



# CHINA STARCH HOLDINGS LIMITED

## 中國澱粉控股有限公司

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 3838)**

### **ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007**

#### **FINAL RESULTS**

The board (the “Board”) of Directors (the “Directors”) of China Starch Holdings Limited (the “Company”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2007, together with the comparative figures for the year ended 31 December 2006.

#### **FINAL DIVIDEND**

The Directors recommend the payment of a final dividend of HK3.83 cents per ordinary share, totalling approximately HK\$20,012,000, in respect of the year ended 31 December 2007. Subject to the approval of the shareholders of the Company at the forthcoming annual general meeting (“AGM”) of the Company, the final dividend is expected to be paid to those shareholders whose names appear on the register of members of the Company on 16 May 2008.

#### **CLOSURE OF REGISTER OF MEMBERS**

The register of members will be closed from 14 May 2008 (Wednesday) to 16 May 2008 (Friday) (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and to attend and vote at the AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investors Services Limited, at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 13 May 2008 (Tuesday).

## Consolidated Income Statement

For the year ended 31 December 2007

	Notes	Year ended 31 December	
		2007 RMB'000	2006 RMB'000
<b>Turnover</b>	4	<b>1,349,962</b>	1,031,506
Cost of goods sold		<b>(1,084,677)</b>	(836,267)
<b>Gross profit</b>		<b>265,285</b>	195,239
Other income	5	<b>31,695</b>	10,631
Interest income	6	<b>8,756</b>	4,632
Distribution expenses		<b>(40,976)</b>	(31,944)
Administrative expenses		<b>(37,985)</b>	(25,568)
Finance costs	7	<b>(20,495)</b>	(16,359)
Share of result of an associate		<b>(2,375)</b>	(3,475)
<b>Profit before taxation</b>	8	<b>203,905</b>	133,156
Taxation	9	<b>(185)</b>	(18,766)
<b>Profit for the year</b>		<b>203,720</b>	114,390
<b>Attributable to:</b>			
Equity holders of the Company		<b>203,720</b>	66,574
Minority interests		–	47,816
		<b>203,720</b>	114,390
<b>Dividends recognised as distribution</b>	10	<b>70,794</b>	108,000
<b>Attributable to:</b>			
Equity holders of the Company		<b>70,794</b>	58,950
Minority interests		–	49,050
		<b>70,794</b>	108,000
<b>Earnings per share-basic (RMB)</b>	11	<b>0.6256</b>	0.2536

## Consolidated Balance Sheet

As at 31 December 2007

		At 31 December	
	Notes	2007	2006
		RMB '000	RMB '000
<b>Non-current assets</b>			
Property, plant and equipment		425,518	433,876
Prepaid lease payments		28,190	35,099
Interests in an associate		29,643	21,875
Deferred tax assets		1,183	1,368
		<hr/>	<hr/>
		484,534	492,218
		<hr/>	<hr/>
<b>Current assets</b>			
Inventories	12	117,695	115,915
Prepaid lease payments		819	941
Trade and other receivables	13	144,559	138,352
Amounts due from related companies		230	2,000
Pledged bank deposits		2,000	37,500
Bank balances and cash		362,648	55,976
		<hr/>	<hr/>
		627,951	350,684
		<hr/>	<hr/>
<b>Current liabilities</b>			
Trade and other payables	14	133,260	99,537
Amounts due to a related company		–	14,265
Dividend payable		–	78,500
Income tax payable		11,379	19,881
Employee housing deposits			
Basic deposit portion		26,846	27,292
Installment portion		3,857	4,153
Borrowings		92,885	101,608
		<hr/>	<hr/>
		268,227	345,236
		<hr/>	<hr/>
<b>Net current assets</b>		359,724	5,448
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		844,258	497,666
		<hr/>	<hr/>

	<i>Notes</i>	<b>At 31 December</b>	
		<b>2007</b>	2006
		<b><i>RMB '000</i></b>	<i>RMB '000</i>
<b>Non-current liabilities</b>			
Employee housing deposits			
Installment portion		<b>15,409</b>	18,356
Borrowings		<b>19,085</b>	283,394
Deferred income		<b>17,423</b>	12,131
		<hr/>	<hr/>
		<b>51,917</b>	313,881
		<hr/>	<hr/>
<b>Net assets</b>		<b>792,341</b>	183,785
		<hr/> <hr/>	<hr/> <hr/>
<b>Capital and reserves</b>			
Share capital		<b>50,477</b>	151
Reserves		<b>596,362</b>	149,317
Retained earnings		<b>145,502</b>	34,317
		<hr/>	<hr/>
<b>Total equity</b>		<b>792,341</b>	183,785
		<hr/> <hr/>	<hr/> <hr/>

## 1. General Information

The Company was incorporated in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liabilities on 29 November 2006 and the shares of the Company (“Shares”) have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (“Stock Exchange”) with effect from 27 September 2007. The Company’s ultimate holding company is Merry Boom Group Limited (“Merry Boom”) (incorporated in the British Virgin Islands).

## 2. Basis of presentation

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

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).

### 3. 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.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective, in these financial statements.

HKAS 1 (Revised)	Presentation of Financial Statements <sup>4</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>4</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>5</sup>
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations <sup>4</sup>
HKFRS 3 (Revised)	Business Combinations <sup>5</sup>
HKFRS 8	Operating Segments <sup>4</sup>
HK (IFRIC)-INT 11	HKFRS 2: Group and Treasury Share Transactions <sup>1</sup>
HK (IFRIC)-INT 12	Service Concession Arrangements <sup>2</sup>
HK (IFRIC)-INT 13	Customer Loyalty Programmes <sup>3</sup>
HK (IFRIC)-INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>2</sup>

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 July 2008
4. Effective for annual periods beginning on or after 1 January 2009
5. Effective for annual periods beginning on or after 1 July 2009

The Directors anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

### 4. Turnover and business segments

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

	Year ended 31 December	
	2007	2006
	RMB'000	RMB'000
Cornstarch and corn based by-products	914,652	728,409
Lysine and its related products	319,966	225,846
Electricity and steam	115,344	77,251
	<u>1,349,962</u>	<u>1,031,506</u>

For management purposes, the Group is currently organised into three operating divisions – cornstarch, lysine, electricity and steam. These divisions are the bases on which the Group reports its primary segment information.

Principal activities are as follows:

Cornstarch	–	the manufacture and sale of cornstarch and its corn-refined by-products
Lysine	–	the manufacture and sale of lysine and its corn based by-products.
Electricity and steam	–	the production and sale of electricity and steam

Segments information about these businesses is presented below.

**Results for the year ended 31 December 2007**

	<b>Cornstarch</b> <i>RMB'000</i>	<b>Lysine</b> <i>RMB'000</i>	<b>Electricity and steam</b> <i>RMB'000</i>	<b>Eliminations</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>TURNOVER</b>					
External sales	914,652	319,966	115,344	–	1,349,962
Inter-segment sales	–	–	81,771	(81,771)	–
	<u>914,652</u>	<u>319,966</u>	<u>197,115</u>	<u>(81,771)</u>	<u>1,349,962</u>

Inter-segment sales are charged at cost.

**RESULT**

Segment result	<u>88,889</u>	<u>103,843</u>	<u>39,835</u>	<u>–</u>	232,567
Unallocated distribution expenses					(6,091)
Administrative expenses					(37,985)
Share of result of an associate					(2,375)
Other income					29,528
Interest income					8,756
Finance costs					(20,495)
Profit before taxation					203,905
Taxation					(185)
Profit for the year					<u>203,720</u>

Results for the year ended 31 December 2006

	<b>Cornstarch</b> <i>RMB'000</i>	<b>Lysine</b> <i>RMB'000</i>	<b>Electricity and steam</b> <i>RMB'000</i>	<b>Eliminations</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>TURNOVER</b>					
External sales	728,409	225,846	77,251	–	1,031,506
Inter-segment sales	–	–	81,617	(81,617)	–
	<u>728,409</u>	<u>225,846</u>	<u>158,868</u>	<u>(81,617)</u>	<u>1,031,506</u>

Inter-segment sales are charged at cost.

**RESULT**

Segment result	<u>80,874</u>	<u>68,069</u>	<u>22,125</u>	<u>–</u>	171,068
Unallocated distribution expenses					(4,367)
Administrative expenses					(25,568)
Share of result of an associate					(3,475)
Other income					7,225
Interest income					4,632
Finance costs					(16,359)
Profit before taxation					133,156
Taxation					(18,766)
Profit for the year					<u>114,390</u>

**Balance sheet as at 31 December 2007**

	<b>Cornstarch</b> <i>RMB'000</i>	<b>Lysine</b> <i>RMB'000</i>	<b>Electricity and steam</b> <i>RMB'000</i>	<b>Eliminations</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>Assets</b>					
Segment assets	234,131	181,889	205,148	–	621,168
Interest in an associate					29,643
Unallocated assets					461,674
Total assets					<u>1,112,485</u>
<b>Liabilities</b>					
Segment liabilities	28,155	29,786	31,596	–	89,537
Unallocated liabilities					230,607
Total liabilities					<u>320,144</u>

Balance sheet as at 31 Decemeber 2006

	<b>Cornstarch</b> <i>RMB'000</i>	<b>Lysine</b> <i>RMB'000</i>	<b>Electricity and steam</b> <i>RMB'000</i>	<b>Eliminations</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>Assets</b>					
Segment assets	256,013	158,489	177,670	–	592,172
Interest in an associate					21,875
Unallocated assets					228,855
					<hr/>
Total assets					<b>842,902</b>
					<hr/> <hr/>
<b>Liabilities</b>					
Segment liabilities	29,372	9,343	7,661	–	46,376
Unallocated liabilities					612,741
					<hr/>
Total liabilities					<b>659,117</b>
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### Geographical segment

The Group's operations and assets are located in the People's Republic of China ("PRC"), thus no geographical segment by location was presented. Moreover, 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.

### 5. Other income

	<b>Year ended 31 December</b>	
	<b>2007</b>	<b>2006</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Commission income	–	3,379
Government grant received for being a manufacture of lysine and its related products ( <i>notes i and ii</i> )	<b>1,000</b>	2,277
Amortisation of staff quarter rental income	<b>811</b>	714
Amortisation of steam connection income	<b>1,167</b>	1,129
Realised gain arising on injecting property, plant and equipment and land use right as capital to an associate	<b>430</b>	431
Gain on sales of scrap of coal and oil	<b>509</b>	645
Gain on disposal of leasehold land ( <i>note iii and iv</i> )	<b>24,402</b>	–
Others	<b>3,376</b>	2,056
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	<b>31,695</b>	<b>10,631</b>
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Note:

- i. Government grant of RMB1,000,000 for the year (2006: RMB1,377,000) was paid to 山東壽光巨能金玉米開發有限公司 (Shangdong Shouguang Jueng Golden Corn Development Co., Ltd.) (“Golden Corn”) by 壽光市聖城街道辦事處財政所 (Finance Office of Shouguang Shengcheng Street Office) 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.
- ii. 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 unconditionally granted at the discretion of the government and was not recurring nature.
- iii. Gain on disposal of leasehold land of RMB24,332,000 for the year ended 31 December 2007 was arising from disposal of leasehold land with carry amount of RMB6,045,000 to 壽光市土地儲備中心 (Shouguang Land Reserves).
- iv. Gain on disposal of leasehold land of RMB70,000 for the year ended 31 December 2007 was arising from disposal of leasehold land with carry amount of RMB47,000 to 壽光市供電公司 (Electricity Supply Company of Shouguang City).

## 6. Interest income

	Year ended 31 December	
	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income on:		
Bank deposits	8,756	2,636
Amount due from a related company	–	1,996
	<u>8,756</u>	<u>4,632</u>

## 7. Finance costs

	Year ended 31 December	
	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Imputed interest on employee housing deposits	910	937
Imputed interest on loan from a shareholder	5,939	225
Interest on bank borrowing wholly repayable within 5 years	13,646	11,032
Interest on loans from a related company	–	4,165
	<u>20,495</u>	<u>16,359</u>

## 8. Profit before taxation

Profit before taxation has been arrived at after charging:

	Year ended 31 December	
	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation of property, plant and equipment	46,429	43,948
Amortisation of prepaid lease payments	939	949
	<hr/>	<hr/>
Total depreciation and amortisation	<b>47,368</b>	44,897
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Loss on disposal of property, plant and equipment	970	266
Net foreign exchange loss	2,509	523
Cost of inventories recognised as expenses	1,002,070	791,409
Employee benefits expense (including retirement benefit plan)	22,399	22,054
Research and development expense	774	5,940
Auditors' remuneration	2,676	950
Listing expenses	8,814	–
	<hr/>	<hr/>

## 9. Taxation

	Year ended 31 December	
	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Current PRC income tax	–	11,520
Deferred tax	185	7,246
	<hr/>	<hr/>
	<b>185</b>	18,766
	<hr/>	<hr/>

The tax expense for the year can be reconciled to the profit before taxation as follows:

	<b>Year ended 31 December</b>	
	<b>2007</b>	2006
	<b>RMB'000</b>	RMB'000
Profit before taxation:	<b>203,905</b>	133,156
Tax at the domestic income tax rate of 33%	–	43,942
Tax at the foreign enterprise income tax rate at 27%	<b>55,055</b>	–
Tax effect of share of results of an associate	<b>641</b>	1,147
Tax effect of expenses that are not deductible in determining taxable profit	<b>7,190</b>	1,710
Tax effect of income not taxable	<b>(1,814)</b>	(902)
Change of deferred taxation resulting from the applicable change in tax rate	<b>69</b>	(4,511)
Tax exemption	<b>(60,956)</b>	(20,302)
Reduction of income tax in respect of Tax benefit	–	(2,318)
	<b>185</b>	18,766

No provision for Hong Kong profits tax has been made as the Group's entities' profit neither arose in and not derived from Hong Kong during both years.

*Notes:*

Golden Corn was a domestic company during the periods prior 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.

On 16 March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Tax Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Tax Law, the applicable tax rate for all the PRC enterprises will change to 25% from 1 January 2008. The New Tax Law provides a five-year transition period from its effective date for those enterprises which were established before the promulgation date of the New Tax Law and which were entitled to a preferential lower tax rate under the then effective tax laws or regulations. Thus, Golden Corn can still entitle 50% relief of PRC Foreign Enterprise Income Tax for the next three years from 2008. The deferred tax balance has already reflected the tax rates that are expected to apply to the respective periods when the assets are realised or the liabilities are settled.

During the year ended 31 December 2006, additional tax credit (“Tax Benefit”) of RMB2,318,000, 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 壽地稅發 [2006] 第 150 號 to reduce the income tax of Golden Corn.

## 10. Dividends

Dividend of RMB20,794,000 and RMB50,000,000 was declared separately by the Company to Merry Boom on 20 March and 23 July 2007 respectively before the Shares have been listed on the Main Board of the Stock Exchange.

For the year ended 31 December 2006, the dividend of RMB108,000,000 represents the dividends declared by Golden Corn to its then shareholders prior to the Group reorganisation.

A final dividend of HK3.83 cents per share has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming AGM.

## 11. Earnings per share

The calculation of the basic earnings per share attributable to the equity holders of the Company is based on the following data:

	<b>2007</b> <i>RMB'000</i>	2006 <i>RMB'000</i>
<b>Earnings</b>		
Earnings for the purpose of basic earnings per share (profit for the year attributable to equity holders of the Company)	<u><u>203,720</u></u>	<u><u>66,574</u></u>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u><u>325,625,000</u></u>	<u><u>262,500,000</u></u>

The weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted to reflect the effects of the issue of shares upon the capitalisation, the loan capitalisation and the global offering.

No diluted earnings per share has been presented because no dilutive potential ordinary shares exist for both 2007 and 2006.

## 12. Inventories

	At 31 December	
	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	87,526	87,076
Work in progress	9,921	8,326
Finished goods	20,248	20,513
	<u>117,695</u>	<u>115,915</u>

## 13. Trade and other receivables

	At 31 December	
	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	42,146	51,865
Less: allowance for doubtful debts	—	—
	<u>42,146</u>	<u>51,865</u>
Bank acceptance bills	99,734	85,869
Other receivables	2,679	618
	<u>144,559</u>	<u>138,352</u>

Credit terms to its trade customers for respective products are as follows:

Cornstarch and its related products	Within 30 days
Lysine and its related products	30 to 60 days
Electricity and steam	Within 30 days

An ageing analysis of trade receivables at the balance sheet date is shown as follows:

	At 31 December	
	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
0-30 days	39,337	49,536
31-60 days	1,134	828
61-90 days	519	393
Over 90 days	1,156	1,108
Total	<u>42,146</u>	<u>51,865</u>

Before accepting any new customer, the Group assesses the creditability of each of the potential customer's credit quality and defines credit limits by customer. Credit limit attributed to customers are reviewed monthly. Credit quality of trade receivables not yet past due are considered to be good and no impairment provision is needed.

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB2,746,000 (2006: RMB2,329,000) which are past due at the balance sheet date for which the Group has not provided for impairment loss. The Directors considered that there was no significant change in credit quality and the amounts were still considered recoverable. The Group did not hold any collateral over these balances. The average age of these receivables is 60 days (2006: 60 days).

Ageing of trade receivables which are past due but not impaired:

	<b>At 31 December</b>	
	<b>2007</b>	2006
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
30-60 days	1,071	828
61-90 days	519	393
Over 90 days	1,156	1,108
	<u>2,746</u>	<u>2,329</u>

Included in the trade receivables are amounts from related parties amounted to RMB13,772,000 (2006: RMB18,147,000). No impairment has been made to receivables from related parties.

#### **Bank acceptance bills**

	<b>At 31 December</b>	
	<b>2007</b>	2006
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Discounted bills	22,220	25,608
Endorsed bills	32,528	7,432
Bill on hand	44,986	52,829
	<u>99,734</u>	<u>85,869</u>

The following is the ageing analysis for the bank acceptance bills:

	<b>2007</b>	2006
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
0 – 30 days	60,381	45,317
31 – 60 days	3,354	9,877
61 – 90 days	14,882	13,856
Over 90 days	21,117	16,819
	<u>99,734</u>	<u>85,869</u>

#### 14. Trade and other payables

	At 31 December	
	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	76,922	51,437
Bills payables	2,000	9,000
	<hr/>	<hr/>
Total trade payables	78,922	60,437
	<hr/>	<hr/>
Advances from customers	24,124	15,480
Deposits	4,709	3,831
Sales commission	2,517	2,032
Other tax payables	13,303	6,739
Accrued expenses	3,007	1,662
Payroll and welfare payables	34	4,555
Others	6,644	4,801
	<hr/>	<hr/>
	54,338	39,100
	<hr/>	<hr/>
	133,260	99,537
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The following is the ageing analysis for the trade payables at the balance sheet date:

	At 31 December	
	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
0-60 days	47,831	36,040
61-90 days	7,567	6,744
Over 90 days	23,524	17,653
	<hr/>	<hr/>
	78,922	60,437
	<hr/> <hr/>	<hr/> <hr/>

The average credit period on purchases is 80 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

Included above are payables to related parties amounted to RMB Nil (2006: RMB112,000).

## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERVIEW

2007 was a remarkable year for the Group because the Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 27 September 2007.

Turnover of the Group comprised principally sales of (i) cornstarch and ancillary corn-refined products, (ii) 98.5% L-lysine hydrochloride salt and agricultural fertilisers, and (iii) electricity and steam. During the year under review, we recorded a substantial growth in turnover by 30.9% to approximately RMB1,349,962,000 (2006: RMB1,031,506,000), and our gross profit margin and net profit margin also increased to 19.7% (2006: 18.9%) and 15.1% (2006: 11.1%) respectively.

Basic earnings per share of the Company was RMB62.56 cents per share based on the weighted average number of 325,625,000 shares in issue during the year (2006: RMB25.36 cents per share based on the weighted average number of 262,500,000 shares).

We are pleased to report to our equity holders that the Board of Directors (the “Board”) proposed a final dividend of HK3.83 cents per share for the year.

### REVIEW OF BUSINESS

#### Profit for the year

Net profit for the year attributable to equity holders of the Company increased by 206.0% to approximately RMB 203,720,000 (2006: RMB66,574,000). Net profit margin of the Company increased to 15.1% from 11.1%.

#### Turnover

##### *Cornstarch*

Sales of cornstarch and ancillary corn-refinery products for the year ended 31 December 2007 increased by 25.6% to approximately RMB914,652,000 and represented 67.8% of our total turnover for the year. Such substantial growth in sales was attributed by both the improvement in selling price and the increase in production volume. The average selling price was increased by approximately 10.0% as compared to the average selling price in 2006. The sales volume of constarch increased by approximately 23,000 tonnes (7.7%) to approximately 328,000 tonnes for the year ended 31 December 2007 as a result of increase in average production capacity.

Our cost of goods sold in respect of cornstarch and ancillary corn-refinery products increased by 27.1% to approximately RMB795,888,000 for the year as a result of increased sales and increased corn kernel cost. Despite the increase of average cost of corn kernels by about 20.7% during the year, the Group has successfully implemented various measures, including improving our production efficiency, corn-to-



starch output ratio and strengthening our cost control. As a result, the Group only experienced minimal impact on the gross profit margin by a reduction of approximately 1.0% from 14.0% in 2006 to 13.0% in 2007.

### *Lysine*

We recorded a strong growth in sales of lysine and its related products for the year under review. Turnover of this business segment increased by 41.7% to about RMB319,966,000 and represented 23.7% of total turnover for the year. The increase of turnover of this segment is mainly attributable to (i) increase of average selling price of lysine by 10.3%; (ii) improved production capacity & efficiency; and (iii) tonnage sales increase by 31.3% to approximately 26,467 tonnes.

During the year under review, the cost of starch paste, being the major and self-produced raw material of lysine, increased due to the increase in cost of corn kernels. However, gross profit margin of lysine still increased from 31.5% to 33.7% mainly due to the improved production efficiency.

### *Electricity and steam*

Pursuant to the conversion of our wholly-owned subsidiary, 山東壽光巨能金玉米開發有限公司 (Shandong Shouguang Juneng Golden Corn Development Co., Ltd.) (“Golden Corn”), into a wholly-foreign owned enterprise, our sales of electricity was temporarily suspended for the period from October 2006 to July 2007. As a result, our turnover of electricity was reduced to about RMB10,401,000 from about RMB30,068,000 and turnover of steam became the major contributor to this business segment for the year ended 31 December 2007. With the advantage of (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, our sales of steam increased to about RMB104,943,000, or by 122.4% compared to the same period in last year. Overall, turnover of this business segment increased by 49.3% to about RMB115,344,000 and represented 8.5% of total turnover for the year.

Coal is the principal cost component of our turnover of electricity and steam. During the year, the average price of coal increased by approximately 12.4% due to shortage in supply. That said, the gross profit margin of this business segment increased to 33.5% from 28.6% mainly due to the shift of product mix to increase turnover of steam which has a higher profit margin.

### **Other income**

Other income mainly consisted of gain on disposal of leasehold land, sales of scrap of coal and oil, staff quarter rental income, steam connection income and government grants. Other income was increased to approximately RMB31,695,000 from approximately RMB10,631,000. While the Group disposed of two pieces of leasehold land, totalling approximately 76,676 sq. metre, resulting in other income of approximately RMB24,402,000. On the other hand, we ceased to have commission income from 壽光金遠東變性澱粉有限公司 (Shouguang Golden Far East Modified Starch Co., Ltd.) (“Golden Far East”), our 49% owned associated company, for sales support services (2006: RMB3,379,000) following termination of the sales representative agreement in August 2006.

## **Interest income**

Interest income represented interest income from bank deposits for the year ended 31 December 2007. Such increase was mainly due to the proceeds received by the Company from the global offering of its shares during the year (“Global Offering”).

## **Distribution expenses**

Distribution expenses for 2007 was approximately RMB40,976,000, which represented an increase of approximately 28.3% as compared to 2006. Distribution expenses mainly consisted of transportation costs, salaries and commission, and export expenses. The increase in distribution expenses was mainly due to the increase in turnover and marketing expenses.

## **Administrative expenses**

Administrative expenses mainly represented salary and staff benefits, exchange difference, depreciation and amortisation, travelling expense, entertainment expenses and listing expenses. The increase in administrative expenses was mainly attributed to (i) the loss on exchange difference of approximately RMB2,509,000 (2006: RMB523,000) due to the appreciation of Renminbi against US dollar and HK dollar; and (ii) listing expenses in relation to the Global Offering which amounted to approximately RMB8,814,000.

## **Share of result of an associate**

The share of loss from our associate, Golden Far East, was reduced to approximately RMB2,375,000 from approximately RMB 3,475,000 for the financial year ended 31 December 2007.

## **Taxation**

Tax expense for the year mainly represented deferred tax expense, amounted to approximately RMB185,000.

As our wholly-owned subsidiary, Golden Corn, was converted into a wholly foreign owned enterprise on 26 September 2006, it was entitled to exemption from 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 (the “2 + 3 tax concession”).

Pursuant to the Notice by the PRC State Council on the Implementation of the Grandfathering Preferential Policies under the PRC Enterprise Income Tax Law, (Guofa [2007] No.39), from 1 January 2008, enterprises that have been granted “2 + 3 tax concession” shall continue to enjoy the tax concessions until the expiry day in accordance with the tax preferences under the old income tax law, regulations and relevant provisions. In this regard, Golden Corn can still enjoy this tax concession until 31 December 2011.

In addition, in accordance with the Notice released by the Ministry of Finance and the State Administration of Taxation (Caishui [2008] No.1), distributions of the pre-2008 earnings of a foreign-invested enterprise to a foreign investor in 2008 and onward are exempt from corporate income tax. Therefore, the retained distributable profits of Golden Corn as at 31 December 2007 (which amounted to approximately RMB140,998,000) will not be subject to 10% withholding tax on future distributions.

We were not liable for income tax in Hong Kong during the year because we did not have any assessable income arising in Hong Kong.

### **Dividend policy**

The Directors expect that dividends will be paid as interim and/or final dividends. We currently intend to pay annual cash dividends of not less than 30% of the Group's distributable profit in each financial year. However, the determination to pay such dividends will be made at the discretion of the Board and will be based upon the availability of distributable profits, our earnings, financial positions, funding requirements and other relevant factors from time to time. The payment of dividends may be limited by legal restrictions and by agreements that we may enter into in the future. The Directors are of the views that our dividend policy will not affect the sufficiency of our working capital in the coming years.

The Board proposed a final dividend of HK3.83 cents per share which represented approximately 11.8% of distributable profit for the year. The actual dividend pay-out ratio is less than the dividend policy because the Company was listed in the final quarter in 2007 and the management would like to reserve cash for expansion of production capacity. Details of our expansion plan is set out in the paragraph headed "Future plan and capital commitments" under this section.

### **Human resources and remuneration policies**

As at 31 December 2007, the Group had approximately 1,577 full-time staff, of which 1,079 were under employment of the Group, and 498 were provided by 山東壽光巨能控股集團有限公司 (Shandong Shouguang Juneng Holding Group Co., Ltd.) ("Juneng Holding Group") under the Manpower Provision Agreement dated 5 September 2007 entered into between Golden Corn and Juneng Holding Group. Total staff costs, including Directors' emoluments, of the Group for the year amounted to approximately RMB23,105,000 (2006: RMB22,317,000).

The Directors consider that it is very important to retain competent and experienced staff and management as it is a key to success and a driver for future development of the Group. Therefore, we offer on-the-job training, staff quarters and retirement benefits to our staff.

The Company has adopted a share option scheme with primary purpose of motivating our employees and other eligible persons entitled under the scheme to optimise their contributions to the Group and to reward them for their contribution to the Group. As at 31 December 2007, no options have been granted under the share option scheme of the Company.

In addition, we do not encourage our full-time staff to engage in other business or employment. Therefore, we require our staff to seek consent from the Group prior to engaging in other business or employment during the course of his/her employment with us.

## **REVIEW OF FINANCIAL POSITION**

### **Financial management and treasury policy**

The Group adopts a conservative approach for cash management and investment on uncommitted funds. The unutilised portion of the net proceeds from the Global Offering have been placed on short-term deposits with authorised financial institutions in Hong Kong and/or the PRC.

### **Foreign currency exposure**

We have limited exposure to fluctuation in foreign currency because our operation is mainly conducted in the PRC. Sales and purchases are mainly denominated in Renminbi. The Directors consider that the foreign currency risk associated with export sales which are denominated in US dollars is not material. In view of the minimal exposure to fluctuations in foreign currency exchange rate, other than closely monitoring the changes in the foreign currency exchange rate, the Group does not maintain any hedges in this regard.

### **Finance costs**

For the financial year ended 31 December 2007, finance cost mainly represented the interest paid on bank borrowings and imputed interest on loan from a shareholder, Merry Boom Group Limited (“Merry Boom”). The increase in finance cost was mainly due to the imputed interest of about RMB5,939,000 (2006: RMB225,000) on loan from Merry Boom incepted in December 2006. As disclosed in the prospectus of the Company dated 12 September 2007 (the “Prospectus”), the loan from Merry Boom was capitalised prior to the listing of the Company’s shares on the Main Board of the Stock Exchange. As a result, we ceased to incur such imputed interest expense following the capitalisation of loan from Merry Boom in September 2007.

Our interest on bank borrowing increased by approximately 23.7% to about RMB13,646,000 (2006: RMB11,032,000) because we ceased to rely on our related company, Juneng Holding Group, and instead relied on short term borrowings from financial institutions for short term funding in 2007.

## Liquidity, financial resources and capital structure

The Directors are of the opinion that the working capital available to the Group is sufficient for its present requirement. Major source of financial resources include internally generated funds, banking facilities and net proceeds from the Global Offering. The Group recorded a strong financial position with net cash inflow from operating activities of approximately RMB263,621,000 (2006: RMB84,598,000). As at 31 December 2007, the Group had available banking facilities of RMB258,000,000, of which RMB80,000,000 was utilised. The amount of the Group's fixed rate borrowings and floating rate borrowings were approximately RMB81,970,000 (2006: RMB263,003,000) and approximately RMB30,000,000 (2006: RMB121,999,000) respectively. As at 31 December 2007, the Group's borrowings were all denominated in Renminbi (2006: RMB123,644,000 denominated in HK dollar, represented 32.1% of total borrowings). The interest rate on fixed borrowing will be reviewed on an annual basis.

The major financial figures and key financial ratios are summarised as follows:

	<b>2007</b> <b>RMB'000</b>	2006 <i>RMB'000</i>
Borrowings:		
– on demand or within one year	<b>92,885</b>	101,608
– more than one year, but not exceeding two years	<b>886</b>	274,308
– more than two years, but not exceeding 5 years	<b>12,659</b>	1,773
– more than 5 years	<b>5,540</b>	7,313
	<b>111,970</b>	385,002
Debtors turnover (days)	<b>38</b>	46
Creditors turnover (days)	<b>23</b>	34
Inventories turnover (days)	<b>39</b>	44
Current ratio	<b>2.3</b>	1.0
Quick ratio	<b>1.9</b>	0.7
Gearing ratio-borrowings divided by total equity	<b>14.1%</b>	209.5%

## USE OF NET PROCEEDS

The net proceeds received by the Company from the Company's Global Offering amounted to approximately RMB350,258,000. The net proceeds utilised for the year ended 31 December 2007 is set out as follows:

<b>Intended use</b>	<b>Available</b> <i>RMB '000</i>	<b>Utilised</b> <i>RMB '000</i>
Acquisitions of other manufacturer(s)/capital injections of subsidiary(ies)/joint venture	177,000	—
Acquisition of new machineries/conduct production technology enhancement	73,000	15,800
Acquisition of new machineries for cornstarch and lysine production facilities expansion	20,000	20,000
Purchase of raw materials and general productions expenses of new machineries	22,258	22,258
Repayment of borrowing	23,000	23,000
General working capital	35,000	35,000
	<hr/>	<hr/>
	<b>350,258</b>	<b>116,058</b>

The unutilised portion of the net proceeds have been deposited on short term basis in licensed financial institutions in Hong Kong and/or the PRC.

### **Material acquisitions and disposals of subsidiaries and associated companies**

Other than the reorganisation of the Group in preparation of the listing of the Company's shares on the Main Board of the Stock Exchange as disclosed in the Prospectus, the Group had no material acquisition or disposal of any subsidiaries and associated companies for the year ended 31 December 2007.

### **Pledge of assets and contingent liabilities**

As at 31 December 2007, the Group pledged the leasehold land and plant in the PRC with an aggregate net book value of approximately RMB85,118,000 to secure banking facilities granted to the Group. In addition, the cash received from discounted bank acceptance bills, amounting to RMB22,000,000 (2006: RMB25,608,000), were also recognised as secured bank loans.

As at 31 December 2007, the Group did not have material contingent liabilities.

## **FUTURE PLAN AND PROSPECTS**

### **Launch of new product**

As disclosed in the paragraph headed “Expand our product pipeline” under the section of “Future plans and use of proceeds” in the Prospectus, we intend to expand our lysine product offerings to include 65% lysine. We have successfully developed 65% lysine at the end of 2007. We spent approximately RMB23,450,000 for the facilities for the production of 65% lysine and the estimated annual production capacity is expected to achieve approximately 20,000 tonnes.

### **Future plan and capital commitments**

It is one of the Group’s business strategies to increase its annual cornstarch and lysine production capacity. To facilitate the planned expansion in production capacity of the Group, it is part of the Group’s future plans to acquire additional production capacity from small-to-medium-sized cornstarch and/or lysine producers.

We have on March 2008, established 臨清德能金玉米生物有限公司 (Linqing Deneng Golden Corn BioLimited) (“Deneng Golden Corn”), a PRC joint venture company owned as to approximately 85.94% by us. On 9 April 2008, Deneng Golden Corn entered into a provisional sales and purchase agreement with its 14.06% minority shareholder to acquire certain production facilities and construction in progress in respect of cornstarch and starch-based sweetener production facilities. The Directors expected that the annual production capacity for cornstarch and starch-based sweetener will be increased by 300,000 tonnes and 100,000 tonnes respectively by the end of 2008. The estimated capital commitment for the acquisition of the said production facilities and the construction in progress is approximately RMB144,000,000 and will be financed by the net proceeds from the Global Offering and Deneng Golden Corn’s internally generated funds.

We intend to utilise Deneng Golden Corn as our extended sales network to cover the middle and western China, and as our new production vehicle for more advanced corn-based products such as amino acid and starch-based sweeteners.

Further details of the acquisition of production facilities is disclosed in the Company’s announcement dated 11 April 2008.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

During the year ended 31 December 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

## **CORPORATE GOVERNANCE**

Since the listing of the Shares on the Stock Exchange on 27 September 2007, the Company has complied with the code provision set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Director of the Listed Issuers set out in Appendix 10 of the Listing Rules (the “Model Code”) as its own code of conduct governing securities transactions by the Directors. After specific enquiry of all Directors, all Directors confirmed to the Company their compliance with the required standards set out in the Model Code throughout the period from the Listing Date.

## **AUDIT COMMITTEE**

The audit committee of the Company was established on 5 September 2007 and comprises four members, all are independent non-executive Directors, namely Mr. Yue Kwai Wa, Ken (Chairman), Ms. Dong Yanfeng, Ms. Yu Shumin, and Mr. Cao Zenggong.

The audit committee has reviewed and discussed with the management and the external auditors regarding the consolidated financial statements of the Group for the year ended 31 December 2007 for the Board’s approval.

## **PUBLICATION ON ANNUAL RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY**

The 2007 annual report will be depatched to the shareholders of the Company and available on the Company’s website ([www.chinastarch.com.hk](http://www.chinastarch.com.hk)) and the Stock Exchange’s website in due course.

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

Hong Kong, 16 April 2008

*As at the date of this announcement, the executive Directors are Mr Tian Qixiang, Mr Gao Shijun, Mr Yu Yingquan and Mr Liu Xianggang and the independent non-executive Directors are Ms Dong Yanfeng, Ms Yu Shumin, Mr Cao Zenggong and Mr Yue Kwai Wa, Ken.*