NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Xiwang Sugar Holdings Company Limited (the "Company") and its subsidiaries (together 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 People's Republic of China (the "PRC"). Details of the principal subsidiaries of the Group are set out in Note 9 to the consolidated financial statements.

The company is a limited liabilities company incorporated in Bermuda on 21 February 2005. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

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 30 March 2007.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of presentation

The consolidated financial statements of Xiwang Sugar Holdings Company Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared 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 Group'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 4.

(a) *Amendments to published standards effective in 2006*

HKAS 19 (Amendment), Employee Benefits, is mandatory for the Group's accounting periods beginning on or after 1 January 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. Since the Group does not participate in any defined benefits retirement schemes, the amendments did not have any impact on the current year financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of presentation *(continued)*

(b) Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

- HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures, introduces new disclosures relating to financial instruments. The Group will apply HKFRS 7 from 1 January 2007, but is not expected to have any impact on the classification and valuation of the Group's financial instruments.

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements; and

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007.

(c) Interpretation to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the Group's operations:

- HK(IRFIC)-Int 7, Applying the Restatement Approach under IAS/HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). HK(IFRIC)-Int 7 provides guidance on how to apply requirements of IAS/HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional Currency, when the economy was not hyperinflationary in the prior period. As none of the group entities is operating in a hyperinflationary economy, HK(IFRIC)-Int 7 is not relevant to the Group's operations; and

- HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. HK(IFRIC)-Int 9 is not relevant to the Group's operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of presentation *(continued)*

(d) Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- HKAS 21 Amendment – New Investment in a Foreign Operation;
- HKAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 Amendment – The Fair Value Option;
- HKAS 39 and IFRS 4 Amendment – Financial Guarantee Contracts;
- HKFRS 6, Exploration for and Evaluation of Mineral Resources;
- HKFRS 1 Amendment – First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- HK(IFRIC)-Int 4, Determining whether an Arrangement contains a Lease;
- HK(IFRIC)-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

Subsidiaries are all entities (including special purpose 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.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Consolidation *(continued)*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. 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 the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.7). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

2.3 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.

2.4 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)*

2.4 Foreign currency translation *(continued)*

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

a. assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

b. income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

c. all resulting exchange differences are recognized as a separate component of equity.

2.5 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.6 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.

2.7 Impairment of assets

Assets that have an indefinite useful life or have not yet available for use 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). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 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.

2.9 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 the 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 original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within selling and marketing costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 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.

2.11 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.

2.12 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.13 Borrowings and borrowing costs

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.

2.14 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, the deferred income tax is not accounted for if it 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. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.15 Employee benefits

(a) 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 18% (2005: 20%) of the standard salary of those employees and have no further obligation for post-retirement benefits.

The Group contributes to a defined contribution retirement plan in Hong Kong which is available to all employees based in Hong Kong, the assets of which are held in separate trustee-administered funds. The retirement plan is funded by payments from the employees and the Group. The Group has no further payment obligations once the contributions have been paid.

The contributions are charged to the consolidated income statement of the Group as they become payable in accordance with the rules of the schemes/plan.

(b) Share-based compensation

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.16 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.16 Provisions *(continued)*

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.17 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.

2.18 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.

2.19 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.

2.20 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT

3.1 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.

A large portion of the proceeds from borrowings denominated in foreign currencies have been invested into subsidiaries in the PRC or exchanged to RMB in order to reduce the exposure arising from future fluctuations in the exchange rate of RMB, which is expected to be in a favourable trend to the Group. Nevertheless, certain amount of Hong Kong dollars ("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.

(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 and borrowings 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.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 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 16.

4 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 2006, a new starch plant constructed by Shandong Xiwang Bio-chem Technology Limited (“Xiwang Technology”) commenced its commercial production activities. However, the costs of the completed property, plant and equipment utilised in the production had not been finalised with the contractors/vendors. The amounts are required to be independently assessed by a third party valuer as well as to be jointly agreed with the constractors/vendors. Consequently, the directors of Xiwang Sugar have made their best estimate on the costs incurred based on the original and supplementary contract and quotation amounts agreed with the vendors and contractors as well as confirmation and advice provided by the vendors and contractors.

Should the final assessed and agreed values of the relevant property, plant and equipment differ from the costs that were initially measured and recognised, such differences will affect the cost of the property, plant and equipment and corresponding depreciation charges of the period in which such determination is made. As at 31 December 2006, the accrued construction cost of the Group was approximately RMB35,000,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION

Primary reporting format – business segments

The Group is organised on a nationwide basis in the PRC with three main business segments in 2005. In 2006, the Group reorganised its business into two main business segments:

(1) 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"); and

(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").

The turnover of the Group represents sales of goods.

Year ended 31 December 2005

	Corn-based biochemical products	Corn refined products	Unallocated	Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total gross segment sales	751,106	705,974	–	1,457,080
Intra-segment sales	–	(419,369)	–	(419,369)
Sales	751,106	286,605	–	1,037,711
Operating profit	175,854	58,813	(6,405)	228,262
Finance costs				(18,449)
Profit before income tax				209,813
Income tax expense *(Note 21)*				–
Profit for the year				209,813
Total assets	639,433	212,418	535,694	1,387,545
Total liabilities	177,145	22,893	346,545	546,583
Depreciation *(Note 6)*	17,080	6,458	–	23,538
Amortisation *(Note 7)*	184	–	–	184
Capital expenditures *(Note 6, 7, 8)*	306,825	2,239	–	309,064

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION *(continued)*

Year ended 31 December 2006

	Corn-based biochemical products *RMB'000*	Corn refined products *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Total gross segment sales	940,828	909,557	–	1,850,385
Intra-segment sales	–	(465,440)	–	(465,440)
Sales	940,828	444,117	–	1,384,945
Operating profit	228,625	86,887	927	316,439
Finance costs				(26,214)
Profit before income tax				290,225
Income tax expense *(Note 21)*				–
Profit for the year				290,225
Total assets	1,068,549	452,161	674,780	2,195,490
Total liabilities	93,018	54,642	876,429	1,024,089
Depreciation *(Note 6)*	26,962	6,330	–	33,292
Amortisation *(Note 7)*	2,095	263	–	2,358
Capital expenditures *(Note 6, 7, 8)*	464,458	220,687	–	685,145

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 and receivables. Unallocated assets comprise cash and cash equivalents.

Segment liabilities comprise operating liabilities. Unallocated liabilities comprise items such as taxation and borrowings.

Capital expenditures comprise additions to property, plant and equipment, leasehold land and construction in progress (Notes 6, 7, 8).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION *(continued)*

Secondary reporting format – geographical segments

The Group's two business segments operate in two main geographical areas.

The Group's revenue is mainly generated within PRC. However, the Group's export sales accounted for more than 10% of its total sales in 2006.

Revenue	2006 RMB'000	2005 RMB'000
PRC	1,223,365	972,543
Other countries/places	161,580	65,168
	1,384,945	1,037,711

Revenue is allocated based on the country in which the customer is located.

Total assets	2006 RMB'000	2005 RMB'000
PRC	2,155,158	1,353,070
Other countries/places	24,281	–
	2,179,439	1,353,070
Unallocated assets	16,051	34,475
	2,195,490	1,387,545

Total assets are allocated based on where the assets are located.

Capital expenditure	2006 RMB'000	2005 RMB'000
PRC	684,955	309,064
Other countries/places	190	–
	685,145	309,064

Capital expenditure is allocated based on where the assets are located.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant & machinery	Equipment and motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
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
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 8)*	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 2006				
Cost	191,371	713,483	1,042	905,896
Accumulated depreciation	(8,578)	(75,328)	(420)	(84,326)
Net book amount	182,793	638,155	622	821,570
Year ended 31 December 2006				
Opening net book amount	95,915	529,670	731	626,316
Additions	1,529	11,807	85	13,421
Transfers from construction in progress *(Note 8)*	89,944	125,181	–	215,125
Depreciation charge	(4,595)	(28,503)	(194)	(33,292)
Closing net book amount	182,793	638,155	622	821,570

As at 31 December 2006, certain property of the Group with a carrying value of approximately RMB43,932,000 (2005: RMB45,661,000) and certain plant and machinery with a carrying value of approximately RMB291,116,000 (2005: RMB124,950,000) had been pledged for bank borrowings of the Group.

Depreciation charge has been recognised as a component of cost of goods sold and ending balance of inventories.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 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
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
Year ended 31 December 2006	
Opening net book amount	9,037
Additions	160,462
Disposals	–
Amortisation charge	(2,358)
Closing net book amount	167,141
At 31 December 2006	
Cost	169,876
Accumulated amortisation	(2,735)
Net book amount	167,141

As at 31 December 2006, certain leasehold land of the Group with a carrying value of approximately RMB67,964,942 (2005: RMB9,036,605) had been pledged for bank borrowings of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 CONSTRUCTION IN PROGRESS

	2006	2005
	RMB'000	*RMB'000*
Beginning of the year	**611**	92,597
Additions	**511,262**	211,025
Transferred to property, plant and equipment *(Note 6)*	**(215,125)**	(303,011)
End of the year	**296,748**	611

Construction in progress ("CIP") mainly comprises construction costs incurred for the construction of a new starch and glucose production plant. Interest costs incurred from the related borrowings were capitalised as part of the construction costs of CIP amounting to approximately RMB4,261,000 for the year ended 31 December 2006 (2005: RMB2,821,000). The capitalisation rate was 6.59% (2005: 7.02%) per annum.

9 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 International Limited ("Master Team") amounting to US$1 (equivalent to approximately RMB8).

The following is a list of the principal subsidiaries of the Group as at 31 December 2006, all of which are limited liability companies:

Name	**Place of incorporation**	**Issued share and fully paid-up capitaland**	**Principal activities and place of operations**	**Interest held**
Held directly:				
Master Team International Limited	British Virgin Islands (the "BVI")	US$1	Investment holding, the BVI	100%
Held indirectly:				
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	RMB355,000,000	Manufacture and sales of crystallised glucose products, the PRC	100%
Xiwang Sugar (Hong Kong) Limited	Hong Kong	HKD1,000	Export trading of glucose and other products, Hong Kong	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 INVESTMENT IN AND LOANS TO A SUBSIDIARY *(continued)*

(b) Amount due from a subsidiary

The amount represented the intercompany loans due from Master Team to the Company.

		2006	2005
		RMB'000	*RMB'000*
Amount due from Master Team			
– quasi-equity	*(i)*	**697,169**	627,955
– advance	*(ii)*	**452,277**	–
		1,149,446	627,955
Less non-current portion		**(1,053,366)**	627,955
Current portion – advance	*(ii)*	**96,080**	–

(i) The amount is neither planned nor likely to be settled in the foreseeable future. Accordingly, the directors of the Company consider that amount as quasi-equity in nature.

(ii) The whole advance balance is non-interest bearing and unsecured. The non-current portion amounting to RMB356,197,000 is due for repayment in 2009.

10 INVENTORIES

	2006	2005
	RMB'000	*RMB'000*
Cost		
Raw materials	**92,433**	54,206
Work in progress	**17,605**	12,324
Finished goods	**25,834**	11,681
	135,872	78,211

The cost of inventories recognised as expenses and included in cost of goods sold amounted to approximately RMB1,019,899,000 for the year ended 31 December 2006 (2005: RMB776,474,000).

As at 31 December 2006, there were no inventories stated at net realisable value (2005: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 TRADE AND OTHER RECEIVABLES

	2006 RMB'000	2005 RMB'000
Trade receivables	85,250	42,899
Amount due from CCB International Capital Limited	–	32,337
Other receivables	21,421	7,662
	106,671	82,898

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

Ageing analysis of the gross trade receivables is as follows:

	2006 RMB'000	2005 RMB'000
0 -30 days	65,186	26,759
31-60 days	17,563	9,780
61-90 days	218	2,341
Over 90 days	2,283	4,019
	85,250	42,899

12 CASH AND CASH EQUIVALENTS

	2006 RMB'000	2005 RMB'000
Cash at bank and in hand	662,609	502,043

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 SHARE CAPITAL AND SHARE PREMIUM

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

		Number of shares (thousands)	Share capital *RMB'000*	Share premium *RMB'000*	Total *RMB'000*
At 1 January 2005		**–**	**–**	**(1,206)**	**(1,206)**
Shares issued upon incorporation and before IPO	*(a)*	1,000	106	–	106
Capitalisation issue	*(b)*	559,000	58,237	–	58,237
Shares issued upon IPO net of costs	*(c)*	243,552	25,365	412,058	437,423
Pre-IPO share options granted	*(d)*	–	–	5,706	5,706
At 31 December 2005		**803,552**	**83,708**	**416,558**	**500,266**
Proceeds from Pre-IPO share option exercised	*(d)*	24,000	2,467	43,912	46,379
Employee share option scheme-value of service provided	*(d)*	–	–	835	835
At 31 December 2006		**827,552**	**86,175**	**461,305**	**547,480**

The total authorised number of ordinary shares are 200 million shares (2005: 200 million shares) with a par value of HK$0.1 per share (2005: HK$0.1 per share). All issued shares are fully paid.

(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 Company Limited ("Xiwang Investment") at par for cash, in the amount of HK$100,000 (equivalent to approximately RMB106,000) in order to provide initial 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 due from Master Team.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 SHARE CAPITAL AND SHARE PREMIUM *(continued)*

(b) According to written resolutions of the sole shareholders 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 ordinary shares of par value of HK$0.1 each. In addition, the Directors of the Company were authorised to capitalise an amount of HK$55,900,000 from the capital reserves of the Company for the allotment of 558,999,998 ordinary shares to Xiwang Investment at par value as paid up in full.

(c) As a result of the initial public offering of shares of the Company consummated on 9 December 2005, a total of 240,000,000 ordinary 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.

(d) 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 a lender (the "Grantee") at an exercise price of HK$1.88 per share. 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 could not be exercised until 6 June 2006. On 12 July 2006, such granted share option had been fully exercised by the Grantee at the pre-determined exercise price.

(ii) Share option scheme

A share option scheme was 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 made to enable the Group to grant options to select participants as incentives or rewards for their contribution to the Group. According to the Share Option Scheme, the Company can issue options to participants. 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 schemes of the Company must not exceed 80,000,000 shares in aggregate. 4,000,000 share options were granted to employees of the Group in January 2006 at an exercise price of HK$2.50 per share under the Share Option Scheme for the service of the employees provided/to be provided to the Company for the years 2006 and 2007. Not more than 50% of the granted options could be exercised after 31 December 2006 while the remaining can be exercised after 31 December 2007. Upon the approval of the financial statements, 100,000 share options had been exercised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 SHARE CAPITAL AND SHARE PREMIUM *(continued)*

(d) Share options *(continued)*

Movements in the number of share options (including Pre-IPO share option) outstanding and their related weighted average exercise prices are as follows:

	2006		2005	
	Average exercise price in HK dollar per share	**Options (thousands)**	Average exercise price in HK dollar per share	Options (thousands)
At 1 January	**1.88**	**24,000**	–	–
Granted	**2.50**	**4,000**	1.88	24,000
Exercised	**1.88**	**(24,000)**	–	–
At 31 December	**2.50**	**4,000**	1.88	24,000

The Pre-IPO Share Options exercised in 2006 resulted in 24,000,000 ordinary shares (2005: Nil) issued at HK$1.88 each. The weighted average share price of the Company at the time these options were exercised was HK$4.72 per share.

Share options outstanding as of the end of the year have the following expiry date and exercise price.

Expiry date	**Exercise price HK$ per share**	**Number of options (in thousands)**
31 December 2015	2.50	4,000

The fair value of options granted during the year ended 31 December 2006 determined using the Binomial Option Pricing Model (2005: Dividend Adjusted Black Scholes Option Pricing Model) was approximately RMB1,670,000 (2005: RMB5,706,000). The significant inputs into the model were share price of HK$2.50 (2005: HK$1.88); at the grant date, the exercise price shown above; volatility of 30% (2005: 25.22% to 28.28%); dividend yield of 0.36% (2005: 5.11%); an expected average option life of 540 days (2005: 900 days); and annual risk-free interest rate of 3.766% (2005: 2.372%). The volatility measured at the standard deviation of continuously compounded share returns is based on the Company's 180-day historical share price before 31 July 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 OTHER RESERVES

Group

		Capital reserve	Statutory reserves	Total
		RMB'000	*RMB'000*	*RMB'000*
Balance at 1 January 2005		**173,581**	**7,110**	**180,691**
Capitalisation issue *(Note 13(b))*		(58,237)	–	(58,237)
Effects of group reorganisation	*(a)*	1,679	–	1,679
Balance at 31 December 2005		**117,023**	**7,110**	**124,133**
Appropriation to reserves	*(b)*	–	75,832	75,832
Balance at 31 December 2006		**117,023**	**82,942**	**199,965**

Company

		Capital reserve
		RMB'000
Balance at 1 January 2005		**–**
Share capital subscriptions made by shareholders	(a)	209,679
Transfer to share capital pursuant to the capitalisation issue *(Note 13(b))*		(58,237)
Balance at 31 December 2005 and 2006		**151,442**

(a) The capital reserve of RMB209,679,000 arising from the issuance of the one ordinary share by the Company to Xiwang Investment (mentioned in Note 13(a)) was offset by RMB208,000,000 paid by Master Team for acquiring the entire equity interests of its subsidiaries in 2005 pursuant to the group reorganisation carried out in 2005.

(b) In accordance with the relevant government regulations in the PRC and the provisions of the articles of association of Xiwang Sugar, it is 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 years ended 31 December 2005 and 2006. These reserves are required to be retained in Xiwang Sugar for designated usages.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 TRADE AND OTHER PAYABLES

	2006	2005
	RMB'000	*RMB'000*
Trade payables	**17,169**	39,637
Other payables	**106,479**	64,399
Other taxes payables	**8,374**	3,348
Deposits and advance from customers	**13,753**	17,473
	145,775	124,857

The Group usually settles the amounts due to various vendors within a period of 30 to 90 days.

Approximately RMB89,738,000 of other payables as at 31 December 2006 represents payables to vendors of property, plant and equipment in relation to the construction of the new starch and glucose production plants and the improvement of lysine plant of the Group.

Ageing analysis of the trade payables is as follows:

	2006	2005
	RMB'000	*RMB'000*
0-30 days	**15,146**	33,278
31-60 days	**1,023**	1,910
61-90 days	**350**	3,105
Over 90 days	**650**	1,344
	17,169	39,637

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 BORROWINGS

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

		Group		Company	
		2006	2005	**2006**	2005
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Non-current					
Bank borrowings-secured	*(a)*	**243,114**	234,680	**–**	–
Bank borrowings-unsecured	*(b)*	**421,200**	–	**421,200**	–
		664,314	234,680	**421,200**	–
Current					
Bank borrowings-secured					
– Short term bank borrowings	*(a)*	**90,000**	110,000	**–**	–
– Current portion of long term bank borrowings	*(a)*	**20,000**	–	**–**	–
Bank borrowings-unsecured					
– Short term bank borrowings		**50,000**	–	**50,000**	–
– Current portion of long term bank borrowings	*(b)*	**46,800**	–	**46,800**	–
		206,800	110,000	**96,800**	–
		871,114	344,680	**518,000**	–

(a) The above long-term and short-term bank borrowings are secured by certain property and plant and machinery (Note 6) and leasehold land (Note 7) of the Group.

(b) The amount represents the amount fully drawn down from a syndicated loan facility (the "Loan") arranged by Oversee-Chinese Banking Corporation Limited ("OCBC") with its Hong Kong Branch as the agent in the amount of USD60,000,000 (equivalent to RMB468,000,000). The Loan is guaranteed by Master Team and interest is levied at the London Interbank offered rate ("LIBOR") plus 1%. The Loan is repayable by semi-annual instalments within 3 years starting from 21 November 2006. Subject to the agreement of the lenders of the Loan, the Company may further apply to extend the repayment period to 5 years from 21 November 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 BORROWINGS *(continued)*

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

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**206,800**	110,000	**96,800**	–
In the second year	**123,600**	100,000	**93,600**	–
In the third to fifth year	**540,714**	134,680	**327,600**	–
	871,114	344,680	**518,000**	–

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

	Group		Company	
	2006	2005	**2006**	2005
Bank borrowings	**6.640%**	6.732%	**6.375%**	–

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

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Carrying amounts	**664,314**	234,680	**421,200**	–
Fair values	**669,320**	240,251	**421,931**	–

The fair values are determined based on cash flow discounted using a rate based on the annual borrowing rate of 6.556% for 2006 (2005: 5.826%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 BORROWINGS *(continued)*

The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**353,114**	344,680	**–**	–
USD	**468,000**	–	**468,000**	–
HKD	**50,000**	–	**50,000**	–
	871,114	344,680	**518,000**	–

The Group had the following undrawn available borrowing facilities:

	2006	2005
	RMB'000	*RMB'000*
Floating rate		
Expired within one year	**130,000**	40,000

17 EXPENSES BY NATURE

	2006	2005
	RMB'000	*RMB'000*
Depreciation and amortisation	**35,650**	23,722
Employee benefit expenses *(Note 19)*	**26,098**	21,981
Changes in inventory levels of finished goods and work in progress	**(19,434)**	(5,331)
Raw materials and consumables used	**834,083**	648,575
Transportation expenses	**17,537**	13,901
Utility expenses	**126,177**	89,148
Auditor's remuneration	**2,662**	1,568
Other expenses	**55,889**	19,939
Total cost of goods sold, selling and marketing costs and administrative expenses	**1,078,662**	813,503
Representing:		
Cost of goods sold	**1,019,899**	776,474
Selling and marketing costs	**35,775**	28,697
Administrative expenses	**22,988**	8,332
	1,078,662	813,503

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 OTHER GAINS – NET

	2006 *RMB'000*	2005 *RMB'000*
Interest income	**4,844**	1,192
Subsidy income	**2,781**	–
Others	**2,531**	2,862
	10,156	4,054

19 EMPLOYEE BENEFIT EXPENSES

	2006 *RMB'000*	2005 *RMB'000*
Wages, salaries and other staff benefits	**24,062**	20,980
Pension costs – defined contribution plans	**1,201**	1,001
Share option granted to employees	**835**	–
	26,098	21,981

(a) Director's emoluments

The remuneration of each Director of the Company for the year ended 31 December 2006 is set out below:

Name of Director	Fees *RMB'000*	Salary *RMB'000*	Discretionary bonuses *RMB'000*	Inducement fees *RMB'000*	Other benefits *RMB'000*	Employer's contribution to pension scheme *RMB'000*	Compensation for loss of office as director *RMB'000*	Total *RMB'000*
Mr. Wang Yong	–	300	–	–	–	–	–	300
Mr. Wang Liang	–	250	–	–	–	2	–	252
Mr. Wang Chengqing	–	150	–	–	–	–	–	150
Mr. Liu Hengfang	–	150	–	–	–	–	–	150
Mr. Han Zhong	–	150	–	–	–	–	–	150
Ms. Li Wei	–	200	–	–	–	2	–	202
Mr. Liu Jiqiang	–	150	–	–	–	2	–	152
Mr. Shi Weichen	–	100	–	–	–	–	–	100
Mr. Yu Xiaolei	–	100	–	–	–	–	–	100
Mr. Wong Kaiming	–	150	–	–	–	–	–	150

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 EMPLOYEE BENEFIT EXPENSES *(continued)*

(a) Director's emoluments *(continued)*

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 Chengqing	–	25	–	–	–	–	–	25
Mr. Liu Hengfang	–	25	–	–	–	2	–	27
Mr. Han Zhong	–	47	–	–	–	–	–	47
Ms. Li Wei	–	55	–	–	–	–	–	55
Mr. Liu Jiqiang	–	56	–	–	–	–	–	56
Mr. Shi Weichen	–	17	–	–	–	–	–	17
Mr. Yu Xiaolei	–	17	–	–	–	–	–	17
Mr. Wong Kaiming	–	26	–	–	–	–	–	26

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.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group in 2006 include three directors (2005: two) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two individuals in 2006 (2005: three) are as follows:

	2006	2005
	RMB'000	*RMB'000*
Basic salaries, share options and benefits in kind	**1,639**	518
Pensions	**44**	6
	1,683	524

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 EMPLOYEE BENEFIT EXPENSES *(continued)*

(b) Five highest paid individuals *(continued)*

The emoluments fell within the following band:

	Number of individuals	
	2006	2005
Emolument bands		
RMB nil-RMB1,000,000 (HK$ nil-HK$1,000,000)	**1**	3
RMB1,000,000-RMB2,000,000 (HK$1,000,000-HK$2,000,000)	**1**	–
	2	3

20 FINANCE COSTS

	2006	2005
	RMB'000	*RMB'000*
Interest expenses – bank borrowings	**30,820**	20,969
Less: amount capitalised as construction in progress *(Note 8)*	**(4,261)**	(2,821)
	26,559	18,148
Net foreign exchange translation (gain)/losses	**(345)**	301
	26,214	18,449

21 INCOME TAX EXPENSE

(a) 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.

Xiwang Sugar and Xiwang Technology were approved to be a production enterprise with foreign investment by the relevant government authority in the PRC. Accordingly, the applicable enterprise income tax ("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 full exemption from EIT for two years and followed by three years of a 50% tax reduction, commencing from the first profit-making year, after netting off losses carried forward ("EIT Tax Holiday"). The EIT Tax Holidays of Xiwang Sugar commenced in 2005 and accordingly, no provision for EIT had been made by Xiwang Sugar for the year ended 31 December 2006 (2005: Nil). Xiwang Technology started its business operations towards the end of 2006 and it reported losses during the year, accordingly, no EIT provision had been made for the year ended 31 December 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 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:

	2006 **RMB'000**	2005 RMB'000
Profit before tax	**290,225**	209,813
Tax calculated at tax rate of 33% applicable to profits in PRC	**95,774**	69,238
Utilisation of previously unrecognised deferred tax assets	**(35)**	(144)
Expenses not deductible for tax purposes	**(190)**	–
Effect of tax holidays *(Note a)*	**(95,549)**	(69,094)
Tax charge	**–**	–

(c) As at 31 December 2006, 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 (2005: Nil).

22 DIVIDEND

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 and paid.

The dividend paid in 2006 in respect of the year ended 31 December 2005 was RMB7,000,000 (RMB0.0087 per share). A dividend in respect of the year ended 31 December 2006 of RMB0.14 per share, amounting to a total dividend of approximately RMB115,871,000, is to be proposed at the Annual General Meeting on 18 May 2007. These financial statements do not reflect this dividend payable.

	2006 **RMB'000**	2005 RMB'000
Special dividend	**–**	80,000
Interim dividend paid	**–**	–
Proposed final dividend of RMB0.14 (2005: RMB0.0087) per ordinary share	**115,871**	7,000
	115,871	87,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 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.

	2006	2005
Profit attributable to equity holders of the Company (RMB'000)	**290,225**	209,813
Weighted average number of ordinary shares in issue (thousands)	**814,927**	575,152
Basic earnings per share (RMB per share)	**0.356**	0.365

(b) Dilluted

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.

	2006	2005
Profit attributable to equity holders of the Company (RMB'000)	**290,225**	209,813
Weighted average number of ordinary shares in issue (thousands)	**814,927**	575,152
Adjustments for share options (thousands)	**8,601**	38
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**823,528**	575,190
Diluted earnings per share (RMB per share)	**0.352**	0.365

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 CASH GENERATED FROM OPERATIONS

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

	2006	2005
	RMB'000	*RMB'000*
Profit for the year	**290,225**	209,813
Adjustment for:		
– Income tax expenses	**–**	–
– Depreciation *(Note 6)*	**33,292**	23,538
– Amortisation *(Note 7)*	**2,358**	184
– Share based payments	**835**	–
– Interest income	**(4,844)**	(1,192)
– Interest expenses	**26,559**	18,148
Changes in working capital:		
– Inventories	**(57,661)**	(35,908)
– Trade and other receivables	**(23,773)**	(20,533)
– Amounts due from related companies	**23,217**	6,301
– Trade and other payables	**(15,671)**	59,574
– Amounts due to related companies	**(4,135)**	(932)
Cash generated from operations	**270,402**	258,993

25 COMMITMENTS

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

	2006	2005
	RMB'000	*RMB'000*
Property, plant and equipment		
– Contracted but not provided for	**145,460**	–
– Authorised but not contracted for	**–**	336,723
	145,460	336,723

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 RELATED PARTY TRANSACTIONS

The Group is controlled by the Xiwang Investment (incorporated in BVI), which owns about 63% of the Company's shares. The remaining about 37% of the shares are held by public. The ultimate holding company of the Group is Xiwang Holdings Limited (incorporated in BVI). The directors consider Mr. Wang Yong to be the ultimate controlling party of the Group.

During the period ended 31 December 2006, 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 controlled by the shareholders of Xiwang Holdings Limited
Shandong Starch (Note)	山東西王澱粉有限公司	Subsidiary of Xiwang Group
Shandong Xiwang Savola Oil and Fats 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
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 shareholders of Xiwang Holdings Limited was disposed. Accordingly, the related party transactions made with Shandong Starch disclosed below were up to May 2005.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 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 2006:

(a) Sales of goods

	2006 *RMB'000*	2005 *RMB'000*
Sales of corn germs		
– Xiwang Savola Oil	**78,820**	74,527
Sales of glucose syrup		
– Xiwang Leavening	**3,139**	3,100
Sales of corn gluten meal		
– Xiwang Import & Export	**–**	5,722
Sales of starch paste		
– Shandong Starch	**–**	5,046
	81,959	88,395

The pricing of these transactions was determined based on mutual negotiation and agreement reached between the Group and the related parties on each individual transaction.

(b) Purchases of goods and services

	2006 *RMB'000*	2005 *RMB'000*
Purchase of corn germ dregs		
– Xiwang Savola Oil	**5,701**	1,816
Purchase of packaging materials		
– Biyundong Alcohol	**27,770**	19,311
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
	33,471	36,357

The pricing of these transactions was determined based on mutual negotiation and agreement reached between the Group and the related parties on each individual transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 RELATED PARTY TRANSACTIONS *(continued)*

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

	2006	2005
	RMB'000	*RMB'000*
Supply of electricity and steam		
– Shandong Starch	**–**	20,068
– Xiwang Steel	**–**	548
Exportation services		
– Xiwang Import & Export	**–**	1,359
Construction of property, plant and equipment		
– Xiwang Steel Structure	**6,216**	4,197
– Xiwang Construction	**12,434**	2,276
Sewage services		
– Xiwang Group	**732**	252
– Shandong Starch	**–**	269

Xiwang Steel Structure and Xiwang Construction provided services to the Group for construction of new production plants at prices and terms determined based on mutual agreement between the parties.

(c) Key management compensation

	2006	2005
	RMB'000	*RMB'000*
Basic salaries and benefits in kind	**2,813**	1,281
Termination benefits	**–**	–
Pensions	**30**	16
Other long-term benefits	**–**	–
Share-based payments	**835**	–
	3,678	1,297

The Group's key management include directors (executive and non-executive) and senior management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 RELATED PARTY TRANSACTIONS *(continued)*

(d) Balances due from/to related parties

	2006 RMB'000	2005 RMB'000
Receivables (iii)		
Amounts outstanding, end of the years		
– Xiwang Savola Oil	**4,795**	26,789
– Biyundong Alcohol	**84**	–
– Xiwang Investment	**–**	871
– Xiwang Leavening	**–**	436
	4,879	28,096
Maximum amounts outstanding during the year		
– Xiwang Group (ii)	**170,475**	234,567
– Xiwang Savola Oil	**47,846**	38,989
– Xiwang Import & Export	**3**	5,774
– Xiwang Steel Structure	**716**	991
– Xiwang Cereal	**–**	970
– Xiwang Construction	**7**	98
– Xiwang Levening	**742**	–
– Biyundong Alcohol	**1,716**	–
Payables (iii)		
– Xiwang Steel Structure	**2,152**	798
– Xiwang Group	**191**	71,329
– Xiwang Construction	**4,847**	–
– Biyundong Alcohol	**–**	1,905
– Wang Yong	**10**	–
	7,200	74,032

(i) The related parties are all under the control of Mr. Wang Yong.

(ii) The balance represents advance (the "Advance") made by Xiwang Sugar to Xiwang Group for placing deposits with corn kernels suppliers in order to procure the corn kernel supplies on behalf of Xiwang Sugar. Xiwang Group is not entitled to any commission/handling fees and other kinds of consideration for making such arrangements.

(iii) All the current accounts maintained with related parties aged within one year as at 31 December 2006 (2005 – same). They are interest-free, unsecured and repayable upon demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27 DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company had no reserves available for distribution to the equity holders of the Company (2005: Nil). The accumulated profits are retained by subsidiaries and had not been distributed to the Company as at 31 December 2006.

28 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current year presentation.