



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)

CHINA STARCH HOLDINGS LIMITED

2007 Interim Report

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FINANCIAL HIGHLIGHTS

	Six months ended		% Change
	30 June		
	2007 (unaudited)	2006 (unaudited)	
Revenue (RMB millions)	603	431	39.91%
Profit before tax (RMB millions)	70	49	42.86%
Net profit from ordinary activities attributable to equity holders (RMB millions)	70	19	268.42%
Basic earnings per share (RMB cents)	26.68	7.05	278.44%

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Tian Qixiang, *Chairman*
Mr. Gao Shijun, *Chief Executive Officer*
Mr. Yu Yingquan, *Executive Director*
Mr. Liu Xianggang, *Executive Director*
Ms. Dong Yanfeng,
Independent non-executive Director
Ms. Yu Shumin
Independent non-executive Director
Mr. Cao Zenggong
Independent non-executive Director
Mr. Yue Kwai Wa, Ken
Independent non-executive Director

COMPANY SECRETARY

Lau Wing Ling, FCCA, CPA

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 502-505, 5th Floor
Sun Hung Kai Centre
30 Harbour Road
Wanchai, Hong Kong

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor
One Pacific Place
88 Queensway
Hong Kong

LEGAL ADVISERS

Chiu & Partners
41st Floor
Jardine House
1 Connaught Place
Hong Kong

PRINCIPAL BANKERS

China Construction Bank Corporation
Shouguang Sub-Branch
66 Yingbin Road
Shouguang City
Shandong Province, PRC

Agricultural Bank of China
Shouguang Sub-Branch
116 Shengcheng East Street
Shouguang City
Shandong Province, PRC

Industrial and Commercial Bank of China
Shouguang Sub-Branch
173 Yinghai Road
Shouguang City
Shandong Province, PRC

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

WEBSITE

www.chinastarch.com.hk

STOCK CODE: 3838

CHAIRMAN'S STATEMENT

Dear fellow shareholders,

On Behalf of the board (the "Board") of directors (the "Director(s)") of China Starch Holdings Limited (the "Company"), I am pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "Group") of the six months ended 30 June 2007.

Leveraged on the robust economic growth of the People's Republic of China ("PRC") market, we reported notable growth in our overall result for the first half year of 2007. Our turnover for the first half year of 2007 increased by approximately RMB172,172,000 or approximately 39.9% compared to the same period of 2006, attributable mainly to the outstanding performance of our cornstarch and lysine sales which contributed about 36.5% and 36.0% respectively of such growth.

Products Performance

Cornstarch

For the period ended 30 June 2007, sales of cornstarch was the largest contributor to our sales performance and exhibited an increase of some 26.7% over the same period last year. During the period, we observed notable growth in both sales volume and selling price of cornstarch. While sales volume of our cornstarch increased by about 11.3% (about 16,000 tonnes), its selling price also increased by about 13.9%, over the same period of 2006.

Lysine

Our sales of lysine also showed an outstanding performance for the six months ended 30 June 2007. With sales volume of our lysine increased by about 84.0% (about 5,400 tonnes) and selling price increased by about 6.8% over the same period of 2006, our sales revenue of Lysine for the six months ended 30 June 2007 has almost doubled compared with that over the same period of 2006, and its contribution to our total sales revenue increased to about 20.9% from about 14.9% of the same period in 2006.

Steam and electricity

For the period ended 30 June 2007, our sales revenue of steam increased by about 165.4% compared to the same period of 2006 leveraged on the increase of sales volume by about 170.9% (about 306,000 tonnes) over the same period of 2006.

In terms of electricity, we had temporarily suspended its sales since October, 2006 as sales of electricity was excluded from the approved business scope of the revised business licence granted to 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")) 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 revised business licence was granted on 8 June 2007. We re-commenced our sales of electricity in August 2007.

Raw materials

Corn kernels

Despite the notable increase in price of our principal raw material, corn kernels, by about 21.5% over the same period of 2006, the keen demand for our cornstarch enabled us to pass on a significant portion of such cost increase to our customers through upward selling price adjustments. While the price of corn kernels continued to increase in the first six months of 2007 following the upward trend in 2006, it has stabilized since July 2007. With the expectation of an abundant harvest and increase in farmland, it is anticipated that the price of corn kernels will remain stable for the second half of 2007.

Coal

For the period ended 30 June 2007, the price of coal increased by approximately 5.4% over the same period of 2006. While the price of coal was relatively stable during the first half period of 2007, we expect the price of coal will remain stable in second half period of 2007.

Industry policies

Exchange Rate Risk

Our export sales are denominated in United States Dollars and therefore our Group is exposed to exchange rate fluctuations. In view of this, we have taken into consideration the corresponding exchange risk in pricing our export sales.

Export Tariffs

On 22 May 2007, the policy of adjusting the import and export tariff rate of certain commodities with effect from 1 June 2007 was considered and approved by the ninth meeting of the Tariff Regulations Committee of the State Council. As export products of our Group is currently not subject to export tariffs, our Group is not affected by this policy.

Export Tax Rebate

On 19 June 2007, the Ministry of Finance and the State Administration of Taxation issued the Notice on Lowering the Export Tariff Rebate Rate of Certain Commodities. This Policy does not affect the Group. Tax rebate for cornstarch remains at 13%, while lysine, corn fibre and corn gluten meal tax rebate remains at 11%.

Exposure to Interest Rate

Our exposure to interest rate relates mainly to our long-term and short-term bank borrowings. The interest rates of our outstanding bank borrowings are calculated based on the base rate as amended by the People's Bank of China ("PBOC") from time to time, whereas the interest rate of our bank deposits are calculated based on the base rate as amended by PBOC from time to time. Any increase in the prevailing interest rates would lead to the increase in both our interest cost and interest income. So far, our Group has not entered into any interest agreement or use any derivative instrument to hedge against fluctuations in interest rate.

Future Prospects

We aim to capture an increasing market share and expand our business scope to become a market leader in the PRC corn-refinery industry.

The Group will apply the net proceeds from the initial public offering of the shares of the Company (the "Shares") for acquisitions and investment activities, including acquisitions of, or as registered capital injections for the forming of operating subsidiary(ies) and/or joint ventures with, other manufacturers to subcontract or acquire production facilities and new machineries and equipment in order to increase our cornstarch and lysine production capacity.

We aim to expand production capacity in respect of cornstarch and lysine as follows:

	Expected 2007 average annual production capacity	Expected 2008 average annual production capacity
Cornstarch (tonnes)	500,000	800,000
Lysine (tonnes)	31,000	50,000

We also intend to conduct production technology enhancements on the newly acquired production facilities and enhance our research and development capabilities. We hope to develop more efficient production method and produce high quality products. We strongly believe that strict quality control and the provision of consistent, quality products are essential for us to maintain sustainable growth and excel in the corn refinery industry.

By Order of the Board,

Tian Qixiang

Chairman

Hong Kong

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 recommenced 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 17.31% for the first half of 2006 to about 18.02% 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 the ultimate holding company of our Group, being Merry Boom Group Limited (“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 Merry Boom 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
Cornstarch (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.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF OUR COMPANY AND OUR ASSOCIATED CORPORATIONS

Our Company was listed on 27 September 2007 on the main board of the Stock Exchange. As at 30 June 2007, being the balance sheet date of the period reported on and prior to our listing on the main board of the Stock Exchange, none of our Directors or chief executive had any interest and short positions in the shares, underlying shares and debentures of our Company or our associated corporations (within the meaning of the SFO) which (a) were required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("**SFO**") (including interests and short positions in which they were taken or deemed to have under such provision of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register maintained by our Company referred to therein; or (c) were required, to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DISCLOSEABLE INTEREST UNDER DIVISION 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDERS

Our Company was listed on 27 September 2007 on the main board of the Stock Exchange. As at 30 June 2007, being the balance sheet date of the period reported on and prior to our listing on the main board of the Stock Exchange, no person had an interest or a short position in the shares and underlying shares of our Company which were required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

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 report, 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 Zenggong (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 (曹延豐), Ms. Yu Shumin (余淑敏) and Mr. Cao Zengong (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 report, 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 report, 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.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 June	
		2007 RMB'000 (unaudited)	2006 RMB'000 (unaudited)
Revenue	3	603,171	430,999
Cost of sales		(494,461)	(356,393)
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		(2,089)	(911)
Profit before taxation		70,024	48,565
Taxation	4	—	(14,650)
Profit for the period		70,024	33,915
Attributable to:			
Equity holder of parent		70,024	18,512
Minority interests		—	15,403
		70,024	33,915
Dividends	6	20,793	108,000
Earnings per share			
Basic (RMB)	7	0.2668	0.0705

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2007 RMB'000 (unaudited)	31 December 2006 RMB'000 (audited)
Non-current Assets			
Property, plant and equipment	8	413,807	433,876
Prepaid lease payment		34,580	35,099
Interests in an associate		29,715	21,875
Deferred tax assets	9	1,368	1,368
		<u>479,470</u>	<u>492,218</u>
Current Assets			
Inventories		79,426	115,915
Trade and other receivables	10	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		121,105	55,976
		<u>343,761</u>	<u>350,684</u>
Current Liabilities			
Trade and other payables	11	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	12	85,813	101,608
		<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>558,534</u>	<u>497,666</u>

	Notes	30 June 2007 RMB'000 (unaudited)	31 December 2006 RMB'000 (audited)
Non-current Liabilities			
Employee housing deposits		16,066	18,356
Borrowings	12	297,678	283,394
Deferred income		11,774	12,131
		<u>325,518</u>	<u>313,881</u>
Net assets		<u>233,016</u>	<u>183,785</u>
Capital and Reserves			
Share capital	13	151	151
Reserves		149,317	149,317
Retained earnings		83,548	34,317
		<u>233,016</u>	<u>183,785</u>
Total Equity		<u>233,016</u>	<u>183,785</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to Parent							Minority interests	Total	
	Share capital	Paid-in capital	Special reserve	Capital reserve	Contributed surplus	Statutory reserves	Retained profits			
			Note 1	Note 2	Note 3	Note 4	Total			
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	
At 1 January 2006 (audited)	—	65,500	—	40,694	—	12,916	45,001	164,111	136,552	300,663
Profit for the period	—	—	—	—	—	—	18,512	18,512	15,403	33,915
Dividend	—	—	—	—	—	—	(58,950)	(58,950)	(49,050)	(108,000)
At 30 June 2006 (unaudited)	—	65,500	—	40,694	—	12,916	4,563	123,673	102,905	226,578
Profit for the period	—	—	—	—	—	—	48,062	48,062	32,413	80,475
Issue of share upon incorporation	—	2	—	—	—	—	—	2	—	2
Elimination of minority interest upon group reorganisation	—	—	135,318	—	—	—	—	135,318	(135,318)	—
Elimination of the then paid-in capital upon group reorganisation	—	(65,500)	(74,500)	—	—	—	—	(140,000)	—	(140,000)
Exchange of shares upon the group reorganisation	151	(2)	(149)	—	—	—	—	—	—	—
Contribution arising from interest free loan from shareholder	—	—	—	—	16,730	—	—	16,730	—	16,730
Transfer to statutory reserves	—	—	—	—	—	18,308	(18,308)	—	—	—
At 31 December 2006 (audited)	151	—	60,669	40,694	16,730	31,244	34,317	183,785	—	183,785
Profit for the period	—	—	—	—	—	—	70,024	70,024	—	70,024
Dividend	—	—	—	—	—	—	(20,793)	(20,793)	—	(20,793)
At 30 June 2007 (unaudited)	151	—	60,669	40,694	16,730	31,244	83,548	233,016	—	233,016

Notes:

- Special reserve of the Group represents (i) the difference between the nominal value of the share capital and share premium issued by the Company and the aggregate of the share capital and share premium of the subsidiaries acquired upon the group reorganisation; and (ii) the difference between the consideration paid by the direct subsidiary for the entire registered capital of the indirect subsidiary and the amount of registered capital of the indirect subsidiary.

2. Capital reserve represents advances from previous shareholders being waived pursuant to shareholders resolution dated 21 March 2003.
3. Contributed surplus represents the difference between the nominal amount and the fair value of interest free loan from a shareholder upon initial recognition.
4. As stipulated by the relevant laws in the PRC, subsidiary company registered in the PRC is required to maintain two statutory reserves, being a statutory surplus reserve fund and discretionary surplus reserve fund which are nondistributable.

Appropriations to such reserves are made out of net profit after taxation as reported in the tax return submitted to the local tax bureau of the company while the amounts and allocation basis are decided by its board of directors annually. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

During the year ended 31 December 2006, the allocation of statutory surplus reserve fund is based on 10% of net profit after taxation as reported in the tax return submitted to the local tax bureau.

The Group has not contributed to discretionary surplus reserve fund.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash from operating activities	119,244	46,088
Net cash from/(used in) investing activities:		
Proceeds from disposal of property, plant and equipment	—	403
Interest received	1,137	1,353
Purchases of property, plant and equipment	(4,744)	(14,974)
Investment in an associate	(9,713)	—
Decrease/(Increase) in pledged bank deposit	35,500	(21,134)
Decrease/(Increase) in amounts due from related companies	1,904	(1,674)
Other investing cash flows	119	—
	24,203	(36,026)
Net cash from/(used in) financing activities:		
Interest paid	(6,363)	(7,634)
Repayments of borrowings	(127,560)	(165,914)
Dividends paid	(47,794)	(24,000)
Proceeds from borrowings	122,000	114,000
(Decrease)/Increase in amount due to a related company	(14,265)	39,657
(Decrease)/Increase in employee housing deposits	(4,336)	23,628
	(78,318)	(20,263)
Net increase/(decrease) in cash and cash equivalents	65,129	(10,201)
Cash and cash equivalents at 1 January	55,976	53,930
Cash and cash equivalents at 30 June	121,105	43,729
Being:		
Bank balances and cash	121,105	43,729

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

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 have been listed on the Main Board of 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 Company's 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 report, 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	HKAS 19 – 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 |

3. SEGMENT INFORMATION – Continued

Business Segments – Continued

Segment information about these business is presented below.

Six months ended 30 June 2007

(Unaudited)

	Cornstarch	Lysine	Steam and electricity	Eliminations	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE					
External sales	417,334	132,390	53,447	—	603,171
Inter-segment sales	—	—	39,667	(39,667)	—
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					(10,916)
Profit before taxation					70,024
Taxation					—
Profit for the period					<u>70,024</u>

3. SEGMENT INFORMATION – Continued

Business Segments – Continued**Six months ended 30 June 2006***(Unaudited)*

	Cornstarch	Lysine	Steam and electricity	Eliminations	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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					(7,632)
Profit before taxation					48,565
Taxation					(14,650)
Profit for the period					<u>33,915</u>

4. TAXATION

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax	—	9,316
Deferred tax	—	5,334
	<hr/>	<hr/>
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.

Golden Corn was a domestic company during the periods prior to 25 September 2006. Accordingly, its taxable income was subject to domestic income tax rate of 33%.

On 26 September 2006 Golden Corn became a wholly foreign owned enterprise. Pursuant to the relevant laws 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 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
	RMB'000	RMB'000
	(unaudited)	(unaudited)
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	—
	=====	=====

6. DIVIDENDS

Dividend of RMB20,793,000 was declared by the Company to Merry Boom, the ultimate holding company of the Group, 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 of RMB108,000,000 was declared by Golden Corn to its then shareholders).

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
	RMB'000	RMB'000
	(unaudited)	(unaudited)
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	
	2007	2006
	'000	'000
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. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group disposed certain plant and machinery with a carrying amount of RMB122,000 for proceeds of RMB100,000, resulting a loss on disposal of RMB22,000.

In addition, the Group spent approximately RMB3,229,000 on additions to manufacturing plant in the PRC, in order to upgrade its manufacturing capabilities.

9. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and movement thereon during the current and prior periods:

	Realised gain on injecting property, plant and equipment and land use rights as capital contribution <i>RMB'000</i>	Impairment of property, plant and equipment <i>RMB'000</i> <i>note 1</i>	Temporary difference on expenses recognition <i>RMB'000</i> <i>note 2</i>	Total <i>RMB'000</i>
At January 2006 (audited)	(1,834)	3,806	6,642	8,614
Charge to consolidated income statement for the period	(71)	(104)	(5,160)	(5,335)
At 30 June 2006 (unaudited)	(1,905)	3,702	1,482	3,279
Charge to consolidated income statement for the period	(71)	(104)	(39)	(214)
Effect of change of tax rate	359	(1,277)	(779)	(1,697)
At 31 December 2006 (audited) and at 30 June 2007 (unaudited)	<u>(1,617)</u>	<u>2,321</u>	<u>664</u>	<u>1,368</u>

Note 1: Impairment of property, plant and equipment was provided for in 2003 which was related to the vacant premises for electricity generation in prior years.

Note 2: Temporary difference on expenses recognition represents the expenses which are recognised in the period the expenses were incurred for financial accounting purpose, but are deductible over a number of years in the computation of PRC income tax.

10. TRADE AND OTHER RECEIVABLES

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

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

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

	30 June	31 December
	2007	2006
	RMB'000	RMB'000
	(unaudited)	(audited)
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/>
	134,903	137,734
Other receivables	5,292	618
	<hr/>	<hr/>
	140,195	138,352
	<hr/> <hr/>	<hr/> <hr/>

11. TRADE AND OTHER PAYABLES

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

	30 June	31 December
	2007	2006
	RMB'000	RMB'000
	(unaudited)	<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/>
	41,866	60,437
Other payables	47,328	39,100
	<hr/>	<hr/>
	89,194	99,537
	<hr/> <hr/>	<hr/> <hr/>

12. BORROWINGS

During the period, the Group obtained new bank loans amounting to RMB122,000,000. The loans carry interest at market rates of 6.37% to 6.75% per annum and are repayable by instalments over a period of 3 years. The proceeds were used to finance the acquisition of property, plant and equipment.

13. SHARE CAPITAL

	The Company	
	Number of shares	Share capital HK\$
Ordinary shares of HK\$0.1 each Authorised:		
On date of incorporation and at 29 November 2006	2,000,000	200,000
Issued:		
1,000,000 share allotted and issued nil paid on date of incorporation (<i>Note</i>)	1,000,000	—
Issue of shares on Group Reorganisation (<i>Note</i>)	500,000	150,000
At 31 December 2006 and 30 June 2007	1,500,000	150,000
Shown on the balance sheets as		RMB151,000

Note: The Company was incorporated in the Cayman Islands on 29 November 2006 with an authorised share capital of HK\$200,000 divided into 2,000,000 shares of HK\$0.1 each and 1,000,000 shares was issued at nil paid to the subscriber on the date of incorporation.

On 15 December 2006, the shareholders transfer an aggregate of 240 shares of US\$1 each, being the entire issued share capital of Sourcestar Worldwide Inc., the intermediate holding company of Golden Corn, to the Company in consideration of and in exchange for (i) 500,000 new shares allotted and issued, credited as fully paid and (ii) credited as fully paid at par the 1,000,000 nil-paid shares issued on incorporation.

14. COMMITMENTS

	30 June	31 December
	2007	2006
	RMB'000	RMB'000
	(unaudited)	(audited)
Capital expenditure contracted for but not provided for in the financial statements in respect of acquisition of property, plant and equipment	5,856	411

15. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transactions with the related parties:

(i) Sales and purchases

	Trade sales		Trade purchases	
	Six months ended 30 June		Six months ended 30 June	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Shouguang Juneng Electricity Steam Co., Ltd.	—	—	—	245
Shouguang Juneng Electricity Fuel Co., Ltd.	—	—	—	12,346
Golden Far East	52,701	35,774	—	—
	52,701	35,774	—	12,591

Sales and purchases were based on contracted price.

15. RELATED PARTY TRANSACTIONS – Continued

(i) *Sales and purchases – Continued*

Shouguang Juneng Electricity Steam Co., Ltd. was an associate of Shandong Shouguang Juneng Holding Group prior to May 2006 and became a subsidiary of Shandong Shouguang Juneng Holding Group after May 2006. The Director of the Company, Mr. Tian Qixiang, is a director of and has equity interest in Shandong Shouguang Juneng Holding Group.

Shouguang Juneng Electricity Fuel Co., Ltd. is a subsidiary of Shandong Shouguang Juneng Holding Group Co., Ltd., Golden Far East is an associate of the Group.

(ii) *Sales of steam and electricity*

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Shandong Shouguang Juneng Special Steel Co., Ltd.	30,352	—
Golden Far East	1,367	2,031
Electricity Supply Company of Shouguang City	—	21,010
	31,719	23,041

Sales of electricity and steam are based on contracted price.

Shandong Shouguang Juneng Special Steel Co., Ltd is a subsidiary of Shandong Shouguang Juneng Holding Group Co., Ltd.

The Director and shareholder of the Company, Mr. Tian Qixiang, is the manager of Electricity Supply Company of Shouguang City. According to the articles of association of Electricity Supply Company of Shouguang City, the manager has significant influence on the financial and operating decisions on Electricity Supply Company of Shouguang City.

15. RELATED PARTY TRANSACTIONS – Continued

(iii) *Commission income*

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Golden Far East	<u>—</u>	<u>2,204</u>

Commission income is calculated at 1% on sales of modified starch handled by the Group for its associated company, Golden Far East, for the period plus 4% on amount collected in respect of sales made in that respective period.

From 1 September 2006, Golden Far East terminated the provision of handling service with the Group.

(iv) *Salary expense*

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Juneng Holding Group	<u>3,944</u>	<u>6,303</u>

Salary was paid at cost to Shandong Shouguang Juneng Holding Group Co., Ltd.

15. RELATED PARTY TRANSACTIONS – Continued

(v) *Interest income*

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Juneng Holding Group	—	1,116
	<u> </u>	<u> </u>

The amount due from Juneng Holding Group was loan advances which was unsecured, repayable within one year and carried interest at 5.58% per annum.

(vi) *Interest expense*

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Merry Boom	4,049	—
Juneng Holding Group	—	1,898
	<u> </u>	<u> </u>
	4,049	1,898
	<u> </u>	<u> </u>

Loan from Shandong Shouguang Juneng Holding Group Co., Ltd. was unsecured, repayable on demand and carried interest ranging from 0.72% to 5.58% per annum.

Loan from Merry Boom is unsecured, interest free and repayable within 2 years. The imputed interest rate adopted for the calculation of fair value at initial recognition is 6.57% per annum.

15. RELATED PARTY TRANSACTIONS – Continued

(vii) Compensation of key management personnel

The remuneration of key management during the period was as follows:

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Short-term benefits	308	277
Retirement benefits scheme contribution	15	13
	323	290

16. SUBSEQUENT EVENTS

- In August 2007, Golden Corn entered into mortgage loan agreement with 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 bank to Golden Corn. The carrying values of these assets pledged at 30 June 2007 are as follows:

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

- 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.
- The shares of the Company were listed on the main board of The Stock Exchange on 27 September 2007.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of China Starch Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 23 to 46, which comprises the condensed consolidated balance sheet of China Starch Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") as of 30 June 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six months then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial-Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Without qualifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement for the six-month period ended 30 June 2006 and the comparative condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period ended 30 June 2006 disclosed in the interim financial information have not been reviewed in accordance with standards applicable to review engagements issued by the Hong Kong Institute of Certified Public Accountants.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

27 September 2007