XIWANG SUGAR HOLDINGS COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 2088

Leading through innovation

2007 Interim Report

CONTENTS

Corporate Profile

Xiwang Sugar Holdings Company Limited (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 the China Fermentation Industry Association, the Group ranked the first amongst the 20 largest enterprises in the PRC producing starch based glucose in 2006.

The Group's products can broadly be divided into corn-based biochemical products and corn refined products. Corn-based biochemical products include crystallised glucose, glucose syrup, glutamic acids and lysine products. The Group ceased the production of lysine products in late 2006. All the production facilities are used in producing glutamic acids. Corn refined products include corn gluten meal, corn germ, animal feed, starch paste and corn slurry. The Group's products are widely used in the food and beverage, pharmaceutical, fermentation and chemical industries.

The Group's corn-based biochemical products and corn refined products are marketed and sold to customers in approximately 25 provinces and autonomous regions in the PRC and exported to approximately 26 overseas regions/countries which include Korea, Japan, the Philippines, Malaysia, Vietnam, Pakistan, Indonesia, Australia, Belgium, Germany, Turkey, Holland, the Netherlands and Chili.

The Group's production facilities are located in Zouping County of Shandong Province, the PRC. 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 the 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, and passed the review of Environmental Protection Administration of China in July 2007. In July 2007, the starch based glucose (including crystallized glucose) under the brand name "Xiwang" passed the review by China Promotion Committee for Top Brand Strategy and was rated and announced as "China Top Brand".

The Group keeps advancing the production technology and expanding production capacity. The Group's glucose production capacity has been expanded to 800,000 tonnes per annum, and full scale of production capacity will be attained in the third quarter this year. A new product, fructose, with high market potential, is under the 10,000-tonne output medium-scale trial production ("medium-scale trial production") with satisfactory progress.

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. SHEN Chi
Mr. WONG Kai Ming

AUDIT COMMITTEE

Mr. WONG Kai Ming, *Chairman*
Mr. SHI Wei Chen
Mr. SHEN Chi

COMPANY SECRETARY

Miss. LAM Wai Lin, *FCCA, CPA*

AUTHORISED REPRESENTATIVES

Mr. WANG Yong
Ms. LAM Wai Lin
Mr. SUN Xin Hu *(Alternate to Mr. WANG Yong and Ms. LAM Wai Lin)*

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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QUALIFIED ACCOUNTANT

Ms. LAM Wai Lin, *FCCA, CPA*

AUDITORS

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Corporate Information

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Condensed Consolidated Income Statement

The board of directors (the "Directors" or the "Board") of the Company is pleased to announce the unaudited condensed consolidated results of the Group prepared under the Hong Kong Financial Reporting Standards for the six months ended 30 June 2007, together with the comparative figures, as follows:

		Unaudited Six months ended 30 June	
		2007	2006
	Note	***RMB'000***	*RMB'000*
Sales	*2*	**879,028**	687,748
Cost of goods sold	3	**(692,712)**	(495,846)
Gross profit		**186,316**	191,902
Other gains – net	*4*	**19,132**	2,339
Selling and marketing costs		**(15,069)**	(17,804)
Administrative expenses		**(16,004)**	(6,423)
Operating profit	*3*	**174,375**	170,014
Finance costs	*5*	**(15,989)**	(11,162)
Profit before income tax		**158,386**	158,852
Income tax expense	*6*	**(6,518)**	–
Profit attributable to equity holders of the Company		**151,868**	158,852
Earnings per share for profit attributable to equity holders of the Company during the period (RMB per share)			
– basic	*7*	**0.1834**	0.1977
– diluted	*7*	**0.1831**	0.1941
Interim dividend (RMB per share)	*8*	**–**	–

The notes on pages 9 to 26 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Balance Sheet

	Note	**30 June 2007 Unaudited *RMB'000***	31 December 2006 Audited *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	*9*	**1,267,896**	821,570
Leasehold land	*9*	**165,419**	167,141
Construction in progress	*9*	**53,974**	296,748
		1,487,289	1,285,459
Current assets			
Inventories	*10*	**262,243**	135,872
Trade and other receivables	*11*	**280,181**	106,671
Amounts due from related companies	*16(c)*	**19,534**	4,879
Cash and cash equivalents		**238,605**	662,609
		800,563	910,031
Total assets		**2,287,852**	2,195,490
EQUITY			
Attributable to equity holders of the Company			
Share capital	*12*	**86,372**	86,175
Share premium	*12*	**468,307**	461,305
Capital reserve		**117,023**	117,023
Statutory reserves		**82,942**	82,942
Retained earnings			
– Proposed final dividend		**–**	115,871
– Others		**459,953**	308,085
Total equity		**1,214,597**	1,171,401
LIABILITIES			
Non-current liabilities			
Borrowings	*13*	**365,520**	664,314
Current liabilities			
Trade and other payables	*14*	**256,708**	145,775
Amounts due to related companies	*16(c)*	**7,125**	7,200
Current income tax liabilities		**4,908**	–
Borrowings	*13*	**438,994**	206,800
		707,735	359,775
Total liabilities		**1,073,255**	1,024,089
Total equity and liabilities		**2,287,852**	2,195,490
Net current assets		**92,828**	550,256
Total assets less current liabilities		**1,580,117**	1,835,715

The notes on pages 9 to 26 are an integral part of these condensed consolidated financial statements.

WANG Yong
Director

WANG Liang
Director

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2007

		Unaudited					
		Attributable to equity holders of the Company					
		Share Capital	**Share Premium**	**Capital Reserve**	**Statutory Reserves**	**Retained Earnings**	**Total Equity**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2006		83,708	416,558	117,023	7,110	216,563	840,962
Profit for the period		–	–	–	–	159,193	159,193
Share options granted		–	341	–	–	(341)	–
Final dividend for 2005		–	–	–	–	(7,000)	(7,000)
Balance at 30 June 2006		83,708	416,899	117,023	7,110	368,415	993,155
Balance at 1 January 2007		86,175	461,305	117,023	82,942	423,956	1,171,401
Profit for the period		**–**	**–**	**–**	**–**	**151,868**	**151,868**
Proceeds from share options exercised	*12*	**197**	**4,728**	**–**	**–**	**–**	**4,925**
Share options granted	*12*	**–**	**2,274**	**–**	**–**	**–**	**2,274**
Final dividend for 2006		**–**	**–**	**–**	**–**	**(115,871)**	**(115,871)**
Balance at 30 June 2007		**86,372**	**468,307**	**117,023**	**82,942**	**459,953**	**1,214,597**

The notes on pages 9 to 26 are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Cash Flow Statement

	Unaudited Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Net cash (outflow)/inflow from operating activities	**(17,912)**	184,234
Net cash outflow from investing activities	**(228,472)**	(281,604)
Net cash outflow before financing activities	**(246,384)**	(97,370)
Net cash (outflow)/inflow from financing activities	**(177,620)**	34,456
Net decrease in cash and cash equivalents	**(424,004)**	(62,914)
Cash and cash equivalents at beginning of the period	**662,609**	502,043
Cash and cash equivalents at end of the period	**238,605**	439,129

The notes on pages 9 to 26 are an integral part of these condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

1 GENERAL INFORMATION AND BASIS OF PRESENTATION

1.1 General information

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

The Company and its subsidiaries (the "Group") are principally engaged in the manufacture, distribution and sale of crystallised glucose, glucose syrup, glutamic acids, lysine, corn germ, corn gluten meal and animal feeds within and outside of the People's Republic of China (the "PRC"). The Group ceased production of lysine in late 2006 and uses the related production facilities for producing glutamic acids.

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 unaudited condensed consolidated financial statements are presented in thousands of units of Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 30 August 2007.

1.2 Basis of preparation and principal accounting policies

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and Appendix 16 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

The accounting policies and method of computation used in the preparation of these condensed consolidated interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2006.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Group's audited 2006 annual financial statements.

In the current interim period, HKICPA has issued a number of new standards, amendments to standards and interpretations that are effective for accounting periods beginning on or after 1 January 2007. The Group has carried out an assessment of these standards, amendments and interpretations and considered that they have no significant impact on these unaudited condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Financial Statements

The following new standard, amendment to standard and interpretations are mandatory for financial year ending 31 December 2007. Unless otherwise specified, they are not relevant to the Group's operations or have no material impact on the financial statements of the Group:

- HK(IFRIC)-Int 7, "Applying the Restatement Approach under HKAS 29", effective for annual periods beginning on or after 1 March 2006.

- HK(IFRIC)-Int 8, "Scope of HKFRS 2", effective for annual periods beginning on or after 1 May 2006.

- HK(IFRIC)-Int 9, "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1 June 2006.

- HK(IFRIC)-Int 10, "Interim Financial Reporting and Impairment", effective for annual periods beginning on or after 1 November 2006. This interpretation explains that management should not reverse an impairment loss recognised in a previous interim period in respect of goodwill or investment in either an equity instrument or a financial asset carried at cost. This interpretation is applicable to the Group but there is no material impact on this interim financial information of the Group.

- HKFRS 7, "Financial instruments: Disclosures" and Amendments to HKAS 1 "Capital Disclosures", effective for annual periods beginning on or after 1 January 2007. The main additional disclosures is the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group applies HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007, but they have no immaterial impact on this interim financial information of the Group.

The following new/revised standards and interpretations to existing standards have been issued but are not effective for 2007 and have not been early adopted:

- HK(IFRIC)-Int 11, "HKFRS 2 – Group and Treasury Share Transactions", effective for annual periods beginning on or after 1 March 2007. Management do not expect the interpretation to be relevant for the Group.

- HK(IFRIC)-Int 12, "Service Concession Arrangements", effective for annual periods beginning on or after 1 January 2008. This interpretation applies to companies that participate in service concession arrangements and provides guidance on the accounting by operations in public-to-private service concession arrangements. The management do not expect the interpretation to be relevant to the Group.

- HKFRS 8, "Operating Segments", effective for annual periods beginning on or after 1 January 2009. HKFRS 8 will replace HKAS 14, 'Segment Reporting'. HKFRS 8 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resource to segments and assess its performance. The Group will apply the standard for the annual periods beginning 1 January 2009.

Notes to the Condensed Consolidated Financial Statements

- HKAS 23 (Revised), "Borrowing Costs", effective for annual periods beginning on or after 1 January 2009. In accordance with the revised standard, management no longer has an option to expense borrowing costs on qualifying assets; it only applies to qualifying assets measures at cost; inventories that are routinely manufactured, or otherwise produced in large quantities on a repetitive basis, are outside the scope; companies that expense borrowing costs under their current accounting policies must identify their qualifying assets. This revised standard is applicable to the Group and the Group will apply it for the annual periods beginning 1 January 2009.

2 SEGMENT INFORMATION

Primary reporting format – business segments

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

(1) Manufacture and sales of crystallised glucose and glucose syrup from the processing of starch paste; lysine products and glutamic acids from the processing of glucose syrup (hereinafter collectively referred to as the "Corn-based biochemical products"). The Group ceased production of lysine products in December 2006 and converted to produce glutamic acids.

(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 segment results for the six months ended 30 June 2007 are as follows:

	Corn-based biochemical products *RMB'000*	Corn refined products *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Segment sales, gross	**558,104**	**745,174**	**–**	**1,303,278**
Intra-segment sales	**–**	**(424,250)**	**–**	**(424,250)**
Sales, net	**558,104**	**320,924**	**–**	**879,028**
Operating profit	**118,959**	**54,438**	**978**	**174,375**
Finance costs				**(15,989)**
Profit before income tax				**158,386**
Income tax expense *(Note 6)*				**(6,518)**
Profit for the period				**151,868**

Notes to the Condensed Consolidated Financial Statements

The segments results for the six months ended 30 June 2006

	Corn-based biochemical products *RMB'000*	Corn refined products *RMB'000*	Unallocated *RMB'000*	Group *RMB'000*
Segment sales, gross	506,532	419,602	–	926,134
Intra-segment sales	–	(238,386)	–	(238,386)
Sales, net	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 6)*				–
Profit for the period				158,852

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

Secondary reporting format – geographical segments

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

The Group's revenue is substantially generated within PRC with a portion accounted for by export sales.

	For the six months ended 30 June	
	2007 ***RMB'000***	2006 *RMB'000*
REVENUE		
PRC	**743,845**	639,920
Other countries/places	**135,183**	47,828
	879,028	687,748

Notes to the Condensed Consolidated Financial Statements

3 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	
	2007	2006
	RMB'000	*RMB'000*
Fair valuation on employee share options	**2,274**	341
Depreciation and amortisation	**30,562**	16,411
Employee benefit expenses	**25,836**	14,882
Changes in inventory levels of finished goods and work in progress	**(67,129)**	(16,710)
Raw materials and consumables used	**619,246**	425,097
Transportation expenses	**8,113**	8,641
Utility expenses	**64,486**	67,735
Directors' emoluments	**1,600**	1,610
Impairment/(write-back) of receivables	**560**	(508)

4 OTHER GAINS – NET

	For the six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Interest income	**3,920**	2,320
Subsidy income	**13,460**	19
Others	**1,752**	–
	19,132	2,339

5 FINANCE COSTS

	For the six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Interest expenses – bank borrowings	**29,245**	12,274
Less: amount capitalised as construction in progress	**(2,469)**	(1,930)
	26,776	10,344
Net foreign exchange translation (gains)/losses	**(10,787)**	818
	15,989	11,162

Notes to the Condensed Consolidated Financial Statements

6 INCOME TAX EXPENSE

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

	For the six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Current income tax	**–**	–
– Hong Kong profits tax	**–**	–
– PRC enterprise income tax	**6,518**	–
	6,518	–

Pursuant to the rules and regulations of Bermuda and the British Virgin Islands (the "BVI"), the Group was not subject to any income tax in Bermuda and the BVI during the periods presented.

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

Shandong Xiwang Sugar Industry Co., Ltd. ("Xiwang Sugar") and Shandong Xiwang Bio-Chem Technology Co., Ltd. ("Xiwang Bio-Chem") were approved to be production enterprise with foreign investment by the relevant government authority in the PRC. Accordingly, the applicable enterprise income tax ("EIT") rate of these two companies is 30% and the local tax rate is 3%, resulting in an aggregate tax rate of 33%. These companies are also entitled to two years' full exemption from EIT and followed by three years of a 50% tax reduction, commencing from the first cumulative profit-making year net of losses carried forward ("EIT Tax Holiday"). The EIT Tax Holiday of Xiwang Sugar commenced in 2005 and it started to enjoy 50% tax reduction from 2007. Accordingly, provision for EIT had been made by Xiwang Sugar at 15% for the period ended 30 June 2007 (2006: nil). Xiwang Bio-Chem started to enjoy the EIT Tax Holidays in 2007 and therefore no EIT provision had been made.

Notes to the Condensed Consolidated Financial Statements

7 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 period.

	For the six months ended 30 June	
	2007	2006
Profit attributable to equity holders of the Company *(RMB'000)*	**151,868**	158,852
Weighted average number of ordinary shares in issue *(thousands)*	**828,071**	803,552
Basic earnings per share (RMB per share)	**0.1834**	0.1977

(b) Diluted

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

	For the six months ended 30 June	
	2007	2006
Profit attributable to equity holders of the Company *(RMB'000)*	**151,868**	158,852
Weighted average number of ordinary shares in issue *(thousands)*	**828,071**	803,552
Adjustments for share options *(thousands)*	**1,902**	14,717
Weighted average number of ordinary shares for diluted earnings per share *(thousands)*	**829,973**	818,269
Diluted earnings per share *(RMB per share)*	**0.1831**	0.1941

Notes to the Condensed Consolidated Financial Statements

8 DIVIDEND

A final dividend for the year ended 31 December 2006 of RMB0.14 per share, amounting to a total dividend of approximately RMB115,871,000, was approved at the annual general meeting held on 18 May 2007 and paid in May 2007.

No interim dividend was proposed for the current period (2006: nil).

9 NON-CURRENT ASSETS

	Property, plant and machinery *RMB'000*	Leasehold Land *RMB'000*	Construction in progress *RMB'000*
Six months ended 30 June 2006			
Opening net book amount	626,316	9,037	611
Additions	6,065	75,436	207,872
Transfer from construction in progress	–	–	–
Depreciation and amortisation charges	(16,290)	(121)	–
Closing net book amount as at 30 June 2006	616,091	84,352	208,483
Six months ended 30 June 2007			
Opening net book amount	821,570	167,141	296,748
Additions	9,386	–	223,006
Transfers from construction in progress	465,780	–	(465,780)
Depreciation	(28,840)	(1,722)	–
Closing net book amount as at 30 June 2007	**1,267,896**	**165,419**	**53,974**

(a) The additions of construction in progress mainly include the construction costs incurred for new glucose and starch plants.

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

(c) As at 30 June 2007, property of the Group with a carrying value of approximately RMB43,357,000 (2006: RMB43,932,000), plant and machinery with a carrying value of approximately RMB211,602,000 (2006: RMB291,116,000) and leasehold land of the Group with a carrying value of approximately RMB67,309,000 (2006: RMB67,965,000) had been pledged for bank borrowings of the Group.

Notes to the Condensed Consolidated Financial Statements

10 INVENTORIES

	As at	
	30 June 2007 *RMB'000*	31 December 2006 *RMB'000*
Cost		
Raw materials	**151,675**	92,433
Work in progress	**48,222**	17,605
Finished goods	**62,346**	25,834
	262,243	135,872

The cost of inventories recognised as expenses and included in "cost of goods sold" amounted to approximately RMB692,712,000 for the period ended 30 June 2007 (2006: RMB495,846,000).

As at 30 June 2007, there were no inventories stated at net realisable value (2006: Nil).

11 TRADE AND OTHER RECEIVABLES

	As at	
	30 June 2007 *RMB'000*	31 December 2006 *RMB'000*
Trade receivables	**162,437**	85,250
Less: provision for impairment of receivables	**(560)**	–
	161,877	85,250
Other receivables (a)	**118,304**	21,421
	280,181	106,671

Some major customers are allowed with credit periods of 30 to 45 days while most other customers are on a cash on delivery basis, or with prepayment of the full amount of sales be made before delivery is made.

Notes to the Condensed Consolidated Financial Statements

(a) RMB67,554,000 (2006: nil) was paid in advance to a gas supplier in order to obtain price discount of gas provided by the supplier.

Ageing analysis of the gross trade receivables is as follows:

	As at	
	30 June 2007	31 December 2006
	RMB'000	*RMB'000*
0 – 30 days	**116,834**	65,186
31– 60 days	**38,086**	17,563
61– 90 days	**2,804**	218
Over 90 days	**4,713**	2,283
	162,437	85,250

12 SHARE CAPITAL AND SHARE PREMIUM

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

	Number of shares	**Share capital**	**Share premium**
	(thousands)	*RMB'000*	*RMB'000*
At 1 January 2007	827,552	86,175	461,305
Proceeds from share option exercised	2,000	197	4,728
Employee share option scheme-value of service provided	–	–	2,274
At 30 June 2007	829,552	86,372	468,307

The total authorised number of ordinary shares are 200 million shares (2006: 200 million shares) with a par value of HK$0.1 share (2006: HK$0.1 per share). All issued shares are fully paid.

Notes to the Condensed Consolidated Financial Statements

(a) 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 designed to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. According to the scheme, the Company can issue options so that the total number of shares that may be issued upon exercise of all outstanding options to be granted and any other share option scheme of the Company must not in aggregate exceed 80,000,000 shares. The Company may renew this limit at any time, subject to shareholders' approval and the issue of a circular. In addition, the number of shares that may be issued upon exercise of all outstanding but not exercised options granted in accordance to all share option schemes shall not exceed 30% of shares in issue from time to time.

4,000,000 employee share options were granted to relevant employee(s) in 2006, out of which 2,000,000 were exercised during the period.

Pursuant to a revised offer letter executed in June 2007, 1,200,000 of the remaining 2,000,000 share options lapsed as at the date of the revised offer letter. The remaining 800,000 share options can be exercised from 1 January to 31 January 2008.

In addition, a further 5,792,000 employee share options were granted to relevant employee(s) in May 2007.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2007		2006	
	Average exercise price in HK dollar per share	**Options *(thousands)***	Average exercise price in HK dollar per share	Options *(thousands)*
At 1 January	**2.500**	**4,000**	1.880	24,000
Granted	**3.856**	**5,792**	2.500	4,000
Exercised	**2.500**	**(2,000)**	1.880	(24,000)
Lapsed	**2.500**	**(1,200)**	–	–
At 30 June	**3.691**	**6,592**	2.500	4,000

Notes to the Condensed Consolidated Financial Statements

Share options outstanding as of the end of the period have the following expiry date and exercise price:

Expiry date	**Exercise price HK$ per share**	**Number of options** *(thousands)*
31 January 2008	2.500	800
1 May 2017	3.856	5,792

The fair value of options granted during the period ended 30 June 2007 determined using the Binomial Option Pricing Model (2006: Binomial Option Pricing Model) was approximately RMB5,122,000 (2006: RMB1,670,000). The significant inputs into the model were share price of HK$3.83 and HK$4.4) (2006: HK$2.5); at the grant dates and the exercise price shown above; volatility of 36% to 38% (2006: 30%); dividend yield of 3.7% to 5.7% (2006: 0.36%); an expected average option life of 240 to 3,650 days (2006: 540 days); and annual risk-free interest rate of 3.89% to 4.26% (2006: 3.766%). The volatility measured at the standard deviation of continuously compounded share returns is based on the Company's 180-day historical share price before 15 August 2007 and 23 August 2007 respectively.

Notes to the Condensed Consolidated Financial Statements

13 BORROWINGS

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

	NOTE	As at 30 June 2007 RMB'000	As at 31 December 2006 RMB'000
Non-current			
Bank borrowings-secured	*(a)*	–	243,114
Bank borrowings-unsecured	*(b)*	**365,520**	421,200
		365,520	664,314
Current			
Bank borrowings-secured			
– Short term bank borrowings	*(a)*	**36,000**	90,000
– Current portion of long term bank borrowings	*(a)*	**133,114**	20,000
Bank borrowings-unsecured			
– Short term bank borrowings	*(b)*	**68,500**	50,000
– Current portion of long term bank borrowings	*(b)*	**201,380**	46,800
		438,994	206,800
		804,514	871,114

(a) The above long and short term bank borrowings are secured by certain property and plant and machinery (Note 9(c)) and leasehold land (Note 9(c)) of the Group.

(b) These loans were guaranteed by a subsidiary of the Group.

As at the date presented, the Group's bank borrowings were repayable as follows:

	As at 30 June 2007 RMB'000	As at 31 December 2006 RMB'000
Within one year	**438,994**	206,800
In the second year	**91,380**	123,600
In the third to fifth year	**274,140**	540,714
	804,514	871,114

Notes to the Condensed Consolidated Financial Statements

14 TRADE AND OTHER PAYABLES

	As at	
	30 June 2007	31 December 2006
	RMB'000	*RMB'000*
Trade payables	**36,131**	17,169
Other payables	**204,307**	114,853
Deposits and advance from customers	**16,270**	13,753
	256,708	145,775

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

Approximately RMB192,746,000 of other payables as at 30 June 2007 represents payables to vendors in relation to the construction in progress of the production facilities described in Note 9(a).

Ageing analysis of the trade payables is as follows:

	As at	
	30 June 2007	31 December 2006
	RMB'000	*RMB'000*
0 – 30 days	**9,488**	15,146
31 – 60 days	**15,759**	1,023
61 – 90 days	**7,585**	350
Over 90 days	**3,299**	650
	36,131	17,169

Notes to the Condensed Consolidated Financial Statements

15 CAPITAL COMMITMENTS

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

	As at	
	30 June 2007	31 December 2006
	RMB'000	*RMB'000*
Property, plant and equipment		
– Contracted but not provided for	**2,709**	145,460
– Authorised but not contracted for	**7,180**	–
	9,889	145,460

The capital expenditure authorised but not contracted for as at 30 June 2007 represented the Group's plan for construction of a new fructose production plant.

16 RELATED PARTY TRANSACTIONS

The Group is controlled by the Xiwang Investment (incorporated in BVI), which owns about 63% of the Company's shares. The ultimate holding company of the Group is Xiwang Holdings (incorporated in BVI). The directors consider Mr. Wang Yong to be the ultimate controlling party of the Group. During the period ended 30 June 2007, the Group had undertaken transactions with the following related companies:

English Name	**Chinese Name**	**Relationship with the Company**
Xiwang Group Company Limited ("Xiwang Group")	西王集團有限公司	Controlled by the Shareholders of Xiwang Holdings Limited
Shandong Xiwang Savola Oil Co., Ltd. ("Xiwang Savola Oil")	山東西王沙渥拉油脂有限責任公司	Subsidiary of Xiwang Group
Shandong Biyundong Alcohol and Water Co., Ltd. ("Biyundong Alcohol")	山東碧雲洞酒水有限責任公司	Subsidiary of Xiwang Group
Shandong Xiwang Leavening Co., Ltd ("Xiwang Leavening")	山東西王酵母有限公司	Subsidiary of Xiwang Group
Zouping Xiwang Construction Company Limited ("Xiwang Construction")	鄒平西王建築有限責任公司	Subsidiary of Xiwang Group
Shandong Xiwang Steel Structure Co., Ltd ("Xiwang Steel Structure")	山東西王鋼結構有限公司	Subsidiary of Xiwang Group
Xiwang Group Import and Export Trading Company ("Xiwang Import and Export")	山東西王進出口貿易有限公司	Subsidiary of Xiwang Group

Notes to the Condensed Consolidated Financial Statements

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 period ended 30 June 2007:

(a) Sales of goods:

	For the six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Sales of corn germs		
– Xiwang Savola Oil	**80,583**	41,738
Sales of glucose syrup		
– Xiwang Leavening	**1,673**	2,379
	82,256	44,117

The pricing of these transactions was determined based on agreement between the Group and the related parties with reference to market prices on each individual transaction.

(b) Purchases of goods and services

	For the six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Purchase of corn germ dregs		
– Xiwang Savola Oil	**7,356**	85
Purchase of packaging materials		
– Biyundong Alcohol	**19,359**	14,260
	26,715	14,345
Construction of property, plant and equipment		
– Xiwang Steel Structure	**1,930**	861
– Xiwang Construction	**8**	8,710
Sewage services		
– Xiwang Group	**258**	365

The pricing of these transactions was determined based on agreement between the Group and the related parties with reference to market prices on each individual transaction.

Notes to the Condensed Consolidated Financial Statements

(c) Balances due from/to related parties

	30 June 2007 RMB'000	31 December 2006 RMB'000
Receivables (ii)		
Amounts outstanding, end of the periods		
– Xiwang Savola Oil	**18,390**	4,795
– Biyundong Alcohol	**–**	84
– Xiwang Leavening	**1,144**	–
	19,534	4,879
Maximum amounts outstanding during the periods		
– Xiwang Group	**95,515**	170,475
– Xiwang Savola Oil	**46,615**	47,846
– Xiwang Import & Export	**–**	3
– Xiwang Steel Structure	**1,148**	716
– Xiwang Construction	**–**	7
– Biyundong Alcohol	**84**	742
– Xiwang Leavening	**1,144**	1,716
Payables (ii)		
– Xiwang Construction	**1,506**	4,847
– Xiwang Group	**848**	191
– Xiwang Steel Structure	**3,902**	2,152
– Wang Yong	**–**	10
	6,256	7,200

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

(ii) Except for the balance described in the next paragraph, balances due from/to related parties are interest-free, unsecured, and repayable on demand.

Notes to the Condensed Consolidated Financial Statements

17 POST BALANCE SHEET EVENT

Subsequent to the period end date, the Group has entered into a US$38 million facility agreement, the final maturity date of which shall be the date falling three years for the date of the facility agreement.

This new facility is mainly for refinancing the Group's RMB loans and general working capital purpose.

Management Discussion and Analysis

1. OVERVIEW

As the China's leading glucose production enterprise, the Group operates two main product categories: corn-based biochemical products and corn refined products. Corn-based biochemical products include crystallised glucose, glucose syrup, glutamic acids and lysine products, while corn refined products include corn gluten meal, corn germ, animal feed, starch paste and corn slurry. Although the Group exited lysine production at the end of 2006 and converted the relevant production facilities into glutamic acids production use instead, we kept selling residual lysine products in inventory during the first six months of 2007, which was the period under review of this report.

During the period under review, there was strong market demand for glucose. The Group estimated that the national glucose consumption during the current period increased by more than 30% over the same period in 2006. The continued strength in China's economic growth combined with the rising living standard of its people and their higher awareness for health have been pushing up the overall market demand for glucose on the Mainland. At the same time, the Chinese government has recently introduced certain environmental protection policies to encourage lower energy consumption and reduction of waste discharge. As a result, a substantial number of pharmaceutical and chemical manufacturers which used to produce glucose as raw materials for in-house consumption have turned to procurement from outsource suppliers, giving a further boost to the market demand for glucose.

On the other hand, the price of corn, the Group's key raw materials, increased on average by around 12% during the period under review as compared to the same period of last year. The substantial increase in corn prices had a significant negative impact on the Group's profit margin and overall profitability during the period under review.

In order to capture the market potential for the growth of its business as well as to combat against the threat to our business from the rising cost of corns, the Group implemented a cohesive development strategy that yielded encouraging operating results during the period under review. First of all, the Group completed its glucose production capacity expansion project in early 2007 which raised our designed glucose production capacity to 800,000 tonnes from 250,000 tonnes per annum. With the expanded production capacity, its total production of crystallised glucose, its major product, increased substantially to 263,729 tonnes for the period under review, from 104,047 tonnes for the first half of 2006. In particular, its monthly crystallised glucose production increased from 21,621 tonnes in January 2007 to 49,267 tonnes in June 2007. As a result, the Group's unit production cost has been lowered noticeably.

Secondly, the Group implemented a series of effective marketing and sales strategies, including:

- focusing on exploring more large and core customers: during the period under review, around 40% of the Group's turnover came from large and core customers. The Group aimed to expand it to 55% by the end of 2007.

- developing new customers in new market segments: during the period under review, apart from securing orders from the industries of our existing customers, the Group made aggressive efforts to introduce its products to new customers from different industries, such as alcohols and enzyme manufacturing. The Group made substantial progress in customer development and sales.

Management Discussion and Analysis

– further expanding overseas markets and sales: Our products enjoy good quality reputation and price competitiveness in overseas markets. In light of the continuous economic growth and improved living standards around the world, we will continue to strengthen our efforts to expand our overseas sales and market reach, including the establishment of sales offices in selected core markets, in order to capture growing market opportunities. During the period under review, the products (especially corn-refined products) of the Group achieved significant increase in overseas sales, represented 15% to the total sales. Meanwhile, the Group's focus on direct sales to end-users earned its reward in strengthened customer relationships, more repeat sales orders and higher sales. Sales from new overseas customers secured during the period under review accounted for around 50% of total overseas sales for the reviewed period.

– refining product offerings in order to better tailor to different customer needs as well as to enhance the overall price levels and economic returns.

As a result of the above measures, the Group's sales increased significantly during the period under review. Our total sales of crystallised glucose increased substantially from 103,889 tonnes in the first half of 2006 to 207,715 tonnes in the period under review. In particular, our sales of crystallised glucose increased from 20,590 tonnes in January 2007 to 53,260 tonnes in June 2007.

Moreover, the Group continued its efforts to develop and introduce new downstream products with higher margin potentials, including its crystallised fructose product under development, in order to further capture growing market potential, command bigger pricing power for our product, effectively combat against the threat to its business from the rising cost of corns and enhance the returns to its shareholders. During the period under review, the Group's medium-scale trial production of crystallised fructose successfully passed a series of key production tests.

Meanwhile, the Group has committed to continuously reviewing and improving its management systems, including its internal control system. The Group continued its efforts to attract, retain and motivate its staff through providing continuous on-job training programs, offering performance-linked compensation packages and attracting professionals to join its operations in order to sustain continuous healthy development of the Group.

2. REVIEW OF OPERATING AND FINANCIAL RESULTS

Turnover

During the current period, the Group's major products crystallised glucose, gluten meal, corn germ and animal feed collectively contributed 83.6% of the total turnover, representing an increase of 23.6% as compared to 60.0% in the same period in 2006.

The Group's turnover by product category is as below:

	For the six months ended 30 June 2007	Percentage of sales	For the six months ended 30 June 2006	Percentage of sales	Percentage of change
	RMB'000	%	*RMB'000*	%	%
Corn-based biochemical products:	**558,105**	**63.5**	**506,532**	**73.7**	**10.2**
Crystallised glucose	476,885	54.3	258,745	37.6	84.3
Glutamic acids	37,470	4.3	–	–	100.0
Lysine	8,733	1.0	185,300	26.9	(95.3)
Corn refined products:	**320,923**	**36.5**	**181,216**	**26.3**	**77.1**
Gluten meal	94,899	10.8	53,012	7.7	79.0
Corn germ	80,583	9.2	41,738	6.1	93.1
Animal feed	75,171	8.6	58,871	8.6	27.7
Total	**879,028**	**100.0**	**687,748**	**100.0**	**27.8**

During the period under review, the Group realised a turnover of RMB879,028,000, representing an increase of 27.8% compared with the same period in 2006. During the same period, export sales increased RMB87,355,000, representing an increase of 183% compared with the same period in 2006.

Apart from crystallised glucose, corn-refined products were a major growth driver during the period under review. Owing to the growth of export sales, turnover of corn-refined products increased by 77.1% during the period.

The Group ceased the production of lysine in December 2006 and switched to produce glutamic acids. Production of glutamic acids, the by-product of the Group, is mainly for the absorption of the residues from the production of glucose, the major product of the Group. This is crucial to the effective solution of waste water discharge and environmental protection.

Management Discussion and Analysis

Further analysis of the turnover of the major products are discussed as below:

	Sales Volume			Average Selling Price		
	For the six months ended 30 June 2007 *tones*	For the six months ended 30 June 2006 *tones*	**Percentage of change** %	**For the six months ended 30 June 2007** *RMB*	For the six months ended 30 June 2006 *RMB*	**Percentage of change** %
Crystallised glucose	**207,715**	103,889	99.9	**2,296**	2,491	(7.8)
Gluten meal	**35,480**	19,543	81.5	**2,675**	2,713	(1.4)
Corn germ	**31,187**	19,451	60.3	**2,584**	2,146	20.4
Animal feed	**86,910**	72,614	19.7	**865**	811	6.7
Others	**86,725**	85,707	1.2	**N/A**	N/A	N/A
Total	**448,017**	301,204	48.7	**1,962**	2,283	(14.1)

Turnover of crystallised glucose increased by 84.3% as compared to previous period. It was mainly contributed by the increase in sales volume by 99.9%. Average selling price had a 7.8% decrease compared with the previous period. There was a dramatic increase in the selling price of crystallised glucose in the first half of 2006 in connection to the fierce increase of the cane sugar price then due to imbalance of demand and supply. Glucose with lower selling price was used as a substitute and its price was pushed up accordingly. During the first half of 2007, there was an increase in market supply of glucose due to new entrants and increase in production capacity of existing suppliers, and the selling price returned to a relatively stable level in the second quarter of 2007 after slipping to the low point. In view of the market condition, we expect the selling price of crystallised glucose will keep stable for the rest of the year.

Turnover of gluten meal and animal feed increased 79.0% and 27.7% respectively in the current period. The direct sales strategy was the main reason of these remarkable rises. Over 50% of the turnover were export sales. During the period, the Group switched from sales mainly through agent to direct sales by its own sales team. Over 50% of the export sales were direct sales through its own sales team. This change saved the markup charged by agents and the Group can have more profitable selling prices. Although the average selling price of Gluten meal decreased by 1.4% as compared to the previous period, it had a significant rise during the period. Compared to the end of the first quarter, the average selling price of gluten meal had a 60.5% increase during the second quarter.

Turnover of corn germ increased significantly by 93.1%. Due to increase in market demand for corn oil, sales volume and selling price of corn germ, being its raw material, had a great jump during the period.

Cost of sales

Details of cost of sales are shown as below:

	For the six months ended 30 June 2007		For the six months ended 30 June 2006		Percentage of change
	RMB'000	*Percentage to total*	*RMB'000*	*Percentage to total*	*%*
Raw material: corn	**538,446**	**77.7**	310,961	62.7	73.2
Utilities	**64,478**	**9.3**	67,735	13.7	(4.8)
Depreciation	**26,902**	**3.9**	16,248	3.3	65.6
Labour costs	**13,149**	**1.9**	8,351	1.7	57.4
Others	**49,737**	**7.2**	92,551	18.6	(46.3)
Total	**692,712**	**100.0**	495,846	100.0	39.7

During the period under review, cost of sales increased by 39.7% compared to the same period of last year. It was mainly caused by the increase in cost of corn consumed. Having 48.7% increase in sales volume and about 12% increase in the prices of corns, cost of corn consumed increased by 73.2%.

Utilities decreased by 4.8%. Production effectiveness increased after the launch of the new production facilities. Besides, the switch of the production from lysine to glutamic acids saved the electricity cost by 27.7%.

The increase of depreciation and labour costs was arisen from the new production facilities launched in early 2007.

Gross profit analysis

	Gross Profit					Gross Profit Margin		
	For the six months ended 30 June 2007	% to total	For the six months ended 30 June 2006	% of total	Percentage of change	For the six months ended 30 June 2007	For the six months ended 30 June 2006	Percentage of change
	RMB'000	*%*	*RMB'000*	*%*	*%*	*%*	*%*	*%*
Crystallised glucose	124,283	66.7	95,166	49.6	30.6	26.1	36.8	(10.7)
Gluten meal	21,683	11.6	9,617	5.0	125.5	22.9	18.4	4.5
Corn germ	13,975	7.5	8,588	4.5	62.7	17.3	20.6	(3.3)
Animal feed	17,329	9.3	20,725	10.8	(16.4)	23.1	35.2	(12.1)
Others	9,046	4.9	57,806	30.1	(84.4)	5.9	18.8	(12.9)
	186,316	100.0	191,902	100.0	(2.9)	21.2	27.9	(6.7)

Management Discussion and Analysis

With its expanded production capacity and the higher profitability of crystallised glucose in the whole product structure, the contribution of gross profit from crystallised glucose increased from approximately 50% of total gross profit in the first half of 2006 to about two-thirds during the period under review. This has demonstrated that crystallised glucose, our major product, with the advantages in technology and cost, has further consolidated its importance within the Group's businesses.

During the period under review, due to the rise in the prices of corns, the overall gross margin dropped from 27.9% in the first half of 2006 to 21.2% in the period, and gross profit of the Group reduced 2.9% from RMB191,902,000 in the first half of 2006 to RMB186,316,000 in the current period.

Although the overall margin decreased by 10.7% during the current period, gross margin of crystallised glucose increased steadily from the low point of 22.1% in March 2007 to 28.0% at the end of the reviewed period. It was due to the economises of scale realised from its expanded production capacity.

Profit margin of gluten meal kept increasing during the period under review and attained to 29.5% in June 2007. Increase in selling price and sales volume through the direct sale strategy together with 4.9% decrease in cost of sales compared with last period contributed to the significant increase in the gross profit margin of gluten meal.

Both corn germ and animal feed suffered decrease in gross margin. Although their average selling prices increased by 20.4% and 6.7% respectively, but due to the rise in the prices of corns, corn germ and animal feed had larger increase in unit cost of sales, which reached 25.4% and 12.4% respectively at the end of the reviewed period. Benefited from the increased production effectiveness, the profit margins started to increase steadily from March 2007 and reached 21.5 % and 25.0% respectively.

Other gains

Other gains went up by RMB16,793,000 in the reviewed period.

Subsidy income RMB13,460,000 represented 70.4% of other gains. It was a tax subsidy from regional government. This subsidy covered partial of the tax payment refund in relation to both profit tax and VAT payment paid by one of the subsidiaries of the Group which operates in PRC. The subsidy was viewed as an award for the contribution of the subsidiary to the production of glucose as national new product. This subsidy will cease at the end of 2007 unless being granted by the government. The remaining balance of the other gains included bank interest income RMB3,920,000 and sales of by-products RMB1,752,000.

Selling and marketing costs

Selling and marketing costs decreased by 15.4% compared to the first half of 2006. It was mainly due to adopting a more effective performance-linked sales incentive programme and the change of shipment arrangement with customers.

Administrative expenses

Administrative expenses increased by RMB9,581,000 compared to the first half of 2006. There was regular maintenance of existing production facilities in the first quarter of this year. Production ceased during this period. Based on the matching concept, the corresponding depreciation was charged in administrative expenses. Besides, additional amortisation of land use rights and research and development costs were arisen from the launch of new production facilities.

Finance costs

The net increase of finance costs was RMB4,827,000 for the current period as compared to the first half of 2006.

The Group had a USD bank facility since November 2006 and it resulted in the RMB17,194,000 increase in finance costs. On the other hand, repayment of the loans obtained in previous years saved the interest cost by RMB1,580,000. The value of RMB appreciated significantly and the Group enjoyed exchange gain of RMB10,787,000 during the reviewed period.

Income tax expenses

The Group is only subject to the PRC taxes. The two PRC subsidiaries are entitled to two years' full exemption from EIT and followed by another three years of a 50% tax reduction. One of the PRC subsidiaries started its first year of 50% tax reduction and the other PRC subsidiary started to enjoy the full exemption during this period and will need to be liable to income tax two years afterwards.

Liquidity, capital resources and gearing ratio

	As at 30 June 2007 *In RMB million*	As at 31 December 2006 *In RMB million*
Net current assets	**93**	550
Cash and cash equivalents	**239**	663
Bank loans	**805**	871
Shareholders' equity	**1,215**	1,171
Current ratio	**1.13 times**	2.53 times
Gearing ratio (total borrowings to total assets)	**35.2%**	39.7%

Net current assets:

The Group's net current assets decreased by RMB457 million during the reviewed period. Besides, current ratio was worse off by 1.4 times. These were mainly due to the decrease in cash and cash equivalents by RMB424 million. During the period, the Group had capital investment of the new production lines for glucose production amounted to RMB232 million. Additionally, bank loans of RMB66 million were settled and final dividend for 2006 amounted to RMB116 million was paid during the period.

Management Discussion and Analysis

Inventories increased by 92.6% during the period to RMB262 million. Corn, being the raw material, represented 53.6% of the total stock while glucose represented 15.1% of total. As at 30 June 2007, the inventory of corn represented 1.2 times of average monthly consumption, which was in line with the Group's policy of maintaining 1 to 1.5 months of corn stock, if required. The stock level of crystallised glucose represented 0.5 times of the monthly sales.

Trade and other receivables increased 162.7% during the period. It was due to the increase of sales volume and increase in advance to suppliers as discussed below. Trade receivables amounted to RMB162,437,000, represented 25.4 days of debtors' turnover, which was in line with the Group's credit term policy of granting customers 30 to 45 days of receivable credit, depending on the nature of its customers. Other receivables amounted to RMB118,304,000, of which RMB67,554,000 was prepayment to utilities supplier for securing cheaper supply.

Trade and other payables had 76% increase during the period, amounted to RMB256,708,000, of which trade payables amounted to RMB36,131,000 represented an increase of 110.4% compared to the corresponding period of 2006. This was mainly due to increased production. Purchase of raw material and therefore payables to suppliers increased accordingly. Other payables of RMB204,307,000 mainly included the construction payable of the new production facilities launched early this year. It is the common practice to hold up 10-20% of the construction payment as retention money and settled 12 months after the launch of production.

Borrowings:

During the period, the Group had no new borrowings and the repayment of the borrowings contributed to the decrease in gearing ratio by 4.5%.

As at 30 June 2007, the Group obtained borrowings for a sum of RMB804,514,000. The borrowings were in US dollars ("USD") and Renminbi ("RMB") respectively. USD loans represented about 56.8% of the total borrowings outstanding at the end of the reviewed period. The borrowings 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 13 to the condensed consolidated financial statements as at 30 June 2007. The Group did not use any financial instruments for any hedging purposes.

Equity:

Apart from the sales proceeds from the exercise of employee options and profit attributable to the equity holders during the period, there was no further change to equity.

Capital investment:

The Group had capital investment for the new production facilities amounted to RMB232 million during the period, of which RMB24,420,000 was for the medium scale trial production of the new product, fructose. As at 30 June 2007, the Group had capital commitments amounted to RMB9,889,000 for construction of a new fructose production plant. Details of the Group's commitments are set out in Note 15 to the condensed consolidated financial statements as at 30 June 2007. As at 30 June 2007, the Group did not have any material contingent liabilities.

Foreign Exchange Risk:

Most of the cash balances 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, except for the USD loans mentioned above. In view of the appreciation of RMB, the Directors consider the risk exposure of the Group to foreign exchange rate fluctuation is minimal.

Management Discussion and Analysis

Human Resources

The Group had 2,543 employees as at 30 June 2007 (30 June 2006: 1,699). The increase was mainly for the expanded production capacity during the reviewed period.

The Group will consider the experience, responsibility, workload and the time devoted by the Directors and employees of the Group to determine their respective remuneration packages. The Company has also set up a remuneration committee to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management. In addition to basic remuneration packages and discretionary bonuses for Directors and employees, share options may also be granted to Directors and eligible employees based on the performance of individuals.

3. FUTURE PROSPECTS AND DEVELOPMENT STRATEGIES

With the continuous rapid economic growth, improved living standards and broadened health consciousness around the globe, including China, the Group is confident and excited with its business growth prospects going forward. To capture the business opportunities from increasing market demand for its products, the Group will continue executing its business development strategies as discussed above, in particular, keep expanding its domestic and overseas marketing and sales efforts as well as further explore and launch new high value-added downstream products to enhance its market share, profitability and economic return to its investors.

The Group expects that it will continue benefiting economies of scale from expanded production and sales volume of its existing businesses. While uncertainty exists as regards to future movement in the prices of corns, it notices that corn price has stabilized in China in the recent months. The Group expects the corn price may drop somewhat in the second half of 2007, as a result of a large quantity of new supply of corn coming into the market in the middle of September.

The Group is committed and strives to successfully complete the mid-scale trial production of its crystallised fructose product under development by 2007, and it further expects to set up the production facility and start commercial production and sales by 2008. Crystallised fructose is the sweetest among all natural sugars, with sweetness equals to 1.8 times that of cane sugar. Crystallised fructose is widely applied in food processing and high end nutritious foods, and has better treatment effect on patients with diabetes, arteriosclerosis, high blood pressure, coronary heart disease, cerebrovascular disease and obesity. Global market demand for crystallised fructose is estimated as 350,000 tonnes per annum, with a yearly growth rate of more than 20%. The Group is confident and expects that the crystallised fructose product under development will significantly contribute to its business growth, profitability, and investors return in 2009 and onwards.

Meanwhile, the Group will explore growth opportunities in the same and/or similar businesses through acquisitions in order to capture its industry consolidation opportunities and further strengthen its position as the leading glucose production enterprise in China.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

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

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. SHI Wei, being the three independent non-executive Directors.

The Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2007 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 2007.

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SHARE OPTION SCHEME

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. As at 30 June 2007, the outstanding share options were 6,592,000 shares of the Company, details of which are set out in note 12(a) to the condensed consolidated financial information and below:

Class of grantee	Date of grant *(Note 2)*	During the six months ended 30 June 2007				Outstanding as at January 2007	Outstanding as at 30 June 2007	Exercise price per Share *(HK$)*	Exercise period
		Granted	Exercised	Cancelled	Lapsed				
Employees									
(Note 1)	9 January 2006	–	2,000,000	–	1,200,000	4,000,000	800,000	2.500	1 Jan 2007 – 31 Jan 2008
	2 May 2007	5,792,000	–	–	–	–	5,792,000	3.856	*Note 2*
		5,792,000	2,000,000	–	1,200,000	4,000,000	6,592,000		

Notes:

(1) Employees include employees of the Group (other than Directors) working under employment contracts with the Group which are regarded as "continuous contracts" for the purpose of the Employment Ordinance (Chapter 571 of the Laws of Hong Kong).

(2) These options can only be exercised by the grantee in the following manner:

Commencing from	Maximum cumulative number of shares under the options that can be subscribed for pursuant to the exercise of the options
1 November 2007	1,654,000
1 May 2008	3,308,000
1 November 2008	4,962,000
1 May 2009	5,792,000

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

As at 30 June 2007, 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, 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 2007
Company	WANG Yong	Interest of a controlled corporation *(Note 2)*	520,000,000 ordinary shares (L) *(Note 3)*	62.68%
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	178 shares (L)	1.78%
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 2007, 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 2007
Xiwang Investment (BVI)	Beneficial owner	520,000,000 ordinary shares (L)	62.68%
Xiwang Holdings	Interest of a controlled corporation *(Note 2)*	520,000,000 ordinary shares (L)	62.68%
Zhang Shufang	Interest of spouse	520,000,000 ordinary shares (L)	62.68%
Atlantis Investment Management Limited	Investment manager	58,000,000 ordinary shares (L)	6.99%

Notes:

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

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

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(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 2007, 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.

GENERAL DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

On 21 November 2006, the Company (as borrower), Master Team International Limited (a wholly-owned subsidiary of the Company) (as guarantor), Oversea-Chinese Banking Corporation Limited (as the mandated lead arranger), certain financial institutions (as lenders) and Oversea-Chinese Banking Corporation Limited, Hong Kong Branch (as agent) entered into a facility agreement ("Facility Agreement") which contained specific performance obligations on Mr. WANG Yong, the chairman of the Board and Xiwang Investment (BVI), both being the controlling shareholders of the Company. Details of the Facility Agreement are set out in the Company's announcement dated 21 November 2006.

The Facility Agreement is for a term loan facility of up to US$60,000,000, the final maturity date of which shall be the date falling three years from the date of the Facility Agreement or, in respect of any part of the loan facility in respect of which an extension has been agreed pursuant to the Facility Agreement, the date falling five years from the date of the Facility Agreement.