 December			At 30 April
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	64,959	78,654	86,589	109,728
Total liabilities	(23,410)	(18,770)	(33,797)	(58,822)
Net assets	<u>41,549</u>	<u>59,884</u>	<u>52,792</u>	<u>50,906</u>
Group's share of associate's net assets before adjustments to unrealised gain arising on injecting property, plant and equipment and land use right as capital contribution and unrealised profit on inventories	<u>20,359</u>	<u>29,343</u>	<u>25,868</u>	<u>24,943</u>

	Year ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue	<u>2,859</u>	<u>67,278</u>	<u>112,241</u>	<u>30,526</u>	<u>44,608</u>
(Loss) profit for the year/period	<u>(18)</u>	<u>1,795</u>	<u>(7,092)</u>	<u>(404)</u>	<u>(1,887)</u>
Group's share of associate's (loss) profit for the year/period	<u>(9)</u>	<u>880</u>	<u>(3,475)</u>	<u>(198)</u>	<u>(925)</u>

山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.):

Place and date of incorporation/registration	Issued and fully paid registered capital	Attributable equity interest to the Group as at 31 December 2004	Principal activities
PRC 26 March 2003	RMB80,000,000	50%	Manufacture and sales of Lysine and its related products

	At 31 December 2004
	<i>RMB'000</i>
Total assets	281,840
Total liabilities	<u>(201,676)</u>
Net assets	<u>80,164</u>
Group's share of associate's net assets	<u>40,082</u>

	Year ended 31 December	
	2004	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	<u>142,380</u>	<u>85,076</u>
Profit for the year/period up to dissolution of the entity	<u>5,989</u>	<u>1,820</u>
Group's share of associates' profit for the year/period	<u>2,995</u>	<u>910</u>

As mentioned in Note 32, 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) was dissolved and the Group has taken over its business on 14 July 2005.

18. AVAILABLE-FOR-SALE INVESTMENT

	The Group			
	At 31 December			At 30 April
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted equity investment, at cost	<u>—</u>	<u>1,000</u>	<u>—</u>	<u>—</u>

Fair value of the unlisted equity investment is not readily available as there are no quoted market price in an active market.

19. INVESTMENT IN A SUBSIDIARY

	The Company	
	At 31 December 2006	At 30 April 2007
	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted equity investment, at cost	142,391	142,391
Additional investment costs attributable to the interest free loan to a subsidiary	16,730	16,730
	<u>159,121</u>	<u>159,121</u>

Details of the Company's subsidiaries as at 31 December 2006 and 30 April 2007 are disclosed in I-1.

20. AMOUNT DUE FROM A SUBSIDIARY

The balance due from a subsidiary is unsecured, interest free and repayable within two years. The nominal value is RMB140,149,000 and the directors determined its fair value at initial recognition based on the imputed rate of 6.57% per annum.

21. INVENTORIES

	At 31 December			At 30 April
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	44,335	66,077	87,076	52,568
Work in progress	1,431	5,650	8,326	8,852
Finished goods	7,500	13,955	20,513	39,465
	<u>53,266</u>	<u>85,682</u>	<u>115,915</u>	<u>100,885</u>

22. TRADE AND OTHER RECEIVABLES

Trade receivable is mainly arisen from sales of corn starch, lysine and their related products. Credit terms to both third parties and related parties for respective products are as follows:

Corn starch and its related products	Within 30 days
Lysine and its related products	30 to 60 days
Electricity and steam	Within 30 days

Trade and other receivables:

	At 31 December			At 30 April
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivable	48,416	41,593	33,718	41,600
Trade receivable from an associate — 寿光金远东变性淀粉有限公司 (Shouguang Golden Far East Modified Starch Co., Ltd.)	6,935	11,936	18,147	36,197
Trade receivable from related companies 寿光市供电公司 (Electricity Supply Company of Shouguang City) 山东寿光巨能兴业热电有限公司 (Shandong Shouguang Juneng Xingye Heat and Electricity Co., Ltd.) 寿光巨能热电发展有限公司 (Shandong Shouguang Juneng Heat and Electricity Development Co., Ltd.)	44,448 2,721 81	2,000 2,711 87	— — —	— — —
Bank acceptance bills				
Discounted bills	19,955	20,866	25,608	44,252
Endorsed bills	8,786	23,525	7,432	12,874
Others	36,275	17,948	52,829	37,087
Total trade receivable	167,617	120,666	137,734	172,010
Other receivable	1,250	1,005	618	1,172
Total trade and other receivables	168,867	121,671	138,352	173,182

The director and shareholder of the Company Mr. Tian Qixiang, is the manager of 寿光市供电公司 (Electricity Supply Company of Shouguang City). According to the articles of association of 寿光市供电公司 (Electricity Supply Company of Shouguang City), the manager has significant influence on the financial and operating decisions on 寿光市供电公司 (Electricity Supply Company of Shouguang City). 山东寿光巨能兴业热电有限公司 (Shandong Shouguang Juneng Xingye Heat and Electricity Co., Ltd.) and 寿光巨能热电发展有限公司 (Shandong Shouguang Juneng Heat and Electricity Development Co., Ltd.) are associates of 寿光市供电公司 (Electricity Supply Company of Shouguang City). Accordingly, 寿光市供电公司 (Electricity Supply Company of Shouguang City) and its associate are considered as related companies of the Group.

During the Relevant Periods, the Group discounted and endorsed bank acceptance bills to banks and suppliers respectively of which the aggregate amounts at each of the balance sheet dates were disclosed in the table above. As a part of the arrangement of discounting and endorsement of bank acceptance bills, the Group provides the transferee a credit guarantee for the settlement of the discounted/endorsed bank acceptance bills.

For the discounted bank acceptance bills, the Group continues to recognise the full carrying amount of the discounted bank acceptance bills and has recognised the cash received on the transfer as a secured bank loans. The carrying amounts of the bank acceptance bills discounted to bank as at 31 December 2004, 2005, 2006 and 30 April 2007 are RMB19,955,000, RMB20,866,000, RMB25,608,000 and RMB44,252,000 respectively. The carrying amounts of the corresponding secured bank loans as at 31 December 2004, 2005, 2006 and 30 April 2007 are RMB19,955,000, RMB20,866,000, RMB25,608,000 and RMB44,252,000 respectively.

For the endorsement of bank acceptance bills, the Group continues to recognise the full carrying amount of the endorsed bank acceptance bills as asset and the related payable as liabilities at the balance sheet dates. The carrying amounts of the bank acceptance bills endorsed to suppliers as at 31 December 2004, 2005, 2006 and 30 April 2007 are RMB8,786,000, RMB23,525,000, RMB7,432,000 and RMB12,874,000 respectively. The carrying amounts of the corresponding trade payable as at 31 December 2004, 2005, 2006 and 30 April 2007 are RMB8,786,000, RMB23,525,000, RMB7,432,000 and RMB12,874,000 respectively.

The following is an aged analysis of trade receivables at the balance sheet date:

	At 31 December			At 30 April
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
0 - 30 days	77,121	80,180	94,853	140,007
31 - 60 days	32,743	13,530	10,705	11,523
61 - 90 days	10,833	7,242	14,249	12,878
91 - 180 days	30,093	18,876	17,269	7,194
181 - 365 days	16,827	838	658	408
	<u>167,617</u>	<u>120,666</u>	<u>137,734</u>	<u>172,010</u>

The credit periods on sales of goods were disclosed above. No interest is charged on the overdue trade receivable. The Group provides fully for all receivables overdue 1 year, if any, because historical experience is such that receivables that are past due beyond 1 year are generally not recoverable. No allowance is provided for the receivables between the expiry of credit period and 1 year from the date of transaction as the directors of the Company consider that these receivables are likely to be recovered based on the historical experience.

Included in the Group's trade receivable balance is debtors with a carrying amount of RMB3,540,000 and RMB23,665,000 as of 31 December 2006 and 30 April 2007 respectively which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. No allowance for doubtful debts is provided during the Relevant Periods.

23. AMOUNTS DUE FROM RELATED COMPANIES

	The Group				The Company	
	At 31 December			At 30 April	At 31 December	At 30 April
	2004	2005	2006	2007	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) (Note 3)	156,000	—	—	—	—	—
寿光金远东变性淀粉有限公司 (Shouguang Golden Far East Modified Starch Co., Ltd.) (Note 3)	18,133	—	—	—	—	—
山东寿光巨能电力集团有限公司 (Shandong Shouguang Juneng Electric Group Co., Ltd.) (Notes 1 and 3)	265	457	—	—	—	—
山东寿光巨能控股集团有限公司 (Shandong Shouguang Juneng Holding Group Co., Ltd.) (Notes 2 and 4)	—	40,434	2,000	—	—	—
Merry Boom Group Limited (Notes 3 and 5)	—	—	—	99	—	97
Total	<u>174,398</u>	<u>40,891</u>	<u>2,000</u>	<u>99</u>	<u>—</u>	<u>97</u>

Notes:

1. 山东寿光巨能电力集团有限公司 (Shandong Shouguang Juneng Electric Group Co., Ltd.) is a subsidiary of 寿光市供电公司 (Electricity Supply Company of Shouguang City) and therefore considered as a related company.
2. The director, Mr. Tian Qixiang, is a director of and has equity interest in 山东寿光巨能控股集团有限公司 (Shandong Shouguang Juneng Holding Group Co., Ltd.).
3. The amounts due from 山东金玉米生化有限公司 (Shandong Golden Corn Bio-Chem Co., Ltd.), 寿光金远东变性淀粉有限公司 (Shouguang Golden Far East Modified Starch Co., Ltd.), 山东寿光巨能电力集团有限公司 (Shandong Shouguang Juneng Electric Group Co, Ltd.) and Merry Boom Group Limited at each of the balance sheet date were non-trade, interest-free, unsecured and repayable on demand.
4. The amount due from 山东寿光巨能控股集团有限公司 (Shandong Shouguang Juneng Holding Group Co., Ltd.) was loan advance which was unsecured, repayable within one year and carried interest at 5.58% per annum.
5. Merry Boom Group Limited is the ultimate holding company of the Group after completion of the Group Reorganisation.

Amounts due from related parties disclosed pursuant to Section 161B of Hong Kong Companies Ordinance was as follows:

Maximum balances outstanding during the year/period:

	The Group					The Company	
	At 1	Year ended 31 December			Four	Period	Four
	January				months	ended 31	months
		2004	2005	2006	ended	December	ended
	2004	2004	2005	2006	30 April	2006	30 April
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
山东金玉米生化有限公司 (Shandong Golden Corn Bio-Chem Co., Ltd.)	—	156,000	156,000	—	—	—	—
寿光金远东变性淀粉有限公司 (Shouguang Golden Far East Modified Starch Co., Ltd.)	—	25,890	18,133	31,196	—	—	—
山东寿光巨能电力集团有限公司 (Shandong Shouguang Juneng Electric Group Co., Ltd.)	—	265	2,809	31,495	—	—	—
山东寿光巨能控股集团有限公司 (Shandong Shouguang Juneng Holding Group Co., Ltd.)	—	—	40,513	40,434	—	—	—
Merry Boom Group Limited	—	—	—	—	2,929	—	2,929

The directors represented that the balances with related parties will be settled prior to the listing of the shares of the Company on The Stock Exchange of Hong Kong Limited ("HKSE").

24. PLEDGED BANK DEPOSIT/BANK BALANCE

Pledged bank deposits represent deposits pledged to bank to secure bank acceptance bills issued by the Group. Bank balances and the pledged bank deposits carry interest at market rates less than 1% per annum.

25. TRADE AND OTHER PAYABLES

Trade and other payables:

	The Group				The Company	
	At 31 December			At 30 April	At 31 December	At 30 April
	2004	2005	2006	2007	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade payable	64,105	87,076	51,325	46,203	—	—
Trade payable to an associate						
— 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.)	109,168	—	—	—	—	—
Trade payable to other related companies						
山东寿光巨能电力建设有限公司 (Shandong Shouguang Juneng Electricity Construction Co., Ltd.) (Note 1)	1,005	—	—	—	—	—
寿光巨能电气有限公司 (Shouguang Juneng Electricity Steam Co., Ltd.) (Note 2)	—	711	36	—	—	—
山东寿光巨能电力燃料有限公司 (Shandong Shouguang Juneng Electricity Fuel Co., Ltd.) (Note 2)	—	1,412	76	—	—	—
Bills payable	50,000	6,300	9,000	2,000	—	—
Total trade payable	224,278	95,499	60,437	48,203	—	—
Advances from customers	11,158	15,266	15,480	23,109	—	—
Deposits	4,076	4,659	3,831	4,116	—	—
Sales commission	513	1,553	2,032	2,156	—	—
Other tax payable	7,557	6,315	6,739	18,850	—	—
Accrued expense	3,098	4,842	1,662	3,694	—	—
Welfare payable	568	1,785	4,555	1,708	—	—
Others	6,200	7,478	4,801	9,997	68	—
	33,170	41,898	39,100	63,630	68	—
Total trade and other payables	257,448	137,397	99,537	111,833	68	—

The following is an aged analysis of trade payable at the balance sheet date:

	The Group		
	At 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
0 - 60 days	114,752	64,771	36,040
61 - 90 days	35,841	2,934	6,744
More than 90 days	73,685	27,794	17,653
	<u>224,278</u>	<u>95,499</u>	<u>60,437</u>
			<u>48,203</u>

The average credit period on purchase is 80 days.

Notes:

1. 山东寿光巨能电力建设有限公司 (Shandong Shouguang Juneng Electricity Construction Co., Ltd.) is an associate of 山东寿光巨能电力集团有限公司 (Shandong Shouguang Juneng Electric Group Co., Ltd.).
2. 寿光巨能电气有限公司 (Shouguang Juneng Electricity Steam Co., Ltd.) was an associate of 山东寿光巨能控股集团有限公司 (Shandong Shouguang Juneng Holding Group Co., Ltd.) prior to May 2006 and became a subsidiary of 山东寿光巨能控股集团有限公司 (Shandong Shouguang Juneng Holding Group Co., Ltd) after May 2006.

山东寿光巨能电力燃料有限公司 (Shandong Shouguang Juneng Electricity Fuel Co., Ltd.) is a subsidiary of 山东寿光巨能控股集团有限公司 (Shandong Shouguang Juneng Holding Group Co., Ltd.).

26. AMOUNTS DUE TO RELATED COMPANIES

	At 31 December			At 30 April
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.)	27,574	—	—	—
寿光市供电公司 (Electricity Supply Company of Shouguang City Co., Ltd.)	3,659	—	—	—
山东寿光巨能控股集团有限公司 (Shandong Shouguang Juneng Holding Group Co., Ltd.)	—	—	14,265	1,818
Total	<u>31,233</u>	<u>—</u>	<u>14,265</u>	<u>1,818</u>

The amounts due to related companies were of non-trade nature, interest-free, unsecured and repayable on demand. The directors represented that the balances with related parties will be settled prior to the listing of the shares of the Company on the HKSE.

27. EMPLOYEE HOUSING DEPOSITS

	At 31 December			Four Months Ended 30 April
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Basic deposit portion	<u>17,021</u>	<u>16,935</u>	<u>27,292</u>	<u>26,956</u>
Original amount of installment portion	18,484	15,892	25,453	25,342
Less: fair value adjustment on initial recognition	<u>(2,140)</u>	<u>(1,573)</u>	<u>(2,944)</u>	<u>(2,671)</u>
	<u>16,344</u>	<u>14,319</u>	<u>22,509</u>	<u>22,671</u>
Installment portion refundable:				
Within one year	2,589	2,640	4,153	4,042
In more than one year, but not exceeding two years	2,516	3,872	3,459	3,509
In more than two years, but not more than five years	11,161	7,807	14,897	15,120
In more than five years	<u>78</u>	<u>—</u>	<u>—</u>	<u>—</u>
	16,344	14,319	22,509	22,671
Less: Installment portion refundable within one year shown under current liabilities	<u>2,589</u>	<u>2,640</u>	<u>4,153</u>	<u>4,042</u>
	<u>13,755</u>	<u>11,679</u>	<u>18,356</u>	<u>18,629</u>

The Group offers quarters to the staff with the aim of promoting long service with the Group. These quarters are constructed by the Group and offered to staff for application on a periodic basis. Due to the excess demand of staff quarters and the relatively substantial construction costs involved, the staff are required to place housing deposit to the Group. The Group utilises the amount received from staff as general working capital. The amounts placed as housing deposit was determined based on a point-based deposit and tender system of which the details are set out in section "Directors, Senior Management and Staff" of the Prospectus.

The employee housing deposits consists of two portions, the basic deposit portion and installment portion. Basic deposit portion is interest free, unsecured and repayable one month upon the return of the staff quarter by the employee or termination of employment. The installment portion is unsecured and repayable by installment with 30% at the end of the third and fourth year from signing of the occupancy agreement. The remaining 40% of the installment portion is repayable at the end of the fifth year from signing of the occupancy agreement.

The fair value of installment portion on initial recognition is determined with reference to the bank deposit rates.

28. BORROWINGS

	The Group				The Company	
	At 31 December		At 30 April		At 31 December	At 30 April
	2004	2005	2006	2007	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans	277,955	341,166	251,608	224,252	—	—
Government loan	—	9,750	9,750	9,750	—	—
Loan from 山东寿光巨能电力集团有限公司 (Shandong Shouguang Juneng Electric Group Co., Ltd.)	25,000	35,000	—	—	—	—
Loan from Merry Boom Group Limited	—	—	123,644	123,977	123,644	123,977
	<u>302,955</u>	<u>385,916</u>	<u>385,002</u>	<u>357,979</u>	<u>123,644</u>	<u>123,977</u>
Secured	19,955	20,866	25,608	44,252	—	—
Unsecured	<u>283,000</u>	<u>365,050</u>	<u>359,394</u>	<u>313,727</u>	<u>123,644</u>	<u>123,977</u>
	<u>302,955</u>	<u>385,916</u>	<u>385,002</u>	<u>357,979</u>	<u>123,644</u>	<u>123,977</u>
Carrying amount payable:						
On demand or within one year	199,955	303,166	101,608	44,252	—	—
In more than one year, but not exceeding two years	30,000	30,000	274,308	274,937	123,644	123,977
In more than two years, but not more than five years	73,000	44,773	1,996	32,585	—	—
In more than five years	—	7,977	7,090	6,205	—	—
	<u>302,955</u>	<u>385,916</u>	<u>385,002</u>	<u>357,979</u>	<u>123,644</u>	<u>123,977</u>
Less: Amounts due within one year shown under current liabilities	<u>199,955</u>	<u>303,166</u>	<u>101,608</u>	<u>44,252</u>	<u>—</u>	<u>—</u>
	<u>103,000</u>	<u>82,750</u>	<u>283,394</u>	<u>313,727</u>	<u>123,644</u>	<u>123,977</u>

Effective interest rates for bank loans during the year/period are as follows:

	Interest rates
Year ended 31 December 2004	4.698-7.254% per annum
Year ended 31 December 2005	4.698-6.372% per annum
Year ended 31 December 2006	5.58-6.3% per annum
Four months ended 30 April 2007	6.30-6.57% per annum

Bank loans of RMB19,955,000, RMB20,866,000, RMB25,608,000 and RMB44,252,000 at 31 December 2004, 2005, 2006 and 30 April 2007, respectively, represented bank acceptance bills discounted to banks.

The unsecured bank loans of RMB242,500,000 as at 31 December 2004 were guaranteed by 寿光市供电公司 (Electricity Supply Company of Shouguang City) and 山东金玉米生化有限公司 (Shandong Golden Corn Bio-Chem Co., Ltd.) which amounted to RMB233,000,000 and RMB9,500,000 respectively.

The unsecured bank loans of RMB168,000,000 as at 31 December 2005 were guaranteed by 寿光市供电公司 (Electricity Supply Company of Shouguang City) and 山东金玉米生化有限公司 (Shandong Golden Corn Bio-Chem Co., Ltd.) which amounted to RMB103,000,000 and RMB65,000,000 respectively.

The unsecured bank loans of RMB150,000,000 and RMB180,000,000 as at 31 December 2006 and 30 April 2007, respectively, were guaranteed by 寿光市供电公司 (Electricity Supply Company of Shouguang City).

As at 30 April 2007, the total amounts of banking facilities available to the Group is RMB398,000,000. The expiry dates of the unutilised banking facilities of RMB218,000,000 at 30 April 2007 are as follows:

Amounts of unutilised banking facilities	Expiry date
RMB	
70,000,000	29 July 2007
30,000,000	17 October 2007
60,000,000	31 October 2007
28,000,000	28 December 2007
30,000,000	29 May 2008

Government loans is unsecured, interest free and fully repayable by 6 April 2019. The loan is repayable by 11 annual installments commencing from 6 April 2009.

Loan from a related company represented loan from 山东寿光巨能电力集团有限公司 (Shandong Shouguang Juneng Electric Group Co., Ltd.), which is unsecured, repayable on demand with interest rates ranging from 0.72% to 6.12% per annum. The directors of the Company represented that the loans granted by the related company is to support the operation of the Group as the related company was also a shareholder of Golden Corn until October 2005. The amount was fully repaid in early 2006.

Loan from Merry Boom Group Limited is unsecured, interest free and repayable more than one year, but not exceeding two years. The fair value at the initial recognition is determined based on the nominal amount of RMB140,148,000 and the imputed interest rate at 6.57% per annum. As per the Memorandum of Capitalisation of Loan signed on 20 December 2006 between the Company and Merry Boom Group Limited, the loan balance will be capitalised as paid in capital of the Company upon listing of the shares of the Company on the HKSE.

29. DEFERRED TAXATION

The deferred tax assets recognised by the Group and movements thereon during the Relevant Periods are as follows:

	Realized gain on injecting property, plant, equipment and land use rights as capital contribution	Impairment of property, plant and equipment	Temporary difference on expenses recognition	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
		<i>Note 1</i>	<i>Note 2</i>	
At 1 January 2004	—	4,222	1,464	5,686
Charge (credit) to consolidated income statement for the year	<u>(1,692)</u>	<u>(208)</u>	<u>2,322</u>	<u>422</u>
At 1 January 2005	(1,692)	4,014	3,786	6,108
Charge (credit) to consolidated income statement for the year	<u>(142)</u>	<u>(208)</u>	<u>2,856</u>	<u>2,506</u>
At 1 January 2006	(1,834)	3,806	6,642	8,614
Effect of change of tax rate	359	(1,277)	(779)	(1,697)
Credit to consolidated income statement for the year	<u>(142)</u>	<u>(208)</u>	<u>(5,199)</u>	<u>(5,549)</u>
At 1 January 2007 and 30 April 2007	<u>(1,617)</u>	<u>2,321</u>	<u>664</u>	<u>1,368</u>

Note:

1. Impairment of property, plant and equipment was provided for in 2003 which was related to the vacant premises for electricity generation in prior years.
2. Temporary difference on expenses recognition represents expenses which are recognised in the period the expenses were incurred for financial accounting purpose, but are deductible over a number of years for the computation of PRC income tax.

30. DEFERRED INCOME

	Staff quarter rental Income	Steam pipeline construction Income	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2004	2,657	495	3,152
Additions	—	6,658	6,658
Amortisation for the year	<u>(483)</u>	<u>(308)</u>	<u>(791)</u>
At 1 January 2005	2,174	6,845	9,019
Additions	—	2,908	2,908
Amortisation for the year	<u>(483)</u>	<u>(1,006)</u>	<u>(1,489)</u>
At 1 January 2006	1,691	8,747	10,438
Additions	2,310	1,226	3,536
Amortisation for the year	<u>(714)</u>	<u>(1,129)</u>	<u>(1,843)</u>
At January 2007	3,287	8,844	12,131
Additions	0	613	613
Amortisation for the period	<u>(270)</u>	<u>(377)</u>	<u>(647)</u>
At 30 April 2007	<u>3,017</u>	<u>9,080</u>	<u>12,097</u>

The deferred balance of staff quarter rental income is determined based on the difference between the nominal amount and the fair value of the installment portion of the employee housing deposits (note 27) at initial recognition. It is amortised over the expected occupancy period of the staff quarter by the employee of 5 years on a straight-line basis.

Steam pipe construction income represents the income received/receivable from customers for the construction of steam pipelines. It is amortised over the estimated useful life of the pipeline of 10 years on a straight-line basis.

31. PAID-IN CAPITAL/SHARE CAPITAL

For the purpose of this report, the paid-in capital of the Group as at 31 December 2004 and 2005 represents the registered capital of Golden Corn attributable to the controlling party, Mr. Tian Qixiang.

	The Company	
	Number of shares	Share capital
		HK\$
Ordinary shares of HK\$0.1 each		
Authorised:		
On date of incorporation and at 29 November 2006	<u>2,000,000</u>	<u>200,000</u>
Issued:		
1,000,000 share allotted and issued nil paid on date of incorporation (Note)	1,000,000	—
Issue of shares on Group Reorganisation (Note)	<u>500,000</u>	<u>150,000</u>
At 31 December 2006 and 30 April 2007	<u>1,500,000</u>	<u>150,000</u>
Shown on the balance sheets as		<u>RMB151,000</u>

Note: The Company was incorporated in the Cayman Islands on 29 November 2006 with an authorised share capital of HK\$200,000 divided into 2,000,000 shares of HK\$0.1 each and 1,000,000 shares were issued at nil paid to the subscriber on the date of incorporation.

On 15 December 2006, the shareholders transfer an aggregate of 240 shares of US\$1 each, being the entire issued share capital of Sourcestar, the intermediate holding company of Golden Corn, to the Company in consideration of and in exchange for (i) 500,000 new shares allotted and issued, credited as fully paid and (ii) credited as fully paid at par the 1,000,000 nil-paid shares issued on incorporation.

32. ACQUISITION OF BUSINESS

Pursuant to a resolution by the shareholders of 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) on 5 July 2005, the shareholders resolved to dissolve 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) and further agreed that (i) two of the shareholders with the remaining 50% equity interests in 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) would waive their rights to the undistributed profit of 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.); (ii) the two shareholders would be refunded with their respective registered capital of RMB20,000,000 each; and (iii) the subsidiary, Golden Corn would assume the assets and liabilities of 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.). The Group has taken over the business of 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) on 14 July 2005 and such acquisition is accounted for using the purchase method.

The net assets of 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.), as at the date of the transaction are as follows:

	Carrying amount before combination and fair value
	<i>RMB'000</i>
Net assets acquired:	
Property, plant and equipment	112,366
Prepaid lease payment	12,072
Inventories	21,563
Trade and other receivables	29,691
Amount due from Golden Corn	91,616
Pledged bank deposits	711
Bank balances and cash	68
Trade and other payables	(29,352)
Amount due to Golden Corn	(123,000)
Borrowings	(33,750)
	81,985
Transfer from interest in an associate	(40,992)
Discount on acquisition	(993)
	40,000
Net cash outflow arising on acquisition	
Cash consideration paid	40,000
Bank balance and cash acquired	(779)
	39,221

The major assets of 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.), other than monetary assets and liabilities, are property, plant and equipment that are to be used for production purpose. As these production machinery have been used for just over 1 year, the directors of the Company considered that the fair value of the net assets acquired at the date of acquisition approximate to the corresponding carrying amount of the net assets.

The financial information of 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) for year ended 31 December 2004 and the period from 1 January 2005 to 13 July 2005 (date of acquisition) (hereinafter collectively referred to as the "Pre-Acquisition Periods") is set out in section II of this report.

山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) did not contribute any significant revenue and profit to the Group between the date of acquisition and 31 December 2005.

33. MAJOR NON-CASH TRANSACTIONS

The Group had the following major non-cash transactions during the Relevant Periods:

- (i) In November 2004, Golden Corn had injected property, plant and equipment with the carrying amount of RMB8,901,000 and prepaid lease payment for land use right in the PRC with carrying amount of RMB1,484,000 as 49% of the registered capital of a newly formed associate, Shouguang Golden Far East Modified Starch Co., Ltd. The fair value of the assets injected represents a capital contribution of RMB20,268,000.
- (ii) During the Relevant Periods, bank acceptance bills receivable of RMB39,544,000, RMB22,503,000, RMB13,626,000 and RMB4,960,000 respectively for the year ended 31 December 2004, 2005, 2006 and the four months ended 30 April 2007 has been used to settle amount payable incurred for plant and equipment under construction.
- (iii) During the year ended 31 December 2005, dividend payment of RMB2,000,000 was used to offset with an amount receivable from the corresponding shareholder.
- (iv) Amount of RMB5,500,000 and RMB4,000,000 respectively at 31 December 2006 and 30 April 2007, being personal income tax (20% of dividend to be distributed) of the then shareholders was withheld by the Company for future payment to the local tax bureau.

34. OPERATING LEASE COMMITMENTS

	For the year ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Minimum lease payments paid under operating lease during the year/period:					
Premises	218	248	238	60	54

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating lease which fall due as follows:

	At 31 December			At 30 April
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	<u>4</u>	<u>7</u>	<u>8</u>	<u>67</u>

Operating lease payments mainly represent rentals payable by the Group for certain of its staff quarters. Lease are negotiated for an average term of 1 year and rentals are fixed for an average term of 1 year. The Group does not have an option to renew the lease at the expiry of the lease period.

35. CAPITAL COMMITMENTS

	At 31 December			At 30 April
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditure contracted for but not provided for in the financial statements in respect of acquisition of property, plant and equipment	<u>3,601</u>	<u>1,802</u>	<u>411</u>	<u>633</u>

36. FINANCIAL GUARANTEES AND CONTINGENT LIABILITIES

At the respective balance sheet dates, the contingent liabilities of the Group were as follows:

	As at 31 December			Four months ended 30 April
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Guarantees given to banks in connection with facilities granted to and utilised by a related company — 寿光市供电公司 (Electricity Supply Company of Shouguang City)	<u>130,000</u>	<u>130,000</u>	<u>—</u>	<u>—</u>

Guarantees of RMB233,000,000, RMB103,000,000, RMB150,000,000 and RMB180,000,000 at 31 December 2004, 2005, 2006 and 30 April 2007 respectively were also provided by this related company on loans granted by banks to the Group. (See note 28 for details.)

37. RETIREMENT BENEFITS SCHEME

The employees of the PRC subsidiary are members of the state-managed retirement benefits scheme operated by the PRC government. They are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Company with respect to the retirement benefits scheme is to make the required contributions under the scheme.

38. RELATED PARTY TRANSACTIONS

During the Relevant Periods, the Group entered into the following transaction with the related parties:

(i) Sales and purchases

	Trade sales					Trade purchases				
	Year ended 31 December			Four months ended 30 April		Year ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)					(unaudited)	
寿光巨能电气有限公司 (Shandong Shouguang Juneng Electricity Steam Co., Ltd.)	—	—	—	—	—	—	1,140	600	167	—
山东寿光巨能电力燃料有限公司 (Shandong Shouguang Juneng Electricity Fuel Co., Ltd.)	—	—	—	—	—	—	28,507	21,625	6,267	—
山东寿光巨能特钢有限公司 (Shandong Shouguang Juneng Special Steel Co., Ltd.)	—	—	—	—	—	281	1,062	—	—	—
山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co. Ltd.)	52,513	33,688	—	—	—	142,380	85,076	—	—	—
寿光金远东变性淀粉有限公司 (Shouguang Golden Far East Modified Starch Co., Ltd.)	6,681	46,346	84,339	22,819	35,361	—	—	—	—	—
	<u>59,194</u>	<u>80,034</u>	<u>84,339</u>	<u>22,819</u>	<u>35,361</u>	<u>142,661</u>	<u>115,785</u>	<u>22,225</u>	<u>6,434</u>	<u>—</u>

Sales and purchases were based on contracted price.

山东寿光巨能特钢有限公司 (Shandong Shouguang Juneng Special Steel Co., Ltd.) is a subsidiary of 山东寿光巨能控股有限公司 (Shandong Shouguang Juneng Holding Group Co., Ltd.).

(ii) Sales of electricity and steam

	Year ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
山东寿光巨能特钢有限公司 (Shandong Shouguang Juneng Special Steel Co., Ltd.)	—	—	11,556	—	22,235
山东金玉米生化有限公司 (Shandong Golden Corn Bio-Chem Co. Ltd.)	41,078	23,402	—	—	—
寿光金远东变性淀粉有限公司 (Shouguang Golden Far East Modified Starch Co., Ltd.)	155	2,786	3,800	1,320	877
寿光市供电公司 (Electricity Supply Company of Shouguang City)	44,630	47,670	28,824	18,998	—
	<u>85,863</u>	<u>73,858</u>	<u>44,180</u>	<u>20,318</u>	<u>23,112</u>

Sales of electricity and steam are based on contracted price.

(iii) Commission income

	Year ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Associate 寿光金远东变性淀粉有限公司 (Shouguang Golden Far East Modified Starch Co., Ltd.)	<u>113</u>	<u>3,227</u>	<u>3,379</u>	<u>1,445</u>	<u>—</u>

Commission income is calculated at 1% on sales of modified starch handled by the Group for 寿光金远东变性淀粉有限公司 (Shouguang Golden Far East Modified Starch Co., Ltd.) during the year/period plus 4% on amount collected in respect of sales made in that respective year/period.

From 1 September 2006, 寿光金远东变性淀粉有限公司 (Shouguang Golden Far East Modified Starch Co., Ltd.) terminated the provision of handling service with the Group.

- (iv) Certain property, plant and equipment were provided to 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) for use free of charge during the year ended 31 December 2004 and for the period ended 13 July 2005. The carrying amount of these property, plant and equipment was RMB42,562,000 and RMB39,963,000 as at 31 December 2004 and 13 July 2005 respectively.

- (v) Salary expenses

	For the year ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
山东寿光巨能电力集团有限公司 (Shandong Shouguang Juneng Electric Group Co, Ltd.)	11,413	12,818	—	—	—
山东寿光巨能控股集团有限公司 (Shandong Shouguang Juneng Holding Group Co., Ltd.)	—	—	14,844	4,624	2,711

Salary was paid at cost to 山东寿光巨能电力集团有限公司 (Shandong Shouguang Juneng Electric Group Co, Ltd.) and 山东寿光巨能控股集团有限公司 (Shandong Shouguang Juneng Holding Group Co., Ltd.).

- (vi) Interest income

	For the year ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
山东寿光巨能控股集团有限公司 (Shandong Shouguang Juneng Holding Group Co., Ltd.)	—	434	1,996	744	—

The amount due from 山东寿光巨能控股集团有限公司 (Shandong Shouguang Juneng Holding Group Co., Ltd.) is loan advances which is unsecured, repayable within one year and carry interest at 5.58% per annum.

(vii) Interest expense

	For the year ended 31 December			Four months ended 30 April	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Merry Boom Group Limited	—	—	225	—	2,700
山东寿光巨能电力集团有限公司 (Shandong Shouguang Juneng Electric Group Co., Ltd.)	441	634	—	—	—
山东寿光巨能控股集团有限公司 (Shandong Shouguang Juneng Holding Group Co., Ltd.)	—	—	4,165	968	—
	<u>441</u>	<u>634</u>	<u>4,390</u>	<u>968</u>	<u>2,700</u>

Loan from 山东寿光巨能控股集团有限公司 (Shandong Shouguang Juneng Holding Group Co., Ltd.) is unsecured, repayable on demand with interest rates ranging from 0.72% to 5.58% per annum.

Loan from 山东寿光巨能电力集团有限公司 (Shandong Shouguang Juneng Electric Group Co., Ltd.) is unsecured, repayable on demand with interest rates ranging from 0.72% to 6.12% per annum.

Loan from Merry Boom Group Limited is unsecured, interest free and repayable within 2 years. The imputed interest rate adjusted for the calculation of fair value at initial recognition was 6.57% per annum.

The director of the Company represents that other than the transactions with 寿光金远东变性淀粉有限公司 (Shouguang Golden Far East Modified Starch Co., Ltd.), 山东寿光巨能电力燃料有限公司 (Shandong Shouguang Juneng Electricity Fuel Co., Ltd.), 山东寿光巨能控股集团有限公司 (Shandong Shouguang Juneng Holding Group Co., Ltd.) and 山东寿光巨能特钢有限公司 (Shandong Shouguang Juneng Special Steel Co., Ltd.), other related party transactions have ceased or will cease after listing of the shares of the Company on the HKSE.

(viii) Balances with related parties

The balance with each of the related parties of the Group is disclosed in note 22, 23, 25 and 26.

(ix) Compensation of key management personnel

The remuneration of key management during the Relevant Periods was as follows:

	For the year ended 31 December			Four months ended April 30	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Short-term benefits	318	521	657	213	203
Retirement benefits scheme contribution	<u>22</u>	<u>26</u>	<u>28</u>	<u>12</u>	<u>9</u>
	<u>340</u>	<u>547</u>	<u>685</u>	<u>225</u>	<u>212</u>

In the opinion of the directors of the Company, all the above transactions with the related parties were conducted on normal commercial terms and in the usual course of Group's business.

39. RESERVES OF THE COMPANY

	Special Reserve	Contributed Surplus	Accumulated loss	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At date of incorporation	142,240	16,730	—	158,970
Loss for the period	<u>—</u>	<u>—</u>	<u>(293)</u>	<u>(293)</u>
At 31 December 2006	142,240	16,730	(293)	158,677
Profit for the period	<u>—</u>	<u>—</u>	<u>21,013</u>	<u>21,013</u>
Dividend	<u>—</u>	<u>—</u>	<u>(20,793)</u>	<u>(20,793)</u>
At 30 April 2007	<u>142,240</u>	<u>16,730</u>	<u>(73)</u>	<u>158,897</u>

II. PRE-ACQUISITION FINANCIAL INFORMATION OF 山东金玉米生化有限公司 (SHANDONG GOLDEN CORN BIO-CHEM CO., LTD.)

山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) was established in the PRC on 26 March 2003 as a limited liability company. The principal activities of 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) are manufacture and sale of lysine and its related products.

The pre-acquisition financial information of 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) for the Pre-Acquisition Periods has been prepared in accordance with the accounting policies set out in note 3 to the Financial Information of the Group. The financial information includes applicable disclosure required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

Basis of preparation

The underlying financial statements of 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) are prepared in accordance with the relevant accounting rules and financial regulations applicable to limited liability company registered in the PRC (the "PRC Financial Statements"). There are no statutory audit requirements for 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) for the Pre-Acquisition Periods. The pre-acquisition financial information of 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) includes income statements, cash flow statements and statements of change in equity of 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) for the Pre-Acquisition Periods and the balance sheets of 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) as at 31 December 2004 and 13 July 2005, together with the notes thereto. The pre-acquisition financial information of 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) has been prepared from the PRC Financial Statements, after making such adjustments as are appropriate for incorporation into this report.

(a) Income statements

	Notes	1 January 2004 to 31 December 2004	1 January 2005 to 13 July 2005
		<i>RMB'000</i>	<i>RMB'000</i>
Turnover	(i)	142,380	85,076
Cost of goods sold		<u>(128,835)</u>	<u>(77,623)</u>
Gross profit		13,545	7,453
Other income	(ii)	5,231	355
Distribution expenses		(427)	(284)
Administrative expenses		(4,909)	(1,917)
Finance costs	(iii)	<u>(7,285)</u>	<u>(3,786)</u>
Profit before taxation	(iv)	6,155	1,821
Taxation	(vi)	<u>(166)</u>	<u>—</u>
Profit for the year/period		<u>5,989</u>	<u>1,821</u>

(b) Balance sheets

	Notes	At 31 December 2004 <i>RMB'000</i>	At 13 July 2005 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment	(vii)	115,222	112,366
Prepaid lease payments	(viii)	11,941	11,834
		<u>127,163</u>	<u>124,200</u>
Current assets			
Inventories	(ix)	14,224	21,563
Prepaid lease payments	(viii)	238	238
Trade and other receivables	(x)	111,034	29,691
Amount due from a related company	(xi)	27,574	91,616
Pledged bank deposits	(xii)	1,204	711
Bank balances and cash	(xii)	403	68
		<u>154,677</u>	<u>143,887</u>
Current liabilities			
Trade and other payables	(xiii)	35,760	29,352
Amount due to a related company	(xiv)	156,000	123,000
Income tax payable		166	—
Borrowings	(xv)	—	24,000
		<u>191,926</u>	<u>176,352</u>
Net current liabilities		<u>(37,249)</u>	<u>(32,465)</u>
Total assets less current liabilities		<u>89,914</u>	<u>91,735</u>
Non-current liabilities			
Borrowings	(xv)	<u>9,750</u>	<u>9,750</u>
Net assets		<u>80,164</u>	<u>81,985</u>
Capital and reserves			
Paid-in capital	(xvi)	80,000	80,000
Reserves		781	781
Retained earnings		<u>(617)</u>	<u>1,204</u>
Total equity		<u>80,164</u>	<u>81,985</u>

(c) Statements of changes in equity

	Paid-in capital	Statutory surplus reserve	Statutory welfare reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2004	80,000	—	—	(5,825)	74,175
Profit for the year	—	—	—	5,989	5,989
Transfer to statutory reserves	—	520	261	(781)	—
At 31 December 2004	80,000	520	261	(617)	80,164
Profit for the period	—	—	—	1,821	1,821
At 13 July 2005	<u>80,000</u>	<u>520</u>	<u>261</u>	<u>1,204</u>	<u>81,985</u>

Notes:

As stipulated by the relevant laws in the PRC, company registered in the PRC is required to maintain three statutory reserves, being a statutory surplus reserve fund, discretionary surplus reserve fund and statutory welfare reserve fund which are non-distributable.

Appropriations to such reserves are made out of net profit after taxation as reported in the tax return submitted to the local tax bureau of the company while the amounts and allocation basis are decided by its board of directors annually. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

During the year ended 31 December 2004, the allocation of statutory surplus reserve fund is based on 10% of net profit after taxation of 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) as reported in its tax return submitted to the local tax bureau.

During the year ended 31 December 2004, the allocation of statutory welfare reserve fund is based on 5% of net profit after taxation of 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) as reported in its tax return submitted to the local tax bureau.

山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) has not contributed to the discretionary surplus reserve fund.

(d) Cash flow statements

	1 January 2004 to 31 December 2004	1 January 2005 to 13 July 2005
	<i>RMB'000</i>	<i>RMB'000</i>
Operating activities		
Profit before tax	6,155	1,821
Adjustments for:		
Interest income	(16)	(18)
Finance costs	7,285	3,786
Depreciation	8,176	4,823
Amortisation of prepaid lease payments	235	107
Operating cash flows before movements in working capital	21,835	10,519
Increase in inventories	(7,339)	(7,339)
(Increase) decrease in trade and other receivables	(110,068)	81,343
Increase (decrease) in trade and other payables	29,426	(6,408)
Cash (used in) generated from operations	(66,146)	78,115
Income taxes paid	—	(166)
Net cash (used in) from operating activities	(66,146)	77,949
Investing activities		
Interest received	16	18
Purchases of property, plant and equipment	(5,520)	(1,967)
Decrease (increase) in amount due from a related company	34,344	(64,042)
Decrease in pledged bank deposits	40	493
Net cash from (used in) investing activities	28,880	(65,498)
Financing activities		
Interest paid	(7,285)	(3,786)
Proceeds from borrowings	9,750	24,000
Increase (decrease) in amount due to a related company	23,000	(33,000)
Net cash from (used in) financing activities	25,465	(12,786)
Net decrease in cash and cash equivalents	(11,801)	(335)
Cash and cash equivalents at the beginning of the year/period	12,204	403
Cash and cash equivalents at the end of the year/period represented by bank balances and cash	403	68

(i) *Turnover*

Turnover represents the sale of lysine and its related products during the Pre-Acquisition Periods.

No segment analysis is presented as 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) is solely engaged in the manufacture and sale of lysine and its related products and all the assets are located in the PRC.

(ii) *Other income*

	1 January 2004 to 31 December 2004	1 January 2005 to 13 July 2005
	<i>RMB'000</i>	<i>RMB'000</i>
Scrap sales	81	156
Sales of water	177	138
Government grant (note)	4,870	—
Interest income	16	18
Others	87	43
Total	<u>5,231</u>	<u>355</u>

Note: Government grant of RMB4,870,000 was paid to 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) by Shouguang City Finance Bureau to support the use of advanced technology in the production of lysine. It was granted at the discretion of the government and was not recurring nature.

(iii) *Finance costs*

	1 January 2004 to 31 December 2004	1 January 2005 to 13 July 2005
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank borrowing	6,579	3,449
Interest on discounted bills	706	334
Other	—	3
	<u>7,285</u>	<u>3,786</u>

(iv) *Profit before taxation*

Profit before taxation has been arrived at after charging:

	1 January 2004 to 31 December 2004	1 January 2005 to 13 July 2005
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories recognised as an expenses	73,861	48,727
Depreciation of property, plant and equipment	<u>8,176</u>	<u>4,823</u>

(v) *Directors' and employees' emoluments*

The emoluments of directors during the Pre-Acquisition Periods are analysed as follows:

	1 January 2004 to 31 December 2004	1 January 2005 to 13 July 2005
	<i>RMB'000</i>	<i>RMB'000</i>
Other emoluments for directors		
- Basis salaries and allowances	63	35
- Retirement benefits scheme contributions	<u>5</u>	<u>2</u>
	<u>68</u>	<u>37</u>

	Basic salaries and allowances	Retirement benefit contribution	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>

For the year ended 31 December 2004

Name of director

高世军

<u>63</u>	<u>5</u>	<u>68</u>
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For the period from 1 January 2005
to 13 July 2005

Name of director

高世军

<u>35</u>	<u>2</u>	<u>37</u>
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No emoluments were paid to 田其祥, 陈峰, 张军华, 刘吉周, 周洪波 during the Pre-Acquisition Periods.

The emoluments of employees for the Pre-Acquisition Periods are analysed as follows:

	1 January 2004 to 31 December 2004	1 January 2005 to 13 July 2005
	<i>RMB'000</i>	<i>RMB'000</i>
Employees		
- Basis salaries and allowances	3,914	2,278
- Retirement benefits scheme contributions	<u>132</u>	<u>96</u>
	<u>4,046</u>	<u>2,374</u>

The five highest paid individuals included one director for the Pre-Acquisition Periods, details of whose emoluments are set out above. The emoluments of the remaining four highest paid individuals for the Pre-Acquisition Periods are as follows:

	1 January 2004 to 31 December 2004	1 January 2005 to 13 July 2005
	<i>RMB'000</i>	<i>RMB'000</i>
Employees		
- Basis salaries and allowances	179	111
- Retirement benefits scheme contributions	<u>13</u>	<u>7</u>
	<u>192</u>	<u>118</u>

During the Pre-Acquisition Periods, no emoluments were paid by 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining 山东金玉米生化有限公司 (Shandong Golden Corn Bio-Chem Co., Ltd.) or as a compensation for loss of office. None of the directors has waived any emoluments, during the Pre-Acquisition Periods.

(vi) *Taxation*

	1 January 2004 to 31 December 2004	1 January 2005 to 13 July 2005
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax expense for the year/period	<u>166</u>	<u>—</u>

The charge for the year/period can be reconciled to the accounting profit as follows:

	1 January 2004 to 31 December 2004	1 January 2005 to 13 July 2005
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before taxation:	6,155	1,821
Tax at the domestic income tax rate of 33%	2,031	601
Tax effect of income not taxable	(1,655)	(601)
Utilisation of tax losses previously not recognised	<u>(210)</u>	<u>—</u>
Tax expense for the year/period	<u>166</u>	<u>—</u>

At the balance sheet date, 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) has nil unused tax losses (31 December 2004: RMB635,000) available for offset against future profits that may be carried forward for a period of five years from the year of origination. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

(vii) *Property, plant and equipment*

	Buildings	Plant and machinery	Motor vehicles	Other machinery	Plant and equipment under construction	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost						
At 1 January 2004	—	79	—	193	117,616	117,888
Additions	—	401	513	224	4,382	5,520
Transfer from plant and equipment under construction	46,520	74,893	174	411	(121,998)	—
At 1 January 2005	46,520	75,373	687	828	—	123,408
Additions	289	217	74	10	1,377	1,967
At 13 July 2005	46,809	75,590	761	838	1,377	125,375
Accumulated depreciation and impairment						
At 1 January 2004	—	2	—	8	—	10
Depreciation charge for the year	1,703	6,320	56	97	—	8,176
At 1 January 2005	1,703	6,322	56	105	—	8,186
Depreciation charge for the period	1,002	3,697	42	82	—	4,823
At 13 July 2005	2,705	10,019	98	187	—	13,009
Net carrying value						
At 31 December 2004	<u>44,817</u>	<u>69,051</u>	<u>631</u>	<u>723</u>	<u>—</u>	<u>115,222</u>
At 13 July 2005	<u>44,104</u>	<u>65,571</u>	<u>663</u>	<u>651</u>	<u>1,377</u>	<u>112,366</u>

(viii) Prepaid lease payments

	At 31 December 2004	At 13 July 2005
	<i>RMB'000</i>	<i>RMB'000</i>
Land in PRC held under medium-term lease	<u>12,179</u>	<u>12,072</u>
Analysed for reporting purposes:		
Current asset	238	238
Non current asset	<u>11,941</u>	<u>11,834</u>
	<u>12,179</u>	<u>12,072</u>

The amount represents the prepayment for land use rights situated in the PRC for a period of 50 years.

(ix) Inventories

	At 31 December 2004	At 13 July 2005
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	1,682	2,579
Work in progress	1,439	30
Finished goods	<u>11,103</u>	<u>18,954</u>
	<u>14,224</u>	<u>21,563</u>

(x) *Trade and other receivables*

Trade receivables are mainly arisen from sale of lysine and their products. Credit term is 180 days.

Trade and other receivables:

	At 31 December 2004	At 13 July 2005
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivable from a shareholder		
- Golden Corn	109,168	—
Bank acceptance bills	<u>238</u>	<u>25,980</u>
Total trade receivable	109,406	25,980
Other receivables	<u>1,628</u>	<u>3,711</u>
Total trade and other receivables	<u><u>111,034</u></u>	<u><u>29,691</u></u>

The fair value of trade and other receivables at each of the balance sheet date approximated to the corresponding carrying amounts.

The following is an aged analysis of trade receivable at the balance sheet date:

	At 31 December 2004	At 13 July 2005
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 30 days	—	—
31 - 61 days	37,811	380
61 - 90 days	12,113	25,500
91 - 135 days	<u>59,482</u>	<u>100</u>
	<u><u>109,406</u></u>	<u><u>25,980</u></u>

(xi) Amount due from a related company

	At 31 December 2004	At 13 July 2005
	<i>RMB'000</i>	<i>RMB'000</i>
Golden Corn	<u>27,574</u>	<u>91,616</u>

Golden Corn is a shareholder of 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.). The amount was of non-trade nature, interest-free, unsecured and repayable on demand.

Amount due from a related party disclosed pursuant to Section 161B of Hong Kong Companies Ordinance was as follows:

Maximum balance outstanding during the year/period:

	1 January 2004 to 31 December 2004	1 January 2005 to 13 July 2005
	<i>RMB'000</i>	<i>RMB'000</i>
Golden Corn	<u>146,844</u>	<u>119,370</u>

(xii) Pledged bank deposits/bank balances and cash

Pledged bank deposits represent deposits pledged to bank to secure bank acceptance bills issued by 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.). Bank balances and the pledged bank deposits carry interest at market rates of less than 1% per annum.

(xiii) Trade and other payables

Trade and other payables:

	At 31 December 2004	At 13 July 2005
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payable	26,792	24,884
Other payables	<u>8,968</u>	<u>4,468</u>
Total trade and other payables	<u><u>35,760</u></u>	<u><u>29,352</u></u>

The following is an aged analysis of the trade payable at the balance sheet date:

	At 31 December 2004	At 13 July 2005
	<i>RMB'000</i>	<i>RMB'000</i>
0 - 60 days	15,158	7,552
61 - 90 days	546	364
More than 90 days	<u>11,088</u>	<u>16,968</u>
	<u><u>26,792</u></u>	<u><u>24,884</u></u>

The average credit period on purchase is 80 days.

(xiv) Amount due to a related company

	At 31 December 2004	At 13 July 2005
	<i>RMB'000</i>	<i>RMB'000</i>
Golden Corn	<u><u>156,000</u></u>	<u><u>123,000</u></u>

The amount due to a related company was of non-trade nature, interest-free, unsecured and repayable on demand.

(xv) Borrowings

	At 31 December 2004	At 13 July 2005
	<i>RMB'000</i>	<i>RMB'000</i>
Unsecured bank loans	—	24,000
Government loan	<u>9,750</u>	<u>9,750</u>
	<u>9,750</u>	<u>33,750</u>
Carrying amount payable based on contractual maturity period:		
On demand or within one year	—	24,000
In more than five years	<u>9,750</u>	<u>9,750</u>
	9,750	33,750
Less: Amounts due within one year shown under current liabilities	<u>—</u>	<u>24,000</u>
	<u>9,750</u>	<u>9,750</u>

Unsecured bank loans of RMB24,000,000 at 13 July 2005 represented bank acceptance bills discounted to banks.

Government loan is unsecured, interest-free and repayable in 2019.

At the respective balance sheet dates, if interest rates had been increased/decreased by 10% and all other variables were held constant, profit of 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) would decrease/increase by RMB658,000, RMB345,000 for the year ended 31 December 2004 and the period from 1 January 2005 to 13 July 2005 respectively. The fluctuation is solely attributable to the advance and repayment of principals during the Pre-Acquisition Periods.

(xvi) Paid-in capital

	At 31 December 2004	At 13 July 2005
	<i>RMB'000</i>	<i>RMB'000</i>
Paid-in capital	<u>80,000</u>	<u>80,000</u>

山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) was established in the PRC on 26 March 2003 with a registered capital of RMB80,000,000.

(xvii) Operating lease commitments

At the balance sheet date, 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) had contracted with tenants for the following minimum lease payments.

	At 31 December 2004	At 13 July 2005
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	60	60
In the second to fifth year inclusive	240	240
After five years	<u>295</u>	<u>263</u>
	<u>595</u>	<u>563</u>

Property rental income earned during the year ended 31 December 2004 and for the period ended 13 July 2005 amounted to RMB5,000 and RMB32,000 respectively.

(xviii) Retirement benefits scheme

The employees of 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) are members of the state-managed retirement benefits scheme operated by the PRC government. They are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) with respect to the retirement benefits scheme is to make the required contributions under the scheme.

(xix) Related party transactions

During the Pre-Acquisition Periods, 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.) entered into the following transactions with a related party:

(i) Sales and purchases

	Trade sales		Trade purchases	
	1 January 2004 to 31 December 2004	1 January 2005 to 13 July 2005	1 January 2004 to 31 December 2004	1 January 2005 to 13 July 2005
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Golden Corn	<u>142,380</u>	<u>85,076</u>	<u>52,513</u>	<u>33,688</u>

Sales and purchases were based on contracted price.

(ii) Purchases of electricity and steam

	1 January 2004 to 31 December 2004	1 January 2005 to 13 July 2005
	<i>RMB'000</i>	<i>RMB'000</i>
Golden Corn	<u>41,078</u>	<u>23,402</u>

- (iii) Property, plant and equipment that owned by Golden Corn with carrying amount of RMB42,562,000 and RMB39,963,000 as at 31 December 2004 and 13 July 2005, respectively, were used by 山东金玉米生化有限公司 (Shandong Golden Corn Bio-chem Co., Ltd.), free for charge for the Pre-Acquisition Periods.

- (iv) Compensation of key management personnel. The remuneration of key management during the Pre-Acquisition Periods was as follows:

	1 January 2004 to 31 December 2004	1 January 2005 to 13 July 2005
	<i>RMB'000</i>	<i>RMB'000</i>
Short-term benefits	63	35
Retirement benefit scheme contribution	<u>5</u>	<u>2</u>
	<u>68</u>	<u>37</u>

III. ULTIMATE HOLDING COMPANY

The ultimate holding company of the Group after the completion of the Group Reorganisation is Merry Boom Group Limited.

IV. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable to the Company's directors by the Company or any of its subsidiaries during the Relevant Periods.

Under the arrangements presently in force, the aggregate remuneration of the Company's directors for the year ending 31 December 2007 is approximately RMB443,000.

V. SUBSEQUENT EVENTS

The following events took place subsequent to 30 April 2007:

- On 15 April 2007, Golden Corn entered into an agreement with Corn Products International, Inc. for the injection of additional capital of US\$1,270,000 (equivalent to RMB9,713,000) to 寿光金远东变性淀粉有限公司 (Shouguang Golden Far East Modified Starch Co., Ltd.). The injection was completed on 24 May 2007.

2. In May 2007 and August 2007, Golden Corn entered into mortgage loan agreements with Shouguang City subbranch of Agriculture Bank of China, 寿光农村合作银行圣城支行 and 中国银行寿光支行. Pursuant to the terms of the agreements, Golden Corn pledged certain properties and land use rights to secure the credit facilities granted by the respective banks to Golden Corn. The carrying values of these assets pledged at 30 April 2007 are as follows:

	<u>At 30 April 2007</u>
	<i>RMB'000</i>
Buildings and plant	144,947
Land use rights	<u>32,197</u>
	<u>177,144</u>

3. Pursuant to a written resolution passed on 5 September 2007, it was resolved that (i) the authorised share capital of the Company be increased from HK\$200,000 to HK\$100,000,000 by the creation of a further 998,000,000 shares; (ii) the loan from Merry Boom Group Limited as may be due and remain outstanding on a date to be determined by the directors of the Company be capitalised by the allotment and issue of an aggregate of 500,000 shares of the Company to Merry Boom Group Limited; and (iii) the capitalisation of HK\$34,800,000 standing to the credit of the special reserve account of the Company by applying such sum in paying up in full at par 348,000,000 shares of the Company for allotment and issue to Merry Boom Group Limited.

VI. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or its subsidiaries have been prepared in respect of any period subsequent to 30 April 2007.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
 Hong Kong

- (A) *For illustrative purposes only, the pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is set out here to provide the investors with further information on how the Listing might have affected the financial position of our Group after completion of the Listing. Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the actual financial position of our Group after the completion of the Listing. The unaudited pro forma financial information should be read in conjunction with the section headed “Financial information” in this prospectus and the accountants report set forth in Appendix I to this prospectus.*

The following statement of our unaudited pro forma adjusted net tangible assets is based on the audit combined net tangible assets of our Group as of 30 April, 2007, as shown in the Accountants’ Report, the text of which is set out in Appendix 1 to this prospectus, and adjusted as follows:

	Audited combined net tangible assets attributable to equity holders of our Company as of 30 April, 2007 ⁽¹⁾	Estimated net proceeds from the issue of Offer Shares ⁽²⁾	Unaudited pro forma adjusted net tangible assets ⁽³⁾	Unaudited pro forma adjusted net tangible assets per Share ⁽⁴⁾
	<i>(RMB '000)</i>	<i>(RMB '000)</i>	<i>(RMB '000)</i>	<i>(RMB)</i>
Based on Offer Price of HK\$1.85 per share	213,677	246,250	459,927	0.9199
Based on Offer Price of HK\$2.31 per share	213,677	313,230	526,907	1.0538

Notes:

- (1) As of 30 April, 2007, our audited combined net tangible assets attributable to equity holders of our Company was equal to equity attributable to equity holders of our Company.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$1.85 and HK\$2.31 per Offer Share, respectively, after deduction of the underwriting fees and other related expenses payable by us and assuming the translation of Hong Kong dollars to Renminbi with the exchange rate at HK\$1.00 to RMB0.985. No account has been taken on the Shares which may be issued pursuant to any exercise of the Over-allotment Option.
- (3) By comparing the valuation of our property interests as of 31 July 2007 as set out in Appendix III to this prospectus and the unaudited net book value of these properties as of 30 April, 2007, without considering the movement of our property interest between 31 July 2007 and 30 April 2007, the valuation surplus was approximately RMB19 million, which has not been included in the above net tangible assets. The valuation surplus of our property interests will not be incorporated in our financial statements for the year ending 31 December, 2007. If the valuation surplus were to be included in our financial statements for the year ending 31 December, 2007, an additional depreciation charge of approximately RMB 40,000 per annum would be incurred.
- (4) The unaudited pro forma adjusted net tangible assets per Share is based on a total of 500,000,000 Shares expected to be in issue immediately after the completion of the Global Offering (assuming no exercise of the Over-allotment Option), the Loan Capitalisation Issue and the Capitalisation Issue.

- (B) *Set out below is the text of the letter received from our reporting accountants, Deloitte Touche Tohmatsu in respect of the unaudited pro forma financial information for the purposes of incorporation in this prospectus.*



**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION
TO THE DIRECTORS OF CHINA STARCH HOLDINGS LIMITED AND CCB INTERNATIONAL
CAPITAL LIMITED**

We report on the unaudited pro forma adjusted net tangible assets ("Unaudited Pro Forma Adjusted NTA") of China Starch Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed public offering might have affected the financial information presented, for inclusion in Appendix II to the prospectus dated 12 September 2007 (the "Prospectus"). The basis of preparation of the Unaudited Pro Forma Adjusted NTA is set out in Section A of Appendix II to the Prospectus.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Adjusted NTA in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion as required by paragraph 29 (7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Adjusted NTA and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Adjusted NTA beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements ("HKSIR") 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work considered primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Adjusted NTA with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Adjusted NTA has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Adjusted NTA as disclosed pursuant to paragraph 29 (1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Adjusted NTA is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31 December 2006 or any future date.

Opinion

In our opinion:

1. the Unaudited Pro Forma Adjusted NTA has been properly compiled by the directors of the Company on the basis stated;
2. such basis is consistent with the accounting policies of the Group; and
3. the adjustments are appropriate for the purposes of the Unaudited Pro Forma Adjusted NTA as disclosed pursuant to paragraph 29 (1) of Chapter 4 of the Listing Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
12 September 2007

The following is the text of a letter, summary of valuations and valuation certificate issued by DTZ Debenham Tie Leung Limited, an independent property valuer, prepared for the purpose of incorporation in this prospectus in connection with its valuation of the property interests held by the Group as at 31 July 2007.



10th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

12 September 2007

The Directors
China Starch Holdings Limited
Room 502-505
5th Floor, Sun Hung Kai Centre
30 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the properties held by China Starch Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") in the People's Republic of China (the "PRC") as listed in the attached summary of valuations, we confirm that we have carried out inspections, made relevant searches and enquiries and obtained such further information as we consider necessary for the purpose of providing the Group with our opinion of the market value of such properties as at 31 July 2007 (the "date of valuation").

Our valuation of each property represents its market value which in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Our valuation of each property excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

In valuing the properties, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Valuation Standards (First Edition 2005) on Properties issued by the Hong Kong Institute of Surveyors.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

Due to the specific nature of the buildings and structures of property no. 1, there are no readily identifiable market sales comparables and the buildings and structures cannot be valued by comparison with appropriate market transactions. Therefore, we have adopted the Depreciated Replacement Cost (“DRC”) Approach in valuing the property. The DRC Approach requires a valuation of the market value of the land in its existing use and an estimate of the new replacement cost of the buildings and structures, from which deductions are then made to allow for the age, condition and functional obsolescence. The value derived by the DRC Approach is subject to adequate potential profitability of the business.

Properties in Group II which are leased to the Group in the PRC have no commercial value mainly due to the prohibitions against assignment and subletting or otherwise to the lack of substantial profit rents.

We have been provided with copies of extract of documents in relation to the title to property no. 1 and copies of tenancy agreements in relation to property nos. 2 to 5. However, we have not searched the original documents to ascertain ownership or to verify any amendments which may not appear on the copies handed to us. We have relied upon the information given to us by the Group in the respect of the Group’s interest in the properties. In the course of our valuation, we have relied to a very considerable extent on the information given to us by the Group and other related parties and have accepted advice given to us on such matters as planning approvals or statutory notice, easements, tenure, identification of property, completion dates of buildings, particulars of occupancy, site and floor areas, site and floor plans and all other relevant matters.

Dimensions, measurements and areas included in the attached valuation certificate are based on information provided to us and are therefore only approximations. We have not been able to carry out on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the copies of the documents handed to us are correct. We have had no reasons to doubt the truth and accuracy of the information provided to us by you which is material to the valuations. We were also advised by the Group that no material facts have been omitted from the information provided. No on-site measurement has been taken.

In the course of our valuations of the properties in the PRC, we have assumed that transferable land use rights in respect of the properties for respective specific terms at nominal annual land use fee have been granted and that any premium payable has already been fully paid. We have assumed that the grantees or the users of the properties have free and uninterrupted rights to use or to assign the properties for the whole of the respective unexpired terms as granted. We have relied on the advice given by the Group and the Group’s legal adviser, Kingfield and Partners, regarding PRC laws and the title to the properties.

We have inspected the exterior and, wherever possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We have not been, however, able to report whether the properties are free of rot, infestation or other structural defects. No test was carried out on any of the services.

Unless otherwise stated, all sums stated in our valuations are in Renminbi, the official currency of the PRC.

We enclose herewith our valuation certificate.

Yours faithfully,
for and on behalf of
DTZ Debenham Tie Leung Limited
K.B. Wong
Registered Professional Surveyor
(General Practice Division)
China Real Estate Appraiser
M.R.I.C.S., M.H.K.I.S.
Director

Note: Mr. K.B. Wong is a Registered Professional Surveyor who has over 23 years' experience in the valuation of properties in the PRC.

SUMMARY OF VALUATIONS

Property	Capital value in existing state as at 31 July 2007 RMB
Group I — Property owned and occupied by the Group in the PRC	
1. An industrial complex situated at No. 150 Xinxing East Street, Economic and Technical Development Zone, Shouguang City, Shandong Province, the PRC	185,000,000
Sub-total:	<u>185,000,000</u>
Group II — Properties leased to the Group in the PRC	
2. Room 2705, Block 3, No.27 South 3rd Ring East Road, Feng Tai District, Beijing, the PRC	No commercial value
3. Room 1703, Xiyayuan, No.127 Tiyu West Road, Guangzhou City, Guangdong Province, the PRC	No commercial value
4. Unit 601 in Xuhua Apartment, Yanshan Street, Fu Rong District, Changsha, Hunan Province, the PRC	No commercial value

Property	Capital value in existing state as at 31 July 2007 RMB
5. Room 1101, Block 2, Jiqingyuan, Wuxi, Jiangsu Province, the PRC	No commercial value
Sub-total:	<u>No commercial value</u>
Grand Total:	<u><u>185,000,000</u></u>

VALUATION CERTIFICATE

Group I — Property owned and occupied by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2007
1. An industrial complex situated at No. 150 Xinxing East Street, Economic and Technical Development Zone, Shouguang City, Shandong Province, the PRC	<p>The property comprises an industrial complex erected upon 7 plots of land with a total site area of approximately 378,138.08 sq.m. (4,070,278 sq.ft.).</p> <p>The industrial complex comprises various workshop buildings, composite buildings and ancillary buildings. Total gross floor area of the complex is approximately 138,424.05 sq.m. (1,489,996 sq.ft.).</p> <p>The land use rights of the property have been granted for various terms for coal storage, industrial and residential uses.</p>	<p>The property is currently occupied by Shandong Shouguang Juneng Golden Corn Development Co., Ltd. 山東壽光巨能金玉米開發有限公司 as a factory with ancillary offices.</p>	RMB185,000,000

Notes:

- (1) According to 7 State-owned Land Use Rights Certificates Nos. (2006)01002, 01008, 0146001, 0171004, 0171005, 0171006 and (2007)01009 issued by Shouguang Municipal Land Resources Bureau, the land use rights of the property comprising a total site area of 378,138.08 sq.m. have been granted to Shandong Shouguang Juneng Golden Corn Development Co., Ltd. (山東壽光巨能金玉米開發有限公司) for various terms, the latest of which will expire on 3 January 2056 for coal storage, industrial and residential uses with details as follows:

Certificate No.	Location	Site Area (sq.m.)	Expiry Date of Land Use Term	Land Use
(2006)01002	North Side of Xinxing Street, Shengcheng Street	20,240.00	3 January 2056	Coal Storage
(2006)01008	East Side of Xueyuan Road, Shengcheng Street	193,148.00	3 January 2056	Industrial
(2006)0146001	(East of Yuanxiao Road, Development Area), Bandong Guojian Bridge, Shengcheng Street, Shouguang City	63,867.00	19 July 2038	Industrial
(2006)0171004	No. 150 Xinxing East Street, Shouguang City	6,299.50	2 September 2033	Industrial
(2006)0171005	No. 150 Xinxing East Street, Shouguang City	8,546.00	30 November 2038	Industrial
(2006)0171006	No. 150 Xinxing East Street, Shouguang City	19,065.00	4 December 2035	Residential
(2007)01009	Dongcheng Development Area, Shouguang City	66,972.58	6 April 2037	Industrial
Total:		<u>378,138.08</u>		

APPENDIX III

PROPERTY VALUATION

- (2) According to 21 Building Ownership Certificates issued by Shouguang Municipal Real Estate Administrative Bureau, the building ownership of the property comprising a total gross floor area of 138,424.05 sq.m., is vested in Shandong Shouguang Juneng Golden Corn Development Co., Ltd. (山東壽光巨能金玉米開發有限公司) with details as follows:

Certificate No.	Usage	Completion Date	No. of storey	GFA (sq.m.)
200613117	Production	2003	1	797.82
	Other	2005	1	24.48
	Office	2003	2	527.28
200613118	Production	2003	4	6,212.21
	Other	2003	1	3,344.86
	Production	2003	2	1,036.83
	Production	2003	1	488.22
	Other	2003	1	897.92
200613119	Other	2003	1	58.03
	Office	2003	3	2,224.50
	Production	2003	2	2,630.15
	Production	2003	2	1,695.54
	Production	2003	5	5,896.48
200613541	Dormitory	2003	7	5,783.52
	Dormitory	2003	7	5,783.52
200613544	Other	1998	3	2,301.90
	Dormitory	1998	6	5,352.27
	Dormitory	1990s	1	204.96
	Dormitory	1990s	1	161.62
	Other	1990s	1	172.93
200613545	Other	1990s	1	210.61
	Dormitory	1998	6	5,352.27
	Dormitory	1997	4	3,038.00
	Other	1997	3	786.96
	Other	1998	1	231.47
200613546	Other	1998	1	1,931.40
	Other	1998	1	5,566.00
	Production	1998	1	4,457.75
	Production	1998	2	6,661.76
	Production	1997	1	120.00
200613547	Other	1990s	1	31.29
	Production	1997	1	1,483.52
	Production	1997	3	814.49
	Production	1999	2	426.30

APPENDIX III

PROPERTY VALUATION

Certificate No.	Usage	Completion Date	No. of storey	GFA (sq.m.)
	Other	1997	2	1,075.35
200613548	Other	1998	1	188.00
	Production	1997	5	7,776.38
	Production	1997	1	1,102.60
	Other	1998	1	3,568.23
	Other	1998	1	3,341.43
200613549	Production	1997	1	110.21
	Production	1997	2	880.30
	Office	1997	4	2,744.00
	Other	1990s	1	58.14
	Production	1997	3	1,603.32
200613550	Production	1998	1	615.73
	Office	1998	1	203.35
	Production	1999	1	180.66
	Other	1990s	1	45.08
200700520	Office	2002	1	11.40
	Other	2002	1	64.00
	Office	2002	2	119.52
	Other	2003	1	518.40
200700525	Production	2004	1	783.56
	Production	2004	1	121.56
	Production	1997	1	141.18
	Production	2004	1	24.99
	Production	1999	3	875.12
200700523	Production	1997	1	13.87
	Production	1998	1	20.43
200700521	Dormitory	2004	7	2,941.23
	Dormitory	2004	7	2,941.23
	Dormitory	2004	7	4,373.64
	Dormitory	2006	7	7,250.20
	Dormitory	2006	7	7,250.20
200700524	Production	2000	1	5,366.40
	Production	2004	3	1,379.88
	Production	2004	3	1,689.43
	Production	2006	1	1,070.32
	Production	2006	2	373.38
200700536	Other	2006	1	24.21

APPENDIX III

PROPERTY VALUATION

Certificate No.	Usage	Completion	No. of storey	GFA (sq.m.)
		Date		
200700522	Production	1998	1	118.28
	Production	2000	1	251.44
	Production	1998	1	26.54
	Production	2000	1	13.96
200700535	Workshop	1998	1	131.98
	Workshop	2006	1	114.17
200700700	Office	1990s	1	108.35
	Office	1990s	1	52.53
200700701	Other	2000s	1	53.01
Total:				<u>138,424.05</u>

- (3) According to Business License Qiduluzongfuzi No. 004093 dated 26 September 2006, Shandong Shouguang Juneng Golden Corn Development Co., Ltd. (山東壽光巨能金玉米開發有限公司) became a wholly foreign owned enterprise with a registered capital of RMB120,000,000 for a valid operation period from 25 July 1998 to 25 September 2026.
- (4) According to the legal opinion issued by the Group's PRC legal adviser:
- (i) The State-owned Land Use Rights Certificates are valid, legal and enforceable under the PRC laws;
- (ii) 山東壽光巨能金玉米開發有限公司 (Shandong Shouguang Juneng Golden Corn Development Co., Ltd.) is the sole legal land user of the property and has obtained the relevant rights certificates and entity approval from the government;
- (iii) The property is subject to various mortgages. Details are summarised as follows:-

Land

State-owned Land Use Rights Certificate No.	Mortgagee	Signing Period		Consideration (RMB)	Remarks
		From	To		
01002, 01009, 0171005	Bank of China	18 July 2007	18 July 2012	50,000,000	Together with a Lending Contract No. 2006 (145)
01008	Agricultural Bank of China	24 May 2007	23 May 2010	112,360,000	
0146001, 0171004	Shandong Shouguang Rural Cooperative Bank	25 May 2007	25 May 2012	15,000,000	

Building

Building Ownership Certificate No.	Mortgagee	Signing Period		Consideration (RMB)	Remarks
		From	To		
200613117, 200613118, 200613119, 200613541, 200700520, 200700521, 200700536, 200700701	Agricultural Bank of China	24 May 2007	23 May 2010	112,360,000	
200613544, 200613545, 200613546 (120 sq.m.), 200613547, 200613548 (8,878.98 sq.m.), 200613549, 200700523, 200700524 (4,513.01 sq.m.), 200700525, 200700535	Bank of China	18 July 2007	18 July 2012	50,000,000	Together with a Lending Contract No. 2006 (145)
200613546 (18,616.91 sq.m.), 200613548 (7,097.66 sq.m.), 200613550, 200700522, 200700524 (5,366.40 sq.m.), 200700700	Shandong Shouguang Rural Cooperative Bank	25 May 2007	25 May 2012	15,000,000	

(iv) All the land premium stated in the State-owned Land Use Rights Grant Contract has been duly paid and settled; and

(v) 山東壽光巨能金玉米開發有限公司 (Shandong Shouguang Juneng Golden Corn Development Co., Ltd.) has the right to occupy, use, transfer, lease, mortgage and dispose of the land use rights of the property.

(5) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licences are as follows:

State-owned Land Use Rights Certificate Yes

Building Ownership Certificate Yes

Business License Yes

Group II — Properties leased to the Group in the PRC

	Property	Description and tenancy particulars	Capital value in existing state as at 31 July 2007
2.	Room 2705, Block 3, No.27 South 3rd Ring East Road, Feng Tai District, Beijing, the PRC	<p>The property comprises one unit of a 31-storey residential building completed in 2000.</p> <p>The property has a floor area of approximately 148 sq.m. (1,593 sq.ft.) and is currently occupied by the Group as staff quarter.</p> <p>The property is currently leased to the Company for a term of 12 months commencing on 1 June 2007 and expiring on 31 May 2008 at an annual rent of RMB60,000, exclusive of management fees and utilities charges.</p> <p>According to the PRC legal opinion, the registered owner of the property authorised the lessor to lease the property. The tenancy agreement entered into between the lessor and the Company complies with the relevant PRC law and is legal, valid and binding on both parties.</p>	No commercial value
3.	Room 1703, Xiyayuan, No.127 TiYu West Road, Guangzhou City, Guangdong Province, the PRC	<p>The property comprises one unit of an 18-storey residential building completed in 1995.</p> <p>The property has a floor area of approximately 90 sq.m. (969 sq.ft.) and is currently occupied by the Group as staff quarter.</p> <p>The property is currently leased to the Company for a term of 12 months commencing on 1 January 2007 and expiring on 31 December 2007 at an annual rent of RMB54,000, exclusive of management fees and utilities charges.</p> <p>According to the PRC legal opinion, the tenancy agreement entered into between the lessor and the Company complies with the relevant PRC law and is legal, valid and binding on both parties.</p>	No commercial value

	Property	Description and tenancy particulars	Capital value in existing state as at 31 July 2007
4.	Unit 601 in Xuhua Apartment, Yanshan Street, Fu Rong District, Changsha, Hunan Province, the PRC	<p>The property comprises one unit of an 8-storey residential building completed in 2003.</p> <p>The property has a floor area of approximately 120 sq.m. (1,292 sq.ft.) and is currently occupied by the Group as staff quarter.</p> <p>The property is currently leased to the Company for a term of 12 months commencing on 1 January 2007 and expiring on 30 December 2007 at an annual rent of RMB36,000, exclusive of management fees and utilities charges.</p> <p>According to the PRC legal opinion, the tenancy agreement entered into between the lessor and the Company complies with the relevant PRC law and is legal, valid and binding on both parties.</p>	No commercial value
5.	Room 1101, Block 2, Jiqingyuan, Wuxi, Jiangsu Province, the PRC	<p>The property comprises one unit in a 20-storey residential building completed in 2002.</p> <p>The property has a floor area of approximately 149.05 sq.m. (1,604 sq.ft.) and is currently occupied by the Group as staff quarter.</p> <p>The property is currently leased to the Company for a term of 12 months commencing on 1 June 2007 and expiring on 31 May 2008 at an annual rent of RMB45,600, exclusive of management fees and utilities charges.</p> <p>According to the PRC legal opinion, the tenancy agreement entered into between the lessor and the Company complies with the relevant PRC law and is legal, valid and binding on both parties.</p>	No commercial value

1. MEMORANDUM OF ASSOCIATION

The memorandum of association provides that our Company's objects are unrestricted. The objects of our Company are set out in Clause 3 of the memorandum of association which is available for inspection at the address and during the period specified in the paragraph headed "Documents available for inspection" specified in Appendix VI to this Prospectus. As an exempted company, our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.

2. ARTICLES OF ASSOCIATION

The articles of association of our Company (the "**Articles**") were adopted on 5 September, 2007. The following is a summary of certain provisions of the Articles.

(a) Directors*(i) Power to allot and issue shares*

Without prejudice to any special rights or restrictions for the time being attaching to any shares or any class of shares, any share may be issued upon such terms and conditions and with such preferred, deferred or other special rights, or such restrictions, whether as regards dividend, voting, return of capital or otherwise, as our Company may from time to time by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Directors may determine) and any preference shares may be issued on terms that they are liable to be redeemed upon the happening of a specified event or upon a given date and either at the option of our Company or at the option of the holder. The Directors may issue warrants to subscribe for any class of shares or securities of our Company on such terms as they may from time to time determine.

All unissued shares in our Company shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and generally on such terms they shall in their absolute discretion think fit, but so that no shares shall be issued at a discount.

(ii) Power to dispose of the assets of our Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of its subsidiaries although the Directors may exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or relevant statutes of the Cayman Islands to be exercised or done by our Company in general meeting.

(iii) Compensation or payments for loss of office

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by our Company in general meeting.

(iv) Loans and the giving of security for loans to Directors

Where the shares of our Company remain listed on the Stock Exchange or on a stock exchange in such other territory as the Directors may from time to time decide, our Company may not make, without the approval of, or ratification by, our Company in general meeting, any loans to, or provide any guarantee, indemnity or security in respect of any loan to a Director or any of his associates, provided that the Articles do not prohibit the granting of any loan or the provision of any guarantee, indemnity or security (i) to be applied for, or in respect of a liability incurred for any business of our Company, (ii) for the purchase by a Director (or the repayment of a loan for his purchase) of a residence where the amount of the loan, the liability under the guarantee or indemnity or the value of the security does not exceed 80 per cent. of the fair market value of such residence nor 5 per cent. of the consolidated net asset value of our Company as shown in its latest audited accounts; provided that any such loan is on normal commercial terms and is secured by a legal charge over the residence; or, (iii) of any amount to, or in respect of a liability of, a company in which our Company has an equity interest, and the amount of such loan, or the liability assumed by our Company under such guarantee, indemnity or security, does not exceed its proportional interest in such company.

(v) Financial assistance to purchase shares of our Company or its holding companies

There are no provisions in the Articles relating to the giving by our Company of financial assistance for the purchase, subscription or other acquisition of shares of our Company or of its holding company. The law on this area is summarised in paragraph 4(b) below.

(vi) Disclosure of interests in contracts with our Company or any of its subsidiaries

A Director may hold any other office or place of profit with our Company (except that of an auditor) in conjunction with his office of Director for such period and upon such terms as the Directors may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as the Directors may determine. A Director may be or become a director or other officer of, or be otherwise interested in, any company promoted by our Company or any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration, profit or other benefit received by him as a director or officer of or from his interest in such other company. The Directors may also cause the voting power conferred by the shares in any other company held or owned by

our Company to be exercised in such manner in all respects as they think fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company. A Director shall not vote or be counted in the quorum on any resolution of the Directors concerning his own appointment or the appointment of any of his associates as the holder of any office or place of profit with our Company or any other company in which our Company is interested (including the arrangement or variation of the terms thereof, or the termination thereof).

Subject to the provisions of the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with our Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor will any contract with regard thereto or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. If to the knowledge of a Director, he or any of his associates, is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company, he must declare the nature of his or, as the case may be, his associate(s)' interest at the meeting of the Directors at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest or that of his associates then exists, or in any other case at the first meeting of the Directors after he knows that he or his associate(s) is or has become so interested.

Save as otherwise provided by the Articles, (1) a Director may not vote (nor be counted in the quorum for the voting) on any resolution of the Directors approving any contract or arrangement in which he or any of his associate(s) is to his knowledge materially interested, and if he does so his vote will not be counted; and (2) a Director who has a conflict of interest in any contract or arrangement which he or any of his associate(s) has a material interest shall not attend the meeting of Directors at which any of such contract or arrangement is to be considered but these prohibitions will not apply to any of the following matters, namely:

- (aa) any contract or arrangement for the giving to the Director or his associate(s) of any security or indemnity in respect of money lent by him or any of them or obligations undertaken by him for the benefit of our Company;
- (bb) any contract or arrangement for the giving by our Company of any security to a third party in respect of a debt or obligation of our Company or any company in which our Company has an interest for which the Director or his associate(s) has himself/ themselves guaranteed or secured in whole or in part;

- (cc) any contract or arrangement by a Director or his associate(s) to subscribe for shares or debentures or other securities of our Company to be issued pursuant to any offer or invitation to the members or debenture or other securities holders or to the public which does not provide the Director and his associate(s) any privilege not accorded to any other members or debenture or other securities holders or to the public;
- (dd) any contract or arrangement concerning an offer of the shares, debentures or other securities of or by our Company for subscription or purchase where the Director or his associate(s) is/ are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer and/or for the purposes of making any representations, the giving of any covenants, undertakings or warranties or assuming any other obligations in connection with such offer;
- (ee) any contract or arrangement in which the Director or his associate(s) is/are interested by virtue only of his/their interest in shares or debentures or other securities of our Company and/or his/their being the offeror or one of the offerors or is interested in one of the offerors for the purchase or effective acquisition of such shares, debentures or other securities;
- (ff) any contract or arrangement concerning any company in which he or his associate(s) is/are interested directly or indirectly whether as an officer or an executive or a member, other than a company in which the Director or his associates owns five per cent. or more of the voting equity capital or voting rights of any class of shares of such company (or of any third company through which his interest is derived), excluding shares which carry no voting rights at general meetings and no or nugatory dividend and return of capital rights, and excluding shares held directly or indirectly through our Company;
- (gg) any proposal or arrangement for the benefit of employees of our Company or our subsidiaries including a pension fund or retirement, death or disability benefit scheme or personal pension plan under which a Director, his associate(s) and employees of our Company or of any of our subsidiaries may benefit and which has been approved by or is subject to and conditional on approval by the relevant tax authorities for taxation purposes or relates to Directors, associate(s) of Directors and employees of our Company or any of our subsidiaries and does not give the Director or his associate(s) any privilege not accorded to the relevant class of officers of which the Director is a member and to whom such scheme or fund relates;
- (hh) any proposal concerning the adoption, modification or operation of any share scheme involving the issue or grant of options over shares or other securities by our Company to, or for the benefit of, the employees of our Company or our subsidiaries under which the Director or his associate(s) may benefit; and

- (ii) any contract, agreement, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of any Director, his associate(s), officer or employee pursuant to the Articles.

(vii) Remuneration

The Directors shall be entitled to receive by way of ordinary remuneration for their services such sum as is from time to time determined by our Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing provisions shall not apply to a Director who holds any salaried employment or office in our Company except in the case of sums paid in respect of Directors' fees. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them respectively in or about the performance of their duties as Directors, including their expenses of travelling to and from Directors' meetings, committee meetings or general meetings, or otherwise incurred whilst engaged on the business of our Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who performs any special or extra services to or at the request of our Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be arranged. Notwithstanding the foregoing the remuneration of the managing director, joint managing director, deputy managing director or an executive Director or a Director appointed to any other office in the management of our Company may be fixed from time to time by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration is in addition to his ordinary remuneration as a Director.

The Directors also have power to establish and maintain or procure the establishment and maintenance of any contributory or non-contributory pension or superannuation funds for the benefit of, or to give or procure the giving of donations, gratuities, pensions, allowances or emoluments to, any persons who are or were at any time in the employment or service of our Company, or of any company which is a subsidiary of our Company, or is allied or associated with our Company or with any such subsidiary company, or who are or were at any time directors or officers of our Company or of any such other company as aforesaid, and holding or who have held any salaried employment or office in our Company or such other company, and the spouses, widows,

widowers, families and dependants of any such persons and may make payments for or towards the insurance of any such persons. Any Director holding any such employment or office is entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument.

(viii) Retirement, appointment and removal

At each annual general meeting, one-third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot.

A Director is not required to retire upon reaching any particular age.

The Directors are entitled to attend and speak at all general meetings.

The number of Directors shall not be fewer than one. A Director may be removed by an ordinary resolution of our Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for breach of any contract of service between him and our Company). Subject to the statutes and the provisions of the Articles, our Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. In addition, the Directors may appoint any person to be a Director either to fill a casual vacancy or as an additional Director but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election at the meeting.

The Directors may from time to time entrust to and confer upon the chairman, deputy chairman, managing director, joint managing director, deputy managing director or executive director of our Company all or any of the powers of the Directors that they may think fit, provided that the exercise of all powers by such Director shall be subject to such regulations and restrictions as the Directors may from time to time make and impose. The Directors may delegate any of their powers to committees consisting of such member or members of their body and such other persons as they think fit, and they may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall in the exercise of the powers so delegated conform to any regulations that may from time to time be imposed upon it by the Directors.

(ix) Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of our Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of our Company and to mortgage or charge its undertaking, property and uncalled capital or any part thereof. The Directors may raise or secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit and in particular, but subject to the provisions of the Companies Law, by the issue of debentures, debenture stock, bonds or other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

Note: The provisions summarised above, in common with the Articles in general, may be varied with the sanction of a special resolution of our Company.

(x) Qualification shares

Directors of our Company are not required under the Articles to hold any qualification shares.

(xi) Indemnity to Directors

The Articles contain provisions that provide indemnity to, among other persons, the Directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

(b) Alterations to constitutive documents

The memorandum of association of our Company may be altered by our Company in general meeting. The Articles may also be amended by our Company in general meeting. As more fully described in paragraph 3 below, the Articles provide that, subject to certain exceptions, a special resolution is required to alter the memorandum of association, to approve any alteration to the Articles and to change the name of our Company.

(c) Alterations of capital

Our Company may from time to time by ordinary resolution:

- (i) increase its share capital;

- (ii) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; on any consolidation of fully paid shares into shares of larger amount, the Board may settle any difficulty which may arise as it thinks expedient and in particular (but without prejudice to the generality of the foregoing) may, as between the holders of the shares to be consolidated, determine which particular shares are to be consolidated into a consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to our Company for our Company's benefit;
- (iii) divide its shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions;
- (iv) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled;
- (v) sub-divide its shares or any of them into shares of smaller amount than is fixed by the memorandum of association, subject nevertheless to the Companies Law, and so that the resolution whereby any shares are sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights over, or may have such deferred rights or be subject to any such restrictions as compared with the others as our Company has power to attach to unissued or new shares;
- (vi) change the currency of denomination of its share capital; and
- (vii) make provision for the issue and allotment of shares which do not carry any voting rights.

Our Company may by special resolution reduce its issued share capital, any capital redemption reserve fund or other undistributable reserve in any manner authorised and subject to any conditions prescribed by law. Our Company may apply its share premium account in any manner permitted by law.

(d) Variation of rights of existing shares or classes of shares

If at any time the capital is divided into different classes of shares, all or any of the special rights (unless otherwise provided for by the terms of issue of that class) attached to any class may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, save as to the provisions regarding the quorum of meetings, as to which see paragraph 2(s) below.

(e) Special resolutions — majority required

For so long as any part of the issued capital of our Company remains listed on the Stock Exchange, a special resolution of our Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives, or by proxy, at a general meeting of which not less than 21 days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, at all times while any part of the issued capital of our Company remains listed on the Stock Exchange, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right, (or, in the case of an annual general meeting, by all members) a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 days' notice has been given.

(f) Voting rights and right to demand a poll

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote and on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for every share of which he is the holder which is fully paid or credited as fully paid (but so that no amount paid or credited as paid on a share in advance of calls or instalments is treated for the foregoing purposes as paid on the share). So long as the shares are listed on the Stock Exchange, where any member is, under the Listing Rules (as defined in the Articles), required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member (whether by way of proxy or, as the case may be, corporate representative in contravention of such requirement or restriction shall not be counted.

Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a shareholder which is a clearing house (as defined in the Articles) (or its nominees), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all his votes in the same way.

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless voting by way of a poll is required by the Listing Rules (as defined in the Articles) a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded by (i) the Chairman of the meeting; or (ii) by at least three members present in person or by proxy (or, in the case of a member being a corporation, by its duly authorised representative) for the time being entitled to vote at the meeting; or (iii) by any member or members present in person or by proxy (or, in the case of a member being a corporation, by its duly authorised representative) and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or (iv) by a member or members present in person or by proxy (or, in the case of a member being a corporation, by its duly authorised representative) and holding shares in our Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right; or (v) if required by the Listing Rules (as defined in the Articles), by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

Where a shareholder is a clearing house (as defined in the Articles) or a nominee of a clearing house, it may authorise such persons as it thinks fit to act as its representatives at any meeting of our Company or at any meeting of any class of shareholders provided that the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of the Articles shall be entitled to exercise the same rights and powers as if such person was the registered holder of the shares of our Company held by the clearing house (or its nominees) in respect of the number and class of shares specified in the relevant authorisation.

(g) Requirements for annual general meetings

For so long as any part of the issued capital of our Company remains listed on the Stock Exchange, an annual general meeting must be held once in every year and within not more than 15 months after the last preceding annual general meeting or such longer period as is permissible or not prohibited under the rules of the Stock Exchange on which any securities of our Company are listed with the permission of our Company.

(h) Accounts and audit

The Directors shall cause true accounts to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipts and expenditure take place, and of the property, assets, credits and liabilities of our Company and of all other matters required by law or are necessary to give a true and fair view of the state of our Company's affairs and to show and explain its transactions.

The books of accounts are to be kept at the principal office of our Company or at such other place as the Directors think fit and shall always be open to the inspection of the Directors. No member (not being a Director) or other person has any right to inspect any account or book or document of our Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Directors or by our Company in general meeting.

The Directors shall from time to time cause to be prepared and laid before our Company at its annual general meeting such profit and loss accounts, balance sheets, group accounts (if any) and reports and so long as any shares in our Company are listed on the Stock Exchange, the accounts of our Company shall be prepared and audited based on the generally accepted accounting principles of Hong Kong or the International Financial Reporting Standards or such other standards as the Stock Exchange may permit. Every balance sheet of our Company shall be signed on behalf of the Directors by two Directors and a copy of every balance sheet (including every document required by law to be comprised therein or attached or annexed thereto) and profit and loss account which is to be laid before our Company at its annual general meeting, together with a copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting, be sent to every member of, and every holder of debentures of, our Company and every other person entitled to receive notices of general meetings of our Company under the Companies Law or of the Articles. Subject to due compliance with the Companies Law and the rules of the Stock Exchange, and to obtaining all necessary consents, if any, required thereunder and such consents being in full force and effect, such requirements shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Companies Law and instead of such copies, a summary financial statement derived from our Company's annual financial statements and the directors' report thereon, which shall be in the form and containing the information required by applicable laws and regulation, provided that any person who is otherwise entitled to the annual financial statements of our Company and the directors' report thereon may, if he so requires by notice in writing served on our Company, demand that our Company sends to him, in addition to a summary financial statement, a complete printed copy of our Company's annual financial statement and the directors' report thereon. If all or any of the shares or debentures of our Company are for the time being (with the consent of our Company) listed or dealt in on any stock exchange, there shall be forwarded to such stock exchange such number of copies of such documents as may for the time being be required under its regulations or practice.

Auditors shall be appointed and their duties regulated in accordance with the Articles. Save as otherwise provided by such provisions the remuneration of the auditors shall be fixed by or on the authority of our Company at each annual general meeting, but in respect of any particular year, our Company in general meeting may delegate the fixing of such remuneration to the Directors.

(i) Notices of meetings and business to be conducted thereat

For so long as any part of the issued capital of our Company remains listed on the Stock Exchange, an annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by giving at least 21 days' notice in writing and any other extraordinary general meeting shall be called by giving at least 14 days' notice in writing (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the place, the day and the hour of meeting and, in the case of special business, the general nature of that business.

(j) Transfer of shares

All transfers of shares must be effected by transfer in writing in the usual or common form or so long as any shares in our Company are listed on the Stock Exchange, such standard form prescribed by the Stock Exchange or in any other form acceptable to the Board and may be under hand only or, if the transferor or transferee is a clearing house or its nominee(s), by hand, by machine imprinted signature or by such other means of execution as the Directors may approve from time to time; and an instrument of transfer must be executed by or on behalf of the transferor and by or on behalf of the transferee and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof, provided that the Directors may in their absolute discretion dispense with the requirement for the production of a transfer in writing before registering a transfer of a share, and may accept mechanically executed transfers in any case.

The Directors may, in their absolute discretion, at any time and from time to time transfer or agree to transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Directors otherwise agree, no shares on the principal register shall be transferred to any branch register nor shall shares on any branch register be transferred to the principal register or any other register. All transfers and other documents of title must be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the transfer office for that register.

The Directors may in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of any shares (not being fully paid shares) to a person of whom they do not approve and they may refuse to register the transfer of any shares (not being fully paid shares) on which our Company has a lien. The Directors may also refuse to register a transfer of shares (whether fully paid or not) in favour of more than four persons jointly or any share issued under any share option scheme for employees upon which a restriction on transfer imposed thereby shall subsist, or where the transfer is to an infant or a person of unsound mind or under other legal disability. If the Directors refuse to register a transfer, they must within two months after the date on which the transfer was lodged with our Company send to the transferor and transferee notice of the refusal and (if the shares concerned are fully paid shares) the reasons(s) for such refusal.

The Directors may, if applicable, decline to recognise an instrument of transfer unless the instrument of transfer is properly stamped, is in respect of only one class of share and is lodged at the relevant registration or transfer office accompanied by the relevant share certificate(s) and such other evidence as they may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may, on giving notice by advertisement in one English and one Chinese newspaper circulating in Hong Kong, be suspended at such times and for such periods as the Directors may from time to time determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

(k) Power for our Company to purchase its own shares

The Articles provide that the power of our Company to purchase or otherwise acquire its shares is exercisable by the Directors upon such terms and conditions as they think fit subject to the conditions prescribed by the Companies Law.

(l) Power of any subsidiary to own securities in our Company

There are no provisions in the Articles relating to ownership of securities in our Company by a subsidiary.

(m) Dividends and other methods of distribution

Our Company in general meeting may declare dividends in any currency but no dividend may exceed the amount recommended by the Directors. Our Company may also make a distribution out of share premium account subject to the provisions of the Companies Law.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends will be apportioned and paid pro rata according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid on a share in advance of calls will for this purpose be treated as paid on the shares. The Directors may retain any dividends or other moneys payable on or in respect of a share upon which our Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to our Company on account of calls, instalments or otherwise.

Whenever the Directors or our Company in general meeting have resolved that a dividend be paid or declared on the share capital of our Company, the Directors may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the Directors may think fit.

Our Company may also upon the recommendation of the Directors by an ordinary resolution resolve in respect of any particular dividend of our Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Whenever the Directors or our Company in general meeting have resolved that a dividend be paid or declared the Directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends, bonuses or other distributions or the proceeds of the realisation of any of the foregoing unclaimed for one year after having been declared may be invested or otherwise made use of by the Directors for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions or proceeds as aforesaid unclaimed for six years after having been declared may be forfeited by the Directors and, upon such forfeiture, shall revert to our Company and, in the case where any of the same are securities in our Company, may be re-allotted or re-issued for such consideration as the Directors think fit.

(n) Proxies

Any member of our Company entitled to attend and vote at a meeting of our Company or a meeting of the holders of any class of shares in our Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him to vote on his behalf at a

general meeting of our Company or at a class meeting. At any general meeting where voting is by a show of hands or by poll, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy. Proxies need not be members of our Company.

A proxy shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member.

(o) Corporate representatives

A corporate member of our Company entitled to attend and vote at a meeting of our Company is entitled to appoint any person or persons as its representative to attend and vote on its behalf. A corporate member represented by its representative is deemed to be present in person at the relevant meeting and its representative may vote on a show of hands and on a poll on any resolution put at such meeting.

(p) Calls on shares and forfeiture of shares

The Directors may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent. per annum as the Directors shall fix from the day appointed for the payment thereof to the time of actual payment, but the Directors may waive payment of such interest wholly or in part. The Directors may, if they think fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced our Company may pay interest at such rate (if any) not exceeding 20 per cent per annum as the Directors may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Directors may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of fourteen days from the date of the notice) on or before which the payment required by the notice is to be made, and it will also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to our Company all moneys which, at the date of forfeiture, were payable by him to our Company in respect of the shares together with (if the Directors shall in their discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent. per annum as the Board may prescribe.

(q) Inspection of register of members

For so long as any part of the share capital is listed on the Stock Exchange, any member may inspect the principal or branch register of our Company maintained in Hong Kong without charge and require the provision to him of copies or extracts thereof in all respect as if our Company were incorporated under and is subject to the Companies Ordinance (Cap. 32) of the laws of Hong Kong.

(r) Inspection of register of Directors

There are no provisions in the Articles relating to the inspection of the register of Directors and Officers of our Company, since the register is not open to inspection. (as to which see paragraph 4(k) below).

(s) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person and entitled to vote (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting convened to sanction the modification of class rights, the necessary quorum shall not be less than two persons holding or representing by proxy one-third in nominal value of the issued shares of that class and, where such meeting is adjourned for want of quorum, the quorum for the adjourned meeting shall be any two members present in person and entitled to vote or by proxy (whatever the number of shares held by them).

(t) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority members in relation to fraud or oppression. However, certain remedies are available to members of our Company under Cayman Islands company law as summarised in paragraph 4(e) below.

(u) Procedures on liquidation

A resolution for a court or voluntary winding up of our Company must be passed by way of a special resolution.

If our Company shall be wound up, the surplus assets remaining after payment to all creditors are to be divided among the members in proportion to the capital paid up on the shares held by them respectively, and if such surplus assets shall be insufficient to repay the whole of the paid up capital, they are to be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them respectively, all subject to the rights of any shares issued on special terms and conditions.

If our Company shall be wound up (whether the liquidation is voluntary or by the court), the liquidator may, with the sanction of a special resolution, divide among the members in specie or kind the whole or any part of the assets of our Company and whether the assets consist of property of one kind or properties of different kinds and the liquidator may, for such purposes, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division is to be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other assets upon which there is a liability.

(v) Untraceable members

Our Company may sell the shares of any member if: (i) dividends or other distributions have been declared by our Company on at least three occasions during a period of 12 years and these dividends or distributions have been unclaimed on such shares; (ii) our Company has published an advertisement of its intention to sell such shares in English and in Chinese in one leading English and (unless unavailable) one leading Chinese newspaper circulating in the territory of the stock exchange on which the ordinary share capital of our Company is listed and a period of three months has elapsed since the date of the first publication of such notice; (iii) our Company has not at any time during the said periods of 12 years and three months received any indication of the existence of the member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operations of law; and (iv) our Company has notified the stock exchange on which the ordinary share capital of our Company is listed of its intention to sell such shares. The net proceeds of any such sale will belong to our Company and upon the receipt of such net proceeds by our Company, our Company will become indebted to the former holder of such shares for an amount equal to the amount of such net proceeds.

(w) Stock

Our Company may by ordinary resolution convert any fully paid shares into stock, and may from time to time by like resolution reconvert any stock into fully paid shares of any denominations. The holders of stock may transfer the same or any part thereof in the same manner, and subject to the same regulations as and subject to which the shares from which the stock arose might prior to conversion have been transferred or as near thereto as circumstances admit, but the Directors may from time to time, if they think fit, fix the minimum amount of stock transferable and restrict or prohibit the transfer of fractions of that minimum, but so that such minimum shall not exceed the nominal amount of the shares from which the stock arose. No warrants to bearer shall be issued in respect of any stock. The holders of stock shall, according to the amount of the stock held by them, have the same rights, privileges and advantages as regards dividends, participation in assets on a winding-up, voting at meetings, and other matters, as if they held the shares from which the stock arose, but no such privilege of our Company shall be conferred by an amount of stock which would not, if existing in shares, have conferred such privilege or advantage. All such of the provisions of the Articles as are applicable to paid up shares shall apply to stock, and the words “share” and “shareholder” and “member” therein shall include “stock” and “stockholder”.

(x) Other provisions

The Articles provide that, to the extent that it is not prohibited by and is in compliance with the Companies Law, if any rights attaching to any warrants which our Company may issue after the date of this prospectus shall remain exercisable and our Company does any act which would result in the subscription price under such warrants being reduced below the par value of a Share, a subscription right reserve shall be established and applied in paying up the shortfall between the subscription price and the par value of a Share on any exercise of the warrants.

3. VARIATION OF MEMORANDUM AND ARTICLES OF ASSOCIATION

Subject to the rights of our Company set out in paragraph 2(c) above to amend its capital by ordinary resolution, the memorandum of association of our Company may be altered by our Company by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the memorandum of association (subject as provided above) or the Articles or to change the name of our Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of our Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days’ notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of 21 clear days’ notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

4. CAYMAN ISLANDS COMPANY LAW

Our Company is incorporated in the Cayman Islands and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of the Cayman Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. The share premium account may be applied by a company subject to the provisions of its memorandum and articles of association in such manner as our Company may from time to time determine including, but without limitation:

- (i) in paying distributions or dividends to members;
- (ii) in paying up unissued shares of our Company to be issued to members of our Company as fully paid bonus shares;
- (iii) in redeeming or purchasing its shares as provided in the Companies Law;
- (iv) in writing off
 - (aa) the preliminary expenses of our Company; or
 - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares of debentures of our Company; or
- (v) in providing for the premium payable on redemption of any shares or of any debentures of our Company.

No dividend or distribution may be paid to members out of the share premium account unless immediately following the date of the proposed payment, our Company is able to pay its debts as they fall due in the ordinary course of business.

A company may issue preference shares and redeemable preference shares.

The Companies Law does not contain any express provisions dealing with the variation of rights of holders of different classes of shares.

(b) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands against the provision of financial assistance for the purchase, subscription or other acquisition of its shares, though on English common law principles, the directors have a duty to act in good faith for a proper purpose in the best interests of our Company, and moreover, there are restrictions on any act which amounts to a reduction of capital. Accordingly, it may, depending on the circumstances be legitimate for the directors to authorise the provision by a company of financial assistance for the purchase, subscription or other acquisition of its own shares, or the shares of its holding company.

(c) Redemption and Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its articles of associations issue redeemable shares and, purchase its own shares, including any redeemable shares. Purchases and redemptions may only be effected out of the profits of our Company or out of the proceeds of a fresh issue of shares made for the purpose, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the shares to be purchased must be provided for out of profits of our Company or out of our Company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any purchase by a company of its own shares may be authorised by its directors or otherwise by or in accordance with the provisions of its articles. A payment out of capital for a redemption or purchase of a company's own shares is not lawful unless immediately following the date of the proposed payment our Company is able to pay its debts as they fall due in the ordinary course of business. The shares so purchased or redeemed will be treated as cancelled and our Company's issued, but not its authorised, capital will be diminished accordingly.

A company is not prohibited from purchasing and may purchase its own subscription warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its articles of association.

(d) Dividends and distributions

A company may not pay a dividend, or make a distribution out of share premium account unless immediately following the date on which the payment is proposed to be made, our Company is able to pay its debts as they fall due in the ordinary course of business.

(e) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of a company to challenge (a) an act which is ultra vires our Company or illegal (b) an act which constitutes a fraud against the minority and the wrong doers are themselves in control of our Company, or (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of our Company in issue, appoint an inspector to examine into the affairs of our Company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that our Company shall be wound up.

Generally, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the memorandum and articles of association of our Company.

(f) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary is required, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of our Company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(g) Accounting and auditing requirements

The Companies Law requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by our Company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by our Company and (iii) the assets and liabilities of our Company. A company is required to keep such books of account as are necessary to give a true and fair view of the state of our Company's affairs and to explain its transactions.

(h) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(i) Taxation

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of the present legislation. As an exempted company, our Company has received from the Governor-in-Counsel of the Cayman Islands pursuant to the Tax Concessions Law (1999 Revision) of the Cayman Islands, an undertaking that in the event of any change to the foregoing, our Company, for a period of 20 years from the date of the grant of the undertaking, will not be chargeable to tax in the Cayman Islands on its income or its capital gains arising in the Caymans Islands or elsewhere and that dividends of our Company will be payable without deductions of Cayman Islands tax. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Shares.

(j) Stamp duty

Certain documents (which do not include contract, notes for the sale and purchase of, or instruments of transfer of, shares in Cayman Islands companies) are subject to stamp duty which is generally calculated on an ad valorem basis.

(k) Inspection of corporate records

Neither the members of a company nor the general public have the right to inspect the register of directors and officers, the minutes, accounts or, in the case of any exempted company, the register of members. The register of mortgages and charges must be kept at the registered office of our Company and must be open to inspection by any creditor or member at all reasonable times.

Members of the public have no right to inspect the constitutive documents of a company but the memorandum and articles of association must be forwarded to any member of our Company upon request. If no articles of association have been registered with the Registrar of Companies, each member has the right to receive copies of special resolutions of members upon request upon payment of a nominal fee.

The location of the registered office of a company is available to the general public upon request to the Registrar of Companies.

(l) Winding up

A company may be wound up by the Cayman Islands court on application presented by our Company itself, its creditors or its contributors. The Cayman Islands court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Cayman Islands court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of our Company by its memorandum of association expires, or the event occurs on the occurrence of which the memorandum of association provides that our Company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for our Company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where a resolution has been passed for the voluntary winding up of a company, the court may make an order that the winding up should continue subject to the supervision of the court with such liberty to creditors, contributors or others to apply to the court as the court may think fit.

In the case of a members' voluntary winding up of a company, our Company in general meeting must appoint one or more liquidators for the purposes of winding up the affairs of our Company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of our Company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of our Company has been disposed of, and thereupon call a general meeting of our Company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice called by Public Notice in the Cayman Islands or otherwise as the Registrar of Companies may direct.

5. GENERAL

Conyers Dill & Pearman, our Company's legal advisers on Cayman Islands law, have sent to our Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES**1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 29 November, 2006 with an authorised share capital of HK\$200,000 divided into 2,000,000 Shares having a par value of HK\$0.10 each. On 29 November, 2006, an aggregate of 1,000,000 Shares were allotted and issued nil paid by our Company, as to (i) 999,999 Shares to Merry Boom; and (ii) as to the remaining one Share to Codan Trust Company (Cayman) Limited, which was transferred to Merry Boom on the same date. The 1,000,000 nil paid Shares referred to in this paragraph were subsequently paid up in the manner described in paragraph 4 below.

Our Company was incorporated in the Cayman Islands and is subject to Cayman Islands law. Its constitution comprises a memorandum of association and articles of association. A summary of certain relevant parts of its constitution and certain relevant aspects of the Companies Law is set out in Appendix IV to this prospectus.

2. Changes in share capital of our Company***(a) Increase in authorised share capital***

Pursuant to resolutions in writing of the sole shareholder of our Company passed on 5 September 2007, the share capital of our Company was increased to HK\$100,000,000 by the creation of further 998,000,000 Shares pursuant to a resolution passed by the sole Shareholder of our Company referred to in paragraph 3 below and subject to the conditions contained therein.

Immediately following completion of the Global Offering, the Loan Capitalisation Issue, and the Capitalisation Issue but not taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme, the authorised share capital of our Company will be HK\$100,000,000 divided into 1,000,000,000 Shares of which 500,000,000 Shares will be issued fully paid or credited as fully paid, and 500,000,000 Shares will remain unissued. Other than pursuant to the exercise of the Over-allotment Option and the exercise of any options which may be granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of our Company and, without the prior approval of the members in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

(b) Founder shares

Our Company has no founder shares, management shares or deferred shares.

Save as disclosed herein and in paragraphs 1 and 3 of this Appendix, there has been no alteration in the share capital of our Company since its incorporation.

3. Resolutions in writing of the sole Shareholder of our Company passed on 5 September, 2007

On 5 September, 2007 pursuant to further resolutions in writing passed by the sole Shareholder of our Company:

- (a) our Company approved and adopted the Articles of Association;
- (b) the Directors were authorised to capitalise the amount of the Shareholder's Loan as may be due and remain outstanding on a date to be determined by the Directors by the allotment and issue of an aggregate of 500,000 Shares to Merry Boom at an aggregate subscription price of an amount equals to the amount of the Shareholder's Loan as so determined and to set off the said subscription price protanto against the said amount of the Shareholder's Loan in full;
- (c) conditional on (aa) the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus; (bb) the Offer Price having been determined; (cc) the execution and delivery of the International Underwriting Agreement on or before the date as mentioned in this prospectus; and (dd) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before the day falling 30 days after the date of this prospectus:
 - (i) the authorised share capital of our Company was increased from HK\$200,000 to HK\$100,000,000 by the creation of a further 998,000,000 Shares;
 - (ii) the Global Offering and the Over-allotment Option were approved and the Directors were authorised to allot and issue the Offer Shares pursuant to the Global Offering and such number of Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option;

- (iii) the rules of the Share Option Scheme, the principal terms of which are set out in paragraph 15 of this Appendix, were approved and adopted and the Directors were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at their absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to carry into effect the Share Option Scheme;
- (iv) conditional on the share premium account of our Company being credited as a result of the Global Offering, the Directors were authorised to capitalise HK\$34.8 million standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 348 million Shares for allotment and issue to holders of Shares whose names appear on the register of members of our Company at 4:00 p.m. on 5 September, 2007 (or as they may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a Share shall be allotted and issued) to their then existing shareholdings in our Company and so that the Shares to be allotted and issued pursuant to this resolution should rank *pari passu* in all respects with the then existing issued Shares and the Directors were authorised to give effect to such capitalisation and distribution;
- (v) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the Articles of Association, or pursuant to the exercise of any options which may be granted under the Share Option Scheme, or under the Global Offering or the Loan Capitalisation Issue or the Capitalisation Issue, or upon the exercise of the Over-allotment Option, Shares with an aggregate nominal amount of not exceeding the sum of (aa) 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering, the Loan Capitalisation Issue and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option; and (bb) the nominal amount of the share capital of our Company which may be purchased by our Company pursuant to the authority granted to the Directors as referred to in sub-paragraph (vi) below, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by Shareholders revoking or varying the authority given to the Directors, whichever occurs first; and
- (vi) a general unconditional mandate (the “**Repurchase Mandate**”) was given to the Directors to exercise all powers of our Company to purchase Shares with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following the completion of the Global Offering, the Loan Capitalisation Issue and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the

Over-allotment Option until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by Shareholders revoking or varying the authority given to the Directors, whichever occurs first.

4. Group reorganisation

The companies comprising our Group underwent a reorganisation to rationalise our Group's structure in preparation for the listing of the Shares on the Stock Exchange, pursuant to which our Company became the ultimate holding company within our Group. The reorganisation involved the transfer to our Company by the Founding Shareholders on 15 December 2006 of an aggregate of 240 shares of US\$1 each in, being the entire issued share capital of, Sourcestar, the intermediate holding company of our Group, in consideration of and in exchange for which our Company, at the direction of the Founding Shareholders, (i) allotted and issued, credited as fully paid, an aggregate of 500,000 new Shares to Merry Boom; and (ii) credited as fully paid at par the 1,000,000 nil-paid Shares then held by Merry Boom on 29 November, 2006.

5. Changes in share capital of subsidiaries

The subsidiaries of our Company are listed in the accountants' report set out in Appendix I to this prospectus.

In addition to the alterations described in paragraph 4 above, the following alterations in the share capital of each of our Company's subsidiaries took place within the two years immediately preceding the date of this prospectus:

- (a) On 26 May, 2005, the registered capital of Golden Far East was increased from US\$5,010,000 to US\$7,010,000;
- (b) On 21 August, 2006, an aggregate of 240 shares of US\$1 each in the share capital of Sourcestar were allotted and issued, for cash at par, to the Founding Shareholders as to (i) 131 shares thereof to Mr. Tian, (ii) 60 shares thereof to Mr. Gao; (iii) 40 shares thereof to Mr. Guo; (iv) 1 share thereof to each of 霍登科 (Huo Dengke*), 劉波 (Liu Bo*), Li Mingwen (李明文), Tian Xiaoli (田效禮), Wang Shaofa (王紹發), Mr. Yu, Zhang Junhua (張軍華), Zhang Mingrong (張明榮) and Zhou Jincheng (周錦成); and
- (c) On 30 May, 2007, the registered capital of Golden Far East was increased from US\$7,010,000 to US\$9,600,000.

Save as disclosed herein and in paragraph 4 of this Appendix, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

6. Further information about our Group's PRC wholly owned foreign enterprise and equity joint venture

- (a) Our Group has interest in the registered capital of, Golden Corn, a wholly foreign-owned enterprise in the PRC. A summary of the corporate information and major terms of Golden Corn as at the Latest Practicable Date is set out as follows:

Golden Corn

(i)	Corporate name	:	山東壽光巨能金玉米開發有限公司 (Shandong Shouguang Juneng Golden Corn Development Co., Ltd.*)
(ii)	Date of incorporation	:	25 July 1998
(iii)	Registered office	:	No.150 Xinxing East Street, Economic and Technical Development Zone, Shouguang City, Shandong Province, PRC
(iv)	Economic nature	:	Wholly foreign owned enterprise
(v)	Registered owner	:	Sourcestar
(vi)	Total investment capital	:	RMB140,000,000
(vii)	Registered capital	:	RMB120,000,000 (fully paid-up)
(viii)	Attributable interest to our Group	:	100%
(ix)	Term of operation	:	25 July, 1998 to 25 September, 2026
(x)	Scope of business	:	Processing and sales of cornstarch and by-products, modified starch, animal feeds, lysine and by-products, compound fertiliser and concentrated powder fertiliser purchase of corn, provision of heat and production of electricity
(xi)	Directors	:	Mr. Tian, Mr. Gao, Mr. Yu, Mr. Guo, Zhang Junhua (張軍華), Liu Xianggang (劉象剛), 胡靖 (Hu Jing*) and Wei Guoying (魏國英)
(xii)	Legal representative	:	Mr. Tian

- (b) Our Group has interest in the registered capital of, Golden Far East, a sino-foreign equity joint venture in the PRC. A summary of the corporate information and major terms of Golden Far East as at the Latest Practicable Date is set out as follows:

Golden Far East

(i)	Corporate name	:	壽光金遠東變性澱粉有限公司 (Shouguang Golden Far East Modified Starch Co., Ltd.*)
(ii)	Date of incorporation	:	25 September 2004
(iii)	Registered office	:	Development Zone, Shouguang City, Shandong Province, PRC
(iv)	Economic nature	:	Sino-foreign equity joint venture
(v)	Registered owners	:	Golden Corn (49%) Corn Products International, Inc. (“CPI”) (51%)
(vi)	Total investment capital	:	US\$24,000,000
(vii)	Registered capital	:	US\$9,600,000 (fully paid-up)
(viii)	Attributable interest to our Group	:	49%
(ix)	Term of operation	:	25 September, 2004 to 24 September, 2054
(x)	Scope of business	:	Manufacture of modified starch and sale of its products
(xi)	Directors	:	Jeffrey Blain Hebble, Dale A. Larson, Cheryl K. Beebe, Zhang Junhua (張軍華), 劉炳忠 (Liu Bingzhong*)
(xii)	Legal representative	:	Jeffrey Blain Hebble
(xiii)	Pre-emptive rights and restrictions on the sale, assignment or transfer of a joint venture partner’s interest in the registered capital	:	(aa) No joint venture partners may transfer all or any part of its interest in the registered capital of Golden Far East without the prior consent of the other joint venture partners, the unanimous approval of the board of directors of Golden Far East and the Ministry of Commerce of the PRC (“MOC”)

- (bb) If a joint venture partner wishes to transfer all or part of its interest (“**Interest**”) in the registered capital of Golden Far East, such joint venture partner (“**Transferring Party**”) shall secure a binding written offer from the third party (“**Third Party Offer**”). The other joint venture partner (“**Non-Transferring Party**”) shall have the pre-emptive right, exercisable within 60 days of receiving notification of the Third Party Offer, to purchase the Interest on the same terms and conditions as the Third Party Offer. If the Non-Transferring Party does not exercise its pre-emptive right within the said 60-day period, the Transferring Party may, within the next 180 days, transfer the Interest to such third party, subject to obtaining the prior written consent of the Non-Transferring Party, unanimous approval of the board of directors of Golden Far East and the approval of MOC
- (xiv) Arrangements concerning the management of its business and operations : The board of directors consists of five members, of which, two are appointed by Golden Corn and three (including the chairman of the board of directors) are appointed by CPI
- (xv) Percentage of interests in profit : The after tax net profit is to be shared between Golden Corn and CPI in proportion to their respective shares in the registered capital of Golden Far East and in accordance with the relevant laws and regulations of the PRC
- (xvi) Distribution of assets and liabilities upon termination or expiry of the joint venture : The remaining assets (if any) after settlement of all legitimate debts of Golden Far East, will be distributed to Golden Corn and CPI in proportion to their respective shares in the registered capital of Golden Far East and in accordance with the relevant laws and regulations of the PRC

7. Securities repurchase mandate

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of its own securities.

(a) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Main Board must be approved in advance by an ordinary resolution of the shareholder, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to a resolution in writing passed by the sole Shareholder on 5 September, 2007, the Repurchase Mandate was given to the Directors authorising any repurchase by our Company of Shares on the Main Board or any other stock exchange on which the securities of our Company may be listed and which is recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, of up to 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering, the Loan Capitalisation Issue and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the Share Option Scheme, such mandate to expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or applicable Cayman Islands law to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to the Directors, whichever occurs first.

(b) Source of funds

Repurchases must be paid out of funds legally available for the purpose in accordance with the Articles of Association and the Companies Law. A listed company may not repurchase its own securities on the Main Board for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under the Cayman Islands laws, any repurchases by our Company may be made out of the profits of our Company or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if so authorised by the Articles of Association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be repurchased must be provided for out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, if authorised by the Articles of Association and subject to the provisions of the Companies Law, out of capital.

(c) Reasons for repurchases

The Directors believe that it is in the best interest of our Company and its Shareholders for the Directors to have general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if the Directors believe that such repurchases will benefit our Company and its Shareholders.

(d) Funding of repurchases

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position of our Group, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of the Directors are from time to time appropriate for our Group.

The exercise in full of the Repurchase Mandate, assuming that the Over-allotment Option is not exercised at all and on the basis of 500,000,000 Shares in issue immediately after the Listing, would result in up to 50,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

Assuming that the Over-allotment Option is exercised in full and on the basis of 522,500,000 Shares in issue immediately after the Listing, the exercise in full of the Repurchase Mandate would result in up to 52,250,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

(e) General

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company or our subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers ("**Takeovers Code**"). Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

The Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No connected person (as defined in the Listing Rules) has notified our Company that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

8. Registration under Part XI of the Companies Ordinance

Our Company has established its head office and a principal place of business in Hong Kong for the purpose of registration under Part XI of the Companies Ordinance at Room 502-505, 5th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong. Our Company has been registered as an overseas company under Part XI of the Companies Ordinance. Mr. Lau Wing Ling has been appointed as agent of our Company for the acceptance of service of process in Hong Kong.

FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY

9. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:









- (a) a share transfer agreement dated 24 August, 2006 entered into by Juneng Holding Group as vendor and Sourcestar as purchaser for the sale by Juneng Holding Group and the purchase by Sourcestar of the 8.33% interest in the registered capital of Golden Corn held by Juneng Holding Group at a consideration of RMB11,670,000;
- (b) a share transfer agreement dated 24 August, 2006 entered into by Mr. Tian as vendor and Sourcestar as purchaser for the sale by Mr. Tian and the purchase by Sourcestar of the 50% interest in the registered capital of Golden Corn held by Mr. Tian at a consideration of RMB70,000,000;
- (c) a share transfer agreement dated 24 August, 2006 entered into by Mr. Gao as vendor and Sourcestar as purchaser for the sale by Mr. Gao and the purchase by Sourcestar of the 25% interest in the registered capital of Golden Corn held by Mr. Gao at a consideration of RMB35,000,000;
- (d) a share transfer agreement dated 24 August, 2006 entered into by Mr. Guo as vendor and Sourcestar as purchaser for the sale by Mr. Guo and the purchase by Sourcestar of the 16.67% interest in the registered capital of Golden Corn held by Mr. Guo at a consideration of RMB23,330,000;

- (e) a share purchase agreement dated 15 December, 2006 and made between (i) the Founding Shareholders as vendors, and (ii) our Company as purchaser for the acquisition by our Company of the entire issued share capital of Sourcestar in consideration of and in exchange for which our Company, at the direction of the Founding Shareholders, (i) allotted and issued, credited as fully paid, an aggregate of 500,000 new Shares to Merry Boom; and (ii) credited as fully paid at par the 1,000,000 nil-paid Shares then held by Merry Boom on 29 November, 2006;
- (f) a deed of indemnity dated 11 September, 2007 executed by Merry Boom, Mr. Tian, Mr. Gao and Mr. Guo in favour of our Company (for itself and as trustee for its subsidiaries stated therein) containing the indemnities more particularly referred to in paragraph 16 of this Appendix;
- (g) a manpower provision agreement dated 25 December, 2005 entered into between Golden Corn and Juneng Holding Group for the provision of staff by Juneng Holding Group to Golden Corn for a period of one year commencing from 1 January 2006 at a service charge for each staff provided at a fixed monthly rate determined with reference to the average monthly salary of staff of Golden Corn engaging in similar functions;
- (h) a manpower provision agreement dated 5 September, 2007 and made between Golden Corn and Juneng Holding Group for the provision of staff by Juneng Holding Group to Golden Corn for a period commencing from the date of its signing and ending on 31 December 2008, the principal terms of which are referred to in the paragraph headed “Discloseable continuing connected transaction” in the section headed “Business” of this prospectus; and
- (i) the Hong Kong Underwriting Agreement.



10. Intellectual property rights of our Group

(a) Trade marks

As at the Latest Practicable Date, our Group is the registered proprietor and beneficial owner of the following trademarks:

No.	Trademark	Place of registration	Class	Registration number	Duration of validity
1		PRC	1	1970271	7 December, 2002 - 6 December, 2012
2		PRC	5	3379713	7 October, 2004 - 6 October, 2014
3		PRC	29	1998845	7 October, 2002 - 6 October, 2012
4		PRC	30	1402520	28 May, 2000 - 27 May, 2010
5		PRC	31	1962919	21 September, 2002 - 20 September, 2012
6		PRC	31	3379712	28 December, 2003 - 27 December, 2013
7		Hong Kong	1, 30, 31	300777330	11 December, 2006 - 10 December, 2016
8		Hong Kong	35, 40	300777349	11 December, 2006 - 10 December, 2016

As at the Latest Practicable Date, our Group had applied for registration of the following trademarks, the registration of each of which has not yet been granted:

No.	Trademark	Place of application	Class	Date of application	Application number
1.		PRC	1	2 August, 2005	4813287
2.		PRC	40	15 November, 2006	5724785

(b) Patents

As at the Latest Practicable Date, our Group was the registered proprietor and beneficial owner of the following patent:

Title of Patent	Place of registration	Patent number	Authorised announcement date
纖維擠幹機 (Fibre Dry-Squeeze Equipment*) — 實用新型專利 (Utility model patent*) (<i>Note</i>)	PRC	ZL 2006 2 0086616.6	25 July, 2007

Note: Our Directors advised that as Mr. Liu had participated in the research and development of the patent on the Fibre Dry-Squeeze Equipment and possessed the necessary understanding and knowledge on the patent, the patent application was first made in the name of Mr Liu Xianggang as the patent holder on behalf of our Group in order to facilitate the provision of information on the patent to the relevant PRC authority in connection with the patent application. Subsequent application was made in February 2007 to 中華人民共和國國家知識產權局 (the State Intellectual Property Office of the PRC) effecting a change in the name of the patent holder from Mr Liu Xianggang to our Company.

As at the Latest Practicable Date, our Group had applied for registration of the following patents, the registration of each of which has not yet been granted:

No.	Title of Patent	Place of application	Date of application	Application number
1	用於澱粉生產的刮刀撇液處理裝置 (Equipment with blades used in the starch paste separation process of cornstarch production*)	PRC	30 December, 2006	200620170302.4
2	用於澱粉生產的主分離機頂流處理裝置 (Equipment for the top-flow separation process of cornstarch production*)	PRC	30 December, 2006	200620170304.3

No.	Title of Patent	Place of application	Date of application	Application number
3	用冷凝水冷卻灰渣的熱能綜合利用裝置 (Heat energy-leveraged equipment that applies cold condensed water to cool dusty residuals*)	PRC	30 December, 2006	200620170303.9
4	纖維降溫裝置 (Fibre cooling equipment*)	PRC	30 December, 2006	200620170306.2
5	加強纖維脫水裝置 (Fibre dehydration enhancement equipment*)	PRC	30 December, 2006	200620170305.8
6	98.5% 賴氨酸和 65% 賴氨酸共綫生產裝置 (Combined production line for 98.5% lysine and 65% lysine*)	PRC	30 December, 2006	200620161899.6
7	蒸汽減溫裝置 (Steam temperature reduction equipment*)	PRC	30 December, 2006	200620161895.8

(c) Domain Name

As at the Latest Practicable Date, our Group had registered the following domain name:

Domain name	Registration date	Expiry date
jngoldencorn.com	15 November 2005	15 November 2007
jngoldencorn.cn	15 November 2005	15 November 2007

11. Connected transactions and related party transactions

Save as disclosed in the sections headed “Business”, “Waivers from strict compliance with the Listing Rules” and “Financial information” in this prospectus and in note 38 to the accountants’ report, the text of which is set out in Appendix I to this prospectus, during the two years immediately preceding the date of this prospectus, our Company has not engaged in any other material connected transactions or related party transactions.

FURTHER INFORMATION ABOUT DIRECTORS AND SHAREHOLDERS

12. Directors

(a) Disclosure of interests of the Directors

- (i) Each of Mr. Tian, Mr. Gao and Mr Yu is interested in the Reorganisation.

- (ii) Save as disclosed in this prospectus, none of the Directors or their associates were engaged in any dealings with our Group during the two years preceding the date of this prospectus.

(b) Particulars of Directors' service contracts

Executive Directors

Each of Mr. Tian, Mr. Gao, Mr. Yu and Mr. Liu Xianggang, being all the executive Directors, has entered into a service contract with our Company pursuant to which they agreed to act as executive Directors for a term of three years with effect from 5 September, 2007, which shall be renewed and extended automatically for successive terms of one year upon expiry of the then current term. The appointment of each of the executive Directors may be terminated by either party by giving three month's written notice to the other.

Each of these executive Directors is entitled to the respective basic salary set out below (subject to an annual increment after 31 December, 2007 at the discretion of the Directors of not more than 10% of the annual salary immediately prior to such increase).

In addition, each of the executive Directors is also entitled to a discretionary management bonus provided that the aggregate amount of bonuses payable to all the executive Directors for any financial year of our Company shall not exceed 5% of the audited consolidated or combined net profit of our Group (after taxation and minority interests and payment of such bonuses but before extraordinary or exceptional items) in respect of that financial year of our Company. An executive Director may not vote on any resolution of the Directors regarding the amount of management bonus payable to him.

The current basic annual salaries of the executive Directors payable under their service contracts with our Company are as follows:

<u>Name</u>	<u>Annual salary</u> (RMB)
Mr. Tian	516,000
Mr. Yu	300,000
Mr. Liu Xianggang (劉象剛)	252,000
Mr. Gao	360,000

Independent non-executive Directors

Each of the independent non-executive Directors has been appointed for a term of two years commencing from 5 September, 2007. The appointment of each of the independent non-executive Directors may be terminated by either party giving three months' written notice to the other. The appointments are subject to the provisions of the

Articles of Association with regard to vacation of office of directors, removal and retirement by rotation of directors. Each of Ms. Dong Yanfeng (董延豐) and Ms. Yu Shumin (余淑敏) is entitled to a director's fee of RMB50,000 per annum; Mr. Cao Zenggong (曹增功) is entitled to a director's fee of RMB30,000 per annum and Mr. Yue Kwai Wa, Ken (余季華) is entitled to a director's fee of HK\$100,000 per annum. Save for directors' fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

(c) Directors remuneration

- (i) The aggregate emoluments paid and benefits in kind granted by our Group to the Directors in respect of the financial year ended 31 December, 2006 were approximately RMB263,000.
- (ii) Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus) payable by our Group to and benefits in kind receivable by the Directors (including the independent non-executive Directors in their respective capacity as directors) for the year ending 31 December, 2007, are expected to be approximately RMB443,000.
- (iii) None of the Directors or any past directors of any member of our Group has been paid any sum of money for each of the three years ended 31 December, 2006 (i) as an inducement to join or upon joining our Company or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three years ended 31 December, 2006.

(d) *Interests and short positions of Directors in the shares, underlying shares or debentures of our Company and our associated corporations*

Immediately following completion of the Global Offering, the Loan Capitalisation Issue and the Capitalisation Issue and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, the interests and short positions of the Directors in the shares, underlying shares or debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, once the Shares are listed, will be as follows:

Name of Director	Name of Group member/ associated corporation	Capacity/ nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Mr. Tian Qixiang	Our Company	Interest of a controlled corporation	350,000,000 Shares (L) (Note 2)	70%
	Our Company	Interest of a controlled corporation	22,500,000 Shares (Notes 2 and 3)	4.5%
	Merry Boom	Beneficial owner	131 ordinary shares of US\$1 each (L)	54.5833%
Mr. Gao	Merry Boom	Beneficial owner	60 ordinary shares of US\$1 each (L)	25%
Mr. Yu	Merry Boom	Beneficial owner	1 ordinary share of US\$1 (L)	0.4163%

Notes:

- (1) The letter “L” denotes the Directors’ long position in the shares of our Company or the relevant associated corporation.

(2) These Shares will be held by Merry Boom. Merry Boom is owned as to approximately 54.5833% by Mr. Tian. Mr. Tian is deemed to be interested in all the Shares held by Merry Boom under the SFO.

(3) Merry Boom has a short position of 22,500,000 Shares by virtue of the Stock Borrowing Agreement.

13. Interest discloseable under the SFO and substantial shareholders

So far as is known to the Directors, immediately following completion of the Global Offering, the Loan Capitalisation Issue and the Capitalisation Issue (but without taking account of any Shares which may be taken up or acquired under the Global Offering and any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme and any interest under the Stock Borrowing Agreement), other than a Director or chief executive of our Company whose interests are disclosed under the sub-paragraph headed “Interests and short positions of the Directors in the shares, underlying shares or debentures of our Company and our associated corporations” above, the following persons will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of our Group:

Name of shareholder	Company/ Name of Group member	Capacity/ nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Merry Boom	Our Company	Beneficial owner	350,000,000 Shares (L) (Note 2)	70%
	Our Company	Beneficial owner	22,500,000 Shares (Note 3)	4.5%
CPI	Golden Far East	Beneficial owner	Registered capital of US\$4,896,000 (L)	51%

Notes:

(1) The letter “L” denotes the person’s long position in the shares of our Company or the relevant Group member.

(2) These Shares will be held by Merry Boom. Merry Boom is owned as to approximately 54.5833% by Mr. Tian. Mr. Tian is deemed to be interested in all the Shares held by Merry Boom under the SFO as disclosed under the sub-paragraph headed “Interests and short positions of the Directors in the shares, underlying shares or debentures of our Company and our associated corporations” above.

(3) Merry Boom has a short position of 22,500,000 Shares by virtue of the Stock Borrowing Agreement.

14. Disclaimers

Save as disclosed in this prospectus:

- (a) and taking no account of any Shares which may be taken up or acquired under the Global Offering or upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme and any interest under the Stock Borrowing Agreement, the Directors are not aware of any person (not being a Director or chief executive of our Company) who immediately following the completion of the Global Offering, the Loan Capitalisation Issue and the Capitalisation Issue will have an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, either directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;
- (b) none of the Directors has any interest or short position in any of the shares, underlying shares or debentures of our Company or any associated corporations within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case once the Shares are listed;
- (c) none of the Directors nor any of the parties listed in the paragraph headed “Qualifications of experts” of this Appendix has been interested in the promotion of, or has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of the subsidiaries of our Company, or are proposed to be acquired or disposed of by or leased to our Company or any other member of our Group nor will any Director apply for the Offer Shares either in his own name or in the name of a nominee;
- (d) none of the Directors nor any of the parties listed in the paragraph headed “Qualifications of experts” of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group; and
- (e) save in connection with the Underwriting Agreements, none of the parties listed in the paragraph headed “Qualifications of experts” of this Appendix:
 - (i) is interested legally or beneficially in any securities of any member of our Group; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

OTHER INFORMATION

15. Share Option Scheme

(a) Summary of terms

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by the sole Shareholder of our Company on 5 September, 2007:

(i) Purposes of the scheme

The purpose of the Share Option Scheme is to enable our Group to grant options to selected participants as incentives or rewards for their contribution to our Group. The Directors consider the Share Option Scheme, with its broadened basis of participation, will enable our Group to reward the employees, the Directors and other selected participants for their contributions to our Group. Given that the Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by the Directors, it is expected that grantees of an option will make an effort to contribute to the development of our Group so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

(ii) Who may join

The Directors may, at its absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

- (aa) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of our Company, any of our subsidiaries or any entity ("**Invested Entity**") in which any member of our Group holds an equity interest;
- (bb) any non-executive directors (including independent non-executive directors) of our Company, any of our subsidiaries or any Invested Entity;
- (cc) any supplier of goods or services to any member of our Group or any Invested Entity;
- (dd) any customer of any member of our Group or any Invested Entity;
- (ee) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;

- (ff) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
- (gg) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity;
- (hh) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group;

and, for the purposes of the Share Option Scheme, the offer for the grant of option may be made to any company wholly owned by one or more persons belonging to any of the above classes of participants.

For avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of the above classes of participants shall not, by itself, unless the Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to an offer for the grant of any option shall be determined by the Directors from time to time on the basis of the Directors' opinion as to his contribution to the development and growth of our Group.

(iii) Maximum number of the Shares

- (aa) The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by our Group must not in aggregate exceed 30% of the share capital of our Company in issue from time to time.
- (bb) The total number of the Shares which may be allotted and issued upon the exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 10% of the Shares in issue on the Listing Date ("**General Scheme Limit**").
- (cc) Subject to (aa) above but without prejudice to (dd) below, our Company may seek approval of its Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our Group must not exceed 10% of the Shares in issue as at the date of approval of the limit and, for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed

or exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously granted under the Share Option Scheme and any other share option scheme of our Group will not be counted. The circular sent by our Company to its shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

- (dd) Subject to (aa) above and without prejudice to (cc) above, our Company may seek separate Shareholders' approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the extended limit referred to in (cc) above to participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to its Shareholders containing a generic description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(iv) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon the exercise of the options granted under the Share Option Scheme and any other share option scheme of our Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being ("**Individual Limit**"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be separately approved by the Shareholders in general meeting of our Company with such grantee and his associates abstaining from voting. The number and terms (including the exercise price) of options to be granted must be fixed before the approval of the Shareholders and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

(v) Grant of options to the Directors, chief executive or substantial shareholders of our Company or their respective associates

- (aa) Any grant of options under the Share Option Scheme to a Director, chief executive or substantial shareholder of our Company or any of their respective associates must be approved by independent non-executive Directors (excluding independent non-executive Director who or whose associates is the proposed grantee of the options).
- (bb) Where any grant of options to a substantial shareholder or an independent non-executive Director or any of their respective associates, would result in the

Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the Shares at the date of each offer for the grant, in excess of HK\$5 million;

such further grant of options must be approved by Shareholders in general meeting. Our Company must send a circular to the Shareholders. All connected persons of our Company must abstain from voting in favour at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial shareholder or an independent non-executive Director of our Company or any of their respective associates must be approved by the Shareholders in general meeting.

(vi) Time of acceptance and exercise of option

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence from the date of the offer for the grant of options is made, but shall end in any event not later than 10 years from the date on which the offer for the grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer for the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

(vii) Performance targets

Unless the Directors otherwise determined and stated in the offer for the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(viii) Subscription price for the Shares and consideration for the option

The subscription price for the Shares under the Share Option Scheme shall be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in

one or more board lots of the Shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a Share.

A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

(ix) Ranking of the Shares

(aa) The Shares allotted and issued upon the exercise of an option will be subject to all the provisions of the articles of association of our Company for the time being in force and will rank pari passu in all respects with the fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members (the "**Exercise Date**") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been entered on the register of members of our Company as the holder thereof.

(bb) Unless the context otherwise requires, references to "**Shares**" in this paragraph include references to shares in the ordinary equity share capital of our Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or re-construction of the share capital of our Company from time to time.

(x) Restrictions on the time of the offer for the grant of options

No offer for grant of options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published in newspapers. In particular, during the period commencing one month immediately preceding the earlier of (aa) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and (bb) the deadline for our Company to publish an announcement of its results for any year, half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of the results announcement, no option for the grant of options may be made.

The Directors may not make any offer for the grant of option to a participant who is a Director during the periods or times in which Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

(xi) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

(xii) Rights on ceasing employment

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or the termination of his employment on one or more of the grounds referred to in sub-paragraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and shall not be exercisable unless the Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as the Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not.

Eligible Employee means any employee (whether full time or part time employee, including any executive director but not any non-executive director) of our Company, any of our subsidiaries or any Invested Entity.

(xiii) Rights on death, ill-health or retirement

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation of employment which date shall be the last day on which the grantee was at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as the Directors may determine.

(xiv) Rights on dismissal

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of a termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors

generally, or has been convicted of any criminal offence (other than an offence which in the opinion of the Directors does not bring the grantee or our Group or the Invested Entity into disrepute), his option (to the extent not already exercised) will lapse automatically on the date of cessation to be an Eligible Employee.

(xv) Rights on breach of contract

If the Directors shall at their absolute discretion determine that (aa) (1) the grantee of any option (other than an Eligible Employee) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and our Group or any Invested Entity on the other part; or (2) that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) the grantee could no longer make any contribution to the growth and development of our Group by reason of the cessation of its relations with our Group or by other reason whatsoever; and (bb) the option granted to the grantee under the Share Option Scheme shall lapse, his option will lapse automatically on the date on which the Directors have so determined.

(xvi) Rights on a general offer, a compromise or arrangement

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, Shareholders. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date which such offer (or, as the case may be, revised offer) closed.

(xvii) Rights on winding up

In the event of a resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two business days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one business day before the date on which such resolution is to be considered and/or passed whereupon

he shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation *pari passu* with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

(xviii) Grantee being a company wholly owned by eligible participants

If the grantee is a company wholly owned by one or more eligible participants:

- (aa) sub-paragraphs (xii), (xiii), (xiv) and (xv) shall apply to the grantee and to the options to such grantee, *mutatis mutandis*, as if such options had been granted to the relevant eligible participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in sub-paragraphs (xii), (xiii), (xiv) and (xv) shall occur with respect to the relevant eligible participant; and
- (bb) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant eligible participant provided that the Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(xix) Adjustments to the subscription price

In the event of a capitalisation issue, rights issue, subdivision or consolidation of Shares or reduction of capital of our Company whilst an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being of or an independent financial adviser to our Company as fair and reasonable will be made to the number or nominal amount of Shares, the subject matter of the Share Option Scheme and the options so far as unexercised and/or the option price of the option concerned, provided that (i) any adjustment shall give a grantee the same proportion of the issued share capital to which he was entitled prior to such adjustment; (ii) the issue of Shares or other securities of our Group as consideration in a transaction may not be regarded as a circumstance requiring adjustment; and (iii) no alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value, and in each case, any adjustment must be made in compliance with the Listing Rules and such rules, codes and guidance notes of the Stock Exchange from time to time. In addition, in respect of any such adjustments, other than any adjustment made on a capitalisation issue, such auditors or independent financial adviser must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

(xx) Cancellation of options

Any cancellation of options granted but not exercised must be subject to the prior written consent of the relevant grantee and the approval of the Directors.

When our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding the options so cancelled) within the General Scheme Limit or the new limits approved by the Shareholders pursuant sub-paragraphs (iii) (cc) and (dd) above.

(xxi) Termination of the Share Option Scheme

Our Company may by resolution in general meeting at any time terminate the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(xxii) Rights are personal to the grantee

An option is personal to the grantee and shall not be transferable or assignable.

(xxiii) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (aa) the expiry of the option period in respect of such option;
- (bb) the expiry of the periods or dates referred to in paragraph (xii), (xiii), (xiv), (xv), (xvi), (xvii) and (xviii); and
- (cc) the date on which the Directors exercise our Company's right to cancel the option by reason of a breach of paragraph (xxii) above by the grantee.

(xxiv) Miscellaneous

- (aa) The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of Shares to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.
- (bb) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of the shareholders in general meeting.

- (cc) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the shareholders of our Company in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (dd) The amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules.
- (ee) Any change to the authority of the Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by the shareholders of our Company in general meeting.

(b) *Present status of the Share Option Scheme*

(i) Approval of the Listing Committee required

The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limited.

(ii) Application for approval

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(iii) Grant of option

As at the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

(iv) Value of options

The Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. The Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

16. Estate duty, tax and other indemnity

Merry Boom, Mr. Tian, Mr. Gao and Mr. Guo (the “**Indemnifiers**”) have entered into a deed of indemnity with and in favour of our Company (for itself and as trustee for each of its present subsidiaries) (being the material contract (f) referred to in paragraph 9 headed “Summary of material contracts” of this Appendix) to provide indemnities on a joint and several basis, in respect of, among other matters:

- (a) any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of our Group at any time on or before the date on which the Global Offering becomes unconditional (“**Effective Date**”) whether alone or in conjunction with any other circumstances whenever occurring and whether or not the tax liabilities are chargeable against or attributable to any other person, firm, company or corporation;
- (b) and tax liabilities (including all reasonable fines, penalties, costs, charges, expenses and interest relation to taxation) which might be payable by any member of our Group in respect of any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into or occurring on or before the Effective Date.

The Indemnifiers are under no liability under the deed of indemnity in respect of any taxation or liability:

- (a) to the extent that provision, reserve or allowance has been made for such taxation, liabilities and claim in the accountants’ report in Appendix I to this prospectus or the individual audited accounts of any member of our Group for the Track Record Period;
- (b) to the extent that such taxation or liability falling on any of the members of our Group in respect of any transaction after the Effective Date unless taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily entered into by any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) otherwise than in the course of normal day to day operations on or before the Effective Date;
- (c) to the extent that such taxation liabilities or claim arise or are incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the taxation authority of the PRC, or any other relevant authority (whether in Hong Kong or the PRC or any other part of the world) coming into force after the Effective Date or to the extent such claim arises or is increased by an increase in rates of taxation or claim after the Effective Date with retrospective effect; or
- (d) to the extent that any provision or reserve made for taxation in the accountants’ report in Appendix I to this prospectus or the individual audited accounts of any member of our

Group for the Track Record Period which is finally established to be an over-provision or an excessive reserve in which case the Indemnifiers liability (if any) in respect of taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the Indemnifiers liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Under the deed of indemnity, each of Merry Boom and Mr. Tian further agreed to provide indemnities on a joint and several basis, in respect of, among other matters, any damages, loss or liability which is or hereafter becomes payable by any member of the Group as a direct or indirect result of legal actions initiated by any person or any action taken or penalties imposed by any PRC governmental authority in relation to any arrangement (including any payment, refund or application) of any deposits or loans (or any money in the nature of deposits or loans) received from or payable to any occupants of the staff quarters of the Group from time to time.

17. Litigation

Neither our Company nor any of our subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against our Company or any of our subsidiaries, that would have a material adverse effect on the results of operations or financial condition of our Company.

18. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately US\$3,000 (equivalent to approximately HK\$23,400) and are payable by our Company.

19. Promoter

- (a) The promoter of our Company is Merry Boom.
- (b) Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to the promoter named in sub-paragraph (a) above in connection with the Global Offering or the related transactions described in this prospectus.

20. Agency fees or commissions received

The Underwriters will receive a commission of 2.75% of the aggregate Offer Price in respect of all the Offer Shares, out of which they will pay any sub-underwriting commissions and selling concessions. The Sponsor will also receive a documentation fee. Such commissions, selling concessions, documentation fees and expenses, together with the Stock Exchange listing fees, legal and other professional fees, and printing and other expenses relating to the Global Offering, which

are estimated to amount in aggregate to approximately HK\$28 million based on the minimum Offer Price of HK\$1.85, and approximately HK\$29 million based on the maximum Offer Price of HK\$2.31 (both assuming no exercise of the Over-allotment Option), will be payable by our Company.

21. Application for listing of Shares

The Sponsor has made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme on the Stock Exchange. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

22. Qualifications of experts

The qualifications of the experts who have given opinions and/or whose names are included in this prospectus are as follows:

Name	Qualification
CCB International Capital Limited	Licensed corporation holding a licence under the SFO to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as set out in Schedule 5 to the SFO
Deloitte Touche Tohmatsu	Certified public accountants
Conyers Dill & Pearman	Cayman Islands barristers and attorneys
Kingfield & Partners	Qualified PRC lawyers
DTZ Debenham Tie Leung Limited	Professional property surveyors and valuers

23. Consents of experts

Each of CCB International Capital Limited, Deloitte Touche Tohmatsu, Conyers Dill & Pearman, Kingfield & Partners and DTZ Debenham Tie Leung Limited has given and has not withdrawn its written consent to the issue of this prospectus with copies of its reports, valuation, letters or opinions (as the case may be) and the references to its names or summaries of opinions included herein in the form and context in which they respectively appear.

24. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

25. Taxation of holders of Shares***(a) Hong Kong***

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) The Cayman Islands

Under present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

(c) Consultation with professional advisers

Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares or exercising any rights attaching to them. It is emphasised that none of our Company, the Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercising any rights attaching to them.

26. Miscellaneous

Save as disclosed herein:

- (i) within two years preceding the date of this prospectus:
 - (aa) no share or loan capital of our Company or of any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash; and
 - (bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and
 - (cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company or any of our subsidiaries;

- (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and

the Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 30 April, 2007 (being the date to which the latest audited combined financial statements of our Group were made up).

27. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the white and yellow Application Forms, the written consents referred to in the paragraph headed “Consents of experts” in Appendix V to this prospectus and copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Chiu & Partners, 41st Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours up to and including 27 September, 2007;

- (a) the memorandum and articles of association of our Company;
- (b) the audited consolidated financial statements of our Group for each of the three years ended 31 December, 2006 and the four months ended 30 April, 2007 (or for the period since their respective dates of incorporation where it is shorter);
- (c) the accountants’ report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus;
- (d) the comfort letter from Deloitte Touche Tohmatsu relating to the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this prospectus;
- (e) the letter, summary of valuations and valuation certificates relating to the property interests of our Group prepared by DTZ Debenham Tie Leung Limited, the text of which is set out in Appendix III to this prospectus;
- (f) the rules of the Share Option Scheme;
- (g) the letter of advice prepared by Conyers Dill & Pearman summarizing certain aspects of Cayman Islands company law as referred to in the section headed “General” in Appendix IV to this prospectus;
- (h) the legal opinion prepared by Kingfield & Partners in respect of, among other matters, our Group and the property interests of our Group in the PRC;
- (i) the Companies Law;
- (j) the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix V to this prospectus;

**APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
IN HONG KONG AND AVAILABLE FOR INSPECTION**

- (k) the written consents referred to in the paragraph headed “Consents of experts” in Appendix V to this prospectus; and
- (l) the service contracts referred to in the sub-paragraph headed “Particulars of Directors’ service contracts” in Appendix V to this prospectus.



CHINA STARCH HOLDINGS LIMITED
中國澱粉控股有限公司