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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)

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2009

### INTERIM RESULTS

The board (the “Board”) of directors (the “Directors”) of China Starch Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2009, together with the unaudited comparative figures as follows.

### Condensed Consolidated Statement of Comprehensive Income

		Unaudited Six months ended 30 June	
		2009	2008
	Note	RMB'000	RMB'000
Turnover	3	820,223	778,164
Cost of goods sold		(729,119)	(654,982)
Gross profit		91,104	123,182
Other income		4,917	9,700
Distribution and selling expenses		(21,597)	(22,427)
Administrative expenses		(19,624)	(25,444)
Operating profit		54,800	85,011
Finance income		1,285	2,237
Finance costs		(477)	(2,494)
Share of results of an associate		1,955	2,350
Profit before taxation	4	57,563	87,104
Income tax credit/(expense)	5	2,167	(12,779)
Profit for the period		59,730	74,325
Attributable to:			
Equity holders of the Company		60,534	75,023
Minority interests		(804)	(698)
		59,730	74,325
Basic and diluted earnings per share (RMB)	7	0.0232	0.0287

## Condensed Consolidated Statement of Financial Position

		<b>30 June 2009</b>	31 December 2008
	<i>Note</i>	<b>RMB'000</b>	<b>RMB'000</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Non-current assets</b>			
Property, plant and equipment		<b>529,705</b>	539,706
Prepaid lease payments		<b>27,123</b>	27,539
Deposits paid for acquisition of property, plant and equipment		<b>18,000</b>	18,000
Interest in an associate		<b>38,688</b>	36,517
Deferred tax assets		<b>70</b>	206
		<u><b>613,586</b></u>	<u>621,968</u>
<b>Current assets</b>			
Inventories		<b>131,298</b>	132,292
Prepaid lease payments		<b>831</b>	831
Trade and other receivables	8	<b>210,771</b>	113,555
Pledged bank deposits		<b>100,800</b>	–
Bank balances and cash		<b>214,991</b>	242,825
		<u><b>658,691</b></u>	<u>489,503</u>
<b>Current liabilities</b>			
Trade and other payables	9	<b>160,638</b>	152,463
Loan payable to a minority shareholder		<b>14,042</b>	–
Income tax payable		<b>1,672</b>	5,128
Employee housing deposits			
– Basic deposit portion		<b>26,381</b>	26,499
– Instalment portion		–	12,407
Borrowings		<b>122,741</b>	1,551
		<u><b>325,474</b></u>	<u>198,048</u>
<b>Net current assets</b>		<u><b>333,217</b></u>	<u>291,455</u>
<b>Total assets less current liabilities</b>		<u><b>946,803</b></u>	<u>913,423</u>

	<i>Note</i>	<b>30 June 2009 RMB'000 (Unaudited)</b>	31 December 2008 RMB'000 (Audited)
<b>Non-current liabilities</b>			
Borrowings		7,756	8,199
Deferred income		<u>17,874</u>	<u>17,527</u>
		<u>25,630</u>	<u>25,726</u>
<b>Net assets</b>		<b><u>921,173</u></b>	<b><u>887,697</u></b>
<b>Capital and reserves</b>			
Share capital		237,762	237,762
Reserves		<u>669,223</u>	<u>634,943</u>
Attributable to equity holders		<b>906,985</b>	872,705
Minority interests		<u>14,188</u>	<u>14,992</u>
<b>Total equity</b>		<b><u>921,173</u></b>	<b><u>887,697</u></b>

Notes:

## 1. BASIS OF PREPARATION

The condensed interim financial report for the six months ended 30 June 2009 has been prepared in accordance with the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and Hong Kong Accounting Standard 34 (“HKAS 34”) Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The condensed interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2008, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

This condensed interim financial report is presented in Renminbi (“RMB”), unless otherwise stated and was approved for issue by the Board on 28 August 2009.

The condensed interim financial report has not been audited.

## 2. PRINCIPAL ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2008, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009.

- HKAS 1 (revised), ‘Presentation of financial statements’. The revised standard prohibits the presentation of items of income and expenses (that is ‘non-owner changes in equity’) in the statement of changes in equity, requiring ‘non-owner changes in equity’ to be presented separately from owner changes in equity. All ‘non-owner changes in equity’ are required to be shown in a performance statement.

Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

The Group has elected to present one performance statement (the statement of comprehensive income). The condensed interim financial report has been prepared under the revised disclosure requirements.

- HKFRS 8, ‘Operating segments’. HKFRS 8 replaces HKAS 14, ‘Segment reporting’. It requires a ‘management approach’ under which segment information is presented on the same basis as that used for internal reporting purposes. This has not resulted in an increase in the number of reportable segments presented.

Operating segments are reported in a manner consistent with the internal reporting provided to the management.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2009, but are not relevant to the Group.

- HKAS 23 (Amendment) Borrowing costs
- HKFRS 2 (Amendment) Share-based payment
- HKAS 32 (Amendment) Financial instruments: presentation
- HKFRS 7 (Amendment) Financial instruments: disclosures
- HK(IFRIC) 9 (Amendment) and HKAS 39 (Amendment) Reassessment of embedded derivatives and Financial instruments: Recognition and measurement
- HK(IFRIC) 13 Customer loyalty programmes
- HK(IFRIC) 15 Agreements for the construction of real estate
- HK(IFRIC) 16 Hedges of a net investment in a foreign operation
- HKAS 39 (Amendment) Financial instruments: Recognition and measurement

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2009 and have not been early adopted. The Directors anticipate that the adoption of the new standards, amendments to standards and interpretations will not result in a significant impact on the results and financial position of the Group.

- HKAS 39 (Amendment) Financial instruments: Recognition and measurement on eligible hedged items, effective for annual periods beginning on or after 1 July 2009.
- HKFRS 3 (Revised), HKAS 27 (Revised), HKAS 28 (Revised) and HKAS 31 (Revised) Business combinations, Consolidated and separate financial statements, Investments in associates and Interests in joint ventures, effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.
- HK(IFRIC) 17 Distributions of non-cash assets to owners, effective for annual periods beginning on or after 1 July 2009.
- HK(IFRIC) 18 Transfers of assets from customers, effective for transfer of assets received on or after 1 July 2009.

In addition, HKICPA's improvements to HKFRS have been published in May 2009 which sets out amendments to HKFRS 2, HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36, HKAS 38, HKAS 39, HK(IFRIC) 9 and HK(IFRIC) 16. Except for the amendments to HKFRS 2, HKAS 38, HK(IFRIC) 9 and HK(IFRIC) 16 which are effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009, although there are separate transitional provisions for each standard. The Group is assessing the impact of these amendments and will apply these amendments from 1 January 2010.

### 3. SEGMENT INFORMATION

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, electricity and steam and corporate expenditure.

Cornstarch	–	the manufacture and sale of cornstarch and its related products
Lysine	–	the manufacture and sale of lysine and its related products
Electricity and steam	–	the production and sale of electricity and steam
Corporate	–	the corporate expenditure

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 expenditure 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 financial statements.

Total assets exclude deferred tax which is managed on a central basis. This is part of the reconciliation to total assets per condensed 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 condensed consolidated interim statement of comprehensive income.

	<b>Cornstarch</b> <i>RMB'000</i>	<b>Lysine</b> <i>RMB'000</i>	<b>Electricity and steam</b> <i>RMB'000</i>	<b>Corporate</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>Six months ended 30 June 2009</b>					
<b>TURNOVER</b>					
Total sales	571,668	181,544	134,588	–	887,800
Inter-segment sales	–	–	(67,577)	–	(67,577)
External sales	<u>571,668</u>	<u>181,544</u>	<u>67,011</u>	<u>–</u>	<u>820,223</u>
<b>RESULT</b>					
Adjusted operating profit	<u>19,789</u>	<u>37,244</u>	<u>25,179</u>	<u>(27,412)</u>	<u>54,800</u>
Depreciation and amortisation	<u>(10,397)</u>	<u>(9,131)</u>	<u>(8,590)</u>	<u>(2,857)</u>	<u>(30,975)</u>
<b>Six months ended 30 June 2008</b>					
<b>TURNOVER</b>					
Total sales	547,301	173,871	115,626	–	836,798
Inter-segment sales	–	–	(58,634)	–	(58,634)
External sales	<u>547,301</u>	<u>173,871</u>	<u>56,992</u>	<u>–</u>	<u>778,164</u>
<b>RESULT</b>					
Adjusted operating profit	<u>62,298</u>	<u>35,632</u>	<u>10,709</u>	<u>(23,628)</u>	<u>85,011</u>
Depreciation and amortisation	<u>(6,783)</u>	<u>(8,795)</u>	<u>(7,940)</u>	<u>(2,919)</u>	<u>(26,437)</u>
<b>As at 30 June 2009</b>					
Total assets for reportable segments	484,884	168,186	161,856	457,281	1,272,207
Including:					
Interest in an associate	–	–	–	38,688	38,688
Additions to property, plant and equipment and prepaid lease payments	<u>13,000</u>	<u>6,606</u>	<u>460</u>	<u>720</u>	<u>20,786</u>
<b>As at 31 December 2008</b>					
Total assets for reportable segments	380,321	164,481	170,709	395,754	1,111,265
Including:					
Interest in an associate	–	–	–	36,517	36,517
Additions to property, plant and equipment and prepaid lease payments	<u>144,319</u>	<u>7,503</u>	<u>12,867</u>	<u>3,795</u>	<u>168,484</u>

A reconciliation of total adjusted operating profit to total profit before taxation is provided as follows:

	<b>Six months ended 30 June</b>	
	<b>2009</b>	2008
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Adjusted operating profit	<b>54,800</b>	85,011
Finance income	<b>1,285</b>	2,237
Finance costs	<b>(477)</b>	(2,494)
Share of results of an associate	<b>1,955</b>	2,350
	<u>57,563</u>	<u>87,104</u>
Profit before taxation	<b><u>57,563</u></b>	<b><u>87,104</u></b>
	<b>30 June</b>	31 December
	<b>2009</b>	2008
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Reportable segments' assets are reconciled to total assets as follows:		
Total segment assets	<b>1,272,207</b>	1,111,265
Deferred tax assets	<b>70</b>	206
	<u>1,272,277</u>	<u>1,111,471</u>
Total assets per condensed consolidated statement of financial position	<b><u>1,272,277</u></b>	<b><u>1,111,471</u></b>

The result of its revenue from external customers in the People's Republic of China (the "PRC") for the six months ended 30 June 2009 is RMB747,791,000 (for the six months ended 30 June 2008: RMB649,835,000), and the total of its revenue from external customers from other countries is RMB72,432,000 (for the six months ended 30 June 2008: RMB128,329,000).

At 30 June 2009, the total of non-current assets other than interest in an associate and deferred tax assets (there are no employment benefit assets and rights arising under insurance contracts) located in the PRC is RMB574,742,000 (At 31 December 2008: RMB585,156,000), and the total of these non-current assets located in other countries is RMB86,000 (At 31 December 2008: RMB89,000).



#### 4. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000
Depreciation of property, plant and equipment	30,559	25,930
Amortisation of prepaid lease payments	416	507
Total depreciation and amortisation	<u>30,975</u>	<u>26,437</u>
(Gain)/loss on disposal of property, plant and equipment	(192)	615
Net foreign exchange loss	117	4,217
Cost of inventories recognised as expenses	666,502	601,098
Employee benefits expense including Directors' emoluments	24,716	19,025
Research and development expenses	<u>701</u>	<u>751</u>

#### 5. INCOME TAX (CREDIT)/EXPENSES

No provision for Hong Kong Profits Tax has been made as the Group's profit neither arose in, nor derived from Hong Kong during both periods. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000
PRC enterprise income tax		
– Current year	2,982	12,664
– Over provision in prior year	(5,285)	–
Deferred tax	<u>136</u>	<u>115</u>
Income tax (credit)/expense for the period	<u>(2,167)</u>	<u>12,779</u>

#### 6. DIVIDENDS

The final dividend for the year ended 31 December 2008 amounting to HK1.14 cents per share was paid on 15 June 2009. The amount of the final dividend paid was approximately RMB26,254,000 (2007: RMB17,869,000).

The Directors do not further propose any interim dividend for the six months ended 30 June 2009.

## 7. EARNINGS PER SHARE

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
<b>Earnings</b>		
Earnings for the purpose of basic earnings per share (profit for the period attributable to equity holders of the Company)	<u>60,534</u>	<u>75,023</u>
	'000	'000
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>2,612,500</u>	<u>2,612,500</u>

No diluted earnings per share has been presented because no dilutive potential ordinary shares exists for both six months ended 30 June 2009 and 2008.

## 8. TRADE AND OTHER RECEIVABLES

	30 June 2009 RMB'000	31 December 2008 RMB'000
Trade receivables	119,537	43,105
Bank acceptance bills	84,304	63,548
Other receivables	<u>6,930</u>	<u>6,902</u>
	<u>210,771</u>	<u>113,555</u>

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

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

	30 June 2009 RMB'000	31 December 2008 RMB'000
0-30 days	85,470	38,138
31-60 days	14,621	1,474
61-90 days	7,107	51
Over 90 days	<u>12,339</u>	<u>3,442</u>
	<u>119,537</u>	<u>43,105</u>

Included in the trade receivables are amounts due from a related company and an associate amounting to RMB37,522,000 (31 December 2008: RMB6,428,000).

## Bank acceptance bills

	<b>30 June 2009 RMB'000</b>	31 December 2008 RMB'000
Discounted bills	20,747	–
Endorsed bills	23,297	27,651
Bills on hand	<u>40,260</u>	<u>35,897</u>
	<b><u>84,304</u></b>	<b><u>63,548</u></b>

The bank acceptance bills are normally with maturity period of 180 days (2008: 180 days).

As at 30 June 2009 and 31 December 2008, the other receivables aged between 0-30 days.

## 9. TRADE AND OTHER PAYABLES

	<b>30 June 2009 RMB'000</b>	31 December 2008 RMB'000
Trade payables ( <i>Note (a)</i> )		
0-60 days	47,948	32,874
61-90 days	8,325	9,997
Over 90 days	<u>12,774</u>	<u>15,182</u>
	69,047	58,053
Bills payable ( <i>Note (b)</i> )	800	–
Advances from customers	39,287	29,868
Others	<u>51,504</u>	<u>64,542</u>
	<b><u>160,638</u></b>	<b><u>152,463</u></b>

*Note:*

- (a) Included in the trade payables are payables to a related company and a minority shareholder amounting to RMB4,585,000 (31 December 2008: RMB2,575,000).
- (b) Bills payable are secured by pledged bank deposits of RMB800,000 (31 December 2008: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERVIEW

During the first half of 2009, the cornstarch and lysine markets were still affected by the weak global economic environment. Save that export sale of cornstarch was stimulated by waived tariff, demands on other products decreased significantly as compared to the corresponding period in the past year.

In last year, we took a good opportunity to establish a new production plant, namely Linqing Deneng Golden Corn Bio Limited (“Deneng Golden Corn”). After nine months of technology upgrade, the cornstarch production capacity of Deneng Golden Corn increased to 400,000 tonnes per annum and is fully usable in the current year. The average selling prices for cornstarch, lysine and related products were lower than that in last year due to the poor economic environment. The Group, during the period under review, successfully endeavoured to increase sales volume, to improve our output ratio and to keep lower cost to maintain our profitability in each business segment.

Total turnover of the Group for the six months ended 30 June 2009 was approximately RMB820,223,000 (2008: RMB778,164,000). Overall gross profit margin and net profit margin was 11.1% and 7.3% respectively (2008 gross profit margin and net profit margin: 15.8% and 9.6% respectively). Basic earnings per share of the Company was RMB0.0232 per share (2008: RMB0.0287 per share) based on 2,612,500,000 shares in issue for both periods.

### BUSINESS REVIEW

#### Cornstarch

##### *Turnover*

Turnover of cornstarch and ancillary corn-refined products for the period ended 30 June 2009 increased by 4.5% to approximately RMB571,668,000 (2008: RMB547,301,000). It represented about 69.7% of the total turnover of the Group (2008: 70.3%).

Sales volume of cornstarch increased significantly by 30.7% to approximately 229,265 tonnes (2008: 175,455 tonnes). Our new production plant, Deneng Golden Corn, contributed to sales volume of cornstarch of about 61,704 tonnes to the Group during the period under review. As the effect of global financial crisis extended to the current period, the average selling price of cornstarch decreased to approximately RMB1,690 per tonne (2008: RMB1,961 per tonne). As the increase in sales volume of cornstarch outweighed the decrease in average selling price, sales amount of cornstarch still increased by 12.6% to approximately RMB387,498,000 (2008: RMB344,009,000). Export sales of cornstarch increased significantly to approximately RMB33,568,000 (2008: RMB16,601,000) because the Group developed new markets in the southeast Asia, eg. Philippines.

Sales volume and sales amount of corn gluten meal were 18,650 tonnes (2008: 16,714 tonnes) and approximately RMB73,819,000 (2008: RMB68,264,000) respectively. The increase was mainly contributed by Deneng Golden Corn.

Sales of corn fibre decreased slightly by 5.4% to RMB37,320,000 because of the decrease in average selling price during the period under review.

The decrease in sales of corn germ was mainly due to the decrease in prices of soybean and soybean oil which were the substitutes of corn germ for producing cooking oil.

The average selling price of corn slurry decreased by 41.3% because of the poor economic environment. As a result of the additional corn slurry produced by Deneng Golden Corn, sale of corn slurry slightly increased to approximately RMB941,000 (2008: RMB869,000).

#### *Cost of goods sold and gross profit margin*

Cost of goods sold of cornstarch and ancillary corn-refined products increased by 15.3% to approximately RMB542,053,000 (2008: RMB470,307,000), which was lower than the percentage in the increase of sales volume of cornstarch for the period. The corn kernel and coal prices started to decrease in the last quarter of year 2008 and maintained at low prices during the current period. As the cost of coal decreased, the allocated cost of electricity and steam produced by our own power plant also decreased.

The gross profit margin for cornstarch and ancillary corn-refined products decreased from 14.1% to 5.2% for the six months ended 30 June 2009. It was mainly due to the decrease in average selling prices and loss incurred by Deneng Golden Corn from January 2009 to April 2009. As the utilisation rate of Deneng Golden Corn gradually increased during the period, the gross profit margin of this business segment improved and increased to about 7.7% in June 2009.

## **Lysine**

### *Turnover*

Turnover of lysine and related products was approximately RMB181,544,000 (2008: RMB173,871,000) which represented about 22.1% of the total turnover of the Group (2008: 22.3%).

Sales amount of lysine increased by 7.6% to approximately RMB174,060,000 (2008: RMB161,822,000). Overall sales volume of lysine increased by 56.0% to 24,683 tonnes (2008: 15,822 tonnes). In respect of 65% lysine, sales volume during the period under review was 10,023 tonnes which represented about 66.8% of our annual sales target of 65% lysine. Due to the global financial crisis, the average selling price of lysine decreased significantly by 31.1% to approximately RMB7,052 per tonne (2008: RMB10,228 per tonne) and export amount of 98.5% lysine was also reduced to 4.9% (2008: 41.2%) of the total sales of lysine.

Sales of fertilisers decreased by 37.9% to approximately RMB7,484,000 due to (i) less sewage being used as raw material for fertilisers and (ii) the decrease in average selling price.

### *Cost of goods sold and gross profit margin*

During the period under review, the Group was benefited by the decreased cost of corn kernel and the reduction of allocated cost of electricity and steam from our own power plant. Total cost of goods sold in this business segment increased slightly by 5.4% to approximately RMB143,282,000 (2008: RMB135,930,000).

As the cost reduction benefit net off the effect of decrease in average selling price, the gross profit margin for the period ended 30 June 2009 remained at 21.1% (2008: 21.8%).

### **Electricity and steam**

#### *Turnover*

Turnover of electricity and steam increased significantly by 17.6% to approximately RMB67,011,000 (2008: RMB56,992,000) which represented about 8.2% (2008: 7.4%) of the total turnover of the Group. The increase was mainly attributable to the adjustment of unit price of electricity and steam by their respective local monitoring Price Bureau in the second half of 2008.

### *Cost of goods sold and gross profit margin*

During the period under review, the average price of coal decreased by 14.2% to approximately RMB664 per tonne (2008: RMB774 per tonne). As a result of the increase in average selling price of electricity and steam and the decrease in coal price, the gross profit margin of this business segment increased significantly from 14.5% to 34.7%.

### **Other income**

Other income decreased by 49.3% to approximately RMB4,917,000 (2008: RMB9,700,000) because of the decrease in government grant received during the period under review.

### **Administrative expenses**

Administrative expenses decreased by 22.9% to approximately RMB19,624,000 (2008: RMB25,444,000) because of the reduction in foreign exchange loss during the period under review.

## **HUMAN RESOURCES AND REMUNERATION POLICIES**

As at 30 June 2009, the Group had approximately 2,122 full time staff (2008: 1,953). Total staff costs, including Directors' emoluments, of the Group was approximately RMB24,716,000 (2008: RMB19,025,000).

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 30 June 2009, no 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. The unutilised portion of the net proceeds from the global offering of the Company’s shares in 2007 (the “Global Offering”) has been placed on short term 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 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**

The Directors are of the opinion that the working capital available to the Group is sufficient for its present requirements. Major sources of financial resources of the Group include internally generated funds, banking facilities and net proceeds from the Global Offering. As at 30 June 2009, the available and unutilised banking facilities of the Group amounted to approximately RMB240,000,000.

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

	<b>30 June 2009 RMB'000</b>	31 December 2008 RMB'000
Borrowings:		
– Within 1 year	122,741	1,551
– Between 1 and 2 years	886	886
– Between 2 and 5 years	2,659	2,659
– Over 5 years	<u>4,211</u>	<u>4,654</u>
Total ( <i>Note</i> )	<u>130,497</u>	<u>9,750</u>
Debtors turnover (days)	34	30
Creditors turnover (days)	16	16
Inventories turnover (days)	33	34
Current ratio	2.0	2.5
Quick ratio	1.6	1.8
Gearing ratio – borrowings divided by total assets	<u>10.3%</u>	<u>0.9%</u>

*Note:* As at the balance sheet date, the Group's fixed rate borrowings, which represented a government loan and borrowings, were approximately RMB9,750,000 and RMB120,747,000 respectively (2008: a fixed rate government loan: RMB9,750,000).

### Finance income

Finance income mainly represented interest income from bank deposits placed in the PRC and Hong Kong. The decrease was mainly due to the decrease in the interest rate on deposits in the PRC and Hong Kong.

### Finance costs

Finance costs decreased significantly by 80.9% to approximately RMB477,000 (2008: RMB2,494,000) because the average borrowings and interest rate were lower than that in the corresponding period of 2008.

### Pledge of assets and contingent liabilities

As at 30 June 2009, bank borrowings and bills payable were secured by pledged bank deposits at the amount of approximately RMB100,800,000 and bank acceptance bills at the amount of approximately RMB20,747,000.



As at 30 June 2009, the Group did not pledge any leasehold land and building to secure banking facilities and the Group did not have any material contingent liabilities.

### **Use of net proceeds**

As at 30 June 2009, the unutilised net proceeds from the Global Offering was approximately RMB67,000,000, which was proposed to be used for the acquisition of other manufacturers, capital injections in subsidiaries or joint ventures.

### **FUTURE PLAN AND PROSPECTS**

As disclosed in the circular of the Company dated 14 May 2008 and the interim report in last year, the production facilities of Deneng Golden Corn included certain construction in progress which could produce 100,000 tonnes starch-based sweetener. After carrying a one-year feasibility study and market research on the starch-based sweetener project as well as assessing the current economic environment, the Directors are of the opinion that the development of 100,000 tonnes starch-based sweetener would substantially increase the utilisation rate of Deneng Golden Corn's production facilities. It is expected that the construction in progress and the instalment of production facilities of 100,000 tonnes starch-based sweetener will be completed by the end of 2009.

### **INTERIM DIVIDENDS**

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2009 (2008: Nil).

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

During the period under review, neither the Company nor any of its subsidiaries purchased, redeemed or sold 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 contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2009.

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

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

## **AUDIT COMMITTEE**

The audit committee of the Company (“Audit Committee”) has reviewed and discussed with the management of the Company the unaudited consolidated interim results for the six months ended 30 June 2009.

The Audit Committee comprises Mr. Yue Kwai Wa, Ken (Chairman), Ms. Dong Yanfeng, Ms. Yu Shumin, and Mr. Cao Zenggong.

The consolidated interim results of the Company for the six months ended 30 June 2009 have not been audited, but have been reviewed by the Company’s auditor, PricewaterhouseCoopers.

## **PUBLICATION OF THE INTERIM REPORT**

The interim report of the Company for the six months ended 30 June 2009 will be published on the website of The Stock Exchange of Hong Kong Limited ([www.hkex.com.hk](http://www.hkex.com.hk)) and the website of 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, 28 August 2009

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