1 General information, group reorganisation and basis of presentation

1.1 General information

Xiwang Sugar Holdings Company Limited (the "Company") was incorporated in Bermuda on 21 February 2005 as an exempted company with limited liability. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited since 9 December 2005.

The Company and its subsidiaries (the "Group") are principally engaged in the manufacture, distribution and sale of corn-based biochemical products and corn refined products within and outside of the People's Republic of China (the "PRC"). Details of the principal subsidiaries of the Group are set out in Note 10 to the consolidated financial statements.

The English names of some of the companies referred to in the consolidated financial statements represent management's best efforts at translating the Chinese names of these companies as these companies have not adopted formal English names.

These consolidated financial statements are presented in thousands of units of Renminbi ("RMB'000"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 7 April 2006.

1.2 Group reorganisation and basis of presentation

(a) Group reorganisation

Before the formation of the Group, the Group's business was carried out by several companies controlled by Shandong Xiwang Group Co., Ltd. ("Xiwang Group") and principally owned by Mr. Wang Yong and other 25 persons (the "Principal Shareholders"), all of which are PRC citizens. In preparation for the listing of the shares of the Company, the following reorganisations were carried out (the "Reorganisation"):

(i) In December 2004, Shandong Xiwang Sugar Industry Co., Ltd. ("Xiwang Sugar") acquired the net assets and businesses of the No.3 factory and feedstuff factory (collectively the "Transferred Businesses") at a consideration of RMB75,286,000 from Shandong Xiwang Starch Co., Ltd. ("Shandong Starch"), which is wholly owned by the Principal Shareholders at that time.

(ii) During 2004 and 2005, Master Team International Limited ("Master Team") acquired the entire share capital of Xiwang Sugar and Shandong Xiwang Bio-Chem Co., Ltd. ("Xiwang Biochem") at considerations of RMB138,000,000 and RMB70,000,000, respectively. In April 2005, Xiwang Sugar took up all the business and net assets of Xiwang Bio-chem, which subsequently cancelled its status as a separate legal entity in August 2005.

(iii) On 30 March 2005, the Company acquired the entire issued share capital of Master Team through a share swap.

As a result of the Reorganisation, the Company became the holding company of the companies comprising the Group.

1 General information, group reorganisation and basis of presentation *(Continued)*

1.2 Group reorganisation and basis of presentation *(Continued)*

(b) Basis of presentation

The Reorganisation was a combination of entities under common control of the Principal Shareholders. The Principal Shareholders have remained the same and the respective rights of each shareholder have remained unchanged immediately before and after the Reorganisation. Accordingly, the Reorganisation had been accounted for using merger accounting.

The consolidated financial statements present the consolidated results, cashflows and financial position of the companies/businesses comprising the Group as if the corporate structure of the Group had been in existence from the beginning of the earliest period presented or, where this is a shorter period, from the respective dates of incorporation/establishment of the companies/businesses comprising the Group to 31 December 2005. The respective interests of equity holders, other than the Principal Shareholders, in the net assets and operating results of these companies/businesses are presented as minority interest in the consolidated financial statements of the Group. Additional acquisitions of equity interests in these companies/businesses from these minority equity holders made by the Principal Shareholders during the year have been reflected as an increase in capital reserves and a reduction in minority interest of the Group.

2 Summary of significant accounting policies

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

The accounting policies set out below have been consistently applied throughout the years presented.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 December 2005 or later periods. The Group has not early adopted such standards, amendments and interpretations, the adoption of which will not result in substantial changes to the Group's accounting policies.

HKAS 19 (Amendment)	Employee Benefits (effective from 1 January 2006)
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006)
HKAS 39 (Amendment)	The Fair Value Option (effective from 1 January 2006)
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts (effective from 1 January 2006)
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards (effective from 1 January 2006)
HKFRS 6	Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006)
HKFRS 6 (Amendment)	Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006)

2 Summary of significant accounting policies *(Continued)*

HKFRS 7	Financial Instruments: Disclosures (effective from 1 January 2007)
A complementary Amendment to HKAS 1	Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007)
HKFRS-Int 4	Determining whether an Arrangement contains a Lease (effective from 1 January 2006)
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006)
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 December 2005)

2.1 Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, interests in subsidiaries are stated at cost less provision for impairment losses. The results of these companies are accounted for by the Company on the basis of dividends received and receivable.

2.2 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.3 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional currency and presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2 Summary of significant accounting policies *(Continued)*

2.3 Foreign currency translation *(Continued)*

(c) Group companies

The functional currency of all the group entities (none of which has the currency of a hyperinflationary economy) is same as the presentation currency.

2.4 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	40 years
Plant and machinery	15 years
Equipment and motor vehicles	5-10 years

The assets' residual values are ranged from 5% to 10% of their cost. Their residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the consolidated income statements.

2.5 Leasehold land

Leasehold land are up-front payments to acquire the right of use of a long-term interest in land. These payments are stated at cost and amortised over the period of lease on a straight-line basis.

2.6 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2 Summary of significant accounting policies *(Continued)*

2.7 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

A production process may result in more than one product being produced simultaneously. When the costs of conversion of each product are not separately identifiable, they are allocated based on the relative sales value of each product.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.8 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.9 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, net of pledged bank deposits.

2.10 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

2.11 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2 Summary of significant accounting policies *(Continued)*

2.12 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.13 Retirement benefits scheme

The Group participates in defined contribution retirement schemes organised by the local government authorities in the PRC. Employees are entitled to an annual pension equivalent to a fixed portion of their basic salaries at their retirement dates. The Group is required to make contributions to the retirement schemes at a rate of 20% of the standard salary of those employees and have no further obligation for post-retirement benefits. The contributions are charged to the consolidated income statements of the Group as they become payable in accordance with the rules of the scheme.

2.14 Revenue recognition

Revenue comprises the fair value for the sale of goods, net of value-added tax, rebates and discounts and after eliminated sales within the Group. Revenue is recognised as follows:

(a) *Sales of goods*

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cashflow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.15 Government subsidy

Government subsidy is recognised at its fair value as other gains when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the subsidy will be received.

Grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

2 Summary of significant accounting policies *(Continued)*

2.16 Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.17 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 Financial instruments

Financial assets and financial liabilities carried on the consolidated balance sheet include cash and cash equivalents, pledged bank deposits, trade and other receivables, amounts due from related companies, trade and other payables, amounts due to related companies and borrowings. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies and Note 4.2 below.

4 Financial risk management

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk and interest-rate risk.

(a) *Market risk*

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. The conversion of RMB denominated balances into foreign currencies is subject to the rates and regulations of foreign exchange control promulgated by the PRC government. On 21 July 2005, the PRC government announced that RMB is to be floated in line with a basket of certain selected currencies and not to be pegged with US dollar ("USD") on or after that day. As a result, RMB appreciated by approximately 2% as compared to USD based on the exchange rate announced on that day.

The proceeds derived from the initial public offering of shares of the Company (the "IPO") are all denominated in Hong Kong Dollars ("HK$"). A large portion of the IPO proceeds had been invested into subsidiaries in the PRC or exchanged to RMB in order to reduce the exposure arising from future change in exchange rate. Nevertheless, certain amount of HK$ is retained within the Group because the Company is required to pay dividends in HK$ in the future when dividends are declared.

(ii) Price risk

The Group is exposed to commodity price risk, especially for corn kernels which are the major raw materials of the products of the Group. It has not used any commodity futures to hedge its price risk exposure.

4 Financial risk management *(Continued)*

4.1 Financial risk factors *(Continued)*

(b) *Credit risk*

The Group has no significant concentration of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

(c) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. The proceeds received from the IPO of the Company have improved the liquidity position of the Group. Due to the dynamic nature of the underlying businesses, the Group aims at maintaining flexibility in funding by arranging banking facilities and other external financing.

(d) *Interest rate risk*

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk mainly arises from borrowings. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

4.2 Fair value estimation

The nominal values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair value due to their short maturity. The fair value of financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair values of non-current borrowings are disclosed in Note 18.

5 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Towards the end of 2005, the lysine plant operated by Xiwang Sugar had commenced their commercial production activities. However, the costs of completed property, plant and equipment utilised in the production had not yet been finalised with the vendors since the values are required to be independently assessed by a third party valuer and the assessed amounts are to be jointly agreed with the vendors. Consequently, the directors of Xiwang Sugar have made their best estimate on the costs incurred based on the original contract and quotation amounts agreed with the vendors and contractors as well confirmation and advice provided by the vendors and contractors.

Where the final assessed and agreed costs of the relevant property, plant and equipment are different from the costs that were initially measured and recognised, such differences will impact the cost of the property, plant and equipment and depreciation charges of the period in which such determination is made. As at 31 December 2005, the accrued construction cost of the Group was approximately RMB22,743,000 (2004: Nil).

6 Segment information

Primary reporting format – business segments

The Group is organised on a nationwide basis in the PRC with three main business segments:

(1) Manufacture and sales of crystallised glucose and glucose syrup from the processing of starch paste (hereinafter collectively referred to as the "Corn-based biochemical products");

(2) Manufacture and sales of corn gluten meal, corn germ and animal feed from the processing of sweet corn (hereinafter collectively referred to as the "Corn refined products"); and

(3) Manufacture and sales of lysine products ("Lysine products") from the processing of glucose syrup. Production of Lysine products started in May 2005.

Year ended 31 December 2004

	Corn-based biochemical products RMB'000	Corn refined products RMB'000	Lysine products RMB'000	Unallocated RMB'000	Group RMB'000
Total gross segment sales	410,544	464,876	–	–	875,420
Intra-segment sales	–	(272,684)	–	–	(272,684)
Sales	410,544	192,192	–	–	602,736
Operating profit	47,124	63,430	–	–	110,554
Finance costs					(16,082)
Profit before income tax					94,472
Income tax expense (Note 23)					(12,821)
Profit for the year					81,651
Total assets	271,842	126,680	93,560	177,059	669,141
Total liabilities	151,816	838	136,202	108,344	397,200
Depreciation (Note 7)	8,905	5,304	–	–	14,209
Amortisation (Note 8)	73	–	–	–	73
Capital expenditures (Notes 7, 8, 9)	3,643	4,230	92,405	–	100,278
Impairment charge of trade receivables (Note 19)	533	–	–	–	533

6 Segment information *(Continued)*

Year ended 31 December 2005

	Corn-based biochemical products RMB'000	Corn refined products RMB'000	Lysine products RMB'000	Unallocated RMB'000	Group RMB'000
Total gross segment sales	584,382	286,605	170,286	–	1,041,273
Intra-segment sales	(3,562)	–	–	–	(3,562)
Sales	580,820	286,605	170,286	–	1,037,711
Operating profit	131,624	58,813	44,230	(6,405)	228,262
Finance costs					(18,449)
Profit before income tax					209,813
Income tax expense (Note 23)					–
Profit for the year					209,813
Total assets	257,327	212,418	382,106	535,694	1,387,545
Total liabilities	38,219	22,893	138,926	346,545	546,583
Depreciation (Note 7)	9,365	6,458	7,715	–	23,538
Amortisation (Note 8)	184	–	–	–	184
Capital expenditures (Notes 7, 8, 9)	24,660	2,239	282,165	–	309,064
Write-back of impairment of trade receivables (Note 19)	(226)	–	–	–	(226)

Unallocated costs represent corporate expenses. Inter-segment transfers or transactions are entered into under the terms and conditions agreed by both parties.

Segment assets consist primarily of property, plant and equipment, construction in progress, inventories, receivables and operating cash. As at 31 December 2004, the amounts had excluded amount due from related parties; while as at 31 December 2005, the amounts had mainly excluded cash and bank balances.

Segment liabilities comprise operating liabilities. As at 31 December 2004, the amounts had excluded amounts due to related parties; while as at 31 December 2005, the amounts had mainly excluded corporate borrowings.

Capital expenditures comprise additions to property, plant and equipment, leasehold land and construction in progress (Notes 7, 8, 9).

Secondary reporting format - geographical segments

The Group's activities are conducted predominantly in the PRC, which is considered as one geographical location in an economic environment with similar risks and returns. The Group's export sales accounted for less than 10% of its total sales during the years presented, as a result, no separate geographical segment information is presented.

7 Property, plant and equipment

	Buildings RMB'000	Plant & machinery RMB'000	Equipment and motor vehicles RMB'000	Total RMB'000
At 1 January 2004				
Cost	67,856	207,242	363	275,461
Accumulated depreciation	(1,490)	(11,757)	(40)	(13,287)
Net book amount	**66,366**	**195,485**	**323**	**262,174**
Year ended 31 December 2004				
Opening net book amount	66,366	195,485	323	262,174
Additions	173	3,897	62	4,132
Depreciation charge	(1,613)	(12,525)	(71)	(14,209)
Closing net book amount	64,926	186,857	314	252,097
At 31 December 2004				
Cost	68,029	211,139	425	279,593
Accumulated depreciation	(3,103)	(24,282)	(111)	(27,496)
Net book amount	**64,926**	**186,857**	**314**	**252,097**
Year ended 31 December 2005				
Opening net book amount	64,926	186,857	314	252,097
Additions	2,091	92,123	532	94,746
Transfers from construction in progress (Note 9)	29,778	273,233	–	303,011
Depreciation charge	(880)	(22,543)	(115)	(23,538)
Closing net book amount	95,915	529,670	731	626,316
At 31 December 2005				
Cost	99,898	576,495	957	677,350
Accumulated depreciation	(3,983)	(46,825)	(226)	(51,034)
Net book amount	**95,915**	**529,670**	**731**	**626,316**

As at 31 December 2005, certain property of the Group with a carrying value of approximately RMB45,661,000 (2004: RMB31,354,000) and certain plant and machinery with a carrying value of approximately RMB124,950,000 (2004: Nil) had been pledged for bank borrowings of the Group.

Depreciation charge had been recognised as a component of cost of goods sold.

8 Leasehold land

It mainly represents land use rights associated with parcels of land located in the PRC held on leases of periods between 10 to 50 years.

	RMB'000
At 1 January 2004	
Opening net book amount	2,734
Amortisation charge	(60)
Net book amount	**2,674**
Year ended 31 December 2004	
Opening net book amount	2,674
Additions	3,741
Amortisation charge	(73)
Closing net book amount	6,342
At 31 December 2004	
Cost	6,535
Accumulated amortisation	(193)
Net book amount	6,342
Year ended 31 December 2005	
Opening net book amount	6,342
Additions	3,293
Disposals	(414)
Amortisation charge	(184)
Closing net book amount	9,037
At 31 December 2005	
Cost	9,414
Accumulated amortisation	(377)
Net book amount	9,037

As at 31 December 2005 and 2004, leasehold land of the Group had been pledged for bank borrowings of the Group.

9 Construction in progress

	2005 RMB'000	2004 RMB'000
Beginning of the year	**92,597**	192
Additions	**211,025**	92,405
Transferred to property, plant and equipment (Note 7)	**(303,011)**	–
End of the year	**611**	92,597

Construction in progress ("CIP") mainly comprises construction costs incurred for the construction of a lysine production factory. Interest costs incurred in related borrowings which were capitalised as part of the construction costs of CIP amounted to approximately RMB 2,821,000 for the year ended 31 December 2005 (2004: RMB1,077,000). The capitalisation rate was 7.02% per annum for both years.

10 Investment in and loans to a subsidiary

(a) Investments in subsidiary

Investment in a subsidiary represents the Company's investment in the entire issued share capital of Master Team amounting to US$1 (equivalent to approximately RMB8).

The following is a list of the principal subsidiaries as at 31 December 2005, all of which are limited liability companies:

Name	Place of incorporation	Issued share and fully paid-up capital	Principal activities and place of operations	Interest held
Master Team International Limited	British Virgin Islands (the "BVI")	US$1	Investment holding, the BVI	100%
Held by subsidiary:				
Shandong Xiwang Sugar Industry Co., Ltd.	The PRC	RMB438,000,000	Manufacture and sales of crystallised glucose and lysine products, the PRC	100%
Shandong Xiwang Bio-Chem Technology Co., Ltd. ("Xiwang Technology")	The PRC	RMB206,000,000	Manufacture and sales of crystallised glucose products, the PRC	100%

10 Investment in and loans to a subsidiary *(Continued)*

(b) Amounts due from a subsidiary

Pursuant to an intercompany loan agreement dated 10 March 2005 entered into between Xiwang Investment Company Limited ("Xiwang Investment"), the immediate holding company, and Master Team, Master Team borrowed HK$131,200,000 (equivalent to RMB139,544,000) from Xiwang Investment on 16 March 2005. The borrowing is interest-bearing at HIBOR plus 2% per annum and is repayable upon demand by Xiwang Investment.

According to another intercompany loan agreement dated 31 March 2005 between Xiwang Holdings Company Limited ("Xiwang Holdings"), the ultimate holding company, and Master Team, an aggregate sum of US$8,474,000 (equivalent to RMB70,135,000) was advanced by Xiwang Holdings to Master Team on 1 April 2005. This borrowing is interest free and repayable upon the demand by Xiwang Holdings. On 31 May 2005, Xiwang Investment, Xiwang Holding and Master Team entered into a loan assignment agreement, whereby Xiwang Holdings assigned to Xiwang Investment all of its rights and interests of the loan due from Master Team.

Pursuant to another loan assignment agreement dated 31 May 2005 entered into among Xiwang Investment, the Company and Master Team, Xiwang Investment assigned to the Company all of its rights and interests in two loans (mentioned above) due from Master Team to it amounting to HK$131,200,000 and US$8,474,000, respectively (equivalent to approximately RMB209,679,000 in aggregate) (Note 14(a)).

The balance as at 31 December 2005 includes the principal balance of the intercompany loans and the related accrued interest due from Master Team to the Company after all the above arrangements had been made.

In addition, the Company transferred HK$400,000,000 (equivalent to approximately RMB416,000,000) to Master Team in December 2005 to fund the set up of Xiwang Technology and for the funding of the increase of registered capital of Xiwang Sugar.

The directors of the Company consider the amount due from Master Team to be quasi-equity; settlement is neither planned nor likely to occur in the foreseeable future.

11 Inventories

	2005 **RMB'000**	2004 RMB'000
Cost		
Raw materials	**54,206**	23,629
Work in progress	**12,324**	8,973
Finished goods	**11,681**	9,701
	78,211	42,303

The cost of inventories recognised as expenses and included in "cost of goods sold" amounted to approximately RMB776,474,000 for the year ended 31 December 2005 (2004: RMB484,245,000).

As at 31 December 2005, there were no inventories stated at net realisable value (2004: Nil).

12 Trade and other receivables

	2005 RMB'000	2004 RMB'000
Trade receivables	**43,892**	29,222
Less: provision for impairment of receivables (Note 19)	**(993)**	(1,219)
	42,899	28,003
Amount due from CCB International Capital Limited (Note a)	**32,337**	–
Other receivables	**7,662**	2,769
	82,898	30,772

Some major customers are allowed with credit periods of 30 to 180 days while most other customers are on a cash on delivery basis, or with prepayment of the full amount of sales before goods delivery.

Note a: The amount represents certain proceeds raised in the IPO. The full amount was subsequently remitted to the Company after year end.

Ageing analysis of the gross trade receivables is as follows:

	2005 RMB'000	2004 RMB'000
0 -30 days	**26,759**	20,423
31-60 days	**9,780**	4,468
61-90 days	**2,341**	1,662
Over 90 days	**5,012**	2,669
	43,892	29,222

13 Cash and cash equivalents

	2005 RMB'000	2004 RMB'000
Cash at bank and in hand	**502,043**	52,971
Short-term bank deposits	**–**	15,000
Less: Pledged bank deposits	**–**	(15,000)
	502,043	52,971

14 Share capital

Details of the share capital of the Company are as follows:

		Number of shares	Amount HK$'000	Amount RMB'000
Ordinary shares of HK$0.1 each				
Authorised				
Upon incorporation on 21 February 2005	(a)	1,000,000	100	106
Increase in authorised share capital	(a),(b)	1,999,000,000	199,900	207,896
At 31 December 2005		**2,000,000,000**	**200,000**	**208,002**
Issued and fully paid				
Shares issued upon incorporation and before IPO	(a)	1,000,002	100	106
Capitalisation issue	(b)	558,999,998	55,900	58,237
Shares issued upon IPO	(c)	243,552,000	24,355	25,365
At 31 December 2005		**803,552,000**	**80,355**	**83,708**

(a) The Company was incorporated on 21 February 2005 with an authorised capital of 1,000,000 ordinary shares of HK$0.10 each. On the date of incorporation, 1,000,000 ordinary shares of HK$0.10 were issued to Xiwang Investment at par for cash in the amount of HK$100,000 (equivalent to approximately RMB106,000) to provide working capital to the Company. Pursuant to a shareholders' resolution dated 30 March 2005, the authorised share capital of the Company was increased to HK$900,000, comprising 9,000,000 ordinary shares of par value of HK$0.1 each. On the same date, the Company issued one ordinary share of HK$0.10 to Xiwang Investment in exchange for all the issued share capital of Master Team. On 31 May 2005, the Company issued one additional ordinary share of HK$0.10 to Xiwang Investment as a consideration for the assignment from Xiwang Investment to it the rights of and entitlement to two loans amounting to HK$131,200,000 and US$8,474,000 (equivalent to approximately RMB209,679,000 in aggregate) due from Master Team (Note 10).

(b) According to written resolutions of the Company passed on 6 November 2005 and amended on 25 November 2005, the authorised share capital of the Company was increased to HK$200,000,000 divided into 2,000,000,000 shares. In addition, the Directors of the Company were authorised to capitalise an amount of HK$55,900,000 from the share premium of the Company to pay up in full at par 558,999,998 shares for allotment and issuance to Xiwang Investment.

(c) As a result of the IPO, on 9 December 2005, a total of 240,000,000 shares of HK$0.1 per share were issued at HK$1.88 each and fully paid up in cash. On 29 December 2005, additional 3,552,000 shares were issued at HK$1.88 each and fully paid up in cash.

14 Share capital *(Continued)*

(d) As disclosed in Note 1 above, the financial statements have been prepared under the merger accounting method that financial statements of companies and businesses comprising the Group during the years presented were consolidated even before the incorporation of the Company. Accordingly, the initial issued share capital of HK$100,000, representing 1,000,002 ordinary shares at HK$0.10 each (approximately RMB106,000) of the Company was assumed to have been issued before 1 January 2004, and the difference between that amount and the aggregate amounts of the respective registered capital (if applicable) of the companies and businesses comprising the Group as at 31 December 2004 and 2005 had been captured under the capital reserve account.

15 Other reserves

Group

	Note	Share options RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Total RMB'000
Balance at 1 January 2004		–	–	80,800	2,966	83,766
Acquisitions of additional equity interests in Xiwang Sugar and Transferred Businesses from minority equity holders	(a)	–	–	54,118	–	54,118
Profit appropriations	(b)	–	–	–	4,144	4,144
Capital contributions from equity holders of the Company	(c)	–	–	83,150	–	83,150
Capitalisation of retained earnings of Xiwang Sugar	(c)	–	–	16,850	–	16,850
Acquisition of the Transferred Businesses	(d)	–	–	(75,286)	–	(75,286)
Deemed contribution from the Principal Shareholders	(e)	–	–	13,843	–	13,843
Share issuance costs		–	(1,206)	–	–	(1,206)
Balance at 31 December 2004/ 1 January 2005		–	(1,206)	173,475	7,110	179,379
Capitalisation issue	14(b)	–	(58,237)	–	–	(58,237)
Shares issuance at IPO	14(c)	–	456,251	–	–	456,251
Cash contribution from equity holders of the Company	14(d)	–	–	106	–	106
Effects of group reorganisation	(f)	–	1,679	–	–	1,679
Share options granted	(g)	5,706	–	–	–	5,706
Share issuance costs		–	(44,193)	–	–	(44,193)
Balance at 31 December 2005		5,706	354,294	173,581	7,110	540,691

15 Other reserves *(Continued)*

Company

	Note	**Share options RMB'000**	**Share premium RMB'000**
Balance at 1 January 2005		–	–
Share capital subscriptions made by Principal Shareholders	(f)	–	209,679
Transfer to share capital pursuant to the capitalisation issue	14(b)	–	(58,237)
Share options granted	(g)	5,706	–
Shares issued in the IPO	14(c)	–	456,251
Share issuance costs		–	(45,399)
Balance at 31 December 2005		5,706	562,294

(a) Acquisitions of additional equity interests in Xiwang Sugar and Transferred Businesses from minority equity holders represent the increase in respective share of the net worth of Xiwang Sugar and of the Transferred Businesses entitled by the Group as a result of acquisitions of additional equity interests in Xiwang Sugar and the Transferred Busninesses made by the Principal Shareholders during 2004.

(b) In accordance with the relevant government regulations in the PRC and the provisions of the articles of association of Xiwang Sugar and Xiwang Bio-chem, the two companies, before the Reorganisation, were required to appropriate at each year end 10% and 5% respectively of the profit for the year after setting off the accumulated losses brought forward (based on figures reported in the statutory financial statements) to a statutory surplus reserve account and a statutory public welfare fund account. Xiwang Sugar had made appropriations at 10% and 5% to the statutory surplus reserve account and statutory public welfare fund account respectively for the year ended 31 December 2004. These reserves are required to be retained in Xiwang Sugar for designated usage. Since Xiwang Bio-chem only commenced its operations in May 2005, no appropriation had been made.

Xiwang Sugar, Xiwang Bio-chem (before its cancellation as described in Note 1.2(a)(ii)), after their conversion into wholly foreign owned enterprise pursuant to the Reorganisation, and Xiwang Technology are required to make appropriations from net profit to the reserve fund, staff and workers' bonus and welfare fund and enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions are made to investors in accordance with the provisions of "Law of the PRC on Enterprise Operated Exclusively With Foreign Capital" and the Articles of Association of such companies. The percentage of profits to be appropriated to the reserve fund should not be less than 10%, while the percentages of profits to be appropriated to the other two funds are determined by the board of directors of such companies.

15 Other reserves *(Continued)*

(c) In March 2004, the registered capital of Xiwang Sugar was increased by RMB50,000,000 to RMB150,000,000. In April 2004, out of the increased amount of the registered capital, RMB20,000,000 was subscribed by Xiwang Group and Shandong Xiwang Investment Company Limited ("Xiwang Investment (PRC)"), both of which are wholly owned by the Principal Shareholders, by capitalising its entitled share of the then retained earnings of Xiwang Sugar of RMB16,850,000 as well as by a cash consideration of RMB3,150,000. The remaining RMB30,000,000 was subscribed by a third party strategic investor, UOB Mainland Investment Co., Ltd ("UOB Mainland"), in cash in return for 20% of Xiwang Sugar's equity interests. The share of net worth in Xiwang Sugar entitled by UOB Mainland had been reflected as a minority interest of the Group.

In October 2004, Xiwang Group entered into an agreement with UOB Mainland to buy back all its interests held in Xiwang Sugar at a cash consideration of RMB31,440,000, Xiwang Sugar then became wholly owned by the Principal Shareholders. Accordingly, the relevant share of net worth in Xiwang Sugar by UOB Mainland was deducted from the amount of minority interests with a corresponding increase in the interests of the Group in Xiwang Sugar.

In October 2004, Xiwang Group and Xiwang Investment (BVI) jointly set up Xiwang Bio-chem with a registered capital of RMB80,000,000. The capital contribution was fulfilled by the transfer of CIP of Xiwang Group at RMB62,400,000 and a cash contribution of RMB17,600,000, respectively. The equity interest of Xiwang Bio-chem was then transferred to Master Team pursuant to the Reorganisation.

(d) The amount of RMB75,286,000 represents the consideration paid by Xiwang Sugar to Shandong Starch, a then subsidiary of Xiwang Group, to acquire the Transferred Businesses as described in Note 1.2 (a)(i).

(e) The amount represents the intracompany payable balance of the Transferred Businesses due to Shandong Starch arising from the finance costs allocation in the preparation of the separate historical financial statements of the Transferred Businesses. Such balance was agreed to be waived by Shandong Starch at no consideration and the amount was recorded as a deemed equity contribution from the Principal Shareholders injected into the Group.

(f) The share premium of RMB209,679,000 arising from the issuance of the one ordinary share by the Company to Xiwang Investment (BVI) (mentioned in Note 14) was offset by RMB208,000,000 paid by Master Team to Xiwang Group and Xiwang Investment (PRC) as considerations for acquiring their entire equity interests held in Xiwang Sugar and Xiwang Bio-chem pursuant to the Reorganisation (Note 1.2(a)(ii)).

15 Other reserves *(Continued)*

(g) Share options

i) Pre-IPO share option

An option deed was executed by the Company on 8 July 2005 (the "Option Grant Date"), which was subsequently replaced by an amended and restated deed dated 21 November 2005, that certain stock options ("Pre-IPO Share Option") were granted to CCB International Finance Limited ("CCBI Finance"). Upon the Option Grant Date, the directors of the Company made an assessment and concluded that this option grant was not related to services performed for the Company or the Group and accordingly, no expenses were recognised in the consolidated income statements of the Group pursuant to the requirements under HKFRS 2 "Share-based payments". Instead, fair value of these Pre-IPO Share Option was accounted for as a deemed distribution made by the Company to Xiwang Investment, the shareholder of the Company. These share options cannot be exercised until the expiry of the first 6 months from 9 December 2005. Accordingly, No such granted share option had been exercised up to the date of approval of these financial statements.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry date	**Exercise price HK$ per share**	**Number of options (in thousands)**
9 December 2007	1.88	8,000
9 December 2008	1.88	8,000
9 December 2009	1.88	8,000
		24,000

The fair value of options granted during the year ended 31 December 2005 determined using the Dividend Adjusted Black-Scholes Option Pricing Model was approximately RMB5,706,000. The significant inputs into the model were as below:

	2007	**2008**	**2009**
Current value per share	HK$1.88	HK$1.88	HK$1.88
Exercise price	HK$1.88	HK$1.88	HK$1.88
Standard deviation of expected share price returns	25.22%	28.28%	27.09%
Expected life (years)	1.30	2.55	3.55
Expected dividend paid out rate	40%	40%	40%
Annual risk-free interest rate	1.979%	2.396%	2.740%

The volatility measured at the standard deviation of expected share price returns is based on historical share price movement of 4 comparable companies for the past 4 years.

15 Other reserves *(Continued)*

(g) Share options *(Continued)*

ii) Share option scheme

A share option scheme was conditionally approved and adopted by the Company according to a written resolution passed on 6 November 2005 (the "Share Option Scheme"). The Share Option Scheme is designed to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. According to the Share Option Scheme, the Company can issue options so that the total number of shares that may be issued upon exercise of all outstanding options to be granted under the Share Option Scheme and any other share option scheme of the Company must not in aggregate exceed 80,000,000 shares initially. The Company may renew this limit at any time, subject to shareholders' approval and the issue of a circular and in accordance with the Listing Rules provided that the number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes does not exceed 30% of the shares in issue from time to time. 4,000,000 share options were granted to employees of the Group in January 2006 in pursuance of the Share Option Scheme.

16 Minority interest

As mentioned in Note 1.2(b), minority interest represents the interest of outside equity holders, not being the Principal Shareholders, in the operating results and net assets of subsidiaries and the Transferred Businesses.

17 Trade and other payables

	2005 RMB'000	2004 RMB'000
Trade payables	**39,637**	6,713
Other payables	**64,399**	5,109
Other taxes payables	**3,348**	2,580
Deposits and advance from customers	**17,473**	9,654
	124,857	24,056

The Group usually settles the amount due to various vendors within a period of 30 to 90 days. As a result of the Reorganisation consummated in December 2004, the Group started to directly record the trade payable balances due to various suppliers arising from the purchasing activities undertaken by the Transferred Businesses (see also Note 29(h)(ii)).

Approximately RMB51,000,000 of other payables as at 31 December 2005 represents payables to vendors of fixed assets in relation to the construction of the lysine production plant described in Note 5.

17 Trade and other payables *(Continued)*

Ageing analysis of the trade payables is as follows:

	2005 RMB'000	2004 RMB'000
0-30 days	**33,278**	5,261
31-60 days	**1,910**	788
61-90 days	**3,105**	486
Over 90 days	**1,344**	178
	39,637	6,713

18 Borrowings

All borrowings are relating to loans borrowed by the Group from financial institutions. An analysis is as follows:

	Note	2005 RMB'000	2004 RMB'000
Non-current			
Bank borrowings	(a)	**234,680**	184,680
Current			
Bank borrowings			
– Short term bank borrowings	(b)	**110,000**	60,000
– Current portion of long term bank borrowings		**–**	10,000
		110,000	70,000
		344,680	254,680

(a) The non-current bank borrowings are secured by certain property and plant and machinery (Note 7) and leasehold land (Note 8) of the Group.

(b) These bank borrowings were guaranteed by three PRC companies which are business associates of Xiwang Group. Subsequent to 31 December 2005, all short term bank borrowings had been repaid and the corresponding guarantee arrangement was therefore discharged.

18 Borrowings *(Continued)*

As at the end of the years presented, the Group's bank borrowings were repayable as follows:

	2005 **RMB'000**	2004 RMB'000
Within one year	**110,000**	70,000
In the second year	**100,000**	30,000
In the third to fifth year	**134,680**	154,680
	344,680	254,680

The weighted average effective annual interest rates at each of the balance sheet date were as follows:

	2005	2004
Bank borrowings	**6.732%**	6.449%

The carrying amounts and fair value of the non-current bank borrowings are as follows:

	2005 **RMB'000**	2004 RMB'000
Carrying amounts	**234,680**	184,680
Fair values	**240,251**	191,655

The fair values are determined based on cash flow discounted using a rate based on the annual borrowing rate of 5.812% for 2005 (2004: 5.826%).

The carrying amounts of the current bank borrowings approximate their fair values as at the end of each of the years presented.

All the Group's borrowings are denominated in RMB.

The Group had the following undrawn available borrowing facilities:

	2005 **RMB'000**	2004 RMB'000
Floating rate		
Expired within one year	**40,000**	10,000

19 Expenses by nature

Expenses included in cost of goods sold, selling and marketing costs and administrative expenses are analysed as follows:

	2005 RMB'000	2004 RMB'000
Depreciation and amortisation	**23,722**	14,282
Employee benefit expenses (Note 21)	**21,981**	12,235
Changes in inventory levels of finished goods and work in progress	**(5,331)**	7,603
Raw materials and consumables used	**648,575**	410,008
Transportation expenses	**13,901**	6,680
Utility expenses	**89,148**	42,984
Management fee	**–**	747
Auditor's remuneration	**1,568**	8
(Write-back of)/provision for impairment of trade receivables	**(226)**	533

20 Other gains - net

	2005 RMB'000	2004 RMB'000
Interest income	**1,192**	689
Subsidy income (Note 23(a))	**–**	15,901
Others	**2,862**	500
	4,054	17,090

21 Employee benefit expenses

	2005 RMB'000	2004 RMB'000
Wages, salaries and other staff benefits	**20,980**	11,495
Pension costs - defined contribution plans	**1,001**	740
	21,981	12,235

21 Employee benefit expenses *(Continued)*

(a) Director's emoluments

The remuneration of each Director of the Company for the year ended 31 December 2005 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Inducement fees	Other benefits	Employer's contribution to pension scheme	Compensation for loss of office as director	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Wang Yong	–	50	–	–	–	2	–	52
Mr. Wang Liang	–	74	–	–	–	2	–	76
Mr. Wang Cheng Qing	–	25	–	–	–	–	–	25
Mr. Liu Heng Fang	–	25	–	–	–	2	–	27
Mr. Han Zhong	–	47	–	–	–	–	–	47
Ms. Li Wei	–	55	–	–	–	–	–	55
Mr. Liu Ji Qiang	–	56	–	–	–	–	–	56
Mr. Shi Wei Chen	–	17	–	–	–	–	–	17
Mr. Yu Xiao Lei	–	17	–	–	–	–	–	17
Mr. Wong Kai Ming	–	26	–	–	–	–	–	26

The remuneration of each Director of the Company for the year ended 31 December 2004 is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Inducement fees	Other benefits	Employer's contribution to pension scheme	Compensation for loss of office as director	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Wang Yong	–	–	–	–	–	–	–	–
Mr. Wang Liang	–	24	–	–	–	2	–	26
Mr. Wang Cheng Qing	–	–	–	–	–	–	–	–
Mr. Liu Heng Fang	–	–	–	–	–	–	–	–
Mr. Han Zhong	–	–	–	–	–	–	–	–
Ms. Li Wei	–	–	–	–	–	–	–	–
Mr. Liu Ji Qiang	–	36	14	–	–	1	–	51
Mr. Shi Wei Chen	–	–	–	–	–	–	–	–
Mr. Yu Xiao Lei	–	–	–	–	–	–	–	–
Mr. Wong Kai Ming	–	–	–	–	–	–	–	–

No director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office. No director waived or has agreed to waive any emoluments during the years presented.

21 Employee benefit expenses *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group in 2005 include two directors (2004: two) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals in 2005 (2004: three) are as follows:

	2005 RMB'000	2004 RMB'000
Basic salaries and benefits in kind	**518**	196
Pensions	**6**	5
	524	201

The emoluments fell within the following band:

	Number of individuals	
	2005	2004
Emolument bands		
RMB nil-RMB1,040,000 (HK$ nil-HK$1,000,000)	**3**	3

22 Finance costs

	2005 RMB'000	2004 RMB'000
Interest expenses - bank borrowings	**20,969**	10,034
Finance costs - allocated by Shandong Starch	**–**	7,040
Less: amount capitalised as construction in progress (Note 9)	**(2,821)**	(1,077)
	18,148	15,997
Net foreign exchange translation losses	**301**	85
	18,449	16,082

23 Income tax expense

(a) The amount of income tax charged to the consolidated income statements represent:

	2005 **RMB'000**	2004 RMB'000
PRC enterprise income tax	**–**	12,821

Pursuant to the rules and regulations of Bermuda and the BVI, the Group was not subject to any income tax in Bermuda and the BVI during the years presented.

No Hong Kong profits tax was provided as the Group had no assessable profit arising in or derived from Hong Kong.

Provision for PRC enterprise income tax ("EIT") in the year ended 31 December 2004 for companies/businesses comprising the Group incorporated in the PRC was calculated based on statutory tax rate of 33% of the assessable income of each of these companies and businesses, taking into account the availability of tax holidays enjoyed by certain entities/operations descriped below.

According to the PRC tax authority's circulars Guoshuifa 1994 No. 155, Caishuizi 2000 No. 35 and Caishuizi 1994 No. 1, domestic welfare enterprises that fulfil certain stipulated criteria was entitled to enjoy the full value-added tax ("VAT") refund and exemption of EIT ("EIT Exemption"). The operations of Shandong Starch (including the Transferred Businesses) before the Reorganisation met the relevant requirements and approval had been granted from the relevant government authorities in the PRC to Shandong Starch for the tax concessions. Accordingly, the Transferred Businesses were entitled to full VAT refund which was reflected as a subsidy income under other gains in the consolidated income statements and no EIT provision had been made during the period in 2004 before they were acquired by Xiwang Sugar. Such subsidy income and tax concession ceased after the Transferred Businesses were acquired by Xiwang Sugar.

Xiwang Sugar and Xiwang Bio-chem (which was absorbed by Xiwang Sugar in August 2005, as mentioned in Note 1.2) were approved to be foreign investment production enterprises by Administration for Industry and Commerce of Binzhou City in October 2004 pursuant to the Reorganisation. Xiwang Technology is qualified as a foreign investment production enterprise since its establishment. Accordingly, the applicable EIT rate of these companies is 30% and the local tax rate is 3%, resulting in an aggregate tax rate of 33%. These companies are also entitled to two years' full exemption from EIT and followed by three years of a 50% tax reduction, commencing from the first cumulative profit-making year net of losses carried forward ("EIT Tax Holiday"). The EIT Tax Holidays of Xiwang Sugar (including Xiwang Bio-chem) commenced in 2005 and accordingly, no provision for EIT had been made by Xiwang Sugar for the year ended 31 December 2005 (2004: tax provision of RMB 12,821,000). Xiwang Technology hasn't started business operation in 2005 and therefore no provision for EIT had been made.

23 Income tax expense *(Continued)*

(b) The tax on the Group's profit before tax differs from the theoretical amount that would arise using weighted average tax rate applicable to profits of the group companies as follows:

	2005 RMB'000	2004 RMB'000
Profit before tax	**209,813**	94,472
Tax calculated at tax rate of 33% applicable to profits in PRC	**69,238**	31,176
Deferred tax assets not recognised	**–**	176
Utilisation of previously unrecognised deferred tax assets	**(144)**	(70)
Expenses not deductible for tax purposes	**–**	148
Effect of tax holidays (Note a)	**(69,094)**	(18,609)
Tax charge	**–**	12,821

(c) As at 31 December 2005, no provision for deferred taxation had been recognised as there were no material temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements (2004: Nil).

24 Dividend/ profit distribution

Pursuant to a resolution passed on 21 July 2005 and approved by the then sole shareholder of the Company, a special dividend of RMB80,000,000 was declared, of which an amount of approximately RMB76,986,000 was paid as of 31 December 2005 (2004: Nil).

A final dividend in respect of the period began from 9 December 2005, the listing date, and ended 31 December 2005 of RMB 0.0087 per share, amounting to a total dividend of approximately RMB7,000,000 is to be proposed at the Annual General Meeting of 2006. The dividend will be reflected as appropriations of retained earnings for the year ending 31 December 2006.

25 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2005	2004
Profit attributable to equity holders of the Company (RMB'000)	**209,813**	78,829
Weighted average number of ordinary shares in issue (thousands)	**575,152**	560,000
Basic earnings per share (RMB per share)	**0.365**	0.141

25 Earnings per share *(Continued)*

(b) Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of share options. For the share options a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2005	2004
Profit attributable to equity holders of the Company (RMB'000)	**209,813**	78,829
Weighted average number of ordinary shares in issue (thousands)	**575,152**	560,000
Adjustments for share options (thousands)	**38**	–
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**575,190**	560,000
Diluted earnings per share (RMB per share)	**0.365**	0.141

(c) The calculation of earnings per share of 2004 is based on the consolidated profit attributable to equity holders of the Company for 2004 and 560,000,000 shares issued in 2005 before the issuance of shares in the IPO as if these shares had been in issue since 1 January 2004.

26 Cash generated from operations

Reconciliation of profit for the year to cash generated from operations is as follows:

	2005 RMB'000	2004 RMB'000
Profit for the year	**209,813**	81,651
Adjustment for:		
– Income tax expenses	**–**	12,821
– Depreciation (Note 7)	**23,538**	14,209
– Amortisation (Note 8)	**184**	73
– (Write-back of)/provision for impairment of trade receivables	**(226)**	532
– Interest income	**(1,192)**	(689)
– Interest expenses	**18,148**	15,997
Changes in working capital:		
– Inventories	**(35,908)**	18,695
– Trade and other receivables	**(20,307)**	(4,822)
– Amounts due from related companies	**6,301**	–
– Trade and other payables	**59,574**	10,938
– Amounts due to related companies	**(932)**	(37,501)
Cash generated from operations	**258,993**	111,904

27 Contingent liabilities

As at 31 December 2005, the Group had no material contingent liabilities.

28 Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	2005 RMB'000	2004 RMB'000
Property, plant and equipment		
– Contracted but not provided for	**–**	51,606
– Authorised but not contracted for	**336,723**	–
	336,723	51,606

The capital expenditure authorised but not contracted for as at 31 December 2005 represented the Group's planned expenditures for construction of a new glucose production plant and a new starch processing plant.

29 Related party transactions

The Group is controlled by the Xiwang Investment (incorporated in BVI), which owns about 65% of the Company's shares. The ultimate holding company of the Group is Xiwang Holdings (incorporated in BVI). During the period ended 31 December 2005, the Group had undertaken transactions with the following related companies:

English Name	Chinese Name	Relationship with the Company
Xiwang Group	山東西王集團有限公司	Company owned by the Principal Shareholders
Shandong Starch (Note)	山東西王澱粉有限公司	Subsidiary of Xiwang Group
Xiwang Investment (PRC)	山東西王投資有限公司	Subsidiary of Xiwang Group
Shandong Xiwang Biological Food Co., Ltd. ("Shandong Biological")	山東西王生物食品有限公司	Subsidiary of Xiwang Group
Shandong Xiwang Cereals and Oils Co., Ltd. ("Xiwang Cereal")	山東西王糧油有限公司	Subsidiary of Xiwang Group
Shandong Xiwang Savola Oil Co., Ltd. ("Xiwang Savola Oil")	山東西王沙渥拉油脂有限責任公司	Subsidiary of Xiwang Group
Shandong Biyundong Alcohol and Water Co., Ltd. ("Biyundong Alcohol")	山東碧雲洞酒水有限責任公司	Subsidiary of Xiwang Group
Shandong Xiwang Leavening Co., Ltd ("Xiwang Leavening")	山東西王酵母有限公司	Subsidiary of Xiwang Group
Zouping Xiwang Construction Company Limited ("Xiwang Construction")	鄒平西王建築有限責任公司	Subsidiary of Xiwang Group
Shandong Xiwang Steel Structure Co., Ltd ("Xiwang Steel Structure")	山東西王鋼結構有限公司	Subsidiary of Xiwang Group
Zouping Xiwang Transportation Co., Ltd. ("Xiwang Transportation")	鄒平縣西王運輸有限責任公司	Subsidiary of Xiwang Group
Xiwang Group Import and Export Trading Company ("Xiwang Import & Export")	山東西王進出口貿易有限公司	Subsidiary of Xiwang Group
Shandong Xiwang Steel Co., Ltd. ("Xiwang Steel")	山東西王鋼鐵有限公司	Subsidiary of Xiwang Group

Note: Shandong Starch ceased to be a related party of the Group since June 2005 when all of its equity interest held by the Principal Shareholders was disposed. Accordingly, the related party transactions with Shandong Starch disclosed below are up to May 2005.

29 Related party transactions *(Continued)*

In addition to the related party transactions as disclosed in other notes to these financial statements, the Group had the following significant transactions carried out with related parties during the year ended 31 December 2005:

(a) Sales of goods:

	2005 RMB'000	2004 RMB'000
Sales of corn germs		
– Xiwang Savola Oil	**74,527**	29,669
– Xiwang Cereal	**–**	23,540
Sales of glucose syrup		
– Xiwang Leavening	**3,100**	1,269
Sales of corn gluten meal		
– Xiwang Import & Export	**5,722**	–
Sales of starch paste		
– Shandong Biological	**–**	38,984
– Shandong Starch	**5,046**	–
	88,395	93,462

(b) Purchases of goods and services

	2005 RMB'000	2004 RMB'000
Purchase of starch paste		
– Shandong Starch	**–**	5,565
Purchase of corn fibre		
– Shandong Starch	**4,195**	9,794
Purchase of corn slurry		
– Shandong Starch	**1,493**	3,186
Purchase of corn gluten meal		
– Shandong Starch	**9,542**	–
Purchase of corn germ dregs		
– Xiwang Savola Oil	**1,816**	1,603
– Xiwang Cereal	**–**	2,188
Purchase of packaging materials		
– Biyundong Alcohol	**19,311**	9,117
	36,357	31,453

29 Related party transactions *(Continued)*

(b) Purchases of goods and services *(Continued)*

	2005 RMB'000	2004 RMB'000
Supply of electricity and steam		
– Xiwang Steel	**548**	–
– Xiwang Cereal	**–**	43,181
– Shandong Starch	**20,068**	–
Provision of transportation services		
– Xiwang Transportation	**–**	423
Exportation services		
– Xiwang Import & Export	**1,359**	2,032
Construction of property, plant and equipment		
– Xiwang Steel Structure	**4,197**	3,812
– Xiwang Construction	**2,276**	9,026
Sewage services		
– Shandong Starch	**269**	1,192
– Xiwang Group	**252**	–

(c) On 12 December 2005, Xiwang Sugar appointed Xiwang Group to act as an agent for Xiwang Sugar to arrange importation of certain equipment amounting to RMB68,474,000 from an independent supplier and the settlement of the money for the purchases. The amount due by Xiwang Sugar to Xiwang Group was reflected as an amount due to Xiwang Group in the Group's financial statements (Note 29 (h)). The amount was fully settled by Xiwang Sugar in January 2006. No handling fee or agency fee or other charges were charged by Xiwang Group to Xiwang Sugar in relation to this transaction.

(d) During 2005, the Group had provided certain guarantees and securities in favour of China Construction Bank Corporation, Hong Kong branch for the grant of a bank loan facility amounting to HK$131,200,000 (equivalent to RMB139,544,000) to Xiwang Investment. Such guarantees and securities were released in December 2005.

(e) Xiwang Group grants the right to use certain of its trademarks and patent to Xiwang Sugar free of charge. Pursuant to several license agreements dated 16 November 2004, Xiwang Group licenses the right to use the above mentioned trademarks and patent to Xiwang Sugar for a period of ten years from the date of the agreements at nil consideration.

29 Related party transactions *(Continued)*

(f) Pursuant to management agreements executed between Xiwang Group with Xiwang Sugar and Shandong Starch (including the Transferred Businesses), respectively, Xiwang Group provided the following management services to the Group before 2005:

– Research and development;
– Procurement and storage of indirect raw materials;
– Provision of office premises and accounting and general administrative functions;
– Provision of human resources functions; and
– Provision of corporate finance advisory services.

The amounts of management fees recognised by the Group are as follows:

	2005 **RMB'000**	2004 RMB'000
– Xiwang Group	**–**	747

Such arrangement ceased in year 2005.

(g) Xiwang Bio-chem commenced its production of lysine products in May 2005 but the related manufacturing license was only granted by the relevant government authorities in June 2005 (the "License Grant"). The Directors, based on the advice of its legal counsel, considered that there has not been any violation of the laws and regulations in the PRC in connection with such production activities undertaken before the License Grant. Nevertheless, Mr. Wang Yong has agreed to compensate the Group for any potential financial losses or penalty that might arise from such acts.

29 Related party transactions *(Continued)*

(h) Balances due from/to related parties

	2005 RMB'000	2004 RMB'000
Receivables		
Amounts outstanding, end of the years		
– Xiwang Savola Oil	**26,789**	33,526
– Xiwang Investment	**871**	–
– Xiwang Group	**–**	87,981
– Shandong Biological	**–**	37,005
– Xiwang Cereal	**–**	18,106
– Xiwang Import & Export	**–**	236
– Xiwang Steel Structure	**–**	107
– Xiwang Leavening	**436**	–
– Xiwang Construction	**–**	98
	28,096	177,059
Maximum amounts outstanding during the year		
– Xiwang Group	**234,567**	158,673
– Xiwang Savola Oil	**38,989**	33,526
– Xiwang Import & Export	**5,774**	555
– Xiwang Steel Structure	**991**	119
– Xiwang Cereal	**970**	86,944
– Xiwang Construction	**98**	106
– Shandong Biological	**–**	41,382
– Xiwang Transportation	**–**	3
Payables:		
– Shandong Starch (Note ii)	**–**	(105,507)
– Xiwang Group (Note 29 (c))	**(71,329)**	–
– Biyundong Alcohol	**(1,905)**	(2,837)
– Xiwang Steel Structure	**(798)**	–
	(74,032)	(108,344)

29 Related party transactions *(Continued)*

(h) Balances due from/to related parties *(Continued)*

(i) The related parties were all under the control of Mr. Wang Yong and all the current accounts maintained with related parties were aged within one year as at 31 December 2004 and 2005. They are interest-free and unsecured, and will be repaid upon request, except for the balance stated in the following paragraph.

Pursuant to an agreement jointly executed among Xiwang Group, Shandong Starch, Xiwang Biochemical, Xiwang Cereal, Xiwang Savola Oil, Biyundong Alcohol, Xiwang Leavening, Xiwang Transportation, Xiwang Construction, Xiwang Steel Structure and Xiwang Import & Export dated 1 May 2005, Xiwang Group undertaked to assume all the rights and obligations associated with the current account balances due from/to its subsidiaries with the Group as at 31 May 2005. Accordingly, there was a net amount of approximately RMB18,566,000 due to the Group from Xiwang Group as at 31 May 2005, which was fully settled in October 2005.

(ii) The current account balance maintained by the Group with Shandong Starch as at 31 December 2004 arose as a result of purchasing and sales activities undertaken by the Transferred Businesses had been transacted under the name of Shandong Starch as a legal entity. Accordingly, the purchasing and sales activities and the corresponding payments and receipts arising from these transactions had been recorded in the separate historical accounting records of the Transferred Businesses as intracompany current account balances maintained with Shandong Starch. As a result of the Reorganisation of the Group, the Transferred Businesses were transferred to the Group and such relationship with Shandong Starch ceased.

30 Distributable reserves

As at 31 December 2005, the Company had no reserves available for distribution to the equity holders of the Company (2004: Not applicable).

31 Subsequent events

Saved as disclosed in other notes to these financial statements, the Group had no other subsequent events.