

XIWANG SUGAR HOLDINGS COMPANY LIMITED

(Incorporated in Bermuda with limited liability)
Stock Code: 2088



Interim Report 2006



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CORPORATE PROFILE

Xiawang Sugar Holdings Company Limited (“Xiawang Sugar” or the “Company”) and its subsidiaries (collectively “the Group”) is a leading crystallised glucose producer in the People’s Republic of China (the “PRC”) in terms of production capacity. According to an evaluation conducted by China Fermentation Industry Association, the Group ranked the first amongst the 20 largest starch-based glucose producers in the PRC in 2005.

The Group’s two major types of products are corn-based biochemical products and corn refined products. Corn-based biochemical products include crystallised glucose, glucose syrup and lysine products; corn refined products include corn gluten meal, corn germ, animal feed, starch paste and corn slurry. These two types of products are widely used in the food and beverage, pharmaceutical and chemical industries.

The Group’s advanced and vertically integrated production facilities are located in Zouping County of Shandong Province, the PRC. The Group’s production base includes one starch processing plant, two glucose production plants, one animal feed processing plant and one lysine production plant. The Group adopts a vertically integrated production model and employs unique production technologies to fully utilise different parts of corn kernels, the major raw materials in producing and refining different products, so as to effectively minimise wastage and environmental pollution while improving overall production efficiency. The Group’s environmental protection system received ISO14001:1996 certificate in September 2004 and the Group was awarded by the State Administration for Environmental Protection as a “National Environmental Friendly Corporation” in October 2005.

Xiawang Sugar was listed on the Main Board of The Stock Exchange of Hong Kong Limited on 9 December 2005 (the “Listing Date”).

CORPORATE INFORMATION

Executive Directors

Mr. WANG Yong, *Chairman*
Mr. WANG Liang
Dr. LI Wei
Mr. WANG Cheng Qing
Mr. HAN Zhong
Mr. LIU Ji Qiang

Non-executive Director

Mr. LIU Heng Fang

Independent non-executive Directors

Mr. SHI Wei Chen
Mr. YU Xiao Lei
Mr. WONG Kai Ming

Audit Committee

Mr. WONG Kai Ming, *Chairman*
Mr. SHI Wei Chen
Mr. YU Xiao Lei

Remuneration and nomination committees

Mr. WANG Liang, *Chairman*
Mr. SHI Wei Chen
Mr. YU Xiao Lei

Company secretary

Mr. LEUNG Shu Sun, Sunny, *FCCA, CGA, CPA*

Authorised representatives

Mr. WANG Yong
Mr. LEUNG Shu Sun, Sunny
Mr. SUN Xin Hu
(Alternate to Mr. WANG Yong and
Mr. LEUNG Shu Sun, Sunny)

Qualified accountant

Mr. LEUNG Shu Sun, Sunny, *FCCA, CGA, CPA*

Auditors

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor
Prince's Building
Central
Hong Kong

Legal advisers

As to Hong Kong laws:
Chiu & Partners
41st Floor, Jardine House
1 Connaught Place
Hong Kong

As to PRC laws:
Jingtian & Gongcheng
15th Floor, The Union Plaza
20 Chaoyangmenwai Dajie
Beijing 100020
The PRC

As to Bermuda law:

Conyers Dill & Pearman
Room 2901, One Exchange Square
8 Connaught Place
Central
Hong Kong

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in the PRC

Xiwang Industrial Area
Zouping County
Shandong Province
The PRC

Principal place of business in Hong Kong

Room 1206A, 12th Floor
West Tower, Shun Tak Centre
168 – 200 Connaught Road Central
Hong Kong

Principal share registrar and transfer office

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08
Bermuda

Hong Kong branch share registrar and transfer office

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

Principal Bankers

Agricultural Bank of China, Zouping Sub-branch
Bank of China, Zouping Sub-branch
Bank of Communications, Jinan Branch
China Construction Bank
China CITIC Bank
The Bank of East Asia, Limited
Standard Chartered Bank (Hong Kong) Limited

Stock Information

Stock Code: 2088
(Listed on the Main Board of The Stock Exchange of
Hong Kong Limited)
Trading board lot size: 2000 shares

Websites

<http://www.xiwang.com.cn>
<http://www.irasia.com/listco/hk/xiwangsugar>

CONDENSED CONSOLIDATED INCOME STATEMENTS

The board of directors (the “Directors” or the “Board”) of Xiwang Sugar is pleased to announce the unaudited condensed consolidated results of the Group prepared under Hong Kong Financial Reporting Standards for the six months ended 30 June 2006, together with the comparative figures, as follows:

		Unaudited for six months ended 30 June	
	Note	2006 RMB'000	2005 RMB'000
Sales	3	687,748	409,872
Cost of goods sold		(495,846)	(318,595)
Gross profit		191,902	91,277
Other gains – net		2,339	1,732
Selling and marketing costs		(17,804)	(9,929)
Administrative expenses		(6,423)	(2,527)
Operating profit	9	170,014	80,553
Finance costs	10	(11,162)	(4,898)
Profit before income tax		158,852	75,655
Income tax expense	11	–	–
Profit for the period		158,852	75,655
Attributable to:			
Equity holders of the Company		158,852	75,655
Earnings per share for profit attributable to equity holders of the Company during the period (RMB per share)			
– basic	13	0.198	0.135
– diluted	13	0.194	0.135
Interim dividend (RMB per share)	12	–	–

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2006

	Note	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	4	616,091	626,316
Leasehold land	4	84,352	9,037
Construction in progress	4	208,483	611
Prepayment for leasehold land		–	60,333
		908,926	696,297
Current assets			
Inventories		86,888	78,211
Trade and other receivables	5	110,414	82,898
Amounts due from related companies	16	25,770	28,096
Cash and cash equivalents		439,129	502,043
		662,201	691,248
Total assets		1,571,127	1,387,545
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	6	83,708	83,708
Other reserves		541,032	540,691
Retained earnings		368,415	216,563
Total equity		993,155	840,962
LIABILITIES			
Non-current liabilities			
Borrowings	8	324,680	234,680
Current liabilities			
Trade and other payables	7	121,792	124,857
Dividends payable		–	3,014
Amounts due to related companies	16	–	74,032
Borrowings	8	131,500	110,000
		253,292	311,903
Total liabilities		577,972	546,583
Total equity and liabilities		1,571,127	1,387,545
Net current assets		408,909	379,345
Total assets less current liabilities		1,317,835	1,075,642

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Attributable to equity holders of the Company			Total Equity
	Share Capital RMB'000	Other Reserves RMB'000	Retained Earnings RMB'000	RMB'000
Balance at 1 January 2005	106	179,379	92,456	271,941
Cash contribution from equity holders of the Company	–	106	–	106
Effects of group reorganisation	–	1,679	–	1,679
Share issuance costs	–	(261)	–	(261)
Profit for the period	–	–	75,655	75,655
Balance at 30 June 2005	106	180,903	168,111	349,120
Balance at 1 January 2006	83,708	540,691	216,563	840,962
Profit for the period	–	–	159,193	159,193
Share option granted	–	341	(341)	–
Final dividend for 2005	–	–	(7,000)	(7,000)
Balance at 30 June 2006	83,708	541,032	368,415	993,155

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Unaudited six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Net cash inflow from operating activities	184,234	46,007
Net cash outflow from investing activities	(281,604)	(92,827)
Net cash outflow before financing activities	(97,370)	(46,820)
Net cash inflow/(outflow) from financing activities	34,456	(1,343)
Net decrease in cash and cash equivalents	(62,914)	(48,163)
Cash and cash equivalents at beginning of the period	502,043	52,971
Cash and cash equivalents at end of the period	439,129	4,808

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Xiwan 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 and its principal place of business in Hong Kong is at Room 1206A, 12th Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong. 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 germ, corn gluten meal, animal feeds, crystallised glucose, glucose syrup and lysine within and outside of the PRC.

These unaudited condensed consolidated financial statements are presented in thousands of units of Renminbi (“RMB”), unless otherwise stated. These unaudited condensed consolidated financial statements have been reviewed by audit committee and approved for issue by the Board of Directors on 18 August 2006.

2. Basis of preparation and principal accounting policies

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

These condensed interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2005.

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those used in the audited financial statements for the year ended 31 December 2005.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006.

- (a) Amendment to HKAS 19, “Actuarial gains and losses, group plans and disclosures”, effective for annual periods beginning on or after 1 January 2006. The Group decided to retain its former accounting policy regarding the recognition of actuarial gains and losses;
- (b) Amendment to HKAS 39, Amendment to “The fair value option”, effective for annual periods beginning on or after 1 January 2006. This amendment does not have any impact on the classification and valuation of the Group’s financial instruments classified as at fair value through profit or loss prior to 1 January 2006 as the Group is able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss;
- (c) Amendment to HKAS 21, Amendment “Net investment in a foreign operation”, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- (d) Amendment to HKAS 39, Amendment “Cash flow hedge accounting of forecast intragroup transactions”, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the group;

2. Basis of preparation and principal accounting policies *(Continued)*

- (e) Amendment to HKAS 39 and HKFRS 4, Amendment “Financial guarantee contracts”, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- (f) HKFRS 6, “Exploration for and evaluation of mineral resources”, effective for annual periods beginning on or after 1 January 2006. This standard is not relevant for the Group;
- (g) HK(IFRIC)-Int 4, “Determining whether an arrangement contains a lease”, effective for annual periods beginning on or after 1 January 2006. This standard is not relevant for the Group;
- (h) HK(IFRIC)-Int 5, “Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds”, effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant for the Group; and
- (i) HK(IFRIC)-Int 6, “Liabilities arising from participating in a specific market - waste electrical and electronic equipment”, effective for annual periods beginning on or after 1 December 2005. This interpretation is not relevant for the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- (a) HK(IFRIC)-Int 7, “Applying the Restatement Approach under HKFRS 29”, effective for annual periods beginning on or after 1 March 2006. Management do not expect the interpretation to be relevant for the Group;
- (b) HK(IFRIC)-Int 8, “Scope of HKFRS 2”, effective for annual periods beginning on or after 1 May 2006. Management is currently assessing the impact of HK(IFRIC)-Int 8 on the Group’s operations;
- (c) HK(IFRIC)-Int 9, “Reassessment of Embedded Derivatives”, effective for annual periods beginning on or after 1 June 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the Group already assess if embedded derivative should be separated using principles consistent with HK(IFRIC)-Int 9; and
- (d) HKFRS 7, “Financial instruments: Disclosures”, effective for annual periods beginning on or after 1 January 2007. HKAS 1, “Amendments to capital disclosures”, effective for annual periods beginning on or after 1 January 2007. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007.

3. Segment Information

Primary report format – business segments

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

- (a) Manufacture and sales of (i) crystallised glucose and glucose syrup from the processing of starch paste; and (ii) lysine products from the processing of glucose syrup (hereinafter collectively referred to as the “corn-based biochemical products”). Production of lysine products started in May 2005; and
- (b) 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”).

The segment results for the six months ended 30 June 2006 are as follows:

	Corn-based biochemical products	Corn refined products	Unallocated	Group
	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000
Total gross segment sales	506,532	181,216	–	687,748
Intra-segment sales	–	–	–	–
Sales	506,532	181,216	–	687,748
Operating profit	132,349	39,175	(1,510)	170,014
Finance costs				(11,162)
Profit before income tax				158,852
Income tax expense (Note 11)				–
Profit for the period				158,852
Total assets	717,745	242,455	610,927	1,571,127
Total liabilities	155,886	11,983	410,103	577,972
Depreciation (Note 4)	13,295	2,995	–	16,290
Amortisation (Note 4)	104	17	–	121
Capital expenditures (Note 4)	286,268	3,105	–	289,373
Write-back of impairment of trade receivables	(508)	–	–	(508)

3. Segment Information (Continued)

Primary report format – business segments (Continued)

The segments results for the six months ended 30 June 2005 are as follows:

	Corn-based biochemical products Unaudited RMB'000	Corn refined products Unaudited RMB'000	Unallocated Unaudited RMB'000	Group Unaudited RMB'000
Total gross segment sales	293,933	119,501	–	413,434
Intra-segment sales	(3,562)	–	–	(3,562)
Sales	290,371	119,501	–	409,872
Operating profit	69,578	13,202	(2,227)	80,553
Finance costs				(4,898)
Profit before income tax				75,655
Income tax expense				–
Profit for the period				75,655
Total assets	473,237	156,746	127,644	757,627
Total liabilities	213,582	32,428	163,139	409,149
Depreciation	5,734	3,040	–	8,774
Amortisation	49	18	–	67
Capital expenditures	144,740	7,304	–	152,044
Write-back of impairment of trade receivables	(255)	–	–	(255)

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 period presented, as a result, no separate geographical segment information is presented.

4. Capital Expenditure

	Leasehold land RMB'000	Property, plant and equipment RMB'000	Construction in progress RMB'000
Six months ended 30 June 2005			
Opening net book amount	6,342	252,097	92,597
Additions (Note 3)	3,293	9,647	139,104
Transfers from construction in progress	–	202,277	(202,277)
Depreciation and amortisation charges (Note 3)	(67)	(8,774)	–
Closing net book amount at 30 June 2005	9,568	455,247	29,424
Six months ended 30 June 2006			
Opening net book amount	9,037	626,316	611
Additions (Note 3) (Note a)	75,436	6,065	207,872
Depreciation and amortisation charges (Note 3) (Note b)	(121)	(16,290)	–
Closing net book amount at 30 June 2006	84,352	616,091	208,483

Notes:

- (a) The additions of leasehold land mainly refer to an acquisition of two Land Use Rights in the PRC amounting to RMB60.3 million and RMB15.1 million during the period; and the additions of construction in progress mainly refer to the construction of a new glucose production plant.
- (b) Depreciation charge had been recognised as a component of cost of goods sold.

5. Trade and Other Receivables

	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000
Trade receivables	50,366	35,296
Notes receivables	50,665	8,596
Less: provision for impairment of receivables	(485)	(993)
	100,546	42,899
Amount due from CCB International Capital Limited	–	32,337
Other receivables	9,868	7,662
	110,414	82,898

5. Trade and Other Receivables (Continued)

The Group has granted some major customers with credit periods of 30 to 180 days or they may settle by bank acceptance notes while most of the other customers are on a cash-on-delivery basis, or with prepayment of the full amount of sales be made before delivery of goods.

Ageing analysis of the gross trade receivables is as follows:

	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000
0-30 days	37,789	18,163
31-60 days	4,597	9,780
61-90 days	2,475	2,341
Over 90 days	5,505	5,012
	50,366	35,296

6. Share Capital

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

	Number of share	Amount	
		HK\$'000	RMB'000
Ordinary shares of HK\$0.1 each			
Authorised capital			
At 30 June 2005	9,000,000	900	954
At 30 June 2006	2,000,000,000	200,000	208,002
Issued and fully paid			
Opening balance at 1 January 2005	—	—	—
Shares issued upon incorporation	1,000,002	100	106
At 30 June 2005	1,000,002	100	106
Opening balance at 1 January 2006 and at 30 June 2006	803,552,000	80,355	83,708

6. Share Capital *(Continued)*

The Company adopted a share option scheme (the "Scheme") on 6 November 2005. The purpose of the Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

During the six months ended 30 June 2006, options carrying the rights to subscribe for a total of 4,000,000 shares of the Company of HK\$0.10 each (each, a "Share") were granted under the Scheme. No Share was allotted and issued during the period under review pursuant to the exercise of the options granted under the Scheme. No option was lapsed or cancelled during the period under review. As at 31 December 2005, no option had been granted by the Company under the Scheme.

7. Trade and other Payables

	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000
Trade payables	34,827	39,637
Other payables	42,259	64,399
Other taxes payables	4,361	3,348
Deposits and advance from customers	40,345	17,473
	121,792	124,857

Ageing analysis of the trade payables is as follows:

	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000
0-30 days	25,858	33,278
31-60 days	1,520	1,910
61-90 days	626	3,105
Over 90 days	6,823	1,344
	34,827	39,637

8. Borrowings

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

	Note	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000
Non-current	(b)	324,680	234,680
Current		131,500	110,000
		456,180	344,680

Movements in borrowings is analysed as follows:

	RMB'000
Six months ended 30 June 2005	
Opening amount as at 1 January 2005	254,680
Borrowings	65,000
Closing amount as at 30 June 2005	319,680
Six months ended 30 June 2006	
Opening amount as at 1 January 2006	344,680
Borrowings	271,500
Repayments of borrowings	(160,000)
Closing amount as at 30 June 2006	456,180

Note:

- (a) Interest expense on borrowings for the six months ended 30 June 2006 is approximately RMB12,274,000 (30 June 2005: approximately RMB7,262,000)
- (b) The non-current bank borrowings were secured by certain property and plant and machinery and leasehold land of the Group.

9. Expenses by Nature

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

	For the six months ended 30 June	
	2006 Unaudited RMB'000	2005 Unaudited RMB'000
Fair valuation on employee share options	341	–
Depreciation and amortisation	16,411	8,841
Employee benefit expenses	14,882	7,344
Changes in inventory levels of finished goods and work in progress	(16,710)	(7,170)
Raw materials and consumables used	425,097	281,723
Transportation expenses	8,641	3,505
Utility expenses	67,735	33,338
Directors' emoluments	1,610	–
Write-back of impairment of receivables	(508)	(255)

10. Finance Costs

	For the six months ended 30 June	
	2006 Unaudited RMB'000	2005 Unaudited RMB'000
Interest expenses – bank borrowings	12,274	7,262
Less: amount capitalised as construction in progress	(1,930)	(2,364)
	10,344	4,898
Net foreign exchange translation losses	818	–
	11,162	4,898

11. Income Tax Expense

Pursuant to the rules and regulations of Bermuda and the British Virgin Islands, the Group was not subject to any income tax in Bermuda and the British Virgin Islands during the period.

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

No provision for PRC enterprise income tax ("EIT") was provided taking into account the availability of tax holidays enjoyed by the Company's subsidiaries incorporated in the PRC.

The Group did not have any significant unprovided deferred taxation as at 30 June 2006 (2005: same).

12. Dividend

	For the six months ended 30 June	
	2006 Unaudited RMB'000	2005 Unaudited RMB'000
2005 final dividend - RMB0.0087 (or HKD0.0084) per share (2004: Nil) (Note (a))	7,000	–

Notes:

- (a) A final dividend for the year ended 31 December 2005 of RMB0.0087 per share, amounting to a total dividend of approximately RMB7,000,000 was approved at the annual general meeting held on 25 May 2006 and paid in June 2006.
- (b) The Board of Directors did not recommend any interim dividend for the six months ended 30 June 2006 (2005: Nil).

13. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	For the six months ended 30 June	
	2006 Unaudited	2005 Unaudited
Earnings for the purposes of basic and diluted earnings per share (RMB'000)	158,852	75,655
Weighted average number of ordinary shares for the purpose of basic earnings per share (thousands)	803,552	560,000
Adjustments for share options (thousands)	14,717	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share (thousands)	818,269	560,000
Earnings per share:		
– Weighted average shares	RMB0.198	RMB0.135
– Diluted	RMB0.194	RMB0.135

The calculation of earnings per share for the six months ended 30 June 2005 is based on the consolidated profit attributable to equity holders of the Company for the six months ended 30 June 2005 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 2005.

14. Contingent Liabilities

As at 30 June 2006, the Group had no material contingent liabilities.

15. Commitments**(a) Operating lease commitments**

As at 30 June 2006, the Group had outstanding commitments for future minimum lease payments under the non-cancellable operating leases in respect of rented premises which fall due as follows:

	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000
Within one year	593	–
In the second to fifth year inclusive	370	–
Over five years	–	–
	963	–

(b) Capital commitments

	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000
Property, plant and equipment		
– Contracted but not provided for	210,237	336,723
– Authorised but not contracted for	–	–
	210,237	336,723

16. Related Party Transactions

The Group is controlled by the Xiwang Investment Company Limited ("Xiwang Investment (BVI)") (incorporated in BVI), which owned about 64.71% of the Company's issued shares as at 30 June 2006. The ultimate holding company of the Group is Xiwang Holdings Limited (incorporated in BVI). During the period ended 30 June 2006, the Group had undertaken transactions with the following related companies:

English Name	Chinese Name	Relationship with the Company
Shandong Xiwang Group Company Limited ("Xiwang Group")	山東西王集團有限公司	Owned by Mr. Wang Yong and other 25 persons
Shandong Starch Limited Liability Company ("Shandong Starch")	山東西王澱粉有限公司	Subsidiary of Xiwang Group
Shandong Xiwang Investment Company Limited	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")	山東西王沙澀拉油脂有限公司	Subsidiary of Xiwang Group
Biyundong Alcohol and Water Co., Ltd. ("Biyundong Alcohol")	山東碧雲洞酒水有限公司	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公司	Subsidiary of Xiwang Group
Shandong Xiwang Import and Export Trading Company Limited ("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. Accordingly, the related party transactions with Shandong Starch disclosed below are up to May 2005.

16. Related Party Transactions (Continued)

The Group had the following significant transactions carried out with related parties during the period ended 30 June 2006:

(a) Sales of goods

	For the six months ended 30 June	
	2006 Unaudited RMB'000	2005 Unaudited RMB'000
Sales of corn germs		
– Xiwang Savola Oil	41,738	33,194
Sales of glucose syrup		
– Xiwang Leavening	2,379	1,820
Sales of corn gluten meal		
– Xiwang Import & Export	–	5,722
Sales of starch paste		
– Shandong Starch	–	5,046
	44,117	45,782

(b) Purchases of goods and services

	For the six months ended 30 June	
	2006 Unaudited RMB'000	2005 Unaudited RMB'000
Purchase of corn fibre		
– Shandong Starch	–	4,195
Purchase of corn slurry		
– Shandong Starch	–	1,493
Purchase of corn gluten meal		
– Shandong Starch	–	9,542
Purchase of corn germ dregs		
– Xiwang Savola Oil	85	924
Purchase of packaging materials		
– Biyundong Alcohol	14,260	9,072
	14,345	25,226

16. Related Party Transactions (Continued)**(b) Purchases of goods and services** (Continued)

	For the six months ended 30 June	
	2006	2005
	Unaudited	Unaudited
	RMB'000	RMB'000
Supply of electricity and steam		
– Xiwang Steel	–	548
– Shandong Starch	–	20,068
Exportation services		
– Xiwang Import & Export	–	1,359
Construction of property, plant and equipment		
– Xiwang Steel Structure (Note)	861	1,979
– Xiwang Construction (Note)	8,710	626
Sewage services		
– Shandong Starch	–	269
– Xiwang Group	365	–

Note:

On 19 April 2006, the Group appointed Xiwang Steel Structure and Xiwang Construction to undertake a new glucose production plant and a new starch processing plant ("Construction Project") for the Group. The total contract price of the Construction Project is approximately RMB27,811,000 (equivalent to approximately HK\$27,002,000). Xiwang Steel Structure is responsible for the production and construction of the steel structure of the production plants while Xiwang Construction is responsible for the corresponding construction works under the Construction Project.

(c) Balances due from/to related parties

	30 June	31 December
	2006	2005
	Unaudited	Audited
	RMB'000	RMB'000
Receivables		
Amounts outstanding, end of the periods		
– Xiwang Savola Oil	18,713	26,789
– Xiwang Investment (BVI)	2,550	871
– Xiwang Group	3,023	–
– Xiwang Steel Structure	320	–
– Xiwang Leavening	32	436
– Biyundong Alcohol	1,125	–
– Xiwang Construction	7	–
	25,770	28,096

16. Related Party Transactions (Continued)**(c) Balances due from/to related parties** (Continued)

	30 June 2006 Unaudited RMB'000	31 December 2005 Audited RMB'000
Maximum amounts outstanding during the period		
– Xiwang Group	3,023	234,567
– Xiwang Savola Oil	43,042	38,989
– Xiwang Import & Export	–	5,774
– Xiwang Cereal	–	970
– Xiwang Steel Structure	320	991
– Xiwang Investment (BVI)	2,550	871
– Xiwang Construction	7	98
– Xiwang Leavening	32	–
– Biyundong Alcohol	1,125	–
Payables		
– Xiwang Group	–	(71,329)
– Biyundong Alcohol	–	(1,905)
– Xiwang Steel Structure	–	(798)
	–	(74,032)

- (d) 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 undertake to assume all the rights and obligations associated with the current account balances due from/to its subsidiaries with the Group as at 30 June 2005.

17. Subsequent Events

The Pre-IPO Share Option granted to CCB International Finance Limited was exercised in full on 4 July 2006 at an exercise price of HK\$1.88 per share, pursuant to which 24,000,000 ordinary shares of the Company were allotted and issued on 12 July 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, the sale of corn-based biochemical products continued to be the major source of income of the Group. Sales of corn-based biochemical products achieved satisfactory performance, mainly attributable to the increase in selling price of crystallised glucose and glucose syrup and the strengthened effort of the Group in raising its production capacity. In the first half of 2006, a continuous uptrend of international market price of sugar was observed, leading to a strong demand for glucose as the substitute of cane sugar.

The Group achieved continuous growth in turnover and net profit. Turnover during the six months ended 30 June 2006 increased to approximately RMB687.7 million, representing an increase of about 67.8% compared with approximately RMB409.9 million for the corresponding period in 2005. Net profit for the period amounted to approximately RMB158.9 million and represented an increase of about 110.0% as compared to about RMB75.7 million for the corresponding period in 2005. Basic earnings per share for the period was about RMB0.198 (six months ended 30 June 2005: RMB0.135), representing an approximately 46.7% increase.

Turnover

The Group's turnover by product categories is as follows:

	For the six months ended 30 June 2006 RMB'000	% to sales	For the six months ended 30 June 2005 RMB'000	% to sales	Percentage Change
Corn refined products	181,216	26.3	119,501	29.2	51.6
Corn-based biochemical products	506,532	73.7	290,371	70.8	74.4
Total	687,748	100.0	409,872	100.0	67.8

Turnover Analysis

Turnover during the six months ended 30 June 2006 increased substantially when compared to the corresponding period in 2005, which was mainly attributable to 1) the completion of the re-engineering of production facilities in March 2005 which resulted in an increase in overall production capacity; 2) the launch of lysine products in May 2005 and August 2005; and 3) the increase in selling price of crystallised glucose and glucose syrup.

Gross Profit Analysis

The Group's gross profit during the six months ended 30 June 2006 increased by approximately RMB100.6 million to approximately RMB191.9 million, representing an increase of approximately 110.2% as compared to that in the corresponding period in 2005. The increase was mainly a result of increase in production capacity of the Group, the surge of market price of glucose as well as the Group's improved production techniques which enabled the Group to maintain its production cost at a competitive level.

Corn refined products

Sales and gross profit of corn refined products increased as a result of the increase in production of starch paste for the down stream corn-based biochemical products. Gross profit increased from approximately RMB13.2 million for the six months ended 30 June 2005 to approximately RMB34.4 million for the six months period ended 30 June 2006. The overall gross profit margin of corn refined products also increased from about 11.1% for the six months ended 30 June 2005 to about 19.0% for the period under review mainly as a result of the increase in selling prices of corn gluten meal and animal feeds.

Corn-based biochemical products

Gross profit margin of crystallised glucose and glucose syrup increased from about 26.9% for the six months ended 30 June 2005 to about 36.1% for the six months ended 30 June 2006 as a result of increase in selling price. In particular, the average unit price of crystallised glucose increased from approximately RMB2,218 (excluding value-added tax) per tonne for the six months ended 30 June 2005 to approximately RMB2,495 (excluding value-added tax) per tonne for the six months period ended 30 June 2006.

In the case of lysine products, the over supply observed in the market during the period under review has led to a decline in market price. As a result, the overall gross profit margin of lysine products dropped to about 22.4% for the six months ended 30 June 2006 from about 26.6% for the corresponding period in 2005.

Profit Attributable to Equity Holders of the Company

Profit attributable to equity holders of the Company for the period ended 30 June 2006 was approximately RMB158.9 million, which represented an increase of 110.0% from approximately RMB75.7 million for the corresponding period in 2005. For the first six months ended 30 June 2006, earnings per share of the Company amounted to about RMB0.198 (the corresponding period in 2005: RMB0.135).

Liquidity, Capital Resources and Gearing Ratio

As at 30 June 2006, the Group had cash and bank balance of about RMB439.1 million. The Group generated strong cash flows from operations for the six months ended 30 June 2006. Net cash inflow from operating activities for the period was RMB184.2 million as compared to RMB46.0 million for the same period last year.

During the period under review, the Group obtained bank borrowings for a sum of RMB456.2 million. The borrowings were mainly in Renminbi ("RMB") and borne interest at market rates. The proceeds were used to finance the daily operations of the Group. Details of the Group's borrowings are set out in Note 8 to the condensed consolidated financial statements as at 30 June 2006. The Group did not use any financial instruments for any hedging purposes.

As at 30 June 2006, the Group's gearing ratio, measured by total loans to total assets, was about 29.0%, and the Group's current ratio was about 2.61 times.

As at 30 June 2006, the Group had outstanding capital commitments amounting to RMB210.2 million in respect of the purchase of fixed assets which were contracted but not provided for. As at 30 June 2006, the Group did not have any material contingent liabilities.

Foreign Exchange Risk

Most of the cash balance of the Group are deposited in RMB with major banks in the PRC, and most of assets, liabilities, revenues and payments of the Group are in RMB. Therefore, the Directors consider the risk exposure of the Group to foreign exchange rate fluctuations is minimal.

Human Resources

As at 30 June 2006, the Group had about 1,699 employees (30 June 2005: 1,348 employees). The Group will consider the experience, responsibility, workload and the time devoted by the Directors and employees of the Group to determine their respective remuneration packages. The Company has also set up a remuneration committee to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management. In addition to basic remuneration packages and discretionary bonuses for Directors and employees, share options may also be granted to Directors and eligible employees based on the performance of individuals.

Future Prospects and Development Strategies

To cope with the strong demand for glucose in the PRC and overseas markets, the Group plans to further expand its production capacity for crystallised glucose and starch paste to 800,000 tonnes and 1 million tonnes respectively by the end of 2006. The Group intends to fund such production capacity expansions by its IPO proceeds and internal resources.

In view of the surging cane sugar price and the persistent gap between the supply and demand of cane sugar in the PRC, the Group successfully developed a new product – crystallised fructose-glucose. As this new product is a natural sweetener made from corn and is 10% sweeter than cane sugar, it is expected that this new product will be well-received by the food and beverage manufacturers. The Group is currently applying patent for this product and expects to commence mass production in 2007.

The Group values its relationship with its customers through continual dedication to strengthening its sales services, including sales support, marketing and after-sales services of its existing distribution centers, reinforcing its corporate image and expanding its customer network. Moreover, the Group also focuses on new products development and product quality improvement to enhance production efficiency.

Looking forward, the Group will leverage on its strength of its enormous production capacity, vertically integrated operation model, strong research and development capability and experienced and professional management team to capture new business opportunities and explore potential market, with the view to becoming a global leading glucose producer and maximizing shareholders' returns.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) as its own code of corporate governance.

In order to align the bye-laws of the Company with Code Provision A.4.2 of the CG Code which provides that all directors appointed to fill a casual vacancy shall hold office until the next first general meeting after their appointment, the Company amended the relevant provisions of its bye-laws at its annual general meeting held on 25 May 2006.

The Directors consider that the Company has fully complied with the requirements under the CG Code during the period under review.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has also adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its own code for securities transactions. Having made specific enquiries with all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code during the period under review.

AUDIT COMMITTEE

The Company has set up an audit committee with written terms of reference based upon the provisions and recommended practices of the CG Code on 6 November 2005. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. At present, members of the audit committee comprise Mr. WONG Kai Ming (chairman), Mr. SHI Wei Chen and Mr. YU Xiao Lei, being the three independent non-executive Directors.

The Group’s unaudited condensed consolidated financial statements for the six months ended 30 June 2006 have been reviewed by the audit committee, who is of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

INTERIM DIVIDEND

The Board of Directors resolved not to declare any interim dividend for the six months ended 30 June 2006.

SHARE OPTION SCHEME AND PRE-IPO SHARE OPTION

Share option scheme

The Company has adopted a share option scheme (the "Scheme") on 6 November 2005. The purpose of the Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

During the six months ended 30 June 2006, options carrying rights to subscribe for a total of 4,000,000 shares of the Company of HK\$0.10 each (each, a "Share") were granted under the Scheme. No Share was allotted and issued during the period under review pursuant to the exercise of any options granted under the Scheme. No option was lapsed or cancelled during the period under review.

Details of the options granted under the Scheme during the period under review are as follows:

Class of grantee	Date of grant (Note 2)	During the six months ended 30 June 2006				Outstanding as at 1 January 2006	Outstanding as at 30 June 2006	Exercise price per Share (HK\$)	Exercise period
		Granted	Exercised	Cancelled	Lapsed				
Employees (Note 1)	9 January 2006	2,000,000	-	-	-	-	2,000,000	2.50	1 Jan 2007- 31 Dec 2016
		2,000,000	-	-	-	-	2,000,000	2.50	1 Jan 2008- 31 Dec 2017
		4,000,000	-	-	-	-	4,000,000		

Notes:

- Employees include employees of the Group (other than the Directors) working under employment contracts with the Group which are regarded as "continuous contracts" for the purpose of the Employment Ordinance (Chapter 57 of the Laws of Hong Kong).
- The closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on 6 January 2006, being the trading day immediately preceding the date of grant of options, was HK\$2.275 per Share.
- The fair value of options granted during the period ended 30 June 2006 determined using the Binomial Option Pricing Model was approximately RMB341,000. The significant inputs into the model were as below:

	2006	2007
Share price	HK\$2.50	HK\$2.50
Exercise price	HK\$2.50	HK\$2.50
Standard deviation of expected share price returns	30%	30%
Expected life (days)	357	722
Expected dividend paid out rate	40%	40%
Annual risk-free interest rate	3.72%	3.81%

The volatility measured at the standard deviation of expected share price returns is reference to historical share price movement of 5 comparable companies for the past 180 days.

The calculation of the fair value of options using Binomial Option Pricing Model is based on various assumptions and is only an estimate. It is possible that the financial benefit accruing to the option holders may be substantially different from the value of options calculated.

SHARE OPTION SCHEME AND PRE-IPO SHARE OPTION *(Continued)***Pre-IPO share option**

Pursuant to an amended and restated option deed dated 21 November 2005 (the "Option Deed"), the Company granted an option (the "Pre-IPO Share Option") to CCB International Finance Limited ("CCBI Finance") pursuant to which CCBI Finance may, at its sole discretion and in accordance with the specified basis, subscribe for Shares which shall in aggregate be equivalent to up to three per cent, of the Shares in issue on the Listing Date. The Pre-IPO Share Option may be exercised during the period from the expiry of the first six months from the Listing Date to the last day of 48th month after the Listing Date (both days inclusive). The exercise price of the Pre-IPO Share Option shall, subject to adjustments, be HK\$1.88 per Share.

Pursuant to the Option Deed, CCBI Finance may subscribe for the shares in accordance with the following basis:

- (i) up to three per cent, of the issued Shares as at the Listing Date within the period from the expiry of the first six months from the Listing Date to the last day of the 24th month after the Listing Date (both days inclusive) (the "First Option Period");
- (ii) up to "A" per cent. of the issued Shares as at the Listing Date within the period from the first day of the 25th month after the Listing Date to the last day of the 36th month after the Listing Date (both days inclusive) (the "Second Option Period"); and
- (iii) up to "B" per cent. of the issued Shares as at the Listing Date within the period from the first day of the 37th month after the Listing Date to the last day of the 48th month after the Listing Date (both days inclusive),

where:

"A" is the result of 3 minus "X" provided that if "X" is less than 1, "X" is deemed to be 1, and "X" per cent, is the percentage represented by the total number of Shares issued upon the exercise of the Pre-IPO Share Option during the First Option Period divided by the total number of the Shares in issue on the Listing Date; and

"B" is the result of "A" minus "Y" provided that "B" shall not exceed 1, and "Y" per cent, is the percentage represented by the total number of Shares issued upon the exercise of the Pre-IPO Share Option during the Second Option Period divided by the total number of the Shares in issue on the Listing Date.

On 4 July 2006, CCBI Finance exercised the Pre-IPO Share Option in full at an exercise price of HK\$1.88 per Share, pursuant to which an aggregate of 24,000,000 Shares were allotted and issued to CCBI Finance on 12 July 2006.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period under review.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2006, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Company/Name of associated corporations	Name of directors	Capacity	Number and class of securities (Note 1)	Percentage shareholding in the same class of securities as at 30 June 2006
Company	WANG Yong	Interest of controlled corporations (Note 2)	520,000,000 ordinary shares (L) (Note 3)	64.71%
Xiwang Holdings Limited ("Xiwang Holdings")	WANG Yong	Beneficial owner	5,842 shares (L)	58.42%
Xiwang Investment Company Limited ("Xiwang Investment (BVI)")	WANG Yong	Interest of a controlled corporation (Note 2)	3 shares (L)	100%
Xiwang Holdings	LIU Heng Fang	Beneficial owner	266 shares (L)	2.66%
Xiwang Holdings	WANG Cheng Qing	Beneficial owner	230 shares (L)	2.30%
Xiwang Holdings	WANG Liang	Beneficial owner	230 shares (L)	2.30%
Xiwang Holdings	HAN Zhong	Beneficial owner	177 shares (L)	1.77%
Xiwang Holdings	LI Wei	Beneficial owner	89 shares (L)	0.89%
Xiwang Holdings	LIU Ji Qiang	Beneficial owner	89 shares (L)	0.89%

Notes:

- (1) The letter "L" represents the Director's interests in the shares.
- (2) Mr. WANG Yong holds 58.42% of the issued share capital of Xiwang Holdings which in turn holds 100% interests in Xiwang Investment (BVI).
- (3) These shares are registered in the name of Xiwang Investment (BVI). Mr. WANG Yong is deemed to be interested in all shares of the Company in which Xiwang Investment (BVI) is interested.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO

(a) Substantial shareholders of the Company

As at 30 June 2006, the following shareholders (other than the directors and chief executive of the Company whose interests and short positions in the shares and underlying shares of the Company are set out above) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of substantial shareholders	Capacity	Number of shares of the Company held (Note 1)	Approximate percentage of interest as at 30 June 2006
Xiwang Investment (BVI)	Beneficial owner	520,000,000 ordinary shares (L)	64.71%
Xiwang Holdings	Interest of a controlled corporation (Note 2)	520,000,000 ordinary shares (L)	64.71%
Zhang Shufang	Interest of spouse	520,000,000 ordinary shares (L)	64.71%

Notes:

(1) The letter "L" represents the entity's interests in the shares or the underlying shares.

(2) Xiwang Investment (BVI) is a wholly owned subsidiary of Xiwang Holdings.

(b) Other persons who are required to disclose their interests pursuant to Part XV of the SFO

Save as disclosed in the paragraph headed "Directors' Interests in shares, underlying shares and debentures of the Company and its associated corporations" and paragraph (a) above, as at 30 June 2006, no other person had interests or short positions in the shares and underlying shares of the Company which are required to be recorded in the register required to be kept by the Company under section 336 of the SFO.