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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Starch Holdings Limited, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

**DISCLOSEABLE AND CONNECTED TRANSACTION
ACQUISITION OF PRODUCTION FACILITIES**

**Independent financial adviser to
the Independent Board Committee and the Independent Shareholders**



A letter from the Independent Board Committee is set out on pages 16 to 17 of this circular. A letter from First Shanghai Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 18 to 31 of this circular.

14 May 2008

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DEFINITIONS

In this circular, unless the context requires otherwise, the following expressions shall have the following meanings when used herein:

“Acquisitions”	the Production Assets Acquisition and the Property Assets Acquisition
“Agreements”	the Provisional Sale and Purchase Agreement and the Repayment Guarantee Agreement
“Assets”	the Production Assets and the Property Assets
“Board”	the board of Directors
“Company”	China Starch Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“Cornstarch Production Project”	the cornstarch production project of Deneng Bio Tech relating to the production of, among other things, cornstarch and starch-based sweeteners
“Deneng Bio Tech” or “Vendor”	臨清德能生物科技有限公司 (Linqing Deneng Bio Technology Limited*), a limited liability company established in the PRC on 17 May 2006 and the 14.06% minority equity owner of Deneng Golden Corn
“Deneng Golden Corn” or “Purchaser”	臨清德能金玉米生物有限公司 (Linqing Deneng Golden Corn Bio Limited*), a limited liability company established in the PRC on 13 March 2008 and owned as to approximately 85.94% by Golden Corn and approximately 14.06% by Deneng Bio Tech
“Director(s)”	the director(s) of the Company
“Golden Corn”	山東壽光巨能金玉米開發有限公司 (Shandong Shouguang Juneng Golden Corn Development Co., Ltd.*), a wholly foreign-owned enterprise established in the PRC and an indirect wholly-owned subsidiary of the Company having a 85.94% equity interest in Deneng Golden Corn
“Group”	the Company and its subsidiaries

DEFINITIONS

“Guarantor”	臨清市電業公司 (The Electricity Company of Linqing City*), a state-controlled enterprise established in the PRC and the single largest shareholder of Deneng Bio Tech with 13.25% equity interest
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Board comprising all the independent non-executive Directors, namely, Ms. Dong Yanfeng, Ms. Yu Shumin, Mr. Cao Zeng Gong and Mr. Yue Kwai Wa, Ken
“Independent Shareholder(s)”	Shareholders which are not required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisitions and the transactions contemplated thereunder, being all the Shareholders
“JV Agreement”	the joint venture agreement dated 10 March 2008 entered into between Golden Corn and Deneng Bio Tech in relation to the formation of Deneng Golden Corn as detailed in the announcement and the circular of the Company dated 11 March 2008 and 31 March 2008 respectively
“Latest Practicable Date”	9 May 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Party(ies)”	the Purchaser and the Vendor or any of them
“PRC”	the People’s Republic of China (for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region and Taiwan)
“Prepayments”	the prepayments made by Deneng Bio Tech to third party contractors for the construction of part of the Production Assets

DEFINITIONS

“Production Assets”	all machineries and equipment relating to the Cornstarch Production Project (including the Prepayments) to be acquired by Deneng Golden Corn pursuant to the Provisional Sale and Purchase Agreement
“Production Assets Acquisition”	the acquisition of the Production Assets
“Production Assets Conditions”	the conditions precedent to the Production Assets Acquisition as stipulated in the Provisional Sale and Purchase Agreement
“Property Assets”	the associated land, buildings and ancillary structures relating to the Cornstarch Production Project to be acquired by Deneng Golden Corn pursuant to the Provisional Sale and Purchase Agreement
“Property Assets Acquisition”	the acquisition of the Property Assets
“Property Assets Conditions”	the conditions precedent to the Property Assets Acquisition as stipulated in the Provisional Sale and Purchase Agreement
“Provisional Sale and Purchase Agreement”	the provisional sale and purchase agreement entered into between the Vendor and Deneng Golden Corn on 9 April 2008 in relation to the Acquisitions
“Relevant Certificates”	all relevant land use rights and certificates of title of the Property Assets
“Repayment Guarantee Agreement”	the repayment guarantee agreement entered into among Deneng Golden Corn, Deneng Bio Tech and the Guarantor on 9 April 2008 in conjunction with the Provisional Sale and Purchase Agreement for the purpose of governing the performance by the Vendor of its financial obligations in the occurrence of certain events stipulated in the Provisional Sale and Purchase Agreement
“RMB”	Renminbi, the lawful currency of PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Shareholder(s)”	holder(s) of the Share(s)

DEFINITIONS

“Share(s)”	ordinary share(s) of par value of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor Interest Penalty”	a penalty charge calculated as four times of the relevant bank interest charge on any instalments or payments made by Deneng Golden Corn to Deneng Bio Tech pursuant to the Provisional Sale and Purchase Agreement commencing from the date of payment of such instalments or payments by Deneng Golden Corn
“%”	per cent.

Unless otherwise specified, the conversion of HK\$ into RMB is based on the exchange rate of HK\$1.00 = RMB0.9112. No presentation is made that the amounts stated in this circular have been or could be converted at the above rate.

** Unofficial name for identification purposes only*

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Tian Qixiang (*Chairman*)
Mr. Gao Shijun (*Chief Executive officer*)
Mr. Yu Yingquan
Mr. Liu Xianggang

Independent non-executive Directors:

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

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 2408, 24/F
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

14 May 2008

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION ACQUISITION OF PRODUCTION FACILITIES

INTRODUCTION

Reference is made to the announcement and the circular of the Company dated 11 March 2008 and 31 March 2008 respectively in relation to the formation of Deneng Golden Corn for the purpose of, amongst others, acquiring the Assets from Deneng Bio Tech through utilizing the injected capital of Deneng Golden Corn. Deneng Golden Corn was duly established in the PRC on 13 March 2008 and owned as to approximately 85.94% by Golden Corn and approximately 14.06% by Deneng Bio Tech, having an approved business scope of purchase and sale of corn, processing, manufacture and sale of cornstarch, starch-based sweeteners, amino acids and other ancillary products, and provision of related services. The Board announced on 11 April 2008 that Deneng Golden Corn entered into the Agreements after trading hours on 9 April 2008 for the purpose of the Acquisitions.

LETTER FROM THE BOARD

As the applicable percentage ratios under Rule 14.07 of the Listing Rules calculated in respect of the Acquisitions in aggregate are more than 5% but less than 25%, the Acquisitions in aggregate constitute a discloseable transaction under the Listing Rules.

Further, as Deneng Bio Tech is a substantial shareholder (as defined under the Listing Rules) of Deneng Golden Corn which is a subsidiary of the Company, Deneng Bio Tech is a connected person of the Company for the purpose of Chapter 14A of the Listing Rules. Accordingly, the Acquisitions and the transactions contemplated thereunder constitute connected transactions of the Company under the Listing Rules. As the applicable percentage ratios under Rule 14.07 of the Listing Rules calculated in respect of the Acquisitions exceed the threshold for exemption under Rule 14A.32 of the Listing Rules, the Acquisitions and the transactions contemplated thereunder are subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

The purpose of this circular is to provide you with further details of the Acquisitions and the Agreements, the recommendation from the Independent Board Committee and the advice from First Shanghai Capital Limited to the Independent Board Committee and the Independent Shareholders.

THE PROVISIONAL SALE AND PURCHASE AGREEMENT

Date

9 April 2008

Parties to the Provisional Sale and Purchase Agreement

Purchaser: Deneng Golden Corn

Vendor: Deneng Bio Tech

Assets to be acquired

The assets to be acquired by Deneng Golden Corn pursuant to the Provisional Sale and Purchase Agreement include the Production Assets and the Property Assets. To the best of the Directors' knowledge, the Vendor is still in the process of applying for the Relevant Certificates.

Conditions precedent to the Acquisitions

The Production Assets Acquisition is conditional upon fulfilment of the following Production Assets Conditions:

- (i) the Provisional Sale and Purchase Agreement being duly executed by the Parties; and
- (ii) the approval from the Shareholders for the transactions contemplated under the Agreements or a waiver pursuant to Rule 14A.43 of the Listing Rules (under which a written independent shareholders' approval may be accepted in lieu of holding a general meeting) from the Stock Exchange being obtained by the Company.

LETTER FROM THE BOARD

The Property Assets Acquisition is conditional upon fulfilment of the following Property Assets Conditions:

- (i) fulfilment of the Production Assets Conditions in full; and
- (ii) completion of application for and obtaining of the Relevant Certificates by the Vendor.

Neither Party may waive any of the Production Assets Conditions and/or the Property Assets Conditions as set out above.

Other major terms of the Provisional Sale and Purchase Agreement

- (i) It was stipulated in the JV Agreement that the Vendor shall use its best endeavours to procure completion of the application for and the obtaining of the Relevant Certificates within three months from the date of the JV Agreement. In this respect, the Vendor is provided with an initial period of three months from the date of the JV Agreement, extendable by Deneng Golden Corn, to complete with the application for and the obtaining of the Relevant Certificates.
- (ii) Within three days following fulfilment in full of the Production Assets Conditions, the Vendor shall issue to Deneng Golden Corn the tax invoices in respect of the Production Assets and the Parties shall procure completion of the title transfer of the Production Assets. In the event that the Production Assets Acquisition cannot become unconditional, the Vendor shall refund to Deneng Golden Corn any instalments or payments made by Deneng Golden Corn in accordance with the terms of the Repayment Guarantee Agreement.
- (iii) Within 10 days following fulfilment in full of the Property Assets Conditions, the Vendor shall issue to Deneng Golden Corn the tax invoices in respect of the Property Assets and the Parties shall procure completion of the title transfer of the Property Assets to Deneng Golden Corn. Subject to completion of the Production Assets Acquisition, if the Property Assets Acquisition cannot become unconditional within the three-month-period as described above and such period has not been extended by Deneng Golden Corn, the Vendor shall refund and/or pay to Deneng Golden Corn all such instalments, payments, penalties, costs and/or expenses and repurchase the Production Assets from Deneng Golden Corn in accordance with the terms of the Repayment Guarantee Agreement.
- (iv) Deneng Golden Corn may make additions to the Production Assets during the period from the completion of the Production Assets Acquisition up to the completion of the Property Assets Acquisition (Note). In the event that the Property Assets Acquisition cannot become unconditional, the Vendor shall refund to Deneng Golden Corn any additions of assets to the Production Assets made by Deneng Golden Corn (the “**Assets Additions Refund**”) in accordance with the terms of the Repayment Guarantee Agreement.

LETTER FROM THE BOARD

- (v) Deneng Golden Corn is given the priority to employ existing employees of the Vendor under the same terms of employment. In the event that the Property Assets Acquisition cannot become unconditional or that the Material Breach (as defined below) occurs and Deneng Golden Corn is to dispense any or all those staff, Deneng Golden Corn is entitled to a full reimbursement from the Vendor of all costs and expenses incurred in relation to the dispensation of such staff (the “**Staff Dispensation Costs**”) in accordance with the terms of the Repayment Guarantee Agreement.

Note:

The Directors confirmed that Deneng Golden Corn will engage third party contractors to conduct such asset additions (if any) and accordingly, the associated costs arisen therefrom do not form part of the aggregate consideration for the Acquisitions.

Consideration

Production Assets

The consideration for the Production Assets is RMB105,529,513 (equivalent to approximately HK\$115,814,000) which comprises (i) the consideration for the machineries and equipment relating to the Cornstarch Production Project of RMB67,311,780 determined on an arm’s length basis between the Parties with reference to a valuation of RMB67,311,780 (equivalent to approximately HK\$73,872,000) as set out in the valuation report dated 17 March 2008 prepared by 山東舜天信誠會計師事務所有限公司 (Shandong Shuntian Xincheng Certified Public Accountants Co., Ltd.*), an independent valuer, and the unaudited net book value of the captioned machineries and equipment of approximately RMB67,614,000 (equivalent to approximately HK\$74,203,000) as at 28 February 2008; and (ii) the consideration for the Prepayments of RMB38,217,733 determined on an arm’s length basis between the Parties with reference to the actual amount of the Prepayments of RMB38,217,733 (equivalent to approximately HK\$41,942,000). The consideration for the Production Assets is payable in cash by Deneng Golden Corn in the following manners:

- (i) the first instalment in the sum of RMB70,000,000 (equivalent to approximately HK\$76,822,000) within 10 days from the date of signing of the Agreements;
- (ii) the second instalment in the sum of RMB12,000,000 (equivalent to approximately HK\$13,169,000) upon completion of the Production Assets Acquisition;
- (iii) the third instalment in the sum of RMB22,000,000 (equivalent to approximately HK\$24,144,000) within 10 days following completion of the Property Assets Acquisition;
and
- (iv) the remaining balance of RMB1,529,513 (equivalent to approximately HK\$1,679,000) as “quality assurance retainer” after one year from completion of the Property Assets Acquisition, on the condition that no material defects shall be found in the title and/or quality of the Production Assets and the Property Assets.

LETTER FROM THE BOARD

Property Assets

The consideration for the Property Assets comprises (i) the consideration for the buildings and ancillary structures relating to the Cornstarch Production Project of RMB18,417,230 (equivalent to approximately HK\$20,212,000) which was determined on an arm's length basis between the Parties with reference to a valuation of RMB18,417,230 (equivalent to approximately HK\$20,212,000) as set out in the valuation report dated 17 March 2008 prepared by 山東舜天信誠會計師事務所有限公司 (Shandong Shuntian Xincheng Certified Public Accountants Co., Ltd.*), an independent valuer, and the unaudited net book value of the captioned buildings and ancillary structures of approximately RMB27,000,000 (equivalent to approximately HK\$29,631,000) as at 28 February 2008; and (ii) the consideration for the associated land which shall equal to the actual expenses to be incurred by the Vendor in acquiring the land use rights of the associated land, subject to a cap of RMB20,000,000 (equivalent to approximately HK\$21,949,000) and is payable in cash by Deneng Golden Corn in the following manners:

- (i) the first instalment in the sum of RMB18,000,000 (equivalent to approximately HK\$19,754,000) within 10 days from the date of signing of the Agreements;
- (ii) the second instalment which is equal to the consideration for the associated land within 10 days following completion of the Property Assets Acquisition; and
- (iii) the remaining balance of RMB417,230 (equivalent to approximately HK\$458,000) as "quality assurance retainer" after one year from the completion of the Property Assets Acquisition, on the condition that no material defects shall be found in the title and/or quality of the Production Assets and the Property Assets.

The maximum consideration for the Assets (assuming the consideration for the associated land to be the maximum amount payable by Deneng Golden Corn of RMB20,000,000 (equivalent to approximately HK\$21,949,000)) is RMB143,946,743 (equivalent to approximately HK\$157,975,000) and will be funded by the injected registered capital of Deneng Golden Corn of RMB128,000,000 (equivalent to approximately HK\$140,474,000) and its internally generated funds.

As at the Latest Practicable Date, payments in the amount of (i) RMB82,000,000 (equivalent to approximately HK\$89,991,000), being the sum of the first instalment and the second instalment on the consideration for the Production Assets; and (ii) RMB18,000,000 (equivalent to approximately HK\$19,754,000), being the first instalment on the consideration for the Property Assets, have been settled by Deneng Golden Corn.

Penalty

On the part of the Vendor,

- (i) if the Vendor fails to issue to Deneng Golden Corn the tax invoices in respect of the Production Assets within three days following fulfilment in full of the Production Assets Conditions, the Vendor shall refund and/or pay to Deneng Golden Corn:

LETTER FROM THE BOARD

- a. the first instalments of RMB70,000,000 (equivalent to approximately HK\$76,822,000) and RMB18,000,000 (equivalent to approximately HK\$19,754,000) on the considerations for the Production Assets and the Property Assets respectively; and
 - b. the Vendor Interest Penalty; and
- (ii) if following fulfilment in full of the Property Assets Conditions the Vendor fails to perform its obligations to complete with the title transfer of the Property Assets and/or issue to Deneng Golden Corn the tax invoices in respect of the Property Assets (the “**Material Breach**”), the Vendor shall:
- a. repurchase the Production Assets from Deneng Golden Corn at a price equal to the original consideration for the acquisition of the Production Assets (where the net payment to be effected by the Vendor shall equal to the original consideration less any consideration payables owed by Deneng Golden Corn thereupon);
 - b. refund to Deneng Golden Corn the first instalment of RMB18,000,000 (equivalent to approximately HK\$19,754,000) on the consideration for the Property Assets;
 - c. pay to Deneng Golden Corn the Assets Additions Refund, the Staff Dispensation Costs and the Vendor Interest Penalty; and
 - d. pay to Deneng Golden Corn a penalty charge equal to two times of the aggregate consideration for the Assets.

On the part of the Purchaser, if Deneng Golden Corn fails to effect payment(s) in accordance with the terms of the Provisional Sale and Purchase Agreement, it will be subject to a penalty charge calculated as four times of the relevant bank interest charge on any such payment commencing from the first day after expiry of the relevant payment period as stipulated in the Provisional Sale and Purchase Agreement.

THE REPAYMENT GUARANTEE AGREEMENT

Date

9 April 2008

Parties to the Repayment Guarantee Agreement

- (i) Deneng Golden Corn
- (ii) Deneng Bio Tech
- (iii) the Guarantor

LETTER FROM THE BOARD

Subject matter

The Repayment Guarantee Agreement was entered into among the Parties and the Guarantor in conjunction with the Provisional Sale and Purchase Agreement for the purpose of governing the performance by the Vendor of its financial obligations in the occurrence of certain events stipulated in the Provisional Sale and Purchase Agreement. More particularly,

- (i) in the event that the Production Assets Acquisition cannot become unconditional, the Vendor shall refund to Deneng Golden Corn:
 - a. the first instalment of RMB70,000,000 (equivalent to approximately HK\$76,822,000), without interest, on the consideration for the Production Assets; and
 - b. the first instalment of RMB18,000,000 (equivalent to approximately HK\$19,754,000), without interest, on the consideration for the Property Assets paid by Deneng Golden Corn;
- (ii) subject to completion of the Production Assets Acquisition, if the Property Assets Acquisition cannot become unconditional, the Vendor shall:
 - a. repurchase the Production Assets from Deneng Golden Corn at a price equal to the original consideration for the Production Assets (where the net payment to be effected by the Vendor shall equal to such original consideration less any consideration payables owed by Deneng Golden Corn thereupon);
 - b. refund to Deneng Golden Corn the first instalment of RMB18,000,000 (equivalent to approximately HK\$19,754,000) on the consideration for the Property Assets; and
 - c. pay to Deneng Golden Corn the Vendor Interest Penalty, the Assets Additions Refund and the Staff Dispensation Costs;
- (iii) subject to the Production Assets Acquisition becoming unconditional, if the Vendor fails to issue to Deneng Golden Corn the tax invoices in respect of the Production Assets, the Vendor shall refund and/or pay to Deneng Golden Corn all such instalments and penalties as stipulated in the Provisional Sale and Purchase Agreement; and
- (iv) in the case of the Material Breach, the Vendor shall repurchase the Production Assets from Deneng Golden Corn and refund and/or pay to Deneng Golden Corn all such instalments, payments, penalties, costs and/or expenses as stipulated in the Provisional Sale and Purchase Agreement;

in all cases within ten days following the occurrence of such event.

LETTER FROM THE BOARD

Guarantee

Pursuant to the Repayment Guarantee Agreement, the Guarantor has agreed to guarantee, for a period commencing from the date of the Repayment Guarantee Agreement and ending on the date which is two years after the expiration of the term of repayment, the performance by the Vendor of its obligations to refund and/or pay to Deneng Golden Corn all such instalments, payments, penalties, costs and/or expenses (as the case may be) as stipulated in the sub-paragraph headed "Subject matter" above, together with all costs and expenses (including any litigation or legal fees) incurred by Deneng Golden Corn in pursuit of such refunds and/or payments.

The Guarantor is obliged, under the Repayment Guarantee Agreement, to notify Deneng Golden Corn in writing 30 days in advance for any corporate reorganisation which would negatively affect the performance of the Guarantor. In such event, the obligations of the Guarantor under the Repayment Guarantee Agreement shall be transferred to the reorganised entity or an entity acceptable by Deneng Golden Corn.

REASONS FOR THE ACQUISITIONS

The Group is principally engaged in the manufacture and sale of cornstarch and ancillary corn-refined products, L-lysine hydrochloride salt and agricultural fertilisers and the sale of steam and electricity.

As stated in the prospectus of the Company dated 12 September 2007, it is one of the Group's business strategies to increase its annual cornstarch and lysine production capacity and, depending on future developments in market conditions, expand vertically into the provision of starch-based sweeteners in a longer run. To facilitate the planned expansion in production capacity of the Group, it is part of the Group's future plans to acquire additional production capacity from small-to-medium-sized cornstarch and/or lysine producers.

To the best of the Directors' knowledge, having made all reasonable enquiries, the Assets have a current annual cornstarch production capacity of approximately 300,000 tonnes. Deneng Golden Corn intends to commence production and sale of cornstarch and ancillary corn-refined products following completion of the Production Assets Acquisition.

To the best of the Directors' knowledge, having made all reasonable enquiries, the Assets also include certain construction in progress for starch-based sweetener production. It is intended that Deneng Golden Corn will continue to proceed with such construction in progress by way of, among other means, asset additions following completion of the Production Assets Acquisition. The Directors confirmed that no agreements for such asset additions have been entered into by Deneng Golden Corn as at the Latest Practicable Date. Subject to completion of the Acquisitions, it is currently envisaged that construction of the starch-based sweetener production facilities will be completed by the end of 2008 with an annual production capacity of approximately 100,000 tonnes.

LETTER FROM THE BOARD

The Directors consider the Acquisitions to be part of the Group's efforts in materialising both its purpose of forming Deneng Golden Corn and its planned expansion in accordance with its business strategies, and that the Acquisitions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE VENDOR

臨清德能生物科技有限公司 (Linqing Deneng Bio Technology Limited*) is a company established in the PRC with limited liability on 17 May 2006 and is located at Linqing City, Shandong Province, the PRC. The approved scope of business of Deneng Bio Tech is processing and sale of cornstarch. 臨清市電業公司 (The Electricity Company of Linqing City*) is a state-controlled enterprise established in the PRC and the single largest shareholder of Deneng Bio Tech having a 13.25% equity interest in Deneng Bio Tech as at the Latest Practicable Date. To the best of the Directors' knowledge, having made all reasonable enquiries, the approved scope of business of 臨清市電業公司 (The Electricity Company of Linqing City*) is supply of electricity.

On 10 March 2008, Golden Corn and Deneng Bio Tech entered into the JV Agreement for the formation of Deneng Golden Corn. On 12 March 2008, Golden Corn purchased from Deneng Bio Tech certain of the then existing inventories of Deneng Bio Tech (comprised mainly of corn kernels) for an aggregate consideration of approximately RMB17,543,000 (equivalent to approximately HK\$19,252,000). Save as disclosed above, there were no prior transactions or relationship between the Group and Deneng Bio Tech prior to the entering into of the Agreements.

FINANCIAL EFFECT OF THE ACQUISITIONS

Upon completion of the Production Assets Acquisition and the Property Assets Acquisition, the consolidated non-current asset value of the Group will be increased by the net asset value of the corresponding Assets while the consolidated current asset value of the Group will be reduced by the amount of the corresponding consideration. The Directors consider that the Acquisitions will not have a material adverse impact on the net asset position of the Group given the decrease in the current assets of the Group will be offset by the increase in the non-current assets of the Group.

It is currently intended that Deneng Golden Corn will commence production and sale of cornstarch and ancillary corn-refined products following completion of the Production Assets Acquisition. As such, the Directors are of the view that the Acquisitions will not have a material adverse impact on the earnings of the Group.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios under Rule 14.07 of the Listing Rules calculated in respect of the Acquisitions in aggregate are more than 5% but less than 25%, the Acquisitions in aggregate constitute a discloseable transaction under the Listing Rules.

LETTER FROM THE BOARD

Further, as Deneng Bio Tech is a substantial shareholder (as defined under the Listing Rules) of Deneng Golden Corn which is a subsidiary of the Company, Deneng Bio Tech is a connected person of the Company for the purpose of Chapter 14A of the Listing Rules. Accordingly, the Acquisitions and the transactions contemplated thereunder constitute connected transactions of the Company under the Listing Rules. As the applicable percentage ratios under Rule 14.07 of the Listing Rules calculated in respect of the Acquisitions exceed the threshold for exemption under Rule 14A.32 of the Listing Rules, the Acquisitions and the transactions contemplated thereunder are subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

Since no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisitions and the transactions contemplated thereunder and the Company has obtained a written approval from Merry Boom Group Limited, the controlling shareholder of the Company holding 350,000,000 Shares (representing approximately 66.99% of the issued share capital of the Company) as at the Latest Practicable Date, the Company has applied to the Stock Exchange for, and the Stock Exchange has accordingly granted, a waiver pursuant to Rule 14A.43 of the Listing Rules under which written independent shareholders' approval may be accepted in lieu of holding a general meeting.

GENERAL

The Independent Board Committee, comprising all the independent non-executive Directors, has been formed to advise the Independent Shareholders as to whether the Agreements were entered into on normal commercial terms, and whether the terms of the Acquisitions and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Your attention is drawn to the letter from the Independent Board Committee containing its advice set out on pages 16 to 17 of this circular.

First Shanghai Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the Agreements were entered into on normal commercial terms, and whether the terms of the Acquisitions and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. The text of the letter of advice from the independent financial adviser is set out on pages 18 to 31 of this circular.

BMI Appraisals Limited, qualified professional valuers, have been appointed by the Company to prepare the valuation reports on the Production Assets (excluding the Prepayments) and the Property Assets (excluding the associated land), the text of which is set out in Appendix I and Appendix II to this circular, for the purpose of providing the independent financial adviser and the Independent Board Committee with further references as to the fairness and reasonableness of the considerations for the Acquisitions. Based on the valuation reports prepared by BMI Appraisals Limited, the Production Assets (excluding the Prepayments) and the Property Assets (excluding the associated land and assuming that all requisite land premium and fees have been fully settled in obtaining the title documents for the property and the property may be freely disposed in the open market) were valued at approximately RMB69,150,000 (equivalent to approximately HK\$75,889,000) and approximately RMB24,480,000 (equivalent to approximately HK\$26,866,000) respectively as at the date of valuation of 30 April 2008.

LETTER FROM THE BOARD

RECOMMENDATION

The Board considers that the terms of the Acquisitions and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Independent Board Committee, having taken into account the advice from First Shanghai Capital Limited, considers that the Agreements were entered into on normal commercial terms, and that the terms of the Acquisitions and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

By order of the Board
China Starch Holdings Limited
Tian Qixiang
Chairman

* *Unofficial name for identification purposes only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

14 May 2008

To the Independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
ACQUISITION OF PRODUCTION FACILITIES**

We refer to the circular of the Company dated 14 May 2008 (the “Circular”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise you on whether the Agreements were entered into on normal commercial terms, and whether the terms of the Acquisitions and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

First Shanghai Capital Limited has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Acquisitions and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, is set out on pages 18 to 31 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Your attention is also drawn to the letter from the Board set out on pages 5 to 15 of the Circular and the additional information set out in the appendices of the Circular. Having considered the terms of the Acquisitions and the transactions contemplated thereunder and the advice from First Shanghai Capital Limited, we are of the opinion that the Agreements were entered into on normal commercial terms, and that the terms of the Acquisitions and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Yours faithfully,

Independent Board Committee of
China Starch Holdings Limited

Dong Yanfeng
*Independent
non-executive
Directors*

Yu Shumin
*Independent
non-executive
Directors*

Cao Zenggong
*Independent
non-executive
Directors*

Yue Kwai Wa, Ken
*Independent
non-executive
Directors*

LETTER FROM FIRST SHANGHAI CAPITAL LIMITED

The following is the text of a letter to the Independent Board Committee and the Shareholders from First Shanghai Capital Limited in respect of the terms of the Acquisitions comprising the Production Assets Acquisition and the Property Assets Acquisition prepared for the purpose of incorporation in this circular.



FIRST SHANGHAI CAPITAL LIMITED

19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

14 May 2008

*To the Independent Board Committee and
the Shareholders*

China Starch Holdings Limited
Room 2408, 24th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION ACQUISITION OF PRODUCTION FACILITIES

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Shareholders in respect of the terms of the acquisitions of the Production Assets and the Property Assets (the "Acquisitions"), details of which are set out in the letter from the Board contained in the circular dated 14 May 2008 (the "Circular") to the Shareholders, of which this letter forms a part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

LETTER FROM FIRST SHANGHAI CAPITAL LIMITED

Further to the circular of the Company dated 31 March 2008 in relation to the formation of Deneng Golden Corn for the purpose of, amongst others, acquiring the Assets from Deneng Bio Tech through utilising the injected capital of Deneng Golden Corn, which was duly established in the PRC on 13 March 2008 and owned as to approximately 85.94% by Golden Corn and approximately 14.06% by Deneng Bio Tech, and having an approved business scope of the purchase and sale of corn, processing, manufacture and sale of cornstarch, starch-based sweeteners, amino acids and other ancillary products, and the provision of related services. On 11 April 2008, the Company announced that Deneng Golden Corn entered into the Agreements for the purpose of the Acquisitions.

As the applicable percentage ratios under Rule 14.07 of the Listing Rules calculated in respect of the Acquisitions in aggregate are more than 5% but less than 25%, the Acquisitions in aggregate constitute a discloseable transaction under the Listing Rules.

Further, as Deneng Bio Tech is a substantial shareholder (as defined under the Listing Rules) of Deneng Golden Corn which is a subsidiary of the Company, Deneng Bio Tech is a connected person of the Company for the purpose of Chapter 14A of the Listing Rules. Accordingly, the Acquisitions and the transactions contemplated thereunder constitute connected transactions of the Company under the Listing Rules. As the applicable percentage ratios under Rule 14.07 of the Listing Rules calculated in respect of the Acquisitions exceed the threshold for exemption under Rule 14A.32 of the Listing Rules, the Acquisitions and the transactions contemplated thereunder are subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

Since no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisitions and the transactions contemplated thereunder and the Company has obtained a written approval from its controlling shareholder holding approximately 66.99% of the issued share capital of the Company as at the Latest Practicable Date. The Company has applied to the Stock Exchange for, and the Stock Exchange has accordingly granted, a waiver pursuant to Rule 14A.43 of the Listing Rules under which written independent shareholders' approval may be accepted in lieu of holding a general meeting.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Ms. Dong Yanfeng, Ms. Yu Shumin, Mr. Cao Zenggong and Mr. Yue Kwai Wa, Ken, has been formed to consider the transactions contemplated under the Agreements and to advise the Shareholders on whether or not the terms of the Agreements and transactions contemplated thereunder are in the interest of the Company and are fair and reasonable so far as the Shareholders are concerned. As the independent financial adviser to the Independent Board Committee and the Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Shareholders as to (i) whether the entering into of the Agreements has been conducted on normal commercial terms and in the ordinary and usual course of business; (ii) whether the entering into of the Agreements is in the interests of the Company and the Shareholders as a whole; (iii) the terms of the Acquisitions are fair and reasonable so far as the interests of the Shareholders are concerned; and (iv) how the Shareholders should vote in respect of the resolutions to approve the Agreements and the transactions contemplated thereunder at the EGM.

LETTER FROM FIRST SHANGHAI CAPITAL LIMITED

BASIS OF OUR OPINION

In putting forth our opinion and recommendations, we have relied on the accuracy of the information and representations included in the Circular and provided, and opinion expressed to us by the Directors and the Company. We have assumed that all such information and representations made or referred to in the Circular and provided, and opinion expressed to us by the Directors and the Company were true, accurate and complete at the time they were made and continued to be true as at the date hereof. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Company in the Circular were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the Company and the information contained in the Circular. We have also been advised by the Directors and the Company that no material facts have been withheld or omitted from the information provided and referred to in the Circular. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

We have also relied on the information and representations provided by BMI Appraisals Limited (the “Valuer”), an independent valuer, regarding the valuation of the Assets comprising the Property Assets and the Production Assets as at 23 April 2008, the text of which is set out in Appendices I and II to the Circular, and have assumed that the bases and assumptions made in determining the valuation of the Assets by the Valuer are fair and reasonable. We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors nor have we conducted any form of investigation into the Assets or the valuation of the Assets provided by the Valuer or the business, operations, financial condition, affairs or future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendations on the Acquisitions, we have taken into account, among other things, the following principal factors and reasons:

Background of the Group

The Group is principally engaged in the manufacture and sale 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 and the sale of steam and electricity. The Group is one of the leading manufacturers of cornstarch in the PRC, which was ranked by the China Starch Industry Association in December 2006 as the third largest cornstarch producer in the PRC in 2005 in terms of cornstarch sales.

The Shares have been listed on the Main Board of the Stock Exchange since 27 September 2007, by which, the Company successfully raised net proceeds of approximately HK\$350.3 million from the listing exercise.

LETTER FROM FIRST SHANGHAI CAPITAL LIMITED

The Assets to be acquired

On 9 April 2008, Deneng Golden Corn as the Purchaser and Deneng Bio Tech as the Vendor entered into the Provisional Sale and Purchase Agreement, pursuant to which Deneng Golden Corn agreed to acquire and Deneng Bio Tech agreed to sell the Assets comprising the Production Assets and the Property Assets. To the best of the Directors' knowledge, the Vendor is still in the process of applying for the relevant land use rights and certificates of title (the "Relevant Certificates") of the Property Assets. Full details of the conditions precedent to the Acquisitions, including but not limited to the completion of application for and obtaining of the Relevant Certificates by the Vendor, are set out under the paragraph headed "The Provisional Sale and Purchase Agreement" in the "Letter from the Board" of the Circular.

Neither Party may waive any of the Production Assets Conditions and/or the Property Assets Conditions.

Reasons for the Acquisitions

As disclosed in the section headed "Future plans and use of proceeds" of the prospectus of the Company dated 12 September 2007 (the "Prospectus"), it is one of the Group's business strategies to increase its annual cornstarch and lysine production capacity and, depending on future developments in market conditions, expand vertically into the provision of starch-based sweeteners in a longer run. During the year ended 31 December 2006, the Group's annual production capacity of cornstarch and lysine averaged to about 404,000 tonnes and 27,000 tonnes respectively, with an average utilisation rate of approximately 89% and 78%, respectively. The Group's annual production capacity of cornstarch and lysine increased to approximately 450,000 tonnes and 55,000 tonnes respectively as at 31 December 2007, with an average utilisation rate of approximately 85% and 75%, respectively. In order to facilitate the Group's goal to capture an increasing market share, it has intended to increase its annual production capacity of cornstarch and lysine to about 800,000 tonnes and 55,000 tonnes by the end of 2008, respectively. To facilitate the above planned expansion in production capacity, it is part of the Group's future plans to acquire additional production capacity from small-to-medium-sized cornstarch and/or lysine producers.

To the best of the Directors' knowledge, having made all reasonable enquiries, the Assets have a current annual cornstarch production capacity of approximately 300,000 tonnes. Deneng Golden Corn intends to commence production and sale of cornstarch and ancillary corn-refined products following completion of the Production Assets Acquisition.

LETTER FROM FIRST SHANGHAI CAPITAL LIMITED

To the best of the Directors' knowledge, having made all reasonable enquiries, the Assets also include certain construction in progress for starch-based sweetener production. It is intended that Deneng Golden Corn will continue to proceed with such construction in progress by way of, among other means, asset additions following completion of the Production Assets Acquisition. Subject to completion of the Acquisitions, it is currently envisaged that construction of the starch-based sweetener production facilities will be completed by the end of 2008 with an annual production capacity of approximately 100,000 tonnes. Based on our understanding from the management of the Company, the Group intends to utilise Deneng Golden Corn as its extended sales network to cover the middle and western China, and as its new production vehicle for more advanced corn-based products such as amino acid and starch-based sweeteners.

As discussed with the management of the Company, the Production Assets are all Deneng Golden Corn's needs to produce cornstarch and its ancillary corn-refined products as well as starch-based sweetener, which are not readily available from manufacturers/contractors in the market. As further advised by the management of the Company, based on their experience in the corn-refinery industry, most of the production facilities (including machineries and equipment) for producing cornstarch and its ancillary and starch-based sweetener are to be tailored-constructed and installed in a specific location for production purposes. Based on the Directors' estimation, if Deneng Golden Corn does not acquire the Production Assets from Deneng Bio Tech, it may require one to two years of design, construction and installation work for the Group to achieve the current status of the Production Assets. In addition, on completion of the Acquisitions, Deneng Bio Tech will cease to engage in the same business, which would imply that the Group's market share is expected to be widened by its enhancement of production capacity. Having considered that (i) it would be very time-consuming and cost-ineffective to source such machineries and equipment from other third parties; and (ii) the time required to put the Production Assets into commercial/production use is relatively shorter, the Directors have not sourced such machineries and equipment from other manufacturers/contractors. Based on our discussion with the management of the Company, we have an understanding that the single largest shareholder of Deneng Bio Tech is a State-controlled enterprise established in the PRC and principally engaged in the supply of electricity and provision of related services, and therefore does not possess sound technology and experience in the production of cornstarch and its related products. As such, Deneng Bio Tech has not been successful in proceeding further from its trial production by utilising the cornstarch production facilities under the Production Assets. In view of this, Deneng Bio Tech decided to sell the Production Assets to Deneng Golden Corn just one year after its initial construction and installation of the Production Assets.

The management of the Company further advised that Deneng Golden Corn had performed its due diligence review on the Production Assets prior to entering into the Provisional Sale and Purchase Agreement, including reviewing the user manuals and having its own engineers to conduct on-site inspection therefor, the results of which were satisfactory and recommended to be ready for production immediately. In addition, we noted that during the Valuer's physical inspection on 23 April 2008, the Production Assets were observed to be generally in good working condition.

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Reference is also made to the section headed “Industry overview” of the Prospectus, whereby, it demonstrated that the State’s policy has recommended several measures to promote a healthy growth of the corn refinery industry in view of its over-expansion. In particular, the National Development and Reform Commission issued a notice on 8 December 2006 (taking effect on the same date) to halt approval and filing of any new corn refinery projects and only allow those plants that meet relevant production and environmental standards to continue the production. In addition, the policy recommends large corn refinery enterprises to acquire those small and non-profitable corn refinery companies in order to consolidate and increase the production efficiency of the whole industry. Should Deneng Golden Corn not acquire the machineries and equipment from Deneng Bio Tech, the Directors consider that the Group’s overall business plan in terms of future expansion and development would be delayed.

Based on our understanding from the management of the Company, the Production Assets have been physically erected and installed onto the Property Assets.

Based on the above scenario, we concur with the Directors’ view that the Production Assets Acquisition in conjunction with the Property Assets Acquisition from Deneng Bio Tech are justifiable and beneficial to the Company and the Shareholders as a whole.

The Directors consider the Acquisitions to be part of the Group’s efforts in materialising both its purpose of forming Deneng Golden Corn and its planned expansion in accordance with its business strategies, and that the Acquisitions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

After considering the reasons for and benefits gained from the Acquisitions mentioned above, and that the Acquisitions are conducted in the ordinary and usual course of business of the Group and on normal commercial terms, and in line with the Group’s business strategies and development plan as originally stated in the Prospectus; we are of the view that the Acquisitions are beneficial to the Group in terms of enhancing its production capacity and improving its business development opportunities in the long run, and therefore are fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

LETTER FROM FIRST SHANGHAI CAPITAL LIMITED

Basis of consideration for the Acquisitions

Basis of determination of the consideration

Production Assets

The consideration for the Production Assets is RMB105,529,513 (equivalent to approximately HK\$115,814,000) which comprises the following:

- (i) the consideration for the machineries and equipment (the “Machineries”) relating to the Cornstarch Production Project of RMB67,311,780 was determined on an arm’s length basis between the Parties with reference to a valuation of RMB67,311,780 (equivalent to approximately HK\$73,872,000) as set out in the valuation report dated 17 March 2008 prepared by 山東舜天信誠會計師事務所有限公司 (Shandong Shuntian Xincheng Certified Public Accountants Co., Ltd.), and the unaudited net book value of the captioned machineries and equipment of approximately RMB67,614,000 (equivalent to approximately HK\$74,203,000) as at 28 February 2008; and
- (ii) the consideration for the Prepayments of RMB38,217,733 determined on an arm’s length basis between the Parties with reference to the actual amount of the Prepayments of RMB38,217,733 (equivalent to approximately HK\$41,942,000).

According to the “Machinery and equipment valuation report” on the Production Assets as set out in Appendix II to the Circular, we note that the Valuer has arrived at the valuation of the Machineries on the basis of the cost approach instead of the market approach, which the Valuer believed to be the most appropriate methodology to reflect the fair value of the Machineries. Based on our understanding, the market approach was not adopted because market comparables for used machineries and equipment in similar condition could not generally be identified in the market. We also understand that the Valuer has carried out physical inspection and site visit to the Machineries on 23 April 2008 to research for necessary information to determine the valuation of the Production Assets. The Valuer has concluded the valuation of the Machineries of RMB69,150,000 (equivalent to approximately HK\$75,889,000).

We have also discussed with the management of the Company and considered the risk and downside of purchasing second hand machineries and equipment, which may include (i) possible shorter economic useful life of the Machineries; (ii) possible lower operating efficiency and hence with lower output rate; and (iii) possible higher rate of defects and/or machinery breakdown. We were advised by the management of the Company that Deneng Golden Corn had performed its due diligence review on the Production Assets prior to entering into the Provisional Sale and Purchase Agreement, including reviewing the user manuals and having its own engineers to conduct on-site inspection therefor, the results of which were satisfactory and recommended to be ready for production immediately because the Production Assets are still in good condition and relatively new. In addition, we noted that during the Valuer’s physical inspection on 23 April 2008, the Production Assets were observed to be generally in good working condition.

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Having considered (i) the valuation methodologies adopted by the Valuer and the valuation arrived thereat; (ii) the consideration for the Machineries of RMB67,311,780 (equivalent to approximately HK\$73,872,000) is at a slight discount of approximately 2.7% to the valuation of RMB69,150,000 (equivalent to approximately HK\$75,889,000) arrived at by the Valuer; (iii) the consideration is at a slight discount of approximately 0.45% to the unaudited net book value of the Machineries of approximately RMB67,614,000 (equivalent to approximately HK\$74,203,000) as at 28 February 2008; and (iv) the consideration for the Prepayments of RMB38,217,733 is the actual amount of the prepayments of RMB38,217,733 (equivalent to approximately HK\$41,942,000) made by Deneng Bio Tech to third party contractors for certain construction in progress in relation to the Cornstarch Production Project, we are of the view that the basis of determination of the consideration for the Production Assets is on normal commercial terms, fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Property Assets

The consideration for the Property Assets comprises the following:

- (i) the consideration for the buildings and ancillary structures (the “Building Structures”) relating to the Cornstarch Production Project of RMB18,417,230 (equivalent to approximately HK\$20,212,000) which was determined on an arm’s length basis between the Parties with reference to a valuation of RMB18,417,230 (equivalent to approximately HK\$20,212,000) as set out in the valuation report dated 17 March 2008 prepared by 山東舜天信誠會計師事務所有限公司 (Shandong Shuntian Xincheng Certified Public Accountants Co., Ltd.), and an unaudited net book value of the Building Structures of approximately RMB27,000,000 (equivalent to approximately HK\$29,631,000) as at 28 February 2008; and
- (ii) the consideration for the associated land which shall equal to the actual expenses to be incurred by the Vendor in acquiring the land use rights of the associated land, subject to a cap of RMB20,000,000 (equivalent to approximately HK\$21,949,000).

According to the “Property valuation report” on the Property Assets as set out in Appendix I to the Circular, we note that the Valuer has arrived at the valuation of the Building Structures on the basis of the depreciated replacement cost approach, which the Valuer believed to be the most appropriate methodology to reflect the fair value of the Building Structures due to the lack of an established market upon which to base comparable transactions. We also understand that the Valuer has carried out physical inspection and site visit to the Building Structures on 23 April 2008 to research for necessary information to determine the valuation of the Building Structures. The Valuer has concluded that the valuation of the Building Structures at RMB24,480,000 (equivalent to approximately HK\$26,866,000) with an assumption that all requisite premium (i.e. excluding premium for the associated land) and fees have been fully settled in obtaining the title documents for the Building Structures and which may be freely disposed of in the open market.

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Having considered (i) the valuation methodologies adopted by the Valuer and the valuation arrived thereat; (ii) the consideration for the Building Structures of RMB18,417,230 (equivalent to approximately HK\$20,212,000) is at a considerable discount of approximately 24.8% to the valuation of approximately RMB24,480,000 (equivalent to approximately HK\$26,866,000) arrived at by the Valuer; (iii) the consideration is at a considerable discount of approximately 31.8% to the unaudited net book value of the Building Structures of approximately RMB27,000,000 (equivalent to approximately HK\$29,631,000) as at 28 February 2008; and (iv) the consideration for the associated land is equal to the actual expenses to be incurred by the Vendor in acquiring the land use rights of the associated land, subject to a cap of RMB20,000,000 (equivalent to approximately HK\$21,949,000), we are of the view that the basis of determination of the consideration for the Property Assets is on normal commercial terms, fair and reasonable so far as the Shareholders are concerned and in the interest of the Company and the Shareholders as a whole.

Payment of the consideration for the Acquisitions

Production Assets

The consideration for the Production Assets is payable in cash by Deneng Golden Corn in the following manners:

- (i) the first instalment in the sum of RMB70,000,000 (equivalent to approximately HK\$76,822,000) within 10 days from the date of signing of the Agreements;
- (ii) the second instalment in the sum of RMB12,000,000 (equivalent to approximately HK\$13,169,000) upon completion of the Production Assets Acquisition;
- (iii) the third instalment in the sum of RMB22,000,000 (equivalent to approximately HK\$24,144,000) within 10 days following completion of the Property Assets Acquisition; and
- (iv) the remaining balance of RMB1,529,513 (equivalent to approximately HK\$1,679,000) as “quality assurance retainer” after one year from completion of the Property Assets Acquisition, on the condition that no material defects shall be found in the title and/or quality of the Production Assets and the Property Assets.

Property Assets

The consideration for the Property Assets is payable in cash by Deneng Golden Corn in the following manners:

- (i) the first instalment in the sum of RMB18,000,000 (equivalent to approximately HK\$19,754,000) within 10 days from the date of signing of the Agreements;
- (ii) the second instalment which is equal to the consideration for the associated land within 10 days following completion of the Property Assets Acquisition; and

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- (iii) the remaining balance of RMB417,230 (equivalent to approximately HK\$458,000) as “quality assurance retainer” after one year from the completion of the Property Assets Acquisition, on the condition that no material defects shall be found in the title and/or quality of the Production Assets and the Property Assets.

The maximum consideration for the Assets (assuming the consideration for the associated land to be the maximum amount payable by Deneng Golden Corn of RMB20,000,000 (equivalent to approximately HK\$21,949,000) is RMB143,946,743 (equivalent to approximately HK\$157,975,000) and will be funded by the injected registered capital of Deneng Golden Corn of RMB128,000,000 (equivalent to approximately HK\$140,474,000) and its internally generated funds.

We consider that the payment schedule by instalments within an agreed timeframe between the Parties is on normal commercial terms, fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; since every instalment of the aggregate consideration will generally be settled on/within ten days upon the completion of the prescribed procedures in relation to the Acquisitions while the remaining balance attributable thereto will only be settled after one year from the completion of the Acquisitions, on the condition that no material defects shall be found in the title and/or quality of the Production Assets and the Property Assets.

Having considered the above analysis and factors, we consider that the basis for determination of the aggregate consideration for the Acquisitions (including the payment terms) is fair and reasonable and the terms of the Agreements are on normal commercial terms, fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Penalty

According to the Provisional Sale and Purchase Agreement, there is penalty to be imposed on the Vendor or the Purchaser (i.e. Deneng Golden Corn) if certain obligations thereunder could not be properly performed by either side.

On the part of the Vendor,

- (i) if the Vendor fails to issue to Deneng Golden Corn the tax invoices in respect of the Production Assets within three days following fulfilment in full of the Production Assets Conditions, the Vendor shall refund and/or pay to Deneng Golden Corn:
 - a. the first instalments of RMB70,000,000 (equivalent to approximately HK\$76,822,000) and RMB18,000,000 (equivalent to approximately HK\$19,754,000) on the considerations for the Production Assets and the Property Assets respectively; and
 - b. the Vendor Interest Penalty; and

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- (ii) if following fulfilment in full of the Property Assets Conditions the Vendor fails to perform its obligations to complete with the title transfer of the Property Assets and/or issue to Deneng Golden Corn the tax invoices in respect of the Property Assets (the “Material Breach”), the Vendor shall:
- a. repurchase the Production Assets from Deneng Golden Corn at a price equal to the original consideration for the acquisition of the Production Assets (where the net payment to be effected by the Vendor shall equal to the original consideration less any consideration payables owed by Deneng Golden Corn thereupon);
 - b. refund to Deneng Golden Corn the first instalment of RMB18,000,000 (equivalent to approximately HK\$19,754,000) on the consideration for the Property Assets;
 - c. pay to Deneng Golden Corn the Assets Additions Refund, the Staff Dispensation Costs and the Vendor Interest Penalty; and
 - d. pay to Deneng Golden Corn a penalty charge equal to two times of the aggregate consideration for the Assets.

On the part of the Purchaser, if Deneng Golden Corn fails to effect payment(s) in accordance with the terms of the Provisional Sale and Purchase Agreement, it will be subject to a penalty charge calculated as four times of the relevant bank interest charge on any such payment commencing from the first day after expiry of the relevant payment period as stipulated in the Provisional Sale and Purchase Agreement.

Having considered that (1) the repurchase/refund/penalty arrangement set out in (ii)a to (ii)d above is basically for the purpose of safeguarding the interest of Deneng Golden Corn in event of occurrence of the Material Breach; (2) the above penalty charges imposed on the Purchaser calculated as four times of the relevant bank interest charge on any late payment is basically the same as that of the Vendor Interest Penalty; and (3) the same would be imposed on either side of the Parties if such failures under the Provisional Sale and Purchase Agreement occur, we are of the view that the repurchase/refund/penalty arrangement is basically for the benefit of Deneng Golden Corn and on normal commercial terms, fair and reasonable so far as the Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

The Repayment Guarantee Agreement

On 9 April 2008, Deneng Golden Corn, Deneng Bio Tech and the Guarantor entered into the Repayment Guarantee Agreement in conjunction with the Provisional Sale and Purchase Agreement for the purpose of governing the performance by the Vendor of its financial obligations in the occurrence of certain events stipulated in the Provisional Sale and Purchase Agreement, full details of which are set out under the paragraph headed “The Repayment Guarantee Agreement” in the “Letter from the Board” of the Circular.

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Pursuant to the Repayment Guarantee Agreement, the Guarantor has agreed to guarantee, for a period commencing from the date of the Repayment Guarantee Agreement and ending on the date which is two years after the expiration of the term of repayment, the performance by the Vendor of its obligations to refund and/or pay to Deneng Golden Corn all such instalments, payments, penalties, costs and/or expenses (as the case may be) as stipulated in the Repayment Guarantee Agreement, together with all costs and expenses (including any litigation or legal fees) incurred by Deneng Golden Corn in pursuit of such refunds and/or payments.

The Guarantor is obliged, under the Repayment Guarantee Agreement, to notify Deneng Golden Corn in writing 30 days in advance for any corporate reorganisation which would negatively affect the performance of the Guarantor. In such event, the obligations of the Guarantor under the Repayment Guarantee Agreement shall be transferred to the reorganised entity or an entity acceptable by Deneng Golden Corn.

We noted that the arrangement under the Repayment Guarantee Agreement is to provide additional assurance for safeguarding the interest of Deneng Golden Corn in the Provisional Sale and Purchase Agreement, and therefore is for the benefits of Deneng Golden Corn. On this basis, we are of the view that the entering into of the Repayment Guarantee Agreement is on normal commercial terms, fair and reasonable so far as the Shareholders are concerned, and in the interest of the Company and the Shareholders as a whole.

Possible financial effects of the Acquisitions on the Group

Earnings

Upon completion of the Acquisitions, although there is no immediate material impact on earnings of the Group, depreciation charges to be incurred by the Group will correspondingly increase because of the increase in the cost of land and buildings as well as machineries and equipment; whilst the Acquisitions can help the Group to increase its production capacity and, hence, generate additional revenue and operating cash inflow upon commencement of production following completion of the Acquisitions and in the longer run. The Directors believe that there would be positive impact attributable to the Acquisitions on the Group's future business operations because of its enhanced production capacity to meet the anticipated continuous increasing demand for cornstarch in the PRC. On this basis, we are of the view that net effect of (i) the increase of depreciation charges; and (ii) the anticipated increase in sales of cornstarch and its ancillary corn-refined products as well as starch-based sweetener by the expected enhancement of production capacity in the future as a result of the Acquisitions is not likely to adversely affect the earning capability of the Group.

Net asset value

As stated in the "Letter from the Board" of the Circular, the consideration for the Acquisitions will be funded by the injected registered capital of Deneng Golden Corn and its internally generated funds. The Acquisitions are not expected to adversely affect the net asset value of the Group since the increase in non-current assets of the Group attributable to the Assets would be offset by the decrease in its current assets (i.e. cash and cash equivalents) with the same amount accordingly.

LETTER FROM FIRST SHANGHAI CAPITAL LIMITED

Working capital

As stated in the Company's annual report for the year ended 31 December 2007, the Group had current assets and current liabilities of approximately RMB627.9 million and RMB268.2 million respectively, which represented net current assets of approximately RMB359.7 million and a current ratio of approximately 2.34 times as at 31 December 2007. According to the Prospectus, the Group has planned to apply part of the net proceeds from the listing exercise of approximately HK\$177 million for acquisition(s) of, among others, production facilities. According to the Company's circular dated 31 March 2008, the Group should have injected RMB110 million (equivalent to approximately HK\$120.7 million) to Deneng Golden Corn. The aggregate consideration for the Acquisitions will be funded by the injected registered capital of Deneng Golden Corn of RMB128 million (equivalent to approximately HK\$140.5 million) and its internally generated funds. As such, we are of the view that payment of the consideration for the Acquisitions ranging from RMB123.9 million (equivalent to approximately HK\$136.0) to RMB143.9 million (equivalent to approximately HK\$158.0 million) would not exert considerable pressure on the working capital of the Group, so its working capital position would still be maintained at a healthy level following completion of the Acquisitions. Having considered the long-term benefits to the Group in respect of the Acquisitions, we consider that the slight deterioration in the working capital position of the Group is acceptable.

Gearing

The Group's gearing ratio (which is calculated as total borrowings divided by net asset value) was approximately 14.1% as at 31 December 2007 based on its annual report for the year ended 31 December 2007, which stood at a relatively healthy level. Immediately following completion of the Acquisitions, the Group's gearing ratio shall basically remain unchanged due to the fact that Deneng Golden Corn will finance the entire amount of the consideration for the Acquisitions by the injected registered capital of Deneng Golden Corn and its internally generated funds. Based on the above, we concur with the Directors' view that the Group would have sufficient internal resources to satisfy such cash outflow, its working capital position and gearing position would not be materially and adversely affected.

Conclusion

In light of the foregoing effect of the Acquisitions on the earnings, net asset value, working capital and gearing position of the Group, we are of the view that the Acquisitions would have no significant adverse impact on the Group's financial position save and except for the reduction in working capital which is inevitable as the Group intends to finance the entire amount of the consideration for the Acquisitions by internal resources in cash.

LETTER FROM FIRST SHANGHAI CAPITAL LIMITED

RECOMMENDATION

Having considered the above principal factors and reasons, in particular the long-term benefits for the Group's business expansion and development, we are of the opinion that the Acquisitions are in the interests of the Company and the Shareholders as a whole and that the entering into of the Agreements is in the ordinary and usual course of business and the terms of the Acquisitions are on normal commercial terms and fair and reasonable so far as the Shareholders are concerned. If a general meeting of the Shareholders is to be held for the purpose of considering and, if thought fit, approving the Acquisitions, we would recommend the Shareholders to vote in favour of the ordinary resolutions approving the Agreements and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

First Shanghai Capital Limited

Helen Zee

Eric Lee

Managing Director

Deputy Managing Director

The following is the text of a letter, a summary of value and a valuation certificate, prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuation as at 30 April 2008 of the property located in the PRC to be acquired by the Group.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

Suite 11-18, 31/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道6-8號瑞安中心3111-18室
Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863
Email電郵：info@bmintelligence.com Website網址：www.bmintelligence.com

14 May 2008

The Directors
China Starch Holdings Limited
Room 2408, 24th Floor
Hopewell Centre
No. 183 Queen's Road East
Wanchai, Hong Kong

Dear Sirs,

INSTRUCTIONS

We refer to your instructions for us to value the property to be acquired by China Starch Holdings Limited (referred to as the "Company") and/or its subsidiaries (referred to as the "Group") located in the People's Republic of China (the "PRC"). We confirm that we have conducted an inspection, made relevant enquiries and obtained such further information, as we consider necessary for the purpose of providing you with our opinion of the market value of the property as at 30 April 2008 (the "date of valuation").

BASIS OF VALUATION

Our valuation of the concerned property has been based on the Market Value, which is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

VALUATION METHODOLOGY

Due to the inherent nature of usage and lack of market sales comparable, the property has been valued by the Depreciated Replacement Cost Approach. Depreciated replacement cost is defined as "the aggregate amount of the value of the land for the existing use or a notional replacement site in the same locality, and the new replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for the age, condition, economic and functional

obsolescence and environmental factors etc; all of these might result in the existing property being worth less to the undertaking in occupation than would a new replacement.” This basis has been used due to the lack of an established market upon which to base comparable transactions. However this approach generally furnishes the most reliable indication of value for assets without a known used market.

TITLE INVESTIGATION

We have been advised by the Group that no further relevant documents have been produced. Moreover, due to the nature of the land registration system in the PRC, we have not been able to examine the original documents to verify ownership or to ascertain the existence of any amendment documents, which may not appear on the copies handed to us. Therefore, in the course of our valuation, we have relied on the information and advice given by the Group and its PRC legal adviser, 康橋律師事務所 regarding the title of the PRC property. All documents have been used for reference only.

In valuing the property, we have relied on the advice given by the Group and its PRC legal adviser that the owner of the property has valid and enforceable titles to the property which are freely transferable, and has free and uninterrupted right to use the same, for the whole of the unexpired term granted subject to the payment of land use fees and all requisite land premium/purchase consideration payable have been fully settled.

VALUATION ASSUMPTIONS

Our valuation has also been made on the assumption that the property is sold in the market without the benefit of deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the value of the property.

In addition, no account has been taken of any option or right of pre-emption concerning or effecting the sale of the property and no forced sale situation in any manner is assumed in our valuation.

For the property located in the PRC, we have further assumed that the transferable land use rights in respect of the property at nominal annual land use fee have been granted and that any premium payable has already been fully settled.

VALUATION CONSIDERATIONS

We have inspected the property externally and where possible, the interior of the property. In the course of our inspection, we did not note any serious defects. However, no structural survey has been made. We are, therefore, unable to report whether the property is free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

In the course of our valuation, we have relied to a considerable extent on the information given by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenures, particulars of occupancy, site/floor areas, identification of the property and other relevant information.

Dimensions, measurements and site/floor areas included in the valuation certificate are based on information contained in the leases and other documents provided to us and are therefore only approximations.

We have not carried out detailed on-site measurements to verify the correctness of the site/floor areas in respect of the property but have assumed that the site/floor areas shown on the documents handed to us are correct.

We have no reason to doubt the truth and accuracy of the information provided to us by the Group and we have relied on your confirmation that no material facts have been omitted from the information so supplied. We consider that we have been provided with sufficient information for us to reach an informed view.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property or for any expenses or taxation, which may be incurred in effecting a sale.

Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoing of an onerous nature, which could affect its value.

Our valuation has been prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

Our valuation has been prepared under the generally accepted valuation procedures and is in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

REMARKS

Unless otherwise stated, all money amounts stated are in Renminbi (RMB).

Our summary of value and the valuation certificate are attached herewith.

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED

Dr. Tony C.H. Cheng
*BSc, MUD, MBA(Finance), MSc (Eng),
PhD(Econ), MHKIS, MCI Arb, AFA, SCIFM, FCIM,
MASCE, MIET, MIEEE, MASME, MIEE
Director*

Joannau W.F. Chan
*BSc. MSc. MRICS MHKIS RPS(GP)
Director*

Notes:

Dr. Tony C.H. Cheng is a member of the Hong Kong Institute of Surveyors (General Practice) who has over 15 years' experience in valuations of properties in Hong Kong and the People's Republic of China.

Ms. Joannau W.F. Chan is a member of the Hong Kong Institute of Surveyors (General Practice) who has over 15 years' experience in valuations of properties in Hong Kong and over 9 years' experience in valuations of properties in the People's Republic of China.

SUMMARY OF VALUE

	Market Value in existing state as at 30 April 2008 <i>RMB</i>
Property to be acquired by the Group in the PRC	
 The land parcel together with the buildings and ancillary structures relating to a Cornstarch Production Project located at Dong Shou, Nan Huan Road, Linqing City, Shandong Province, The PRC	 No Commercial Value
Total:	<hr/> Nil <hr/>

VALUATION CERTIFICATE

Property to be acquired by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 April 2008 <i>RMB</i>
The land parcel together with the buildings and ancillary structures relating to a Cornstarch Production Project located at Dong Shou, Nan Huan Road, Linqing City, Shandong Province, The PRC	The property comprises a parcel of land together with the buildings and ancillary structures relating to a Cornstarch Production Project erected thereon. As advised by the Group, the site area of the land parcel is approximately 202,587.68 sq.m. (or about 2,180,653.78 sq.ft.).	As advised by the Group and as per our on-site inspection, the land parcel together with the buildings and ancillary structures erected thereon of the property are occupied by the existing owner for industrial purpose.	No Commercial Value
	As advised by the Group, the buildings and ancillary structures were completed around 2006, with a total gross floor area ("GFA") of approximately 22,530.29 sq.m. (or about 242,516.04 sq.ft.).		

Notes:–

1. Pursuant to a Business License, No. 371581000000035, Linqing Deneng Golden Corn Bio Limited (臨清德能金玉米生物有限公司) was established on 13 March 2008 with a registered capital of RMB128,000,000 and the operation period is effective from 13 March 2008 to 12 March 2028 for the business of cornstarch processing and sales of cornstarch.

2. The status of title and grant of major approvals and licences in accordance with the information provided by the Company are as follows:

State-owned Land Use Rights Grant Contract	No
State-owned Land Use Rights Certificate	No
Construction Land Planning Permit	No
Confirmation Letter	No
Real Estate Title Certificate(s)	No
Building Ownership Certificate(s)	No
Business Licence	Yes

3. Our valuation of the land parcel together with the buildings and ancillary structures relating to a Cornstarch Production Project (as defined in the Circular) has been made based on the information provided by the Group and the PRC legal opinion provided by the Group that Deneng Golden Corn is in progress of applying for the title certificates for the land parcel together with the buildings and structures relating to a Cornstarch Production Project according to the application procedures under the PRC laws and there exist no impediments for Deneng Golden Corn to obtain such title certificates.

4. As at the date of valuation, no commercial value has been attributed to the property due to the absence of the relevant title documents. For your internal reference purpose, the building value of the property as at the date of valuation, assuming that all requisite land premium and fees have been fully settled in obtaining the title documents for the property and the property may be freely disposed in the open market, would be in the sum of approximately RMB24,480,000.

5. We have relied on the information provided by the Group and prepared our valuation for your internal reference purpose in Note 4 above based on the following assumptions:

- a. The owner of the property is in possession of a proper legal title to the property and is entitled to transfer the property with its residual term of land use rights at no extra land premium or other onerous payment payable to the government;
- b. All land premium and other costs of ancillary utility services have been settled in full;
- c. The design and construction of the property are in compliance with the local planning regulations and have been approved by the relevant government authorities;
- d. There exist no material discrepancies between the site/floor areas as per information provided by the Group and the site/floor areas as stated in the title certificates to be obtained for the land parcel and the buildings and structures relating to a Cornstarch Production Project; and
- e. The property may be disposed of freely to both local and overseas purchasers.

The following is the text of a letter prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuation as at 30 April 2008 of the Assets located in the PRC to be acquired by the Group.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

Suite 11-18, 31/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道6-8號瑞安中心3111-18室
Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863
Email電郵：info@bmintelligence.com Website網址：www.bmintelligence.com

14 May 2008

The Directors
China Starch Holdings Limited
Room 2408, 24th Floor
Hopewell Centre
No. 183 Queen's Road East
Wanchai, Hong Kong

Dear Sirs,

INSTRUCTIONS

In accordance with your instructions for us to value the machineries and equipment (the "Assets") to be acquired by China Starch Holdings Limited (referred to as the "Company") and/or its subsidiaries (referred to as the "Group") located in the People's Republic of China (the "PRC"). We confirm that we have carried out an inspection, made relevant enquiries and obtained such further information as we consider necessary for providing you with our opinion of the market value of such Assets as at 30 April 2008 (the "date of valuation").

SCOPE OF INVESTIGATION

We conducted a sample inspection of the Assets on 23 April 2008, investigated market conditions and interviewed with relevant personnel in-situ in order to familiarize with the conditions, utilities and histories of the Assets.

LOCATION OF THE ASSETS

The Assets are related to a Cornstarch Production Project (as defined in the circular) located at Dong Shou, Nan Huan Road, Linqing City, Shandong Province, the PRC.

DESCRIPTION OF THE ASSETS

The Assets valued will be utilized by the Group which is principally engaged in cornstarch processing industry with sale of cornstarch.

OBSERVATION

During our inspection, the Assets were generally in good working conditions. Although not all the Assets were in use upon our inspection, we are of the opinion that they should be capable of operating the purposes for which they were designed and produced. During our inspection, very few of the Assets appeared to be under-maintained. Thus, in our opinion, this reflects a reasonable level of regular maintenance and repair works.

BASIS OF VALUATION

We have appraised the Assets on the basis of their Market Value which is defined as “the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.”

This opinion of Market Value is not intended to represent the amount that might be realized from piecemeal disposition of the Assets in the open market or from alternative use of the Assets.

Underlying our valuation is an assumption that the prospective earnings of the business of China Starch would provide a reasonable return to the Assets valued, plus the value of other assets not included in this valuation, and adequate working capital.

EXCLUSIONS

This valuation exercise excludes the land, buildings, leasehold improvements, raw materials, inventory, semi-finished and finished products, spare parts and any current or intangible assets.

VALUATION METHODOLOGIES

We have considered the two generally accepted approaches to ascertain the Market Value, namely:

The Market Approach

The Market Approach considers transaction prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect the conditions and utilities of the appraised assets relative to their market comparables. The value of assets for which there are established secondhand market comparables may be appraised by this approach.

The Cost Approach

The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowances for accrued depreciation arising from condition, utility, age, wear and tear, and/or obsolescence present (physical, functional and/or economic), taking into consideration the past and present maintenance policy and rebuilding history. This approach generally furnishes the most reliable indication of the value of assets in the absence of a known market based on comparable sales.

We have relied on the information provided by the Company that the Assets are in reasonable operating conditions. We did not attempt to operate or test the Assets. In addition, our valuation has been prepared based upon the following assumptions:

- a) The Assets will continue in the existing use in the course of business of the Company subject to adequate potential profitability of the business; and
- b) The Assets will be used in the existing state with the benefit of continuity of tenure of land and buildings in the foreseeable future.

It must be noted that this valuation is dated as at the date of valuation. We take no responsibility for the condition, continued existence and/or operational abilities of the Assets after this date. We must advise that this valuation is not suitable for insurance purposes.

VALUATION CONSIDERATIONS

During our inspection, we have been provided with a list of the Assets, which we have selectively inspected and verified. We have relied considerably on this plus on other information such as maintenance records, equipment specifications and other documents provided to us.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. The Company has also advised us that no material facts have been omitted from the information for us to reach an informed view, and we have no reason to suspect that any material information has been withheld.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the Assets or for any expenses or taxation, which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Assets are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

We have not investigated the title or any liabilities affecting the Assets appraised. No consideration was made for any outstanding amount owned under financing agreements, if any.

REMARKS

Unless otherwise stated, all money amounts stated are in Renminbi (RMB).

OPINION OF VALUE

We are of the opinion that the Market Value of the Assets based on the aforesaid basis, assumptions and considerations, as at 30 April 2008, was in the sum of **RMB69,150,000 (RENMINBI SIXTY-NINE MILLION ONE HUNDRED AND FIFTY THOUSAND ONLY)**.

We hereby certify that we have neither present nor prospective interest in the Group, the Assets appraised or the value reported.

Yours faithfully,
For and on behalf of

BMI APPRAISALS LIMITED

Dr. Tony C.H. Cheng

*BSc, MUD, MBA(Finance), MSc(Eng),
PhD(Econ), MHKIS, MCI Arb, AFA, SCIFM, FCIM,
MASCE, MIET, MIEEE, MASME, MIIE
Director*

Joannau W.F. Chan

*BSc, MSc, MRICS, MHKIS, RPS(GP)
Director*

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

Interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and any of its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) were as follows:

Name of Director	The Company/ associated corporation	Capacity/nature of interest	Number and class of securities held <i>(Note 1)</i>	Approximate percentage of shareholding
Mr. Tian Qixiang (“Mr. Tian”)	The Company	Interest of a controlled corporation	350,000,000 Shares (L) <i>(Note 2)</i>	66.99%
	Merry Boom Group Limited	Beneficial owner	131 ordinary shares of US\$1 each (L)	54.58%
Mr. Gao Shijun	Merry Boom Group Limited	Beneficial owner	60 ordinary shares of US\$1 each (L)	25.00%
Mr. Yu Yingquan	Merry Boom Group Limited	Beneficial owner	1 ordinary share of US\$1 each (L)	0.42%

Notes:

- (1) The letter “L” denotes the Directors’ long position in the shares of the Company or the relevant associated corporation.
- (2) These Shares were held by Merry Boom Group Limited. Merry Boom Group Limited is owned as to approximately 54.58% by Mr. Tian. Mr. Tian is deemed to be interested in all the Shares held by Merry Boom Group Limited under the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company and their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Interests discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or a short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, 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 the Group:

Name of Director	The Company/ Name of Group member	Capacity/nature of interest	Number and class of securities held (Note 1)	Approximate percentage of shareholding
Merry Boom Group Limited	The Company	Beneficial owner	350,000,000 (L) (Note 2)	66.99%
Victory Investment China Group Limited	The Company	Beneficial owner	44,000,000 (L)	8.42%
Wang Rui Yun	The Company	Interest in controlled corporation, Victory Investment China Group Limited	44,000,000 (L)	8.42%
Corn Products International, Inc.	壽光金遠東變性澱粉有限公司 (Shouguang Golden Far East Modified Starch Co., Ltd.*)	Beneficial owner	Registered capital of US\$4,896,000 (L)	51.00%
臨清德能生物科技有限公司 (Linqing Deneng Bio Technology Limited*)	臨清德能金玉米生物有限公司 (Linqing Deneng Golden Corn Bio Limited*)	Beneficial owner	Registered capital of RMB18,000,000 (L)	14.06%

Notes:

- (1) The letter "L" denotes the long position in the shares of the Company or the relevant Group member.

- (2) These Shares were held by Merry Boom Group Limited. Merry Boom Group Limited is owned as to approximately 54.58% by Mr. Tian, an executive Director and Chairman of the Company. Mr. Tian is deemed to be interested in all the Shares held by Merry Boom under the SFO as disclosed under the paragraph headed “Interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and any of its associated corporations” above. Mr Tian is also a director of Merry Boom Group Limited.

Save as disclosed above, as at the Latest Practicable Date and so far as known to the Directors or chief executive of the Company, no other person (other than the Directors or chief executive of the Company) had any interests or short position in the shares or the underlying shares of the Company which would fall to be disclosed to the 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 the rights to vote in all circumstances at general meetings of any other member of the Group.

As at the Latest Practicable Date, save for Mr. Tian who is also a director of Merry Boom Group Limited, a substantial shareholder of the Company, none of the Directors and chief executive of the Company held any directorship or employment in a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS’ SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or was proposing to enter into any service contract with the Company or any other member of the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation other than statutory compensation).

4. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

5. COMPETING INTERESTS

As at the Latest Practicable Date, 山東壽光巨能控股集團有限公司 (Shandong Shouguang Juneng Holding Group Co., Ltd.*) (“**Juneng Holding Group**”), an investment holding company established in the PRC, was 55% owned by Mr. Tian (who is a Director and a controlling shareholder of the Company) and accordingly is an associate of Mr. Tian for the purpose of the Listing Rules. As at the Latest Practicable Date, Juneng Holding Group was interested in approximately 33% of the equity interest of 山東壽光巨能熱電發展有限公司 (Shandong Shouguang Juneng Heat and Electricity Development Co., Ltd.*) (“**Juneng Heat and Electricity Development**”), a company established in the PRC and is principally engaged in the provision of electricity to the provincial power grid of Shandong Province. Each of Juneng Holding Group and Juneng Heat and Electricity Development

has given an irrevocable non-competition undertaking in favour of the Company. For further details, please refer to the paragraph headed “Competing business of controlling shareholders” under the section headed “Business” in the prospectus of the Company dated 12 September 2007.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor any of their respective associates who was a controlling shareholder of the Company was considered to have an interest in a business which competed or was likely to compete, either directly or indirectly, with the business of the Group.

6. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2007, being the date to which the latest published audited financial statements of the Group were made up.

7. EXPERTS AND CONSENTS

The following are the qualification of the experts who have given opinions or advices which are contained in this circular:

Name	Qualification
First Shanghai Capital Limited	A licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity under the SFO
BMI Appraisals Limited	Qualified professional valuers

Each of First Shanghai Capital Limited and BMI Appraisals Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, each of First Shanghai Capital Limited and BMI Appraisals Limited did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

8. MISCELLANEOUS

- (i) As at the Latest Practicable Date, none of First Shanghai Capital Limited, BMI Appraisals Limited and any Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2007, the date to which the latest published audited consolidated financial statements of the Group were made up.

- (ii) There is no contract or arrangement entered into by any member of the Group subsisting at the date of this circular in which any Director is materially interested and which is significant to the business of the Group.
- (iii) The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (iv) The head office and principal place of business of the Company in Hong Kong is located at Room 2408, 24/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (v) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited of 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (vi) The company secretary and qualified accountant of the Company is Mr. Leung Siu Hong who is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.
- (vii) The English language text of this document shall prevail over the Chinese language text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during the normal business hours at the principal place of business in Hong Kong of the Company at Room 2408, 24/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from the date of this circular and up to and including 28 May 2008:

- (i) the Provisional Sale and Purchase Agreement;
- (ii) the Repayment Guarantee Agreement; and
- (iii) the JV Agreement.

* *Unofficial name for identification purposes only*