



CHINA STARCH HOLDINGS LIMITED

中國澱粉控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 3838)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

INTERIM RESULTS

The board (the “Board”) of directors (the “Director(s)”) of China Starch Holdings Limited (the “Company”) announces the unaudited interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2007 (the “Period”), together with the unaudited comparative figures as follows.

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	Six months ended	
		30 June	
		2007	2006
		<i>RMB'000</i>	<i>RMB'000</i>
		<i>(unaudited)</i>	<i>(unaudited)</i>
Revenue	3	603,171	430,999
Cost of sales		<u>(494,461)</u>	<u>(356,393)</u>
Gross profit		108,710	74,606
Other income		4,584	5,565
Investment income		1,137	2,469
Distribution expenses		(17,852)	(11,492)
Administrative expenses		(13,550)	(14,040)
Finance costs		(10,916)	(7,632)
Share of results of an associate		<u>(2,089)</u>	<u>(911)</u>
Profit before taxation		70,024	48,565
Taxation	4	<u>—</u>	<u>(14,650)</u>
Profit for the period		<u>70,024</u>	<u>33,915</u>
Attributable to:			
Equity holder of parent		70,024	18,512
Minority interests		<u>—</u>	<u>15,403</u>
		<u>70,024</u>	<u>33,915</u>
Dividends	6	<u>20,793</u>	<u>108,000</u>
Earnings per share			
Basic (RMB)	7	<u>0.2668</u>	<u>0.0705</u>

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	30 June 2007	31 December 2006
		<i>RMB'000</i>	<i>RMB'000</i>
		<i>(unaudited)</i>	<i>(audited)</i>
Non-current Assets			
Property, plant and equipment		413,807	433,876
Prepaid lease payment		34,580	35,099
Interests in an associate		29,715	21,875
Deferred tax assets		<u>1,368</u>	<u>1,368</u>
		<u>479,470</u>	<u>492,218</u>
Current Assets			
Inventories		79,426	115,915
Trade and other receivables	8	140,195	138,352
Prepaid lease payments		939	941
Amount due from a related company		96	2,000
Pledged bank deposits		2,000	37,500
Bank balances and cash		<u>121,105</u>	<u>55,976</u>
		<u>343,761</u>	<u>350,684</u>
Current Liabilities			
Trade and other payables	9	89,194	99,537
Amount due to a related company		—	14,265
Dividend payable		48,500	78,500
Income tax payable		11,381	19,881
Employee housing deposits		29,809	31,445
Borrowings		<u>85,813</u>	<u>101,608</u>
		<u>264,697</u>	<u>345,236</u>
Net current assets		<u>79,064</u>	<u>5,448</u>
Total Assets less Current Liabilities		<u><u>558,534</u></u>	<u><u>497,666</u></u>

	<i>Notes</i>	30 June 2007 <i>RMB'000</i> <i>(unaudited)</i>	31 December 2006 <i>RMB'000</i> <i>(audited)</i>
Non-current Liabilities			
Employee housing deposits		16,066	18,356
Borrowings		297,678	283,394
Deferred income		<u>11,774</u>	<u>12,131</u>
		<u>325,518</u>	<u>313,881</u>
Net assets		<u><u>233,016</u></u>	<u><u>183,785</u></u>
Capital and Reserves			
Share capital		151	151
Reserves		149,317	149,317
Retained earnings		<u>83,548</u>	<u>34,317</u>
Total Equity		<u><u>233,016</u></u>	<u><u>183,785</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GROUP REORGANISATION AND BASIS OF PREPARATION

The Company was incorporated in Cayman Islands under the Cayman Islands Companies Law as an exempted company with limited liability on 29 November 2006 and its shares (the “Shares”) have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with effect from 27 September 2007.

Pursuant to a group reorganisation (the “Group Reorganisation”) to rationalise the structure of the Group in preparation for the listing of the Shares on the Stock Exchange, the Company became the holding company of the Group on 29 November 2006. Details of the Group Reorganisation were set out in the prospectus issued by the Company dated 12 September 2007 (the “Prospectus”).

The condensed consolidated income statement, condensed consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six-month period ended 30 June 2006 are prepared as if the current group structure had been in existence throughout the six-month period ended 30 June 2006, or since the respective dates of incorporation or establishment of the companies comprising the Group where this is a shorter period.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and with Hong Kong Accounting Standard 34 (“HKAS 34”), Interim Financial Reporting.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s financial statements for the 3 years ended 31 December 2006 and 4 months ended 30 April 2007 included in the Prospectus.

At the date of this announcement, the Hong Kong Institute of Certified Public Accountants has issued the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and interpretations (“HK(IFRIC) — INT”) that are not yet effective for the Group’s financial year beginning on 1 January 2007. The Group has not early adopted these new and revised standards and interpretations in the preparation of the condensed

consolidated financial statements. The Directors have considered the following standards and interpretations and anticipate that the application of them will have no material effect on how the results of operations and financial position of the Group are prepared and presented.

HKAS 23 (Revised)	Borrowing Cost ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) - INT 11	HKFRS 2: Group and Treasury Share Transaction ²
HK(IFRIC) - INT 12	Service Concession Arrangements ³
HK(IFRIC) - INT 13	Customer Loyalty Programmes ⁴
HK(IFRIC) - INT 14	HKAS19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 January 2008

⁴ Effective for annual periods beginning on or after 1 July 2008

3. SEGMENT INFORMATION

Business Segments

For management purposes, the Group is currently organised into three operating divisions — cornstarch, lysine, steam and electricity. These divisions are the basis 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
Steam and electricity	— the production and sale of steam and electricity

Segment information about these business is presented below.

Six months ended 30 June 2007

(Unaudited)

	Cornstarch <i>RMB'000</i>	Lysine <i>RMB'000</i>	Steam and electricity <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Total <i>RMB'000</i>
REVENUE					
External sales	417,334	132,390	53,447	—	603,171
Inter-segment sales	<u>—</u>	<u>—</u>	<u>39,667</u>	<u>(39,667)</u>	<u>—</u>
Total	<u>417,334</u>	<u>132,390</u>	<u>93,114</u>	<u>(39,667)</u>	<u>603,171</u>
Inter-segment sales are charged at cost.					
RESULT					
Segment result	<u>38,541</u>	<u>38,123</u>	<u>17,879</u>	<u>—</u>	94,543
Unallocated distribution expenses					(1,701)
Administrative expenses					(13,550)
Share of result of an associate					(2,089)
Other income					2,600
Investment income					1,137
Finance costs					<u>(10,916)</u>
Profit before taxation					70,024
Taxation					<u>—</u>
Profit for the period					<u>70,024</u>

Six months ended 30 June 2006

(Unaudited)

	Cornstarch	Lysine	Steam and electricity	Eliminations	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
REVENUE					
External sales	315,966	72,344	42,689	—	430,999
Inter-segment sales	—	—	39,444	(39,444)	—
Total	<u>315,966</u>	<u>72,344</u>	<u>82,133</u>	<u>(39,444)</u>	<u>430,999</u>

Inter-segment sales are charged at cost.

RESULT

Segment result	<u>40,796</u>	<u>14,072</u>	<u>11,054</u>	<u>—</u>	65,922
Unallocated distribution expenses					(1,954)
Administrative expenses					(14,040)
Share of result of an associate					(911)
Other income					4,711
Investment income					2,469
Finance costs					<u>(7,632)</u>
Profit before taxation					48,565
Taxation					<u>(14,650)</u>
Profit for the period					<u>33,915</u>

4. TAXATION

	Six months ended 30 June	
	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Current tax	—	9,316
Deferred tax	—	5,334
Income tax expense for the period	<u>—</u>	<u>14,650</u>

No provision for Hong Kong Profits Tax has been made as the Group's profit neither arose in and not derived from Hong Kong during both periods.

山東壽光巨能金玉米開發有限公司 (Shandong Shonguang Juneng Golden Corn Development Co., Ltd.) ("Golden Corn"), a subsidiary of the Company, 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 laws and regulations in the People's Republic of China ("PRC"), Golden Corn is subject to foreign enterprise income tax rate of 27% on the taxable income and is entitled to exemption from PRC Foreign Enterprise Income Tax for two years commencing from its profit-making year, followed by a 50% relief for the next three years. The first profit-making year is claimed for the period from 26 September 2006 to 31 December 2006.

In accordance with the Law of the PRC on Enterprise Income Tax (adopted at the 5th section of the 10th National People's Congress on 16 March 2007, promulgated by Order No. 63 of the President of the People's Republic of China and effective as of 1 January 2008), the applicable tax rate for Golden Corn will change to 25%: 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 the tax exemption of PRC Foreign Enterprise Income Tax for two years commencing from its first profit-making year, followed by a 50% relief for the next three years. 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.

5. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging the following items:

	Six months ended 30 June	
	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Amortisation of prepaid lease payments (included in administrative expenses)	475	474
Depreciation of property, plant and equipment	23,716	21,907
Loss on disposal of properties, plant and equipment	22	62
Loss on disposal of prepaid lease payment	46	—
	<u><u>46</u></u>	<u><u>—</u></u>

6. DIVIDENDS

Dividend of RMB20,793,000 was declared by the Company to the ultimate holding company of the Group, being Merry Boom Group Limited (“Merry Boom”) on 20 March 2007.

The Board does not further propose any interim dividend for the six months ended 30 June 2007 (first half year 2006: dividend RMB108,000,000 was declared by Golden Corn to its then shareholder).

After the period ended 30 June 2007, dividend in the amount of Hong Kong dollars equivalent to RMB50,000,000 was declared by the Company to Merry Boom on 20 July 2007.

7. EARNINGS PER SHARE

	Six months ended 30 June	
	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Earnings		
Earnings for the purpose of basic earnings per share for the period attributable to parent	<u>70,024</u>	<u>18,512</u>
	Six months ended 30 June	2006
	2007	2006
	<i>'000</i>	<i>'000</i>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>262,500</u>	<u>262,500</u>

The calculation of basic earnings per share is based on the consolidated profit attributable to parent of the Company for both periods and on 262,500,000 shares in issued, assuming the capitalisation issue as described in Appendix V to the Prospectus occurred on the first day of both periods.

8. TRADE AND OTHER RECEIVABLES

Trade receivable is mainly arise from sales of cornstarch, lysine, their related products and steam and electricity. Credit terms to both third parties and related parties for respective products are as follow:

Cornstarch and its related products	Within 30 days
Lysine and its related products	30 to 60 days
Steam and electricity	Within 30 days

The following is an aged analysis of trade receivable at the balance sheet date:

	30 June 2007	31 December 2006
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
0 - 30 days	76,808	94,853
31 - 60 days	25,143	10,705
61 - 90 days	16,670	14,249
91 - 180 days	16,027	17,269
181 - 365 days	255	658
	<hr/>	<hr/>
Other receivables	134,903	137,734
	5,292	618
	<hr/>	<hr/>
	140,195	138,352
	<hr/> <hr/>	<hr/> <hr/>

9. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payable at the balance sheet date:

	30 June 2007	31 December 2006
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
0 - 60 days	27,758	36,040
61 - 90 days	1,366	6,744
> 90 days	12,742	17,653
	<hr/>	<hr/>
Other payables	41,866	60,437
	47,328	39,100
	<hr/>	<hr/>
	89,194	99,537
	<hr/> <hr/>	<hr/> <hr/>

10. SUBSEQUENT EVENTS

1. In August 2007, Golden Corn entered into mortgage loan agreements with Shouguang City subbranch of Agriculture Bank of China, Shouguang City subbranch of Bank of China. Pursuant to the terms of the agreements, Golden Corn pledged certain properties and land use rights to secure the credit facilities granted by the respective banks to Golden Corn. The carrying values of these assets pledged at 30 June 2007 are as follows:

	At 30 June 2007 <i>RMB'000</i>
Buildings and plant	42,792
Land use rights	<u>8,771</u>
	<u><u>51,563</u></u>

2. Pursuant to a written resolution passed on 24 September 2007, it was resolved that (i) the authorised share capital of the Company is increased from HK\$200,000 to HK\$100,000,000 by the creation of a further 998,000,000 shares; (ii) the loan from Merry Boom of HK\$136,933,000 is capitalised by the allotment and issue of an aggregate of 500,000 shares of the Company to Merry Boom; and (iii) the capitalisation of HK\$34,800,000 standing to the credit of the special reserve account of the Company by applying such sum in paying up in full at par 348,000,000 shares of the Company for allotment and issue to Merry Boom.
3. The Shares of the Company were listed on the main board of the Stock Exchange on 27 September 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Our Group is principally engaged in the manufacturing and sales of cornstarch, 98.5% L-lysine hydrochloride salt and other ancillary corn-refined products and corn based products such as corn slurry, corn germ, corn fibre, corn gluten meal and agricultural fertilisers.

In addition, we have been engaging in the sales of steam and electricity since 1999 serving principally local customers in Shouguang City. We had temporarily suspended our sales of electricity since October, 2006 as sales of electricity was excluded from the approved business scope of the revised business licence granted to Golden Corn pursuant to its conversion into a wholly foreign owned enterprise. We had adjusted our level of steam and electricity production to increase our sales of steam. Following positive confirmation that no additional approval requirement was required, Golden Corn's revised business licence was granted on 8 June 2007 and we re-commenced our sales of electricity in August 2007.

FINANCIAL PERFORMANCE

Turnover

During the period under review, our Group achieved a remarkable increase in turnover by some 39.9% compared to the same period in 2006. All of our three business segments, namely cornstarch and corn-refined by-products, lysine and corn based by-products and steam and electricity exhibited increase in turnover.

Turnover of our cornstarch and corn-refined by-products segment in the review period was approximately RMB417,334,000 (same period of 2006: approximately RMB315,966,000) and represented an increase of approximately RMB101,368,000 or 32.1%.

During the review period, sales of cornstarch amounted to about RMB298,373,000 (same period of 2006: about RMB235,484,000), which contributed approximately 71.5% (same period of 2006: approximately 74.5%) to our cornstarch and corn-refined by-products segment turnover. Sales volume of cornstarch increased by 11.3% from approximately 140,000 tonnes in the first half of 2006 to approximately 156,000 tonnes in the review period, with average selling price increased by 13.9% from about RMB1,681 per tonne in the first half of 2006 to about RMB1,914 per tonne in the review period.

Turnover of our lysine and corn based by-products segment for the review period was approximately RMB132,390,000 (same period of 2006: approximately RMB72,344,000), which represented an approximately RMB60,046,000 (approximately 83.0%) increase.

During the review period, lysine contributed about 95.3% (same period of 2006: about 88.7%) to our lysine and corn based by-products segment turnover. Due to increasing customers' acceptance of our lysine and our expanded customer base, we reported significant increase (some 84.0%) in sales volume of lysine from about 6,500 tonnes in the first half of 2006 to about 12,000 tonnes in the review period. Coupled with the moderate increase in average lysine selling price of about 6.8% (compared to the same period of 2006), turnover of lysine increased from about RMB64,195,000 in the first half of 2006 to about RMB126,123,000 in the review period.

Turnover of steam for the review period was approximately RMB53,447,000 comparing to approximately RMB20,140,000 in the same period in 2006, which represented an approximately RMB33,307,000 (approximately 165.4%) increase. Due to the increased demand from 山東壽光巨能特鋼有限公司 (Shandong Shouguang Juneng Special Steel Co. Ltd.) and our expanded sales and marketing efforts, the sales volume of steam increased from 179,000 tonnes in the first half of 2006 to 485,000 tonnes in the review period (i.e. about 170.9% increase).

We had temporarily suspended the sales of electricity since October 2006 as it was excluded from the approved business scope of the revised business licence granted to Golden Corn pursuant to its conversion into a wholly foreign owned enterprise. We had adjusted our level of steam and electricity production to increase our sales of steam. Following positive confirmation that no additional approval requirement was required, Golden Corn's revised business licence was granted on 8 June 2007. We re-commenced our sales of electricity in August, 2007.

Cost of goods sold and gross profit

During the period under review, our overall cost of sales and gross profit increased by 38.7% and 45.7% respectively compared to the same period in 2006. Our overall gross profit margin also improved from about 17.3% for the first half of 2006 to about 18.0% for the first half of 2007.

Cost of sales for our cornstarch and corn-refined by-products segment increased from about RMB267,242,000 in the first half of 2006 to about RMB365,276,000 in the review period (approximately 36.7% increase). Gross profit margin of this business segment reduced from approximately 15.4% for the first half of 2006 to about 12.5% for the first half of 2007 mainly due to the increase in cost of corn kernels. Although the average price of our corn kernels increased by some 21.5% over the same period of 2006, the keen demand for our cornstarch and corn-refined by-products enabled us to pass on a significant portion of such cost increase to our customers through upward selling price adjustments (an increase of 13.9% for cornstarch compared to the same period of 2006).

Cost of sales for our lysine and corn based by-products segment increased from about RMB56,660,000 in the first half of 2006 to about RMB92,633,000 in the review period. During the period under review, the allocated cost of starch paste, being the principal raw material for our lysine production, increased due to higher cost of corn kernels and represented some 30.9% of the segment turnover (same period of 2006: about 20.5%). On the other hand, cost of consumables and utilities increased relatively in tandem with our increased level of sales. Overall, our increased level of production and sales coupled with a moderate increase in average selling price of lysine have contributed to an improved gross profit margin from about 21.7% (first half of 2006) to 30.0% (first half of 2007) for this business segment.

Due to the significant increase in sales volume of steam in the review period, the cost of sales for steam increased by 142.0% comparing with the first half year of 2006. With our fourth power generator system which adopted equipment with more output efficiency being put into operation during the full review period, the gross profit margin of steam segment improved from about 25.0% in the first half year of 2006 to about 31.6% in the review period despite the slight increase in the average price of coal during the review period (an increase of some 5.4% compared to the same period of 2006).

Other Income

Other income for the six months ended 30 June 2007 comprised principally sales of scrap of coal and oil, certain gain and discount arising from the investment of our associated companies, staff quarter rental income, steam pipeline construction income and government grants. Our other income reduced by approximately 17.6% to approximately RMB4,584,000 (same period of 2006: approximately RMB5,565,000) mainly due to the cessation of our sales support services to 壽光金遠東變性澱粉有限公司 (Shouguang Golden Far East Modified Starch Co., Ltd.) (“Golden Far East”) following termination of the sales representative agreement in August, 2006.

Distribution expenses

Distribution expenses mainly comprised transportation charges, salaries and commissions and export expenses. For the six months ended 30 June 2007, our distribution expenses increased by approximately 55.3% to approximately RMB17,852,000 (same period of 2006: approximately RMB11,492,000) mainly as a result of our increase in sales. The increase in distribution expenses for the six months ended 30 June 2007 reflected mainly increased transportation charges by about RMB4,258,000 and increased sales and commissions by about RMB2,194,000, both of which were relatively in line with our increased sales.

Administrative expenses

Administrative expenses comprised mainly salary and staff benefits, entertainment, depreciation and amortisation, research and testing and other expenses. For the six months ended 30 June 2007, administrative expenses decreased by approximately 3.5% to approximately RMB13,550,000 over the same period of 2006, which was partly due to decreased staff benefits expense as we ceased to be required statutorily to contribute certain staff benefits following the conversion of Golden Corn into a wholly foreign owned enterprise in September 2006.

Finance costs

Finance costs comprised principally interests on bank borrowing and imputed interests on employees housing deposit and loan from shareholder. Finance costs for the period increased by approximately 43.0% to approximately RMB10,916,000 principally due to the imputed interest on loan from shareholder incepted in December 2006.

Share of results of associates

This item represents the share of result of our associated company, Golden Far East, during the period. The share of loss of associate for the period increased by approximately 129.3% to approximately RMB2,089,000 (same period of 2006: approximately RMB911,000) partly because certain of Golden Far East's new products were still in the research and development stage during the period under review.

Taxation

The tax charge represents income tax of Golden Corn in the PRC. Golden Corn was a domestic company up to 25 September 2006 and was subject to domestic income tax rate of 33%.

On 26 September 2006 Golden Corn became a wholly foreign owned enterprise. Pursuant to the relevant law and regulations in the PRC, Golden Corn is subject to foreign enterprise income tax rate of 27% on the taxable income and is entitled to exemption from PRC Foreign Enterprise Income Tax for two years commencing from its profit-making year, followed by a 50% relief for the next three years. The first profit-making year is claimed for the period from 26 September 2006 to 31 December 2006.

In accordance with Law of the PRC on Enterprise Income Tax (adopted at the 5th section of the 10th National People's Congress on 16 March 2007, promulgated by Order No. 63 of the President of the People's Republic of China and effective as of

1 January 2008), the applicable tax rate for Golden Corn will change to 25%, however, Golden Corn can still entitle the tax exemption of PRC Foreign Enterprise Income Tax for two years commencing from its first profit-making year, followed by a 50% relief for the next three years. 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.

We are subject to the income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of our Group are domiciled and operate. We were not liable for income tax in Hong Kong as we did not have assessable income arising in Hong Kong during the review period.

Net Profit for the Period

Net profit for the period attributable to equity holders of the Company during the six months ended 30 June 2007 amounted to approximately RMB70,024,000 (same period of 2006: approximately RMB33,915,000), representing an increase of approximately RMB36,109,000 or approximately 106.5%.

Contingent liabilities

As at 30 June 2007, our Group did not have any contingent liabilities.

Capital Commitments

As at 30 June 2007, our capital commitments comprised approximately RMB5,856,000 capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment. Our Directors consider the amount to be immaterial.

Pursuant to the initial public offering of the Share in September 2007, it is intended that approximately HK\$177 million will be allocated out of the net proceeds raised for acquisition(s) of other manufacturer(s) and/or as registered capital injections for the forming of joint venture(s) with other manufacturer(s) to subcontract or acquire production facilities. It is also intended that approximately HK\$73 million will be allocated out of the net proceeds raised to acquire new machineries and equipment and/or conduct production technology enhancements on the newly acquired production facilities, and approximately HK\$20 million for the acquisition of new machineries and equipment for the purpose of expanding our existing cornstarch and lysine production facilities. It is currently envisaged that the aforementioned anticipated capital commitments will be effected on or before the end of 2008.

FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 30 June 2007, our Group had net current assets of approximately RMB79,064,000. Our current assets comprised inventories of about RMB79,426,000, trade and other receivables of about RMB140,195,000, prepaid lease payments of about RMB939,000, amounts due from a related company of about RMB96,000, pledged bank deposits of about RMB2,000,000 and bank balances and cash of about RMB121,105,000. Our current liabilities comprised trade and other payables of about RMB89,194,000, dividend payable of about RMB48,500,000, income tax payable of about RMB11,381,000, current portion of employee housing deposits of about RMB29,809,000 and current portion of borrowings of about RMB85,813,000.

Banking facilities

As at 30 June 2007, our Group had total banking facilities of approximately RMB438,000,000, of which approximately RMB224,000,000 were unutilised, out of which approximately RMB70,000,000 is due to mature in July 2007, approximately RMB10,000,000 is due to mature in October 2007, approximately RMB16,000,000 is due to mature in December 2007, approximately RMB98,000,000 is due to mature in May 2008, approximately RMB30,000,000 due to mature in June 2008.

Borrowings

As at 30 June 2007, our total borrowings comprised bank loans of about RMB249,813,000, government loan of about RMB9,750,000 and loan from Merry Boom of about RMB123,928,000.

As at 30 June 2007, approximately RMB35,813,000 of our bank loans were secured by bank acceptance bills discounted to banks.

Bank loans of RMB114,000,000 were pledged by certain properties and land use rights as at 30 June 2007.

As at 30 June 2007, bank loans in the aggregate amount of RMB50,000,000 were guaranteed by 壽光市供電公司 (Electricity Supply Company of Shouguang City).

As at 30 June 2007, our gearing ratio, calculated as our total bank borrowings divided by our total assets at the end of the period under review, was approximately 30.3%.

The government loan was provided to Golden Corn for its corn refinery processing by (Finance Bureau of Shouguang City) in April, 2004 on the basis that Golden Corn was listed as one of the recipients of the “2003 ” (“2003 Third Batch of State Project Loans Plans for Enterprises with Technology Improvements and Industry Promotion”) under the 2003 (2003 2178) (Notice of the National Development and Reform Commission and the State Finance Department Regarding the Delivery of the 2003 Third batch of State Project Loans Plans for Enterprises with Technology Improvements and Industry Promotion (Fa Gai To Zhi 2003 No.2178)) issued jointly by National Development and Reform Commission and the State Finance Department on 10 December 2003. The loan is non-recurring in nature, unsecured, interest free, with a term of 15 years repayable in 2019 by equal annual installment commencing from the fifth year of the loan and was provided to Golden Corn solely in the discretion of the relevant PRC government authority.

The amount of RMB123,928,000 loan from a shareholder as at 30 June 2007 represented the fair value of the loan with a carrying amount of RMB140,148,000 and an imputed interest rate of 6.57% per annum.

HUMAN RESOURCES

The Group had 1,495 employees as at 30 June 2007 (30 June 2006: 1,460) of which 434 (30 June 2006: 578) 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”). The increase was mainly due to the reform of production lines of both cornstarch and lysine during the review period.

The Group will consider the experience, responsibility, workload and the time devoted by the Directors and employees of the Group to determine their respective remuneration packages. The company has also set up a remuneration committee to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management. In addition to basic remuneration packages and discretionary bonuses for Directors and employees, share options may also be granted to Directors and eligible employees based on the performance of individuals.

FUTURE PROSPECTS

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

Expand production capacity in respect of cornstarch and lysine products

	Actual annual production capacity as at 31 December 2006	Expected annual production capacity as at 31 December 2007	Expected 2007 average annual production capacity	Expected annual production capacity as at 31 December 2008	Expected 2008 average annual production capacity
Constarch (tonnes)	450,000	800,000	500,000	1,050,000	800,000
Lysine (tonnes)	29,000	35,000	31,000	55,000	50,000

To facilitate the above planned expansion in production capacity, we plan to acquire additional production capacity from small-to-medium-sized cornstarch and/or lysine producer(s). Additionally, we intend to expand our existing cornstarch and lysine production facilities by way of acquiring additional machineries and equipment and/or constructing additional production lines. We have commissioned preliminary studies on, and have entered into a letter of intent with, a PRC enterprise in Hebei Province having production capacities on cornstarch and lysine to explore the possibility of joint venture cooperation or direct equity acquisition. In addition, we expand 65% lysine product and the facilities are still in installation. We expect the facilities will start production in coming December.

Expand our product pipeline

It is important to develop a more comprehensive product pipeline. In this respect, we intend to continue to develop cornstarch of variable formulations, expand our lysine product offerings to include 65% lysine and threonine and, depending on future developments of market conditions, expand vertically into the provision of starch-based sweeteners in a longer run. At present, we are at an initial research and development stage for threonine and glucose-fructose slurry. We believe that leveraging on our knowledge on the production technologies of, and our experience in producing cornstarch and 98.5% L-lysine hydrochloride salt, we should achieve success in broadening our product pipeline.

Expand our sales and marketing force and our market coverage

Our sales and marketing force should expand in tandem with our increased production capacity and broadened product pipeline, such that our increased production capacity will be supported by increased sales, and our new products will be effectively promoted to our targeted customers. In this respect, we intend to establish new sales offices and/or marketing presence in Hong Kong and the central region of the PRC to enhance our inland and overseas market coverage. We also intend to devote additional resources on various marketing and promotion activities such as advertisements, participation and hosting of trade shows and exhibitions and arranging for more frequent customers' factory visits.

Enhance our research and development capability

We intend to acquire additional testing equipment and apparatuses and employ additional qualified research and development personnel. We intend to focus our research and development efforts to enhance our production technologies on cornstarch. In addition, we intend to research into other fermentation technologies with the aim of improving our lysine production efficiency and developing a wider range of amino acid-based products.

DISCLOSURE OF ADDITIONAL INFORMATION

INTERIM DIVIDENDS

Our Board does not propose any interim dividend for the six months ended 30 June 2007.

CORPORATE GOVERNANCE

Our Company was listed on 27 September 2007 on the main board of the Stock Exchange. From 27 September 2007 to the date of this announcement, our Company has complied with the code provisions set out in the Code on Corporate Governance Practice contained in Appendix 14 to the Listing Rules.

Audit committee

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

The interim results of the Group for the six months ended 30 June 2007 have not been audited, but have been reviewed by the Company's auditors, Deloitte Touche Tohmatsu. The interim results have been reviewed by the audit committee.

Remuneration committee

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

Nomination committee

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

Our Company was listed on the main board of the Stock Exchange on 27 September 2007. From 27 September 2007 to the date of this announcement, our Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding director's securities transactions. Having made specific enquiry of all Directors, our Company confirmed that, in respect of the period from 27 September 2007 to the date of this announcement, all Directors have complied with the required standard set out in the Model Code.

PURCHASE, SALE OR REDEMPTION OF SHARES

Since the listing of the Shares on the main board of the Stock Exchange on 27 September 2007, our Company has not redeemed any of the Shares, and neither our Company nor any of its subsidiaries has purchased or sold any of the Shares.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

All information required by paragraph 46(1) and 46(2) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course.

By order of the Board
China Starch Holdings Limited
Lau Wing Ling
Company Secretary

Hong Kong, 27 September 2007

As at the date of this announcement, the Board comprises the following Directors:

Executive Directors:

Mr. Tian Qixiang, Mr. Gao Shijun, Mr. Yu Yingquan and Mr. Liu Xianggang

Independent non-executive Directors:

Ms Dong Yanfeng, Ms. Yu Shumin, Mr. Cao Zenggong and Mr. Yue Kwai Wai, Ken