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**CHINA STARCH HOLDINGS LIMITED**  
**中國澱粉控股有限公司**

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

(Stock Code: 3838)

**ANNOUNCEMENT OF ANNUAL RESULTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**

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 2010, together with the comparative figures for the year ended 31 December 2009.

**FINAL DIVIDEND**

The Board recommends the payment of a final dividend of HK0.67 cents per share, totalling approximately HK\$38,724,000. This recommendation is subject to the approval of the shareholders of the Company in the forthcoming annual general meeting (the “AGM”) of the Company, and if approved, the final dividend is expected to be paid on 20 June 2011. The dividend payout ratio for the year ended 31 December 2010 was 20.2% (2009: 23.3%).

**CLOSURE OF REGISTER OF MEMBERS**

The register of members will be closed from 7 June 2011 (Tuesday) to 10 June 2011 (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 Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 3 June 2011 (Friday).

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

|  |             | 2010                  | 2009               |
|--|-------------|-----------------------|--------------------|
|  | <i>Note</i> | <i>RMB'000</i>        | <i>RMB'000</i>     |
| Turnover   | 2           | <b>2,504,733</b>      | 1,957,525          |
| Cost of goods sold                                 |             | <u>(2,220,036)</u>    | <u>(1,745,584)</u> |
| Gross profit                                       |             | <b>284,697</b>        | 211,941            |
| Distribution expenses                              |             | <b>(72,041)</b>       | (50,981)           |
| Administrative expenses                            |             | <b>(60,262)</b>       | (47,218)           |
| Other income                                       | 3           | <u>29,591</u>         | <u>11,023</u>      |
| Operating profit                                   |             | <b>181,985</b>        | 124,765            |
| Finance income                                     | 4           | <b>8,169</b>          | 2,733              |
| Finance costs                                      | 5           | <b>(1,901)</b>        | (2,169)            |
| Share of result of an associate                    |             | <u>1,727</u>          | <u>2,147</u>       |
| Profit before taxation                             | 6           | <b>189,980</b>        | 127,476            |
| Income tax expenses                                | 7           | <u>(26,635)</u>       | <u>(662)</u>       |
| Profit and total comprehensive income for the year |             | <u><b>163,345</b></u> | <u>126,814</u>     |
| Attributable to:                                   |             |                       |                    |
| Equity holders of the Company                      |             | <b>161,711</b>        | 126,659            |
| Non-controlling interests                          |             | <u>1,634</u>          | <u>155</u>         |
|  |             | <u><b>163,345</b></u> | <u>126,814</u>     |
| Basic and diluted earnings per share (RMB)         | 8           | <u><b>0.0284</b></u>  | <u>0.0242</u>      |
| Proposed final dividends                           | 9           | <u><b>32,951</b></u>  | <u>26,682</u>      |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

|   | <i>Note</i> | <b>2010</b><br><b>RMB'000</b> | 2009<br><b>RMB'000</b>  |
|---|-------------|-------------------------------|-------------------------|
| <b>Non-current assets</b>                                   |             |                               |                         |
| Property, plant and equipment                               |             | <b>540,712</b>                | 548,014                 |
| Prepaid lease payments                                      |             | <b>43,338</b>                 | 43,564                  |
| Interest in an associate                                    |             | <b>41,251</b>                 | 39,094                  |
| Deferred tax assets   |             | <b>1,689</b>                  | 6,019                   |
|   |             | <u><b>626,990</b></u>         | <u>636,691</u>          |
| <b>Current assets</b>                                       |             |                               |                         |
| Inventories   | <i>10</i>   | <b>196,833</b>                | 194,223                 |
| Prepaid lease payments                                      |             | <b>1,185</b>                  | 1,175                   |
| Loan receivable   |             | <b>19,605</b>                 | –                       |
| Trade and other receivables                                 | <i>11</i>   | <b>361,023</b>                | 214,106                 |
| Pledged bank deposits                                       |             | –                             | 2,004                   |
| Fixed deposits with maturity period over three months       |             | <b>300,000</b>                | –                       |
| Cash and cash equivalents                                   |             | <b>276,471</b>                | 291,296                 |
|   |             | <u><b>1,155,117</b></u>       | <u>702,804</u>          |
| <b>Total Assets</b>   |             | <u><b>1,782,107</b></u>       | <u><b>1,339,495</b></u> |
| <b>Equity</b>   |             |                               |                         |
| <b>Equity attributable to equity holders of the Company</b> |             |                               |                         |
| Share capital   |             | <b>515,234</b>                | 237,762                 |
| Reserves  |             | <b>924,863</b>                | 734,120                 |
| Attributable to equity holders                              |             | <b>1,440,097</b>              | 971,882                 |
| Non-controlling interests                                   |             | <b>18,009</b>                 | 16,375                  |
| <b>Total equity</b>   |             | <u><b>1,458,106</b></u>       | <u>988,257</u>          |

|  | <i>Note</i> | <b>2010</b><br><b>RMB'000</b> | 2009<br>RMB'000  |
|--|-------------|-------------------------------|------------------|
| <b>Non-current liabilities</b>               |             |                               |                  |
| Deferred tax liabilities                     |             | 347                           | 75               |
| Borrowings                                   |             | 6,426                         | 7,312            |
| Deferred income                              |             | <u>23,182</u>                 | <u>19,602</u>    |
|  |             | <u>29,955</u>                 | <u>26,989</u>    |
| <b>Current liabilities</b>                   |             |                               |                  |
| Trade and other payables                     | 12          | 223,764                       | 217,984          |
| Income tax payable                           |             | 13,271                        | 10,375           |
| Employee housing deposits                    |             | 26,381                        | 26,381           |
| Borrowings                                   |             | <u>30,630</u>                 | <u>69,509</u>    |
|  |             | <u>294,046</u>                | <u>324,249</u>   |
| <b>Total liabilities</b>                     |             | <u>324,001</u>                | <u>351,238</u>   |
| <b>Total equity and liabilities</b>          |             | <u>1,782,107</u>              | <u>1,339,495</u> |
| <b>Net current assets</b>                    |             | <u>861,071</u>                | <u>378,555</u>   |
| <b>Total assets less current liabilities</b> |             | <u>1,488,061</u>              | <u>1,015,246</u> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

The Group has adopted the following revised standards:

- HKAS 27 (Revised), “Consolidated and Separate Financial Statements”
- HKFRS 3 (Revised), “Business Combinations”

The adoption of such revised standards does not have material impact on the consolidated financial statements and does not result in substantial changes to the Group’s accounting policies except certain changes on the presentation of the consolidated financial statements.

HKAS 27 (Revised), “Consolidated and Separate Financial Statements” requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. HKAS 27 (Revised) has had no impact on the current period, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

HKFRS 3 (Revised), “Business Combinations” continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets. All acquisition-related costs are expensed.

## 2. TURNOVER AND SEGMENTS INFORMATION

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

|  | <b>2010</b>             | 2009             |
|--|-------------------------|------------------|
|  | <b><i>RMB'000</i></b>   | <i>RMB'000</i>   |
| Cornstarch and ancillary corn-refined products | <b>1,848,924</b>        | 1,425,700        |
| Lysine and its related products                | <b>472,083</b>          | 394,984          |
| Starch-based sweetener                         | <b>75,908</b>           | 5,502            |
| Electricity and steam                          | <b>107,818</b>          | 131,339          |
|  | <b><u>2,504,733</u></b> | <u>1,957,525</u> |

The chief operating decision maker has been identified as the Board. The Board reviews the Group's internal report in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Board considers the business segmentation from product perspective. Management assesses the performance of cornstarch, lysine, starch-based sweetener and electricity and steam.

|                        |   |  |
|------------------------|---|--|
| Cornstarch             | – | the manufacture and sale of cornstarch and ancillary corn-refined products |
| Lysine                 | – | the manufacture and sale of lysine and its related products                |
| Starch-based sweetener | – | the manufacture and sale of starch-based sweetener                         |
| Electricity and steam  | – | the production and sale of electricity and steam                           |

The Board assesses the performance of the operating segments based on a measure of adjusted operating profit. This measurement basis excludes the effects of non-recurring expenditure from the operating segments, such as impairments when the impairment is the result of an isolated, non-recurring event. Interest income and expense are not included in the result for each operating segment that is reviewed by the management. Other information provided, except as noted below, to the management is measured in a manner consistent with that in the consolidated financial statements.

Total segment assets exclude deferred tax assets and total segment liabilities exclude income tax payable and deferred tax liabilities as these are managed on a central basis. These form part of the reconciliation to total assets and total liabilities per consolidated statement of financial position.

Sales between segments are charged at cost. The revenue from external parties reported to the management is measured in a manner consistent with that in the consolidated statement of comprehensive income.

|                               | <b>Cornstarch</b><br><i>RMB'000</i> | <b>Lysine</b><br><i>RMB'000</i> | <b>Starch-<br/>based<br/>sweetener</b><br><i>RMB'000</i> | <b>Electricity<br/>and steam</b><br><i>RMB'000</i> | <b>Unallocated</b><br><i>RMB'000</i> | <b>Total</b><br><i>RMB'000</i> |
|-------------------------------|-------------------------------------|---------------------------------|--|--|--------------------------------------|--------------------------------|
| <b>For the year ended</b>     |                                     |                                 |  |  |                                      |                                |
| <b>31 December 2010</b>       |                                     |                                 |  |  |                                      |                                |
| TURNOVER                      |                                     |                                 |  |  |                                      |                                |
| Total sales                   | 1,848,924                           | 472,083                         | 75,908   | 275,196  | -                                    | 2,672,111                      |
| Inter-segment sales           | -                                   | -                               | -  | (167,378)  | -                                    | (167,378)                      |
| External Sales                | <u>1,848,924</u>                    | <u>472,083</u>                  | <u>75,908</u>  | <u>107,818</u>                                     | <u>-</u>                             | <u>2,504,733</u>               |
| Segment results               | <u>189,972</u>                      | <u>79,198</u>                   | <u>(187)</u>   | <u>26,949</u>                                      | <u>(113,947)</u>                     | <u>181,985</u>                 |
| Depreciation and amortisation | <u>16,449</u>                       | <u>19,845</u>                   | <u>1,822</u>   | <u>16,850</u>                                      | <u>4,759</u>                         | <u>59,725</u>                  |
| <b>For the year ended</b>     |                                     |                                 |  |  |                                      |                                |
| <b>31 December 2009</b>       |                                     |                                 |  |  |                                      |                                |
| TURNOVER                      |                                     |                                 |  |  |                                      |                                |
| Total sales                   | 1,425,700                           | 394,984                         | 5,502  | 272,659  | -                                    | 2,098,845                      |
| Inter-segment sales           | -                                   | -                               | -  | (141,320)  | -                                    | (141,320)                      |
| External Sales                | <u>1,425,700</u>                    | <u>394,984</u>                  | <u>5,502</u>   | <u>131,339</u>                                     | <u>-</u>                             | <u>1,957,525</u>               |
| Segment results               | <u>95,301</u>                       | <u>70,929</u>                   | <u>(1,378)</u>   | <u>49,473</u>                                      | <u>(89,560)</u>                      | <u>124,765</u>                 |
| Depreciation and amortisation | <u>20,306</u>                       | <u>19,701</u>                   | <u>425</u>   | <u>17,238</u>                                      | <u>4,394</u>                         | <u>62,064</u>                  |

|   | Cornstarch<br>RMB'000 | Lysine<br>RMB'000 | Starch-<br>based<br>sweetener<br>RMB'000 | Electricity<br>and steam<br>RMB'000 | Unallocated<br>RMB'000 | Total<br>RMB'000 |
|---|-----------------------|-------------------|--|-------------------------------------|------------------------|------------------|
| <b>As at 31 December 2010</b>   |                       |                   |  |                                     |                        |                  |
| Segment assets  | 622,503               | 135,893           | 79,977                                   | 175,712                             | 766,333                | 1,780,418        |
| Including:  |                       |                   |  |                                     |                        |                  |
| Interest in an associate  | -                     | -                 | -  | -                                   | 41,251                 | 41,251           |
| Additions to property,<br>plant and equipment<br>and prepaid lease payments | <u>30,137</u>         | <u>2,987</u>      | <u>9,559</u>                             | <u>3,451</u>                        | <u>7,002</u>           | <u>53,136</u>    |
| Segment liabilities   | 100,818               | 29,846            | 15,739                                   | 39,302                              | 124,678                | 310,383          |
| Including:  |                       |                   |  |                                     |                        |                  |
| Borrowings  | -                     | -                 | -  | -                                   | 37,056                 | 37,056           |
| Employee housing deposits   | -                     | -                 | -  | -                                   | 26,381                 | 26,381           |
| Deferred income   | <u>-</u>              | <u>-</u>          | <u>-</u>                                 | <u>18,350</u>                       | <u>4,832</u>           | <u>23,182</u>    |
| <b>As at 31 December 2009</b>   |                       |                   |  |                                     |                        |                  |
| Segment assets  | 474,021               | 154,492           | 52,270                                   | 199,730                             | 452,963                | 1,333,476        |
| Including:  |                       |                   |  |                                     |                        |                  |
| Interest in an associate  | -                     | -                 | -  | -                                   | 39,094                 | 39,094           |
| Additions to property,<br>plant and equipment<br>and prepaid lease payments | <u>28,363</u>         | <u>8,636</u>      | <u>30,430</u>                            | <u>1,773</u>                        | <u>21,132</u>          | <u>90,334</u>    |
| Segment liabilities   | 83,235                | 31,862            | 7,113                                    | 33,795                              | 184,783                | 340,788          |
| Including:  |                       |                   |  |                                     |                        |                  |
| Borrowings  | -                     | -                 | -  | -                                   | 76,821                 | 76,821           |
| Employee housing deposits   | -                     | -                 | -  | -                                   | 26,381                 | 26,381           |
| Deferred income   | <u>-</u>              | <u>-</u>          | <u>-</u>                                 | <u>19,602</u>                       | <u>-</u>               | <u>19,602</u>    |



A reconciliation of results of reportable segments to profit before taxation is provided as follows:

|                                 | <b>For the year ended</b> |                    |
|---------------------------------|---------------------------|--------------------|
|                                 | <b>31 December</b>        |                    |
|                                 | <b>2010</b>               | 2009               |
|                                 | <b>RMB'000</b>            | RMB'000            |
| Results of reportable segments  | 295,932                   | 214,325            |
| Unallocated income              | 18,356                    | 8,639              |
| Unallocated expenses            | <u>(132,303)</u>          | <u>(98,199)</u>    |
| <br>Total segment results       | <br>181,985               | <br>124,765        |
| Finance income                  | 8,169                     | 2,733              |
| Finance costs                   | (1,901)                   | (2,169)            |
| Share of result of an associate | <u>1,727</u>              | <u>2,147</u>       |
| <br>Profit before taxation      | <br><u><b>189,980</b></u> | <br><u>127,476</u> |

*Note:* Unallocated income and expenses mainly consist of government grants and corporate costs respectively which cannot be allocated to individual segments.

The amounts provided to the Board with respect to total assets are measured in a manner consistent with that of the consolidated financial statements. These assets are allocated based on the operations of the segment.

Reportable segments' assets are reconciled to total assets as follows:

|   | <b>As at 31 December</b>    |                      |
|---|-----------------------------|----------------------|
|   | <b>2010</b>                 | 2009                 |
|   | <b>RMB'000</b>              | RMB'000              |
| Reportable segments' assets   | 1,014,085                   | 880,513              |
| Unallocated:  |                             |                      |
| Prepaid lease payments  | 44,523                      | 44,739               |
| Interest in an associate  | 41,251                      | 39,094               |
| Pledged bank deposits   | –                           | 2,004                |
| Fixed deposits with maturity period over three months                   | 300,000                     | –                    |
| Cash and cash equivalents   | 276,471                     | 291,296              |
| Other unallocated assets  | <u>104,088</u>              | <u>75,830</u>        |
| <br>Total segment assets  | <br>1,780,418               | <br>1,333,476        |
| Deferred tax assets   | <u>1,689</u>                | <u>6,019</u>         |
| <br>Total assets as per consolidated<br>statement of financial position | <br><u><b>1,782,107</b></u> | <br><u>1,339,495</u> |

The amounts provided to the Board with respect to total liabilities are measured in a manner consistent with that of the consolidated financial statements. These liabilities are allocated based on the operations of the segment.

Reportable segments' liabilities are reconciled to total liabilities as follows:

|   | <b>As at 31 December</b> |                       |
|---|--------------------------|-----------------------|
|   | <b>2010</b>              | 2009                  |
|   | <b>RMB'000</b>           | <b>RMB'000</b>        |
| Reportable segments' liabilities                                      | <b>185,705</b>           | 156,005               |
| Unallocated:  |                          |                       |
| Employee housing deposits   | <b>26,381</b>            | 26,381                |
| Borrowings  | <b>37,056</b>            | 76,821                |
| Other unallocated liabilities   | <b>61,241</b>            | 81,581                |
|   | <hr/>                    | <hr/>                 |
| Total segment liabilities   | <b>310,383</b>           | 340,788               |
| Income tax payable  | <b>13,271</b>            | 10,375                |
| Deferred tax liabilities  | <b>347</b>               | 75                    |
|   | <hr/>                    | <hr/>                 |
| Total liabilities as per consolidated statement of financial position | <b><u>324,001</u></b>    | <b><u>351,238</u></b> |

The result of its revenue from external customers in the People's Republic of China (the "PRC") for the year 2010 is RMB2,245,328,000 (2009: RMB1,753,206,000), and the total of its revenue from external customers from other countries is RMB259,405,000 (2009: RMB204,319,000).

As at 31 December 2010, the total of non-current assets other than interest in an associate and deferred tax assets located in the PRC is RMB583,867,000 (2009: RMB591,462,000), and the total of these non-current assets located in other countries is RMB183,000 (2009: RMB116,000).

### 3. OTHER INCOME

|  | <b>2010</b>          | 2009                 |
|--|----------------------|----------------------|
|  | <b>RMB'000</b>       | <b>RMB'000</b>       |
| Government grants ( <i>Note (i) and (ii)</i> )   | <b>13,492</b>        | 3,060                |
| Electricity capacity sales   | <b>5,265</b>         | –                    |
| Amortisation of steam connection income  | <b>2,682</b>         | 2,384                |
| Realised gain arising on injecting property, plant and equipment and land use right as capital to an associate | <b>430</b>           | 430                  |
| Gain on sales of scrap of coal and oil   | <b>4,670</b>         | 2,251                |
| Gain/(loss) on disposal of property, plant and equipment   | <b>21</b>            | (1,762)              |
| Others   | <b>3,031</b>         | 4,660                |
|  | <hr/>                | <hr/>                |
|  | <b><u>29,591</u></b> | <b><u>11,023</u></b> |

Note:

- (i) For the year ended 31 December 2010, the government grants mainly represented the followings:
- (a) the government grant of approximately RMB8,063,000 was paid by 壽光市財政局 (Shouguang City Finance Bureau) for encouraging the replacement of aged machineries, prevention of air pollution; and provision of heat supply subsidy.
  - (b) the government subsidy of approximately RMB4,200,000 was paid by 濰坊市發展和改革委員會 (Weifong Development and Reform Commission) for compensating temporary suspension of power generator.
  - (c) the government grant of approximately RMB1,220,000 was paid by 臨清市財政局 (Linqing City Finance Bureau) for promoting the use of advance technology.

The above government grants were granted at the discretion of the government and were not recurring in nature.

- (ii) For the year ended 31 December 2009, government grants of approximately RMB3,060,000 was paid by 壽光市財政局 (Shouguang City Finance Bureau) for encouraging the replacement of aged machineries, prevention of air pollution; and provision of heat supply subsidy. They were granted at the discretion of the government and were not recurring in nature.

#### 4. FINANCE INCOME

|                                    | 2010<br><i>RMB'000</i> | 2009<br><i>RMB'000</i> |
|------------------------------------|------------------------|------------------------|
| Interest income on bank deposits   | 8,134                  | 2,733                  |
| Interest income on loan receivable | 35                     | —                      |
|                                    | <u>8,169</u>           | <u>2,733</u>           |

#### 5. FINANCE COSTS

|   | 2010<br><i>RMB'000</i> | 2009<br><i>RMB'000</i> |
|---|------------------------|------------------------|
| Interest on loan from non-controlling interests | —                      | 79                     |
| Interest on discounted bills                    | 1,901                  | 2,090                  |
|   | <u>1,901</u>           | <u>2,169</u>           |

## 6. PROFIT BEFORE TAXATION

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

|   | <b>2010</b><br><i>RMB'000</i> | 2009<br><i>RMB'000</i>    |
|---|-------------------------------|---------------------------|
| Depreciation of property, plant and equipment             | <b>58,765</b>                 | 61,233                    |
| Amortisation of prepaid lease payments                    | <b>960</b>                    | 831                       |
|   | <hr/>                         | <hr/>                     |
| Total depreciation and amortisation                       | <b><u>59,725</u></b>          | <b><u>62,064</u></b>      |
| (Gain)/loss on disposal of property, plant and equipment  | <b>(21)</b>                   | 1,762                     |
| Net foreign exchange loss                                 | <b>2,671</b>                  | 335                       |
| Cost of inventories recognised as expenses                | <b>2,083,076</b>              | 1,634,599                 |
| Write-back of provision for impairment of inventories     | –                             | (3,839)                   |
| Operating lease payments                                  | <b>598</b>                    | 559                       |
| Employee benefits expense including directors' emoluments | <b>71,915</b>                 | 57,357                    |
| Research and development expenses                         | <b>3,778</b>                  | 1,092                     |
| Auditor's remuneration                                    | <b>1,239</b>                  | 1,391                     |
|   | <hr/> <b><u>1,239</u></b>     | <hr/> <b><u>1,391</u></b> |

## 7. INCOME TAX EXPENSES

No provision for Hong Kong profits tax has been made as the Group entities' profit neither arose in nor was derived from Hong Kong during both years. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

|                                 | <b>2010</b><br><i>RMB'000</i> | 2009<br><i>RMB'000</i> |
|---------------------------------|-------------------------------|------------------------|
| PRC corporate income tax        |                               |                        |
| – Current year                  | <b>22,033</b>                 | 11,685                 |
| – Over provision in prior years | –                             | (5,285)                |
| Deferred tax                    | <b>4,602</b>                  | (5,738)                |
|                                 | <hr/>                         | <hr/>                  |
|                                 | <b><u>26,635</u></b>          | <b><u>662</u></b>      |

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

|   | <b>2010</b>           | 2009           |
|---|-----------------------|----------------|
|   | <b>RMB'000</b>        | RMB'000        |
| Profit before taxation  | <u><b>189,980</b></u> | <u>127,476</u> |
| Tax at the corporate income tax rate at 25% (2009: 25%)                       | <b>47,495</b>         | 31,869         |
| Tax effect of share of result of an associate net of tax                      | <b>(432)</b>          | (537)          |
| Effect of different tax rate  | <b>1,037</b>          | 576            |
| Effect of tax holiday   | <b>(22,192)</b>       | (16,795)       |
| Tax effect of expenses that are not deductible in determining taxable profits | <b>3,441</b>          | 1,529          |
| Tax effect of income not taxable  | <b>(2,714)</b>        | (1,360)        |
| Over provision in prior years   | -                     | (5,285)        |
| Recognition of previously unrecognised tax losses                             | -                     | (4,357)        |
| Reduction of income tax in respect of tax benefit                             | <u>-</u>              | <u>(4,978)</u> |
|   | <u><b>26,635</b></u>  | <u>662</u>     |

*Note:*

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 26 December 2007, the State Council of the PRC issued the Notice of the Implementation of the Grandfathering Preferential Policies under the New Tax Law (the "Notice"), (Guofa [2007] No. 39) the applicable tax rate for all the PRC enterprises will be changed to 25% from 1 January 2008. The Notice 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, 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") is entitled to 50% relief of PRC Foreign Enterprise Income Tax for the next three years from 2008 to 2010.

Further under the New Tax Law, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax (depending on the applicable tax rate on the treaty) on various types of passive income such as dividends derived from sources within the PRC.

According to the notice Caishui 2008 No. 1 released by the Ministry of Finance and the State Administration of Taxation, distributions of the pre-2008 retained profits of a foreign-invested enterprise to a foreign investor in 2008 or after are exempt from withholding tax. Therefore, the retained profits at 31 December 2007 in the Group's foreign-invested enterprises' books and accounts will not be subject to withholding tax on future distributions.

As at 31 December 2010 and 2009, no deferred tax liabilities have been recognised in respect of the tax that would be payable on the distribution of the retained profits of the Group's foreign-invested enterprises as the Company controls the dividend policy of these foreign-invested enterprises and it is probable that such differences will not be reversed in the foreseeable future.

## 8. EARNINGS PER SHARE

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

|  | 2010<br><i>RMB'000</i> | 2009<br><i>RMB'000</i> |
|--|------------------------|------------------------|
| <b>Earnings</b>  |                        |                        |
| Earnings for the purpose of calculating basic earnings per share (Profit for the year attributable to equity holders of the Company) | <u>161,711</u>         | <u>126,659</u>         |
|  | 2010                   | 2009                   |
| <b>Number of shares</b>  |                        |                        |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share                                   | <u>5,687,233,000</u>   | <u>5,225,000,000</u>   |

The weighted averaged number of ordinary shares for the purpose of calculating basic earnings per share for 2009 has been adjusted for the bonus issue made in June 2010 on the basis of one new share for every one existing share.

No diluted earnings per share has been presented because no dilutive potential ordinary shares exist for both 2010 and 2009.

## 9. DIVIDENDS

|  | 2010<br><i>RMB'000</i> | 2009<br><i>RMB'000</i> |
|--|------------------------|------------------------|
| Dividend paid during the year:   |                        |                        |
| Final dividend, paid at HK1.16 cents<br>(2009: HK1.14 cents) per ordinary share  | <u>29,351</u>          | <u>26,254</u>          |
| Dividend payable to the shareholders of the company:   |                        |                        |
| Final dividend proposed after the end of the reporting period<br>of HK0.67 cents<br>(2009: HK 1.16 cents) per ordinary share | <u>32,951</u>          | <u>26,682</u>          |

A final dividend of HK0.67 cents per share has been proposed by the Directors and is subject to approval by the shareholders at the forthcoming AGM.

The final dividend proposed after the end of the year has not been recognised as a liability as at the end of the reporting period.

## 10. INVENTORIES

|                  | 2010<br><i>RMB'000</i> | 2009<br><i>RMB'000</i> |
|------------------|------------------------|------------------------|
| Raw materials    | 118,013                | 143,635                |
| Work in progress | 18,238                 | 16,405                 |
| Finished goods   | <u>60,582</u>          | <u>34,183</u>          |
|                  | <u><b>196,833</b></u>  | <u><b>194,223</b></u>  |

The cost of inventories recognised as expense and included in “cost of goods sold” amounted to RMB2,083,076,000 (2009: RMB1,634,599,000).

## 11. TRADE AND OTHER RECEIVABLES

|                       | 2010<br><i>RMB'000</i> | 2009<br><i>RMB'000</i> |
|-----------------------|------------------------|------------------------|
| Trade receivables     | 175,150                | 57,187                 |
| Bank acceptance bills | 163,860                | 153,054                |
| Other receivables     | <u>22,013</u>          | <u>3,865</u>           |
|                       | <u><b>361,023</b></u>  | <u><b>214,106</b></u>  |

The Group normally grants credit period ranging from 0 to 60 days to customers.

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

|              | 2010<br><i>RMB'000</i> | 2009<br><i>RMB'000</i> |
|--------------|------------------------|------------------------|
| 0 – 30 days  | 145,598                | 49,008                 |
| 31 – 60 days | 20,798                 | 928                    |
| 61 – 90 days | 1,315                  | 689                    |
| Over 90 days | <u>7,439</u>           | <u>6,562</u>           |
|              | <u><b>175,150</b></u>  | <u><b>57,187</b></u>   |

Before accepting any new customer, the Group assesses the creditability of each of the potential customer and defines their respective credit limits accordingly. Credit limit of each customer is reviewed monthly. Credit qualities of trade receivables neither past due nor impaired have been assessed with reference to historical information on the default rates, based on which no impairment provision is considered to be necessary.

Included in the Group's trade receivables balance are debtors with an aggregate carrying amount of RMB8,800,000 (2009: RMB6,668,000) which are past due but not impaired. These relate to a number of independent customers of whom there is no recent history of default.

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

|              | <b>2010</b><br><i>RMB'000</i> | 2009<br><i>RMB'000</i> |
|--------------|-------------------------------|------------------------|
| 31 – 60 days | <b>113</b>                    | 106                    |
| 61 – 90 days | <b>1,286</b>                  | –                      |
| Over 90 days | <b>7,401</b>                  | 6,562                  |
|              | <b><u>8,800</u></b>           | <b><u>6,668</u></b>    |

Included in the trade receivables and prepayment are amounts due from an associate and non-controlling interests of RMB38,556,000 (2009: RMB16,842,000) and RMB9,498,000 (2009: NIL) respectively. No impairment has been made to receivables from related companies.

#### **Bank acceptance bills**

|                  | <b>2010</b><br><i>RMB'000</i> | 2009<br><i>RMB'000</i> |
|------------------|-------------------------------|------------------------|
| Discounted bills | <b>29,079</b>                 | 67,071                 |
| Endorsed bills   | <b>16,541</b>                 | 27,555                 |
| Bills on hand    | <b>118,240</b>                | 58,428                 |
|                  | <b><u>163,860</u></b>         | <b><u>153,054</u></b>  |

The bank acceptance bills are normally with maturity period of 180 days (2009: 180 days). There is no recent history of default on bank acceptance bills.

As at 31 December 2010 and 2009, all other receivables aged between 0-30 days.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

|                       | <b>2010</b><br><i>RMB'000</i> | 2009<br><i>RMB'000</i> |
|-----------------------|-------------------------------|------------------------|
| Hong Kong Dollars     | <b>531</b>                    | 149                    |
| United States Dollars | <b>11,762</b>                 | –                      |
| Renminbi              | <b>348,730</b>                | 213,957                |
|                       | <b><u>361,023</u></b>         | <b><u>214,106</u></b>  |



## 12. TRADE AND OTHER PAYABLES

|  | 2010<br><i>RMB'000</i> | 2009<br><i>RMB'000</i> |
|--|------------------------|------------------------|
| Trade payables                         | 64,511                 | 85,528                 |
| Bills payable                          | —                      | 2,712                  |
|  | <hr/>                  | <hr/>                  |
| Total trade and bills payables         | 64,511                 | 88,240                 |
|  | <hr/>                  | <hr/>                  |
| Advances from customers                | 96,689                 | 60,389                 |
| Deposits                               | 3,327                  | 2,818                  |
| Sales commission                       | 2,758                  | 3,723                  |
| Other tax payables                     | 17,484                 | 12,616                 |
| Accrued expenses                       | 9,770                  | 4,100                  |
| Payroll and welfare payables           | 10,207                 | 5,854                  |
| Payable for construction and equipment | 18,692                 | 34,649                 |
| Others                                 | 326                    | 5,595                  |
|  | <hr/>                  | <hr/>                  |
|  | 159,253                | 129,744                |
|  | <hr/>                  | <hr/>                  |
|  | <b>223,764</b>         | <b>217,984</b>         |
|  | <hr/> <hr/>            | <hr/> <hr/>            |

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

|              | 2010<br><i>RMB'000</i> | 2009<br><i>RMB'000</i> |
|--------------|------------------------|------------------------|
| 0 – 60 days  | 50,643                 | 52,521                 |
| 61 – 90 days | 5,017                  | 11,114                 |
| Over 90 days | 8,851                  | 24,605                 |
|              | <hr/>                  | <hr/>                  |
|              | <b>64,511</b>          | <b>88,240</b>          |
|              | <hr/> <hr/>            | <hr/> <hr/>            |

Included in the trade and other payables are payables to related companies amounting to RMB326,000 (2009: RMB50,000).

In 2009, included in the trade and other payables are payables to non-controlling interests amounting to RMB4,516,000.

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 time frame.

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

|                       | <b>2010</b>           | 2009           |
|-----------------------|-----------------------|----------------|
|                       | <b><i>RMB'000</i></b> | <i>RMB'000</i> |
| United States Dollars | <b>6,732</b>          | 2,220          |
| Hong Kong Dollars     | <b>3,698</b>          | 1,636          |
| Renminbi              | <b>213,334</b>        | 214,128        |
|                       | <b><u>223,764</u></b> | <u>217,984</u> |

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overview

During the year under review, total turnover of the Group increased by 28.0% to approximately RMB2,504,733,000 (2009: RMB1,957,525,000).

The Directors considered that the business environment of cornstarch, lysine and their related products returned to that before the outbreak of financial crisis. In general, the average selling prices of the above products had increased during the year under review as the Group benefited from the increasing demand from customers in different industries. In addition, the sales contributed by starch-based sweetener increased from 0.3% to 3% because the Group successfully secured new customers in the second half of 2010.

Total gross profit increased by 34.3% to approximately RMB284,697,000 (2009: RMB211,941,000). Profit after taxation was approximately RMB163,345,000 (2009: RMB126,814,000). Basic earnings per share of the Company was RMB0.0284 per share based on the weighted average number of 5,687,233,000 shares (2009: RMB0.0242 per share based on the weighted average number of 5,225,000,000 shares).

## Business Review

### Turnover analysis by products

#### Cornstarch and ancillary corn-refined products

|                                   | <b>2010</b>             | 2009             |         | <b>2010</b>           | 2009           |         |
|-----------------------------------|-------------------------|------------------|---------|-----------------------|----------------|---------|
|                                   | <b>RMB'000</b>          | RMB'000          | +/(-) % | <b>Tonnes</b>         | Tonnes         | +/(-) % |
| Cornstarch                        | <b>1,318,421</b>        | 983,051          | 34.1%   | <b>547,857</b>        | 517,736        | 5.8%    |
| Corn gluten meal                  | <b>194,087</b>          | 177,609          | 9.3%    | <b>48,098</b>         | 43,976         | 9.4%    |
| Corn fibre                        | <b>114,222</b>          | 92,251           | 23.8%   | <b>108,867</b>        | 105,844        | 2.9%    |
| Corn germ                         | <b>218,906</b>          | 170,816          | 28.2%   | <b>73,292</b>         | 63,315         | 15.8%   |
| Corn slurry                       | <b>3,288</b>            | 1,973            | 66.6%   | <b>26,393</b>         | 14,423         | 83.0%   |
|                                   | <b><u>1,848,924</u></b> | <u>1,425,700</u> | 29.7%   | <b><u>804,507</u></b> | <u>745,294</u> | 7.9%    |
|                                   |                         |                  |         | <b>2010</b>           | 2009           |         |
| Average selling price (per tonne) |                         |                  |         | <b>RMB</b>            | RMB            | +/(-) % |
| Cornstarch                        |                         |                  |         | <b>2,407</b>          | 1,899          | 26.8%   |
| Corn gluten meal                  |                         |                  |         | <b>4,035</b>          | 4,039          | (0.1%)  |
| Corn fibre                        |                         |                  |         | <b>1,049</b>          | 872            | 20.3%   |
| Corn germ                         |                         |                  |         | <b>2,987</b>          | 2,698          | 10.7%   |
| Corn slurry                       |                         |                  |         | <b><u>125</u></b>     | <u>137</u>     | (8.8%)  |

Sales of cornstarch and ancillary corn-refined products for the year ended 31 December 2010 increased by 29.7% to approximately RMB1,848,924,000 (2009: RMB1,425,700,000). This business segment had the highest turnover and contributed the highest amount of profit to the Group. It represented about 73.8% (2009:72.8%) of total turnover of the Group.

Sales of cornstarch increased significantly by 34.1% to approximately RMB1,318,421,000 (2009: RMB983,051,000) mainly due to the surge in selling price of cornstarch, which reached the highest in the Group's trading history to about RMB2,407 per tonne (net of value-added tax). Sales volume of cornstarch increased slightly by 5.8% to 547,857 tonnes (2009: 517,736 tonnes) because some cornstarch were consumed internally for the production of starch-based sweetener.

Corn gluten meal and corn fibre are raw materials for the production of animal feeds. Demand and average selling prices of these two products were driven up due to the buoyant market.

Corn germ is a major raw material for the production of cooking oil. Sales and sales volume of corn germ was approximately RMB218,906,000 (2009: RMB170,816,000) and 73,292 tonnes (2009: 63,315 tonnes) respectively. The significant increase in sales of corn germ was mainly due to the increase in the average selling price and utilisation ratio in 臨清德能金玉米生物有限公司 (Linqing Deneng Golden Corn Bio Limited) (“Deneng Golden Corn”).

Sales of corn slurry increased rapidly by 66.6% to approximately RMB3,288,000 (2009: RMB1,973,000). The increase in sales of corn slurry was mainly due to the increase in the production output ratio of Deneng Golden Corn during the year under review.

*Lysine and fertilisers*

|                                   | <b>2010</b>           | 2009           |         | <b>2010</b>          | 2009          |         |
|-----------------------------------|-----------------------|----------------|---------|----------------------|---------------|---------|
|                                   | <b>RMB'000</b>        | RMB'000        | +/(-) % | <b>Tonnes</b>        | Tonnes        | +/(-) % |
| Lysine                            | <b>456,462</b>        | 379,876        | 20.2%   | <b>52,171</b>        | 51,912        | 0.5%    |
| Fertilisers                       | <u><b>15,621</b></u>  | <u>15,108</u>  | 3.4%    | <u><b>35,077</b></u> | <u>28,408</u> | 23.5%   |
|                                   | <u><b>472,083</b></u> | <u>394,984</u> | 19.5%   | <u><b>87,248</b></u> | <u>80,320</u> | 8.6%    |
|                                   |                       |                |         | <b>2010</b>          | 2009          |         |
| Average selling price (per tonne) |                       |                |         | <b>RMB</b>           | RMB           | +/(-) % |
| Lysine                            |                       |                |         | <b>8,749</b>         | 7,318         | 19.6%   |
| Fertilisers                       |                       |                |         | <u><b>445</b></u>    | <u>532</u>    | (16.4%) |

Sales of lysine and related products increased by 19.5% to approximately RMB472,083,000 (2009: RMB394,984,000), which represented about 18.8% (2009:20.2%) of total turnover of the Group.

Sales of lysine increased significantly by 20.2% to approximately RMB456,462,000 (2009: RMB379,876,000). The increase in sales of lysine was mainly attributable to the increase in average selling price of lysine during the year under review.

Sales of fertilisers increased slightly by 3.4% to approximately RMB15,621,000 (2009: RMB15,108,000). The effect of increase in sales volume was offset by the decrease in the average selling price of fertilisers during the year under review.

*Starch-based sweetener*

|                                   | <b>2010</b>          | 2009         |          | <b>2010</b>          | 2009         |          |
|-----------------------------------|----------------------|--------------|----------|----------------------|--------------|----------|
|                                   | <b>RMB'000</b>       | RMB'000      | +/(-) %  | <b>Tonnes</b>        | Tonnes       | +/(-) %  |
| Starch-based sweetener            | <u><b>75,908</b></u> | <u>5,502</u> | 1,279.6% | <u><b>34,906</b></u> | <u>2,892</u> | 1,107.0% |
| Average selling price (per tonne) |                      |              |          | <b>2010</b>          | 2009         |          |
|                                   |                      |              |          | <b>RMB</b>           | RMB          | +/(-) %  |
| Starch-based sweetener            |                      |              |          | <u><b>2,175</b></u>  | <u>1,902</u> | 14.4%    |

Sales of starch-based sweetener increased robustly to approximately RMB75,908,000 from approximately RMB5,502,000, which represented 3.0% (2009: 0.3%) of total turnover of the Group. Since the Group completed the starch-based sweetener production plant and started its operation in the last quarter of 2009, the increase in sales was mainly due to the full year effect and the increase in average selling price. Some new customers were also secured in brewage sector in the second half year of 2010.

*Electricity and steam*

|             | <b>2010</b>           | 2009           |         |
|-------------|-----------------------|----------------|---------|
|             | <b>RMB'000</b>        | RMB'000        | +/(-) % |
| Electricity | <b>35,500</b>         | 56,485         | (37.2%) |
| Steam       | <u><b>72,318</b></u>  | <u>74,854</u>  | (3.4%)  |
|             | <u><b>107,818</b></u> | <u>131,339</u> | (17.9%) |

Sales of electricity and steam decreased by 17.9% to approximately RMB107,818,000, which represented 4.4% (2009: 6.7%) of total turnover of the Group. The decrease was attributable to the reduction of external electricity supply to the local electricity union network.

### *Export sales analysis*

|                             | <b>Cornstarch</b> | <b>Corn gluten<br/>meal</b> | <b>Corn fibre</b> | <b>Lysine</b>  | <b>Total</b>   |
|-----------------------------|-------------------|-----------------------------|-------------------|----------------|----------------|
|                             | <i>RMB'000</i>    | <i>RMB'000</i>              | <i>RMB'000</i>    | <i>RMB'000</i> | <i>RMB'000</i> |
| 2010                        |                   |                             |                   |                |                |
| Export sales                | 34,919            | 72,826                      | 37,961            | 113,699        | 259,405        |
| Export sales to total sales | 1.4%              | 2.9%                        | 1.5%              | 4.5%           | 10.3%          |
| 2009                        |                   |                             |                   |                |                |
| Export sales                | 38,045            | 71,448                      | 19,253            | 75,573         | 204,319        |
| Export sales to total sales | 1.9%              | 3.6%                        | 1.0%              | 3.9%           | 10.4%          |

The percentage of export sales to total turnover for the year under review was similar to that of last year.

Percentage of export sales of cornstarch to total sales was less than last year because of the increase in domestic cornstarch demand. The cancellation of export tax rebate on the export sale of cornstarch effected on 15 July 2010 did not have substantial impact on the overall sales performance of the Group's cornstarch sales.

Corn gluten meal, corn fibre and lysine were raw materials for the production of animal feeds. Each of the export volume of these products was more than that of last year. In respect of lysine sales, the Group contracted with some new customers in Russia. The Directors are of the opinion that the overseas market of animal feeds has fully recovered.

### *Cost of goods sold analysis*

|                         | <b>2010</b>             |                      | <b>2009</b>             |                      |
|-------------------------|-------------------------|----------------------|-------------------------|----------------------|
|                         | <i>RMB'000</i>          | <i>%</i>             | <i>RMB'000</i>          | <i>%</i>             |
| Corn kernel             | <b>1,680,111</b>        | <b>75.7%</b>         | 1,296,028               | 74.2%                |
| Coal and utilities      | <b>297,251</b>          | <b>13.4%</b>         | 246,608                 | 14.1%                |
| Other materials         | <b>60,356</b>           | <b>2.7%</b>          | 59,955                  | 3.4%                 |
| Direct labour           | <b>41,531</b>           | <b>1.9%</b>          | 33,443                  | 1.9%                 |
| Manufacturing overheads | <b>51,318</b>           | <b>2.3%</b>          | 46,363                  | 2.7%                 |
| Depreciation            | <b>39,801</b>           | <b>1.8%</b>          | 41,294                  | 2.4%                 |
| Others                  | <b>49,668</b>           | <b>2.2%</b>          | 21,893                  | 1.3%                 |
|                         | <b><u>2,220,036</u></b> | <b><u>100.0%</u></b> | <b><u>1,745,584</u></b> | <b><u>100.0%</u></b> |

Corn kernel, coal and utilities were the major costs of the Group. They attributed to about 89.1% (2009: 88.3%) of total cost of goods sold. The Directors regard that the price of corn kernel is indirectly influenced by the increase in demand on daily consumer goods, such as soft drinks, beer, papermaking, yarn, medicine and food, which production requires the same raw material.

During the year under review, the average corn kernel and coal price increased to about RMB1,750 per tonne (2009: RMB1,506 per tonne) and RMB846 per tonne (2009: RMB693 per tonne) respectively. The Group will adjust the selling prices with the reference to the movement of corn kernel price and coal price.

### *Gross profit analysis*

|  | <b>2010</b>           | 2009           |         |
|--|-----------------------|----------------|---------|
|  | <b>RMB'000</b>        | RMB'000        | +/(-) % |
| Cornstarch and ancillary corn-refined products | <b>189,972</b>        | 95,301         | 99.3%   |
| Lysine and fertilisers                         | <b>79,198</b>         | 70,929         | 11.7%   |
| Starch-based sweetener                         | <b>(187)</b>          | (1,378)        | (86.4%) |
| Electricity and steam                          | <b>15,714</b>         | 47,089         | (66.6%) |
|  | <b><u>284,697</u></b> | <u>211,941</u> | 34.3%   |

#### *Cornstarch and ancillary corn-refined products*

Gross profit for the year under review was approximately RMB189,972,000 (2009: RMB95,301,000). The gross profit margin of this business segment increased from 6.7% to 10.3% because the Group had a successful price monitoring mechanism on raw materials and maintained high production efficiency.

#### *Lysine and fertilisers*

Gross profit of this business segment increased by 11.7% to approximately RMB79,198,000 (2009: RMB70,929,000), while the gross profit margin decreased slightly to 16.8% from 18.0%. It is because the allocated cost of electricity and steam from our power plant was increased during the year under review.

#### *Starch-based sweetener*

The performance of starch-based sweetener business was better than the year 2009 because the demand and utilisation rate increased. The Group did not record any profit for this business segment during the year under review. The Directors expect this business segment will become profitable in a foreseeable future.

### *Electricity and steam*

Gross profit and its margin for this business segment decreased significantly to approximately RMB15,714,000 (2009: RMB47,089,000) and 14.6% (2009:35.9%) respectively. As the coal price surged during the year under review, the Group reduced the external electricity supply to the local electricity union network in the second half year.

### *Other income*

Other income mainly represented government grants, sales of scrap oil and coal and steam connection income. Other income increased significantly by 168.4% to approximately RMB29,591,000 (2009: RMB11,023,000) because the government increased the amount of subsidies to the Group and our indirectly 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”) sold excessive electricity quota to another company during the year under review.

### *Distribution expenses*

Distribution expenses increased by 41.3% to approximately RMB72,041,000 (2009: RMB50,981,000) because of the increase in transportation cost.

### *Administrative expenses*

Administrative expenses increased by 27.6% to approximately RMB60,262,000 (2009: RMB47,218,000). The increase was mainly attributable to the increase in staff cost, research and development expenses and foreign exchange loss.

### *Share of result from an associate*

The share of profit from our associate, 壽光金遠東變性澱粉有限公司 (Shouguang Golden Far East Modified Starch Co., Ltd.) was approximately RMB1,727,000 (2009: RMB2,147,000) for the year ended 31 December 2010.

### *Taxation*

Tax expenses increased from RMB662,000 to RMB26,635,000 for the year under review. The increase was mainly attributable to the amortisation of deferred tax assets in respect of losses incurred in previous years. Golden Corn was in the final year of enjoying 50% tax relief of the People’s Republic of China (the “PRC”) enterprise income tax.

We were not liable for income tax in Hong Kong as we did not have any assessable income arising in/derived from Hong Kong.



## **Human Resources and Remuneration Policies**

As at 31 December 2010, the Group had approximately 2,214 full time staff (2009: 2,181). Total staff costs, including Directors' emoluments, of the Group was approximately RMB71,915,000 (2009: RMB57,357,000). The Group considers the experience, responsibility, and performance of the Directors and employees of the Group in order to determine their respective remuneration packages. The Company has also adopted a share option scheme (the "Scheme") with a 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. In addition, a remuneration committee is delegated by the Board to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management.

As at 31 December 2010, no share options have been granted under the Scheme.

## **Financial Review**

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

The Group adopts a conservative approach for cash management and investment on uncommitted funds. Any unused fund is intended to place on short term/fixed deposits with authorised financial institutions in Hong Kong and/or the PRC.

### ***Foreign currency exposure***

The Directors consider that the Group has limited foreign currency exposure from our operating activities because our operations are mainly conducted in the PRC. Sales and purchases are mainly denominated in Renminbi and the foreign currency risk associated with export sales is not material. In view of the minimal foreign currency exchange risk, we monitored the exchange rate closely instead of entering into any foreign exchange hedging arrangement.

### ***Liquidity, financial resources and capital structure***

As at 31 December 2010, the available and unutilised banking facilities of the Group amounted to approximately RMB280,000,000. The Directors are of the opinion that the working capital available to the Group is sufficient for its present requirements.

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

|  | <b>2010</b>    | 2009           |
|--|----------------|----------------|
|  | <i>RMB'000</i> | <i>RMB'000</i> |
| Borrowings:                                |                |                |
| – Within 1 year                            | <b>30,630</b>  | 69,509         |
| – Between 1 and 2 years                    | <b>886</b>     | 886            |
| – Between 2 and 5 years                    | <b>2,659</b>   | 2,659          |
| – Over 5 years                             | <b>2,881</b>   | 3,767          |
|  | <hr/>          | <hr/>          |
| Total                                      | <b>37,056</b>  | 76,821         |
|  | <hr/>          | <hr/>          |
| Included:                                  |                |                |
| Fixed-rate borrowings                      |                |                |
| – Government loan                          | <b>7,977</b>   | 9,750          |
| – Cash advances for discounted bills       | <b>29,079</b>  | 67,071         |
|  | <hr/>          | <hr/>          |
|  | <b>37,056</b>  | 76,821         |
|  | <hr/> <hr/>    | <hr/> <hr/>    |
| Debtors turnover (days)                    | <b>40</b>      | 30             |
| Creditors turnover (days)                  | <b>13</b>      | 15             |
| Inventories turnover (days)                | <b>32</b>      | 34             |
| Current ratio                              | <b>3.9</b>     | 2.2            |
| Quick ratio                                | <b>3.3</b>     | 1.6            |
| Gearing ratio – borrowings to total assets | <b>2.1%</b>    | 5.7%           |

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

The Group did not pledge any leasehold land and building nor bank acceptance bills to secure banking facilities at the year ended 31 December 2010.

As at 31 December 2010, the Group did not have any material contingent liabilities.

#### ***Use of net proceeds from placing***

On 4 February 2010, the placing agreement was entered into among Merry Boom Group Limited (the “Vendor”), the Company and Macquarie Capital Securities Limited (the “Placing Agent”), pursuant to which the Placing Agent has agreed to place, on a fully underwritten basis, 277,340,000 ordinary shares of HK\$0.10 each in the capital of the Company held by the Vendor to not less than six independent professional institutional or other investors, all of who are independent third parties, at HK\$1.40 per share (the net price being HK\$1.37 per share). On the same date, the subscription agreement was entered into between the Company and the Vendor, whereby the Vendor has conditionally agreed to subscribe

for 277,340,000 new shares at a subscription price of HK\$1.40 per share (the net price being HK\$1.37 per share), giving rise to an aggregate net proceeds of approximately HK\$381,030,000 (equivalent to approximately RMB335,855,000), which are intended for expansion of the production capacity of the Group and as general working capital of the Group. The Directors considered that it was in the interests of the Company to raise capital from the equity market in order to increase working capital of the Group and to enhance the capital base of the Company. The closing price was HK\$1.73 per share (or equivalent to HK\$0.865 per share after the adjustment of bonus issue made in June 2010 on the basis of one new share for every one existing share) as quoted on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 3 February 2010.

As at 31 December 2010, the Group utilised approximately RMB17,520,000 for the expansion project and the acquisition of machineries and equipments.

## **FUTURE PLAN AND PROSPECT**

The Group endeavours to become a leading cornstarch manufacturer in the PRC. In order to achieve this target, the Group has increased total annual production capacity of cornstarch from 850,000 tonnes to 950,000 tonnes through 100,000 tonnes technological enhancement which was completed in the first quarter of 2011 by Deneng Golden Corn. The Directors believe that the completion of such technology enhancement project can facilitate the Group to consolidate its existing cornstarch distribution network in the middle and western region of the PRC.

In addition, as disclosed in the announcement of the Company dated 20 August 2010, Golden Corn signed a project development memorandum of understanding with the Municipal Government of Shouguang (the “Municipal Government”). As at the date of this announcement, Golden Corn and the Municipal Government are still looking for a suitable location of the new production site. The Directors strongly believe that the expansion plan will be successful and prosperous with the support of the Municipal Government.

In 2011, the Group will allocate more resources on research and development of new products. Such new products will use cornstarch as raw material which would effectively increase the utilisation rate of its existing production capacity.

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

During the year ended 31 December 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

## **CORPORATE GOVERNANCE**

The Directors are of the opinion that the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) throughout the year.

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

The Company has adopted its own code of conduct governing securities transactions by the Directors of the Company (the “Securities Dealing Code”) on terms no less exacting than the Model Code for Securities Transactions by Directors of the Listed Issuers set out in Appendix 10 to the Listing Rules. The Securities Dealing Code applies to all Directors and to all employees to whom it is given and who are informed that they are subject to its code provisions. Having made specific enquiry by the Company, all Directors confirmed that they have complied with the required standard set out in the Securities Dealing Code throughout the period under review.

## **AUDIT COMMITTEE**

The audit committee of the Company comprises all independent non-executive Directors. The audit committee has reviewed and discussed with the management and the external auditor, PricewaterhouseCoopers, regarding the consolidated financial statements of the Group for the year ended 31 December 2010.

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

The Annual Report for the year ended 31 December 2010 containing all the financial and other related information required will be published on the websites of the Stock Exchange and the Company ([www.chinastarch.com.hk](http://www.chinastarch.com.hk)) in due course.

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

Hong Kong, 22 March 2011

*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 Zengqong and Mr Yue Kwai Wa, Ken.*