XIWANG SUGAR HOLDINGS CO., LTD

(Incorporated in Bermuda with limited liability)

Stock Code: 2088

Annual Report 2007

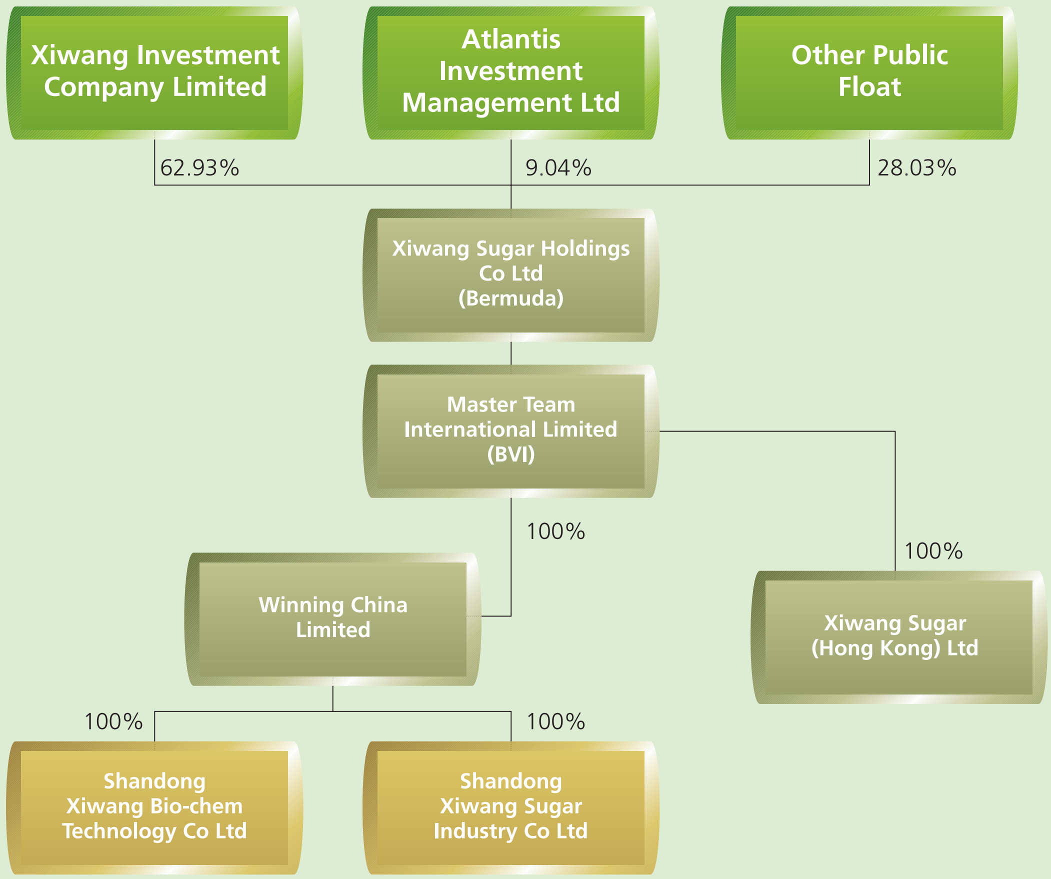

Contents

Corporate Profile

Xiwang Sugar Holdings Company Limited ("Xiwang Sugar" or the "Company", together with its subsidiaries, the "Group") is the largest and leading crystallised glucose producer in China with production capacity of 800,000 tonnes per annum. The Group is also one of the largest corn processors with processing capacity of 1.5 million tonnes per annum. The Group's products include crystallised glucose, crystallised fructose, corn gluten meal, corn germ, animal feed and corn starch paste. The production facility is located in Shandong Province which is the second largest corn growing province in China. With a unique vertically integrated production approach, the Group continues to achieve high quality and operational efficiency. The products are sold in the domestic market and overseas countries. The Group's customers spread across food and beverage, pharmaceutical, fermentation and chemical industries. The Company's shares trade on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") since 9 December 2005.

Leveraging on the scale and market leadership in crystallised glucose industry in China, the Group is honored as being the Capital for Chinese Sweetener Products by the State Food Industry Association. Xiwang Brand has attained China Top Brand and Chinese Well-known Trademark by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China ("PRC") and the Trademark Office of State Administration for Industry and Commerce respectively. The Group is also committed to safe and environmental friendly production with the accreditation of National Environmental Friendly Corporation by the General Administration of State Environment Protection in 2005, and passed the review by them in 2007.

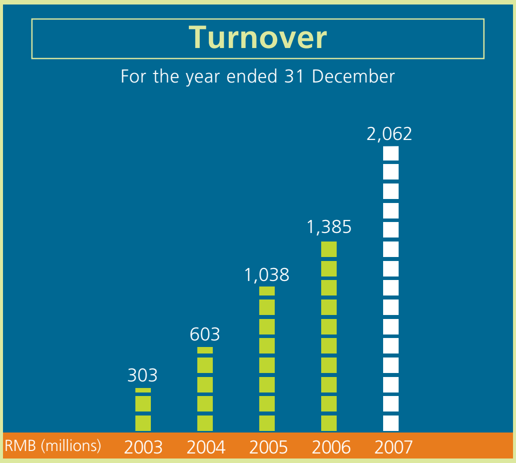
Corporate Structure

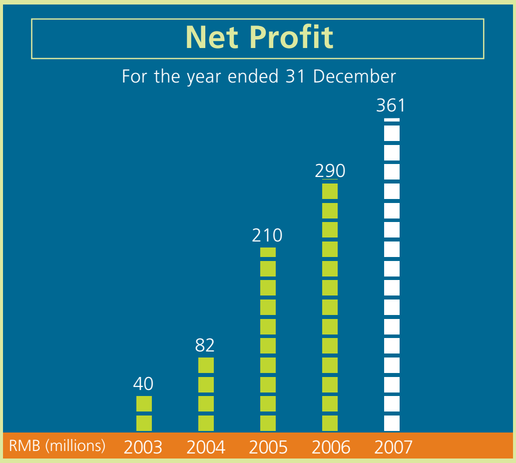


Operation and Financial Highlights

	For the year ended 31 December				
RMB (in millions)	2003	2004	2005	2006	**2007**
Turnover	303	603	1,038	1,385	**2,062**
Gross profit	62	118	261	365	**464**
Operating profit	57	111	228	312	**406**
Net profit	40	82	210	290	**361**
Gross margin (%)	20.3%	19.7%	25.2%	26.4%	**22.5%**
Operating margin (%)	18.7%	18.3%	22.0%	22.5%	**19.7%**
Net margin (%)	13.1%	13.6%	20.2%	21.0%	**17.5%**
EBITDA	67	126	255	357	**521**
EPS – Basic (RMB)	0.067	0.141	0.365	0.356	**0.435**
DPS – Basic (RMB)	–	–	0.0087*	0.14	**0.15**

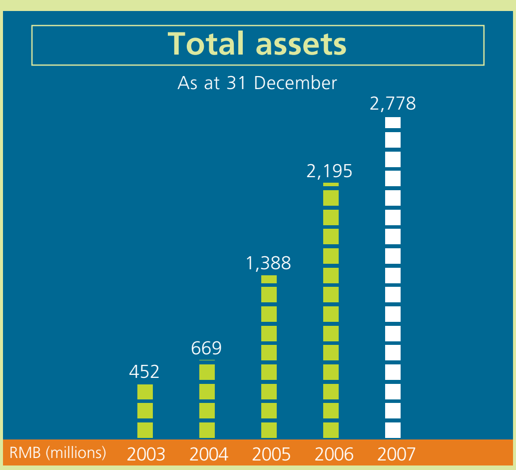
* Exclude a special dividend of RMB80,000,000 approved by and distributed to the Sole Shareholder of the Company before initial public offering.

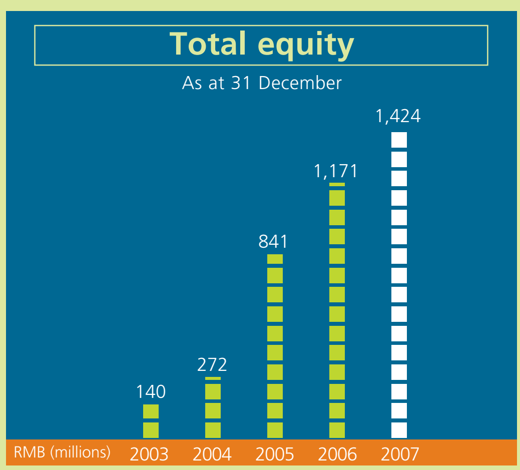




Operation and Financial Highlights

	As at 31 December				
RMB (in millions)	2003	2004	2005	2006	**2007**
Current assets	185	318	692	910	**1,271**
Non-current assets	267	351	696	1,285	**1,507**
Total assets	452	669	1,388	2,195	**2,778**
Current liabilities	302	212	312	360	**507**
Non-current liabilities	10	185	235	664	**847**
Total liabilities	312	397	547	1,024	**1,354**
Total equity	140	272	841	1,171	**1,424**
Total equity and liabilities	452	669	1,388	2,195	**2,778**
Current ratio	0.6	1.5	2.2	2.5	**2.5**
Net debt to equity ratio	70.9	74.2	N/A	17.8	**48.2**
Inventory turnover day	92.3	31.9	36.8	48.6	**75.4**
Debtor turnover days	24.6	17.7	15	22.5	**72.9**
Creditor turnover days	4.6	5.1	18.6	6.2	**32.8**





Chairman's Statement

To all shareholders:

On behalf of the board of directors (the "Board"), I am pleased to present you the audited results of Xiwang Sugar Holdings Company Limited ("Xiwang Sugar" or the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2007.

RESULTS

The overall performance of our Group in 2007 was satisfactory and recorded solid growth in both turnover and net profit. The turnover reached RMB2,062 million, representing a growth rate of 48.9% over 2006. Meanwhile, the profit attributable to equity holders reached RMB361 million, representing an increase of 24.4% over 2006; basic earnings per share were RMB0.435, an increase of 22.2% over 2006. Our solid performance for 2007 reflected our continuous efforts to pursue efficiency, growth and profitability by focusing on operational scale, innovation, quality and brand building, marketing and sales efforts, as well as ongoing improvement to corporate governance.

Our Board has proposed RMB0.15 per share as final dividend payment for 2007 after considering the Group's result for 2007 as well as the upcoming funding requirement for further business expansions, including the launch of our new product crystallised fructose. The proposed dividend payment represents a dividend payout ratio of approximately 35% for 2007.

BUSINESS REVIEW

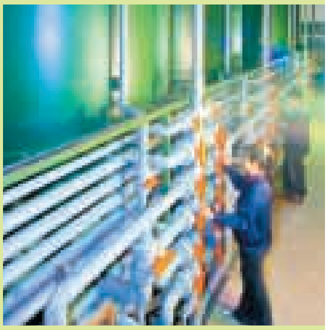
As the largest and leading Chinese crystallised glucose enterprise, our Group processes corn to produce corn-based biochemical products such as crystallised glucose, glutamic acid, as well as corn-refined products such as corn gluten meal, corn germ, animal feed, corn starch paste, etc. by using vertically integrated production approach. During 2007, we saw strong market demand for crystallised glucose from our key customer sectors, including food and beverage, fermentation, pharmaceutical and chemical industries. The continued strength in China's economic growth, coupled with people's rising living standard and their higher awareness of health and food, has boosted the demand for glucose in China. Moreover, there has been an emerging trend in industries such as pharmaceuticals and chemicals for outsourcing the production of non-core intermediary products to other manufacturers who are capable of offering them with stable supply more cost effectively. All the factors mentioned above lifted up the demand for our crystallised glucose. We estimate the demand for crystallised glucose will continue to grow at a fast rate of 20-30% per annum in the next couple of years.

At the beginning of 2007, our Group successfully completed the capacity expansion of crystallised glucose from 250,000 tonnes to 800,000 tonnes per annum. Our sales team has focused on developing large and core customers, and kept the product price relatively stable but premium over the key competitors through most part of the year. Under this strategy we significantly increased our sales volume and raised the utilisation rate of our production facilities from less than 30% at the beginning of 2007 to above 70% at the end of the year. As a result, our Group is estimated to command a solid crystallised glucose market share of 35-40% in China.

The turnover of our corn-refined products, including corn gluten meal, corn germ and animal feed increased considerably in 2007, thanks to the increasing need for food and animal feed both domestically and internationally. The significant price increase of these products, as a result of increasing demand together with higher raw material input cost, contributed better gross margin and thus benefited the Group's overall profitability.

On the other hand, corn price continued to go up last year which raised our production cost and impacted the profit margin. We expect the domestic corn price may stay at relatively high level as compared to previous years, but whether domestic corn price will continue to rise remains to be doubtful. We foresee China's corn will be in relatively tight supply and demand balance in the near future. The view is supported by the fact that the Chinese Government has shown her strong intention to maintain a sufficient supply of corn at a relatively stable price level by taking policy measures, including cancelling tax rebate for domestic corn export and providing regulatory policy for developing the corn processing industries in a more orderly and effective manner.

To combat the potential price hike of corn, our business philosophy is to develop further down-stream, cost efficient and higher value-added products in order to gain better pricing power to our products, with an aim to achieve better profitability and financial return to our shareholders. Equipped with innovative research and development capabilities, we successfully developed crystallised fructose in 2007, a first of its kind in the industry in China. It is a new product to be tailored to the high-end food and pharmaceutical industries. The Group has an existing trial production line of 10,000 tonnes per annum.



Meanwhile, we consider that the corn processing industry in China is under pressure for consolidation. Many less competitive players are under operational and financial pressure with higher corn prices. Many of them are also in lack of proper pollution-control facilities, and an unfavorable financing environment has put them into defensive position for survival. We expect players with good corporate governance and flexible financing capacities will be able to capture the trend of consolidation and upgrade their operation scale. We have been paying close attention and carrying out analysis on this trend, but have not yet locked in any specific target.

In the past year, we upgraded our internal management system, in particular the know-how on operating and financial management skills. As a result, we could respond in a more intelligent and responsive way in respect of operational and financial issues. Meanwhile, to better utilise the financing platform of the Company as well as to capture the Chinese Renminbi currency appreciation potential, we restructured the Group's debt by financing and refinancing with US dollar-denominated borrowings. We are glad to see that, in 2007, our Group has benefited from such debt restructuring and we are confident that the improved capital structure will bring more benefits in the coming years.

During the year of 2007, our management and employees continued their commitment and efforts to making our company a better and more competitive corporation. We were awarded as one of "Hong Kong's Outstanding Enterprises for 2007" by the *Hong Kong Economic Digest* magazine. Meanwhile, "Xiwang Brand", which is the brand we use to market the products, was awarded as "China Top Brand" and the "Chinese Well-known Trademark" by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC and the Trademark Office of State Administration for Industry and Commerce respectively.

PROSPECTS AND PLAN

Moving ahead with 2008, we embrace both opportunities and challenges. First of all, we expect that the demand for crystallised glucose and corn-refined products in both the domestic and international markets will remain strong, providing the Group with further growth opportunities. Our continuous efforts in expanding large and core customer base will strengthen our domestic market leading position. Meanwhile, we plan to selectively develop international markets as well, in order to capture further growth opportunities. We have opted Korea as our initial target. We expect to increase the export to total sales to 20% by 2010.

Moreover, with our production utilisation rate approaching to its maximum level, through providing our customers with better services, further assurance on quality and quantity, we aim to optimize our product economics and financial return while maintaining good customer relationships and their loyalty to our products and services.

The movement in corn price may pose a major challenge to the Group's business development. We have developed strategies in mitigating such risks. A new corn warehouse was completed in the first quarter of 2007, and total storage volume increased to 250,000 tonnes. The aim of such expansion is to purchase corn at better timing in order to minimize the potential negative impact of corn cost rise. Meanwhile, as part of our overall corn sourcing strategy, our Company is exploring corn futures mechanism at the Chinese commodities futures exchange markets. Once properly installed, such mechanism is expected to serve as an effective tool to help the Group to lower the risk of rising corn prices.

Crystallised fructose is the company's new product with the aim of tapping into the high-end food and pharmaceutical industries. We expect to spend RMB 500 million to set up a 50,000-tonne per annum production line adjacent to our existing trial production line. We expect the construction will be completed in 2008 and revenue can be brought in 2009.

The growth of a corporate depends on the vision of the management, which is the key to the sustainable growth strategy for future development. Riding on our research and development capability and collaboration with technical experts in the industry, our Group is actively developing more high value-added products and further expanding our product portfolio. On the other hand, we are closely monitoring the industry consolidation trend for any opportunity that is value-enhancing to our shareholders.

On behalf of Xiwang Sugar, I would like to take this opportunity to express my heartfelt thanks to our Board, management and all employees for their dedication and contribution to the Group and its business development in 2007. I would also like to express my deepest gratitude to our clients, business partners and all our shareholders for their support and trust.

Wang Yong
Chairman

Hong Kong, 2 April 2008

Management Discussion and Analysis

1. BUSINESS OVERVIEW

As the largest and leading crystallised glucose enterprise in China, the Group processes corn and manufactures and sells two main categories of products: corn-based biochemical products and corn-refined products. The Group's corn-based biochemical products include crystallised glucose, and glutamic acid while corn-refined products include corn gluten meal, corn germ, animal feed, and corn starch paste. The Group stopped processing glucose syrup residual into lysine at the end of 2006 and converted its production facilities into processing glutamic acid instead. As a result, the Group continued selling residual lysine inventory in 2007 ("the Year").

The Group completed its crystallised glucose production capacity expansion at the beginning of 2007, and raised the designed capacity to 800,000 tonnes from 250,000 tonnes. During 2007, as crystallised glucose was widely sold to the food and beverage, fermentation, pharmaceutical and chemical industries, the Group saw a strong market demand for crystallised glucose from its customers in these sectors. The strong demand trend was mainly attributed to the continuous rapid growth of the Chinese economy, the people's rising living standard and their higher awareness of health and food, and the increasing outsourcing trend for the production of intermediary raw material input. Meanwhile, with the increasing demand for food and animal feed together with rising cost of agriculture raw material input products, the Group saw strong demand and product price performance for corn-refined products during 2007.

Corn, as the Group's key raw material, represented over 70% of the total production cost in 2007. In 2007, corn acquisition cost increased by approximately 13% as compared with 2006 and the rising corn price had a significant negative impact on the Group's profit margin and overall profitability. On the other hand, the Chinese government has indicated its keenness to maintain domestic corn price at a relatively stable level by taking policy measures, including canceling tax rebate for domestic corn export and providing regulatory policy for developing the corn processing industries in a more orderly and effective manner.

To capture the market potential for its business growth and to combat against the threat from the rising cost of corn, the Group implemented a cohesive business development strategy that yielded satisfactory operating and financial results for 2007:

— **focusing on developing large and core customer base to increase sales, sales stability, and market share**: Large and core customers provide the Group with stable and sizeable sales orders and income streams. With the Group's operation scale two to three times larger than that of its closest competitors, the Group viewed both the quantity as well as the quality of its sales were vital to the overall success of its business. During 2007, around 30% of the Group's turnover came from large and core customers and the Group aims to expand it to around 60-70% in the next several years.

— **focusing on developing more higher value-added downstream products to create better product mix and more profitable business opportunities**: Supported by its strong research and development capabilities, the Group successfully developed crystallised fructose, the first of its kind by Chinese manufacturers and a product tailored to the high-end food and pharmaceutical sectors. The Group expects the product to provide higher profitability to the Group in the years to come.

— **proactively managing to lower corn acquisition cost**: Relying on the existing 250,000 tonnes corn storage facility, the Group actively managed to lower corn purchasing costs by better timing of its corn acquisition. The Group was also exploring ways of hedging its corn purchasing cost risk through utilising futures hedging mechanism available from key Chinese commodities futures exchange markets. The Group expects to incorporate the corn acquisition through Chinese commodities futures exchange markets as part of its overall corn purchasing strategy in near future.

— **Committing to continuously reviewing and improving its management system, including its internal control system**: The Group upgraded its management system to be more transparent and responsive and it made significant improvement of its operating and financial management system and personnel skills. The Group continued its efforts to attract, retain and motivate its staff through providing continuous on-job training programs, offering performance-linked compensation packages to attract professionals to join its operations in order to sustain continuous healthy development of the Group.

2. REVIEW OF OPERATING AND FINANCIAL RESULTS

Turnover

The Group attained a turnover of RMB2,062,256,000 in 2007, representing an increase of 48.9% as compared with 2006. Crystallised glucose contributed 86.8% of the total increase during the year. The remaining mainly came from the corn gluten meal, corn germ and glutamic acid. The Group achieved export sales of RMB253,001,000 representing 12.3% of the Group's turnover (2006: 11.7%). Compared with 2006, export sales increased by 56.6% in 2007.

	Year ended 31 December 2007	**Percentage of total sales**	Year ended 31 December 2006	Percentage of total sales	Percentage Change
	RMB'000	**%**	*RMB'000*	%	%
Crystallised glucose	**1,109,520**	**53.8**	521,677	37.7	112.7
Corn gluten meal	**214,213**	**10.4**	119,406	8.6	79.4
Corn germ	**206,944**	**10.0**	87,622	6.3	136.2
Animal feed	**183,313**	**8.9**	143,461	10.4	27.8
Corn starch paste	**153,014**	**7.4**	93,520	6.8	63.6
Glumatic acid	**98,361**	**4.8**	7,517	0.5	1,208.5
Lysine	**8,733**	**0.4**	302,485	21.8	(97.1)
Others	**88,158**	**4.3**	109,257	7.9	(19.3)
Total	**2,062,256**	**100.0**	1,384,945	100.0	48.9
Domestic sales	**1,809,255**	**87.7**	1,223,365	88.3	47.9
Export sales	**253,001**	**12.3**	161,580	11.7	56.6
Total	**2,062,256**	**100.0**	1,384,945	100.0	48.9

Crystallised glucose contributed 53.8% (2006: 37.7%) of the Group's total turnover in 2007, representing an increase of 112.7% as compared to 2006. This was the result of expanding production capacity and exploring large and core customers who have provided stable income source to the Group. Its strategy of keeping the crystallised glucose price relatively stable but premium over key competitors through most part of the year resulted in significant sales and market share increase. Due to larger increase in the domestic sales, crystallised glucose's export sales to total turnover decreased from 10.6% in 2006 to 7.0% in 2007.

Corn gluten meal sales increased by 79.4% in 2007, strongly supported by 116.3% increase in its export sales. Its export sales represented 56.6% of its turnover during the year (2006: 46.8%). Corn gluten meal has good quality reputation and price competitiveness in overseas markets which enabled the Group to have satisfactory performance in export sales.

As the production capacity increased, much corn was processed and much corn germ was generated. Corn germ is a key raw material for producing corn oil. Similar to other agricultural products, demand for corn oil in China increased sharply during 2007 thus created exciting demand for corn germ. The turnover of corn germ increased by 136% in 2007. As the domestic demand for corn germ was strong, the Group sold all the corn germ in China in the year.

Animal feed had 27.8% turnover increase in 2007. The increase mainly came from the export sales. Export sales of animal feed increased by 162.7% to RMB48,029,000 during the year. Same as corn gluten meal, it successfully captured more overseas sales through its good quality and competitive price.

Turnover of corn starch paste increased by 63.6% to RMB153,014,000 in 2007. From January 2007, the Group increased its annual production capacity of corn starch paste from 600,000 tonnes to 1,000,000 tonnes after the implementation of a new production line. While the Group was ramping up its crystallised glucose processing utilisation rate during 2007, the surplus corn starch paste produced upstream was sold and contributed to 7.4% of the total turnover of the Group in the year.

In 2007, the Group ceased production of lysine and switched to produce glutamic acid, with the hope to achieve more effective absorption of the residual mother liquid from the production of crystallised glucose, the principal product of the Group. However, with the much increased production volume of crystallised glucose for the Group, the Group decided to switch from production of glumatic acid to semi-alcohol products at the end of 2007. The production of semi-alcohol products can more effectively absorb the residual mother liquid, which is crucial to the effective solution of waste water discharge and environmental protection. Semi-alcohol products will be targeted to the industrial and beverage markets.

Turnover of others was mainly contributed by mother liquid. With the production of crystallised glucose more than doubled in 2007, mother liquid produced during the year also increased, resulted in its turnover increased by 110.9% as compared to the previous year.

Turnover of major products are further analysed as below:

	Sales Volume			Average Selling Price		
	2007	2006	Percentage of change	**2007**	2006	Percentage of change
	tonnes	*tonnes*	%	***RMB***	*RMB*	%
Crystallised glucose	**481,135**	209,692	129.4	**2,306**	2,488	(7.3)
Corn gluten meal	**64,444**	42,215	52.7	**3,324**	2,829	17.5
Corn germ	**67,851**	39,525	71.7	**3,050**	2,217	37.6
Animal feed	**201,529**	137,882	46.2	**910**	1,040	(12.5)
Corn starch paste	**83,296**	56,281	48.0	**1,837**	1,662	10.5
Glumatic acid	**22,136**	1,642	1,248.1	**4,444**	4,578	(2.9)
Lysine	**613**	39,544	(98.4)	**5,949**	7,649	(22.2)

Increase in turnover of crystallised glucose by 112.7% was mainly contributed by doubling the sales volume in 2007. This was the result of the Group's successful sales strategy during the year. It's worthwhile to note that the unusually high selling price of crystallised glucose in the first half of 2006, caused by the sudden surge of cane sugar price during the similar period, made the comparison with the selling price for 2007 to certain extent distorted. In fact, the Group maintained a relatively stable but premium price to its major competitors through the major part of 2007.

Turnover of corn gluten meal increased by 79.4% in 2007. Both sales volume and average selling price increased significantly. The Group strengthened its own sales team and handled over 50% of the total sales, therefore, saved the mark-up previously gained by the agents of export sales. Besides, the reputation of the Group's good quality corn gluten meal also allowed it to enjoy a higher selling price.

Benefited from the increased market demand for corn oil, our sales of corn germ together with its selling price increased significantly in 2007 as well.

Turnover of animal feed increased by 27.8% for 2007. The animal feed market in China had its boom during the year and led to the increase in sales volume by 46.2%. Export sales volume represented 23.2% of its total sales volume with average selling price around 11% higher than that of domestic sales. In 2006, one kind of animal feed the Group sold was produced with lysine added, thus resulted in its product selling price almost doubled as compared with other kinds of animal feed. As the Group ceased the production of lysine, no lysine-added animal feed was produced and sold from the last quarter of 2007. This caused the average selling price dropped by 12.5% as compared with the previous year.

Sales volume of corn starch paste increased by 48.0% during 2007, which represented the surplus of corn starch paste not further processed by the Group. Corn starch paste is an intermediary product used for producing crystallised glucose and other down-stream products. With the increase in market demand for down-stream products as well as the rising corn cost, market price for corn starch paste went up accordingly.

The Group started to produce and sell glumatic acid in the last quarter of 2006 and ceased its production in December 2007. To more effectively absorb the residual mother liquid, resulted from the production of crystallised glucose, the Group decided to switch to produce semi-alcohol products instead of glutamic acid and production and sale of semi-alcohol products is expected to happen in 2008.

Cost of goods sold

	2007		2006		Percentage of change
		Percentage of total		Percentage of total	
	RMB'000	**%**	*RMB'000*	%	%
Corn	**1,162,892**	**72.8**	640,005	62.8	81.7
Purchase of other raw materials	**27,980**	**1.8**	59,482	5.8	(53.0)
Auxiliary material	**144,602**	**9.0**	111,371	10.9	29.8
Utilities	**138,229**	**8.7**	125,602	12.3	10.1
Depreciation	**61,911**	**3.9**	33,704	3.3	83.7
Labour costs	**29,304**	**1.8**	18,050	1.8	62.3
Consumables and repairs of facilities	**11,877**	**0.7**	13,956	1.4	(14.9)
Overheads	**3,119**	**0.2**	3,209	0.3	(2.8)
Input VAT	**18,041**	**1.1**	14,520	1.4	24.2
Total	**1,597,955**	**100.0**	1,019,899	100.0	56.7

Cost of goods sold increased by 56.7% in 2007, of which cost of corn consumed, depreciation and labour costs had significant increases, respectively, during the year.

With the addition of the new production line, the corn processed by the Group increased by over 60% to approximately 971,000 tonnes in 2007. Together with the average corn purchase cost increased by about 13% during 2007, the cost of corn consumed increased by 81.7% this year.

Auxiliary materials included addictive materials for processing and packaging materials. In addition, purchase of other raw materials mainly represented corn gluten meal outsourced from other suppliers during the year. From 2007, with the Group's expanded production capacity and increased production volume, the need for outsourcing corn gluten meal is expected to decrease.

The Group entered into agreements with utilities suppliers so that favourable price could be obtained with payment in advance. The agreements will be terminated in 2008 and expected to be renewed. Utilities cost was only increased by 10.1% even though the sales volume significantly increased. Besides, increase in production efficiency also helped to save energy consumed.

The increase in depreciation by 83.7% was arisen from commissioning the new plant and its facilities for production in 2007. Meanwhile, with the increase in operation scales, number of production and sales staff increased by 28.6% to 2,344 during the year.

In the first quarter of 2007, part of the production facilities was halted for routine maintenance repair. Production was mainly from the new production facilities commissioned in January 2007. As the production effectiveness was higher, less consumables and repairs were incurred.

Domestic and export sales of animal feed were free of output value added tax. However, the purchase of its production materials was still subject to input value added tax. For products other than animal feed, their input value added taxes were set off with the output value added taxes and not expensed. The input value added tax of the Group's animal feed was calculated by multiplying the ratio of the Group's animal feed turnover to total turnover by the input value added tax in relation to the Group's corn starch paste production. The increase in input value added tax was therefore arisen mainly from the increase in turnover of animal feed in 2007.

Overheads included environmental protection expenses, water, storage and delivery charges. It remained stable as compared with that of the previous year.

Gross profit analysis

	Gross Profit					Gross Profit Margin		
	2007	% of total	2006	% of total	Increase/ (Decrease)	**2007**	2006	Increase/ (Decrease)
	RMB'000	%	*RMB'000*	%	%	**%**	%	%
Crystallised glucose	**265,111**	57.1	175,385	48.1	51.0	**23.9**	33.6	(9.7)
Corn gluten meal	**71,212**	15.3	19,150	5.2	271.9	**33.2**	16.0	17.2
Corn germ	**57,898**	12.5	20,897	5.7	177.1	**28.0**	23.8	4.2
Animal feed	**47,534**	10.2	49,131	13.5	(3.3)	**25.9**	34.2	(8.3)
Corn starch paste	**29,564**	6.4	14,683	4.0	101.3	**19.3**	15.7	3.6
Glumatic acid	**(11,683)**	(2.5)	845	0.2	(1,482.6)	**(11.9)**	11.2	(23.1)
Lysine	**2,613**	0.6	67,440	18.5	(96.1)	**30.0**	22.2	7.8
Others	**2,052**	0.4	17,315	4.8	(88.1)	**2.3**	15.8	(13.5)
	464,301	100.0	365,046	100.0	27.2	**22.5**	26.4	(3.9)

Even with the significant rise of corn price during 2007, the Group's overall gross profit margin decreased by a much less 3.9%. This was due to the Group's success over cost control and its significant increase in average selling prices of corn gluten meal and corn germ as discussed earlier.

Gross profit margin of crystallised glucose decreased by 9.7% this year mainly because of the significant rise of corn price. On the other hand, the increase in gross profit margin of corn gluten meal was mainly due to its rising selling price during the year.

As compared with the increase in corn germs' unit cost of sales, the faster increase in its average selling price resulted in its gross profit margin expanded by 4.2% for the year. However, the increase in the average unit cost of sales for animal feed, caused by the rising corn cost, together with its decreased average unit selling price caused by the elimination of the much higher priced lysine-added animal feed, resulted in the drop of its gross profit margin by 8.3% in 2007.

Gross profit margin of corn starch paste increased by 3.6% this year. The increase in average selling price was partly offset by the increase in unit cost of sales which was mainly caused by increase in corn cost.

Other income

Other income increased by RMB4,177,000 for the year. The increase was mainly arisen from the increase in gain on sales of scrap materials by RMB4,497,000. Besides, the Group had a gain on the corn futures which amounted to RMB1,431,000 in 2007. The corn futures was purchased for hedging the Group's corn purchasing cost risk.

Selling and marketing costs

Selling and marketing cost decreased by 1.6% as compared with last year. In the past, the Group had borne the transportation costs. During the year, the Group reached agreements with customers so that transportation cost would be borne by the buyers. This change saved the transportation cost for the Group. The Group therefore effectively reduced its selling and marketing costs even with a significant increase in its sales volume during 2007.

Administrative expenses

Administrative expenses increased by RMB9,940,000 to RMB32,928,000 this year. The increase was mainly arisen from increase in amortisation of intangible assets and land use tax associated with the land of the new production plant with operation commenced in the first quarter of 2007.

Besides, in the first quarter of 2007, there was routine maintenance for the existing production facilities. While its production ceased during the period, depreciation of these production facilities was charged as administrative expenses in accordance to the matching concept.

Finance costs

Finance costs increased by RMB2,943,000 in 2007. In addition to a US dollar bank facility raised in November 2006, the Company obtained two new US dollar-denominated loans during the year for financing working capital and refinancing Renminbi-denominated existing bank loans. Such financings resulted in the increase in bank loan interest by RMB35,771,000 in 2007. On the other hand, due to appreciation of Renminbi against US dollar, the Group enjoyed increase in exchange gain amounted to RMB34,991,000 for the year.

Income tax expenses

Pursuant to the rules and regulations of Bermuda and the British Virgin Islands ("BVI"), the Group was not subject to any income tax in Bermuda and the BVI during 2007.

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

Group companies registered in the PRC were subject to PRC Enterprise Income Tax ("EIT") on the taxable income as reported in their PRC statutory accounts adjusted for items, which were not assessable or deductible in accordance with relevant PRC income tax laws. The standard overall EIT rate applicable to all PRC subsidiaries was 33% which comprised of 30% state EIT and 3% local EIT.

With the approval of related tax authority, Shandong Xiwang Sugar Industry Co., Ltd. ("Shandong Xiwang Sugar") and Shandong Xiwang Bio-chem Technology Limited ("Xiwang Technology"), being production enterprises with foreign investment, are entitled to exemption from the local EIT and two years' exemption from state EIT starting from the first cumulative profit-making year after compensating the accumulated losses, followed by an exemption from the local EIT plus a 50% reduction in the state EIT in the following three years ("EIT Tax Holiday"). 2005 was the first profit-making year of Shandong Xiwang Sugar. Therefore, the applicable tax rate for Shandong Xiwang Sugar in 2007 was 15% (2006: 0%). 2007 was the first profit-making year of Xiwang Technology. Therefore, Xiwang Technology was exempted from the entire EIT in 2007.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"). Effective from 1 January 2008, all enterprises are subject to a standard PRC enterprise income tax rate of 25%, except for particular provisions and preferential policies. According to the new CIT Law and the relevant regulations, the new EIT rate applicable to Shandong Xiwang Sugar and Xiwang Technology is 25% from 1 January 2008 onwards but both companies are still entitled to the EIT Tax Holiday mentioned above.

Liquidity, capital resources and gearing ratio

	2007 ***RMB in millions***	2006 *RMB in millions*
Net current assets	**764**	550
Cash and cash equivalents	**343**	663
Bank loans	**1,029**	871
Shareholders' equity	**1,424**	1,171
Current ratio	**2.51 times**	2.53 times
Gearing ratio (total borrowing to total equity)	**72.3%**	74.4%
Debtors turnover days	**72.9 days**	22.5 days
Creditors turnover days	**32.8 days**	6.2 days

Net current assets:

The Group's net current assets increased by RMB214 million during 2007.

Current assets increased by RMB361 million, mainly due to the increase in trade receivables and inventories amounted to RMB327 million and RMB194 million, respectively. Other receivables and amount due from related companies increased by RMB76 million and RMB83 million respectively. These were offset by decrease in cash and cash equivalents by RMB320 million.

Current liabilities increased by RMB148 million this year. Trade payables and other payables increased by RMB126 million and RMB38 million respectively. One of the subsidiaries in Mainland China started to pay profit tax this year and had tax payable amounted to RMB10 million. While two new US dollar-denominated bank facilities were obtained this year and gave rise to increase in non-current portion of long term liabilities by RMB182 million, the repayment of Renminbi-denominated bank facilities led to the decrease in current portion of long term loan by RMB241 million.

As at 31 December 2007, trade receivable amounted to RMB412 million, increased by RMB327 million as compared with the previous year. Debtors turnover days increased to 72.9 days as at 31 December 2007. To capture orders from some of the major customers, the Group allowed longer credit periods to them. Generally, credit periods of 30 to 180 days are offered to some major customers. Extended credit periods are allowed after receiving banks' acceptance bills from these customers. Receivables over 30 days represented 45.4% of total receivables in 2007 (2006: 23.6%) As these customers are leading and/or large players in their own industries, the management considered the risks of irrecoverability are low. Besides, 72.6% of the total trade receivables were bills accepted by the authorised banking institutions in Mainland China. The management considered that we have established a stable relationship with these major customers. The Group has started to tighten the credit terms with major customers with the initial target to achieve credit terms not longer than 3 months.

Inventories increased by RMB194 million to RMB330 million as at 31 December 2007. With the production and sales volume significantly increased in 2007, more inventories of raw materials and finished goods were carried accordingly. The increase was mainly contributed by increase in corn held. Corn inventory was RMB189 million, while crystallised glucose inventory was RMB57 million. For corn, the inventory level as at 31 December 2007 was 134,274 tonnes, representing around 1.4 month of its production usage. For crystallised glucose, 30,398 tonnes was held as at 31 December 2007, representing about 0.6 month of sales of crystallised glucose for the month of December 2007.

Purchase of raw materials increased during the year 2007 to cope with the rising production scale. Besides purchasing from third parties, the Group also purchased from related companies. The trade payables and amount due to related companies increased accordingly.

Borrowings:

In view of the continuing appreciation of Renminbi against the US dollar, the Company obtained two US dollar-denominated banking facilities in 2007. These borrowings borne interest expenses at market rates. Part of the financings was used for refinancing the Renminbi-denominated banking facilities amounted to RMB243 million, while the rest of these new loans was used for financing the Group's operations.

As at 31 December 2007, the US dollar-denominated banking facilities represented 84.7% (2006: 53.7%) of the total borrowings.

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 RMB294 million during 2007, among which the investment in production facilities for new product crystallised fructose was RMB49 million. Moreover, the Group had capital commitments amounted to RMB60 million for construction of production facilities for crystallised fructose.

Contingent liabilities:

The Group did not have any material contingent liabilities as at 31 December 2007.

Foreign exchange risk:

The Group's main operation is situated in Mainland China. Most of its assets, liabilities, revenues and payments, including the cash balances are in Renminbi, except for the US dollar-denominated loans mentioned above. In view of the continuing appreciation of Reminbi, the Directors consider the foreign exchange risk of the Group is limited.

Human resources

The Group had 2,593 employees as at 31 December 2007 (2006: 2,044 employees). The increase was mainly arisen from the expanded production facilities during the year.

Having considered the experience, responsibility, workload and the time devoted, the Group regularly reviews the remuneration packages to the employees. 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 employees, share options may also be granted to Directors and eligible employees based on the performance of individuals.

3. FUTURE PROSPECTS AND DEVELOPMENTS STRATEGIES

With the Group's leading market position, supported by the continuous economic growth outlook, improved people's living standards and their broadened awareness for health and food, the Group is confident about its business growth prospects going forward. The Group will continue its existing business development strategies as discussed earlier in order to further capture business opportunities from increasing market demand for its products. Moreover, it plans to selectively develop international market in order to capture further growth opportunities. The Group has targeted markets such as Korea for its initial moves in the near future. The Group expects to raise its international sales ratio to 20% by 2010.

On the Group's newly developed crystallised fructose product, it plans to set up a new production line with 50,000 tonnes designed capacity, in addition to its existing 10,000 tonnes trial production facility. The Group expects the capital expenditure for the new production line, together with working capital requirement, to be around RMB500 million. The Group strives to complete the new production line setup by 2008 and expect the new product offer will bring meaningful revenue and profit contribution to the Group in 2009 and onwards.

Meanwhile, the Group will continue monitoring the industry consolidation trend in China and aims to capture value-enhancing business expansion opportunities to further solidify its leading market position and bring quality returns to its shareholders.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

Xiwang Sugar Holdings Company Limited (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 (the "Listing Rules") as its own code of corporate governance. The directors of the Company (the "Directors") consider that during the year ended 31 December 2007 (the "Review Period"), the Company has complied with the code provisions under the CG Code and a majority of the recommended best practices of the CG Code.

The Directors are committed to upholding the corporate governance of the Company to ensure that formal and transparent procedures are in place to protect and maximise the interests of the shareholders. Set out below is a detailed discussion of the major corporate governance practices adopted and observed by the Company during the Review Period or where applicable, up to the date of this report.

A. DIRECTORS' SECURITIES TRANSACTIONS

The Company has 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 securities dealing code for the Directors. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard set out in the Model Code throughout the Review Period.

B. BOARD OF DIRECTORS

(i) Board composition

The Board currently comprises a combination of six executive Directors, one non-executive Director and three independent non-executive Directors. As at 31 December 2007, the Board consisted of the following Directors:

Executive Directors
Mr. WANG Yong *(Chairman)*
Mr. WANG Liang *(Chief executive officer)*
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

The executive Directors, with the assistance from the senior management, forms the core management team of the Company. The executive Directors have the overall responsibility for formulating the business strategies and development plan of the Group and the senior management are responsible for supervising and executing the plans of the Company and its subsidiaries (collectively, the "Group").

(ii) Board meetings

During the Review Period, 6 full board meetings were held and prior notices convening the meetings of the Board were despatched to the Directors setting out the matters to be discussed. At the meetings, the Directors were provided with the relevant documents to be considered and approved. The company secretary of the Company is responsible for keeping minutes for the meetings of the Board.

(iii) Attendance record

The following is the attendance record of the board meetings held by the Board during the Review Period:

	Attendance at meeting
Executive Directors	
Mr. WANG Yong *(Chairman)*	5/6
Mr. WANG Liang *(Chief executive officer)*	5/6
Dr. LI Wei	6/6
Mr. WANG Cheng Qing	3/6
Mr. HAN Zhong	6/6
Mr. LIU Ji Qiang	4/6
Non-executive Director	
Mr. LIU Heng Fang	4/6
Independent non-executive Directors	
Mr. SHI Wei Chen	3/6
Mr. Shen Chi	6/6
Mr. WONG Kai Ming	4/6

(iv) Independent non-executive Directors

In compliance with Rule 3.10(1) of the Listing Rules, the Company has appointed three independent non-executive Directors. The Board considers that all independent non-executive Directors have appropriate and sufficient industry or finance experience and qualifications to carry out their duties so as to protect the interests of shareholders of the Company. One of the independent non-executive Directors, Mr. WONG Kai Ming, has over 20 years in the accounting and finance fields and is a fellow member of the Association of Chartered Certified Accountants and a practising member of the Hong Kong Institute of Certified Public Accountants.

Prior to their respective appointment, each of the independent non-executive Directors has submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence.

The Company has also received their annual written confirmations from Mr. SHI Wei Chen, Mr. SHEN Chi and Mr. WONG Kai Ming in respect of their independence. Based on such confirmations, the Board considers that all independent non-executive Directors are considered to be independent.

(v) Relationship among members of the Board

Each of the executive Directors and non-executive Directors are shareholders and/or directors of certain companies which are connected persons of the Group. Other than that, there is no relationship (including financial, business, family or other material/relevant relationship(s)) between any of the Directors or chief executive officer. All of them are free to exercise their independent judgment.

C. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the chairman and the chief executive officer are segregated. Mr. WANG Yong is the chairman of the Board who is principally responsible for formulation of plans and policies of the Group, while Mr. WANG Liang is the chief executive officer of the Company who takes charge of the supervision for the execution of the plans and policies determined by the Board. The chairman also chairs the Board meetings and briefs the Board members on the issues discussed at the Board meetings.

D. NON-EXECUTIVE DIRECTORS

The non-executive Director, Mr. LIU Heng Fang, has been appointed for a term of three years commencing on 6 November 2005 which may be terminated by either party by giving to the other not less than one month's prior notice in writing.

The independent non-executive Directors were appointed for a specific term. Mr. SHI Wei Chen, Mr. YU Xiao Lei and Mr. WONG Kai Ming were appointed for a term of three years commencing on 6 November 2005 which may be terminated by either party by giving to the other not less than three months' prior notice in writing. Pursuant to a termination agreement dated 14 February 2007 entered into between the Company and Mr. YU Xiao Lei, the parties agreed to terminate the term of appointment of Mr. YU as independent non-executive Director on 14 February 2007. Mr. SHEN Chi has been appointed for a term of three years commencing on 14 February 2007 which may be terminated by either party by giving to the other not less than three months' prior notice in writing.

E. REMUNERATION OF DIRECTORS

The Company established a remuneration committee with written terms of reference in compliance with the CG Code. During the Review Period, the remuneration committee comprised Mr. WANG Liang (chairman), Mr. SHI Wei Chen and Mr. SHEN Chi. Mr. Shen was appointed as a committee member from 14 February 2007, to replace Mr. YU Xiao Lei. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management.

The remuneration committee held a meeting during the Review Period for granting share options to eligible staff. The remuneration package and service agreement of Mr. SHEN Chi as new director and some other senior management appointees were considered and approved at full Board meetings held during the Review Period. It is the Company's policy that the remuneration package of each Director and senior management shall be determined by reference to the duties, responsibilities, experience and qualifications of each candidate.

F. NOMINATION OF DIRECTORS

The Company established a nomination committee with written terms of reference in compliance with the CG Code. During the Review Period, the nomination committee comprises Mr. WANG Liang (chairman), Mr. SHI Wei Chen and Mr. SHEN Chi. Mr. Shen was appointed as a committee member from 14 February 2007, to replace Mr. YU Xiao Lei. The primary duties of the nomination committee are to make recommendations to the Board on the nominees for appointment as Directors and senior management of the Group.

The nomination committee did not held any meeting during the Review Period as the nomination of new director, Mr. SHEN Chi and some other senior management appointees were considered and approved at full Board meetings held during the Review Period.

According to the bye-laws of the Company, one-third of the Directors are subject to retirement by rotation or, if the number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from the office and offer themselves for re-election. The Directors to be retired by rotation shall be those who have been longest in office since their last appointment. At a full Board meeting held on 2 April 2008, the Directors have reviewed the performance of the Directors who will retire at the forthcoming annual general meeting of the Company and approved to recommend the re-election of such Directors at the forthcoming annual general meeting of the Company.

G. AUDITORS' REMUNERATION

A breakdown of the remuneration of the Group's external auditor is as follows:

	For the year ended 31 December 2007 *(RMB'000)*
Service rendered	
Annual audit services	
– PricewaterhouseCoopers	2,950
– Others	77
Non-audit services	12

H. AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the provisions and recommended practices of the CG Code. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. During the Review Period, members of the audit committee comprised Mr. WONG Kai Ming (chairman), Mr. SHI Wei Chen and Mr. SHEN Chi. Mr. Shen was appointed as a committee member from 14 February 2007, to replace Mr. YU Xiao Lei, whose appointment as a committee member ended on 14 February 2007. During the Review Period, the audit committee held 2 meetings to review the annual results of the Group for the year ended 31 December 2006 and the interim results of the Group for the six months ended 30 June 2007. Except for Mr. SHI Wei Chen who was absent from these meetings, the other two members had attendance rate of 100%.

I. DIRECTORS' AND AUDITORS' ACKNOWLEDGEMENT

All Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2007. The reporting responsibilities of the Company's external auditors, Messrs. PricewaterhouseCoopers, are set out in the Auditors' report on page 46.

J. INTERNAL CONTROL

The Board recognizes its responsibility for establishing and maintaining an adequate and sound internal control system. During the Review Period, the Group has made several improvements on financial and management reporting system. Through regular discussion with management on operational and financial performance and potential risk areas identified, reasonable but not absolute assurance against material misstatement or loss can be attained. The Group can manage risks of failure in operational and financial systems and to achieve the Group's objectives.

The Board will continue to review on the progress of other improvements and enhancement in order to cope with the developments of the Group.

K. DIRECTORS' LIABILITY INSURANCE

The Company has arranged for liability insurance to indemnify its directors and senior management for their liabilities arising out of corporate activities. The insurance coverage is reviewed by the Company on an annual basis.

L. INVESTOR RELATIONS

The Company continues to promote and enhance investor relations and communications with its investors. Our dedicated investor relations team maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's development and attend to any queries promptly. An intensive communications channel has been maintained with investors and analysts through one-on-one meetings, roadshows, conferences and on-site company visits. Press and investor conferences are held at least twice a year subsequent to the interim and final result announcements at which executive directors and senior management are available to answer questions regarding the Group's operational and financial performances.

On behalf of the Board

WANG Yong
Chairman

Hong Kong, 2 April 2008

Directors and Senior Management

DIRECTORS

Executive Directors

WANG Yong (王勇)

Aged 57, is our chairman and executive Director. Mr. WANG is one of our founders. Mr. WANG was the legal representative of 鄒平縣西王社會福利油棉廠 (Zouping County Xiwang Social Benefits Oil and Cotton Factory*) from 1986 to 1992 and of 鄒平縣西王實業總公司 (Zouping County Xiwang Industrial Head Company*) from April 1993 to 1996 and the managing director of 山東西王集團有限公司 (Shandong Xiwang Group Company Limited*) ("Xiwang Group") from 1996 to 2001. Mr. WANG has been the chairman of the board of directors of Xiwang Group since 2001. Mr. WANG has been assessed by 山東省濱州地區職稱改革領導小組 (Shandong Province Binzhou Prefecture Professional Title Reform Leading Group*) as an economist. Mr. WANG was awarded 全國勞動模範 (The National Labour Role Model*) by the State Council in April 2000 and was appointed as the vice president of the third council of China Fermentation Industry Association in December 2004.

Mr. WANG was awarded prizes and titles, including 中華人民共和國農業部二零零零年全國鄉鎮企業質量管理先進工作者 (The National Advanced Worker in Quality Management of Township Enterprise awarded by the Ministry of Agriculture of the PRC in Year 2000*), 中華人民共和國農業部第四屆全國鄉鎮企業家 (The Fourth National Township Entrepreneur Award of the Ministry of Agriculture of the PRC in 2001) and 中華人民共和國農業部「八五」全國鄉鎮企業科技進步先進工作者 (National Advanced Worker in Technological Progress of Township Enterprise of the Eighth Five-year Plan awarded by the Ministry of Agriculture of the PRC*). Mr. WANG received secondary education in the PRC. Mr. WANG was appointed as our executive Director on 1 March 2005.

* *For identification purpose only.*

Directors and Senior Management

WANG Liang (王亮)
Aged 37, is our chief executive officer and executive Director. Mr. WANG Liang is one of our founders. Mr. WANG Liang is responsible for our overall management. Mr. WANG Liang started to work at the Xiwang Group in 1998 and has been the general manager of Xiwang Sugar since 2001. Mr. WANG Liang studied mechanical engineering at a professional school in the PRC and graduated in 1998. Mr. WANG Liang was appointed as our executive Director on 1 March 2005.

Dr. LI Wei (李偉)
Aged 31, is our executive Director responsible for the manufacturing, production technology and quality control functions. Dr. LI obtained a doctorate certificate in food science from Southern Yangtze University (江南大學) on 4 April 2003, and has been the chief engineer of 山東西王糖業有限公司 (Shandong Xiwang Sugar Industry Co., Ltd.*) ("Xiwang Sugar") since May 2003. Dr. LI is the spouse of Mr. SUN Xin Hu, one of our senior management. Dr. LI was appointed as our executive Director in November 2005.

WANG Cheng Qing (王呈青)
Aged 44, is our executive Director and one of our founders. Mr. WANG Cheng Qing was the head of the finance department of 韓店建築公司 (Handian Construction Company*) from August 1988 to September 1990, the deputy general manager of Handian Construction Company from September 1990 to August 1992, the head of the finance department of 鄒平縣西王實業總公司 (Zouping County Xiwang Industrial Head Company*) from August 1992 to July 1994, assistant to the general manager of 鄒平縣西王實業總公司 (Zouping County Xiwang Industrial Head Company*) from July 1994 to 1996 and the deputy general manager of Xiwang Group from 1996 to 2001. Mr. WANG Cheng Qing has been the director of Xiwang Group since 2001. Mr. WANG Cheng Qing received secondary education in the PRC. Mr. WANG Cheng Qing was appointed as our executive Director in November 2005.

* *For identification purpose only.*

DIRECTORS

Executive Directors

HAN Zhong (韓忠)

Aged 52, is our executive Director and one of our founders. Mr. HAN is responsible for the overall financial management of the Group's mainland China operations. Mr. HAN was the deputy head of the finance department of 鄒平縣棉紡織廠 (Zouping County Cotton Mill*) from 1980 to 1997 and started to work at Xiwang Group in June 1997. Mr. HAN graduated from 山東省中華會計函授學校鄒平分校 (Shandong Chinese Accountant's School, Zouping*) in 1990. Mr. HAN obtained the accountant's qualification in the PRC in December 1992. Mr. HAN was appointed as our executive Director in November 2005.

LIU Ji Qiang (劉紀強)

Aged 38, is our executive Director responsible for our sales management. Mr. LIU started to work at the Xiwang Group in 1994, and was the deputy sales general manager of Shandong Starch from 2000 to 2001. Mr. LIU has been deputy sales general manager of Xiwang Sugar since 2001. Mr. LIU was appointed as our executive Director in November 2005.

Non-executive Director

LIU Heng Fang (劉恒芳)

Aged 60, is our non-executive Director and one of our founders. Mr. LIU Heng Fang was the general manager and chairman of the board of director of a sino-foreign joint venture company from April 1980 to 1995 and the general manager of Xiwang Group from March 1997 to 2000. Mr. LIU Heng Fang has been the vice chairman of the board of directors of the Xiwang Group since 2001. Mr. LIU Heng Fang received secondary education in the PRC. Mr. LIU Heng Fang was appointed as our non-executive Director in November 2005.

* *For identification purpose only*

Independent non-executive Directors

SHI Wei Chen (石維忱)

Aged 51, is our independent non-executive Director. Mr. SHI is a professor and has been the president of China Fermentation Industry Association since November 1999. Mr. SHI was a senior engineer in the Food Industry Department (食品工業司) of the Ministry of Light Industry of the PRC (中國輕工業部), the deputy head of 內蒙古烏蘭察布盟經委 (Commission for Economic & Trade of Wulanchabu League of Inner Mongolia*) from March 1991 to April 1992, the deputy head of 中國輕工業部食品工業食品造紙部任綜合辦公室 (Administration Office of the Food Processing and Paper Making Department of Food Industry of the Ministry of Light Industry of the PRC*) from May 1992 to February 1998, and the head of 國家輕工業局食品管理中心 (Food Management Centre of the China National Bureau of Light Industry*) from March 1998 to October 1999. Mr. SHI was appointed as our independent non-executive Director in November 2005.

SHEN Chi (沈篪)

Aged 50, is our independent non-executive Director. Mr. SHEN has extensive experience in the food industry in the PRC. Mr. Shen is currently the Secretariat (秘書長) of the China National Food Industry Association (中國食品工業協會). From March 1982 to January 1984, Mr. Shen was the deputy head of the Secretariat of the General Office of the State Commission for Economic & Trade (國家經委辦公廳秘書處). From February 1984 to October 1987, Mr. Shen worked in the chief editor's office of China Food News (中國食品報總編室). From October 1987 to April 1990, Mr. Shen was the head of the Economic Division of China Enterprise News (中國企業報社經濟部). From 1990 onwards, Mr. Shen worked with the China National Food Industry Association (中國食品工業協會) as deputy secretariat and secretariat, and as deputy head and head of its statistics and information division (統計信息部) respectively. Mr. SHEN was appointed as our independent non-executive Director in February 2007.

WONG Kai Ming (黃啟明)

Aged 53, is our independent non-executive Director. Mr. WONG has over 20 years in the accounting and finance fields and is presently the proprietor of Wong Kai Ming, Certified Public Accountant. Mr. Wong holds a higher diploma in accountancy and a bachelor of arts in accountancy degree from the Hong Kong Polytechnic University (formerly known as Hong Kong Polytechnic). Mr. WONG is a fellow member of the Association of Chartered Certified Accountants and a practising member of the Hong Kong Institute of Certified Public Accountants. Mr. WONG was appointed as our independent non-executive Director in November 2005.

SENIOR MANAGEMENT

CHIEN Kun, Allen (錢崑)

Aged 45, is our Company's chief financial officer since May 2007. Before joining Xiwang Sugar, Mr. Chien worked in investment banking industry for 14 years. Mr. Chien was a managing director and Asia Pacific Regional Head of Transport and Logistics at the Investment Bank Division of the Hongkong and Shanghai Banking Corporation Limited, a director at Salomon Smith Barney Hong Kong Limited and a senior manager at BZW Asia Limited, respectively. Mr. Chien has a Master of Business Administration degree from the Richard Ivey Business School of the University of Western Ontario in Canada, Master of Science degree in Mathematics from University of Alberta, Canada and Bachelor of Science degree in Mathematics from Fudan University in Shanghai, China.

LAM Wai Lin (林惠蓮)

Aged 39, is our Company's company secretary, qualified accountant and assistant financial controller. Ms. Lam joined us in June 2007 and is responsible for the financial management and company secretarial functions of the Group. Ms. Lam has over 12 years of experience in auditing, accounting and financial management. Prior to joining the Company, Ms. Lam was the finance manager of a media company listed on the Main Board of the Stock Exchange. From 2000 to 2004, she was an assistant manager of KPMG, an international accounting firm in Hong Kong.

Ms. Lam graduated from the University of London with a bachelor degree in Economics. She is a fellow member of the Association of Chartered Certified Accountants and an associate member of Hong Kong Institute of Certified Public Accountants.

SUN Xin Hu (孫新虎)

Aged 33, is the head of our business development department. Mr. SUN joined us in July 2003. Mr. SUN had over four years' experience in an international fast food chain in China. Mr. SUN graduated from Shandong Institute of Light Industry (山東輕工業學院) with a bachelor degree in food science in 1997 and Southern Yangtze University (江南大學) with a master degree in food science in 2004. Mr. SUN is the spouse of Dr. LI Wei, our executive Director. Mr. SUN has been appointed as the alternate to our authorised representatives.

ZHANG Qing Sheng (張慶生)

Aged 30, is the head of crystallised glucose factory No. 1 and No. 2. Mr. ZHANG joined us in January 2004 and was responsible for the production management in crystallised glucose factory No. 1 and No. 2. Mr. ZHANG graduated from 遼寧石油化工大學 (Liaoning University of Retroleum and Chemical Technology) in 2002 with a bachelor degree in engineering.

WANG An (王安)

Aged 42, is the manager of the production department of Xiwang Sugar since its establishment. Mr. WANG An graduated from 濱州師範專科學校 (Binzhou Teachers' Training School*) (currently known as 濱州學院 (Binzhou Institute*)) with a diploma in physics education in July 1993. Mr. WANG An joined Xiwang Group in June 1994. Mr. WANG An is the factory head of alcohol production plant.

* *For identification purpose only*

Report of Directors

The board of directors (the "Board" or the "Directors") of Xiwang Sugar Holdings Company Limited (the "Company") is pleased to present its annual report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the manufacture, distribution and sale of corn-based biochemical products and corn refined products. Corn-based biochemical products represent mainly crystallised glucose and glumatic acid while corn refined products include mainly corn gluten meal, corn germ, animal feed and corn starch paste.

DIVIDENDS

The Directors recommend the payment of a final dividend of RMB0.15 per share in respect of the year ended 31 December 2007, totalling approximately RMB126,329,000. Subject to shareholders' approval at the forthcoming annual general meeting of the Company, the final dividend will be paid in cash on or about 2 June 2008 to shareholders whose names appear on the register of members of the Company on 20 May 2008.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year under review are set out in note 6 to the consolidated financial statements.

BORROWINGS

Details of the Group's borrowings as at the balance sheet date are set out in note 16 to the consolidated financial statement.

SHARE CAPITAL

Details of movements in the Company's share capital for the year ended 31 December 2007 are set out in note 13 to the consolidated financial statements.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 4.

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.

The principal terms of the Scheme are summarised as follows:

The maximum number of shares of the Company which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of the Group must not exceed 80,000,000 shares, being 10% of shares in issue on the date of listing of the shares on the Stock Exchange (the "Listing Date") unless shareholders' approval has been obtained, and which must not in aggregate exceed 30% of the shares in issue from time to time.

The maximum number of shares issued and to be issued upon exercise of the options granted to any eligible person (including exercised and outstanding options) in any 12-month period shall not exceed 1% of the issued shares from time to time.

The subscription price for the shares under the Scheme shall be such price as the Board may in its absolute discretion determine at the time of grant of the option but the subscription price shall not be less than the highest of (i) the closing price of a share as stated in the Stock Exchange's daily quotation sheets on the date of the Board approving the grant of an option, which must be a business day (the "Offer Date"); (ii) the average closing price of a share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and (iii) the nominal value of a share.

An option may be exercised in whole or in part in accordance with the terms of the Scheme at any time during the period commencing immediately after the business day on which the option is deemed to be granted and accepted in accordance with the Scheme (the "Commencement Date") and expiring on such date of the expiry of the option as the Board may in its absolute discretion determine and which shall not exceed ten years from the Commencement Date but subject to the provisions for early termination thereof as set out in the Scheme.

Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company as consideration for the grant.

The Scheme shall be valid and effective for a period of ten years commencing on the date of acceptance of the offer.

As at 31 December 2007, the outstanding share options were 6,592,000 shares of the Company, details of which are set out in note 13 to the consolidated financial statements and below:

Class of grantee	Date of grant *(Note 2)*	During the year ended 31 December 2007 Granted	Exercised	Cancelled	Lapsed	Outstanding as at 1 January 2007	Outstanding as at 31 December 2007	Exercise price per Share *(HK$)*	Exercise period
Employees *(Note 1)*	9 January 2006	–	2,000,000	–	1,200,000	4,000,000	800,000	2.50	1 January 2007-31 January 2008
	2 May 2007	5,792,000	–	–	–	–	5,792,000	3.86	*(Note 3)*
		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 the Directors) working under employment contracts with the Group which are regarded as "continuous contracts" for the purpose of the Employment Ordinance (Chapter 57 of the Laws of Hong Kong).

2. The closing prices of the Shares as stated in the Stock Exchange's daily quotations sheet on 6 January 2006 and 30 April 2007, being the trading days immediately preceding the date of grant of options, was HK$2.28 and HK$3.82 per Share respectively.

3. 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

4. The value of options is set out in note 13 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Group during the year are set out in note 14 to the consolidated financial statements and in the consolidated statement of changes in equity.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2007, the largest customer accounted for approximately 8.0% (2006: 5.7%) of the Group's turnover and sales to the Group's five largest customers accounted for 15.7% (2006: 22.6%) of the Group's turnover.

For the year ended 31 December 2007, the largest supplier accounted for approximately 18.6% (2006: 7.4%) of the Group's total cost of purchase and the five largest suppliers accounted for approximately 53.5% (2006: 32.5%) of the Group's total cost of purchase.

Save as disclosed in note 26 to the consolidated financial statements, none of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers during the year ended 31 December 2007.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors during the year under review and up to the date of this report were:

Executive Directors

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

Non-executive Director

Mr. LIU Heng Fang

Independent non-executive Directors:

Mr. SHI Wei Chen
Mr. YU Xiao Lei (resigned on 14 February 2007)
Mr. WONG Kai Ming
Mr. SHEN Chi (appointed on 14 February 2007)

In accordance with Bye-Law 87(1) of the Bye-laws of the Company, each of Mr. WANG Liang, Dr. LI Wei, Mr. WANG Cheng Qing and Mr. HAN Zhong will retire as Director by rotation at the forthcoming annual general meeting and, being eligible, offer himself/herself for re-election as Director.

Each of the executive Directors has entered into a service agreement with the Company for a term of three years commencing on 6 November 2005. Each of these service agreements may be terminated by either party by giving to the other not less than three months' prior notice in writing.

Mr. LIU Heng Fang has been appointed for a term of three years commencing on 6 November 2005 which may be terminated by either party by giving to the other not less than one month's prior notice in writing.

Each of Mr. SHI Wei Chen, Mr. YU Xiao Lei and Mr. WONG Kai Ming has been appointed for a term of three years commencing on 6 November 2005 which may be terminated by either party by giving to the other not less than three months' prior notice in writing. Pursuant to a termination agreement dated 14 February 2007 entered into between the Company and Mr. YU Xiao Lei, the parties agreed to terminate the term of appointment as independent non-executive Director on 14 February 2007.

Mr. SHEN Chi has been appointed for a term of three years commencing on 14 February 2007 which may be terminated by either party by giving to the other not less than three months' prior notice in writing.

Save as disclosed above, none of the directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Company considered all the independent non-executive Directors to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 29 to 33 of the annual report.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the paragraph headed "Connected transactions" below and in note 26 to the consolidated financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year under review.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries or the holding company or a subsidiary of the Company's holding company a party to any arrangements to enable the Directors to acquire benefits by means of an acquisition of shares in, or debentures of, the Company or any other body corporate.

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

As at 31 December 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 for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Company/Name of associated corporations	**Name of directors**	**Capacity**	**Number and class of securities** *(Note 1)*	**Percentage shareholding in the same class of securities as at 31 December 2007**
Company	WANG Yong	Interest of a controlled corporation *(Note 2)*	522,000,000 ordinary shares (L) *(Note 3)*	62.93%
Xiwang Holdings Limited ("Xiwang Holdings")	WANG Yong	Beneficial owner	5,842 shares (L)	46.74%
Xiwang Investment Company Limited ("Xiwang Investment (BVI)")	WANG Yong	Interest of a controlled corporation *(Note 2)*	3 shares (L)	100%

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 31 December 2007
Xiwang Holdings	LIU Heng Fang	Beneficial owner	266 shares (L)	2.13%
Xiwang Holdings	WANG Cheng Qing	Beneficial owner	230 shares (L)	1.84%
Xiwang Holdings	WANG Liang	Beneficial owner	230 shares (L)	1.84%
Xiwang Holdings	HAN Zhong	Beneficial owner	177 shares (L)	1.42%
Xiwang Holdings	LI Wei	Beneficial owner	89 shares (L)	0.71%
		Interest of spouse	89 shares (L)	0.71%
Xiwang Holdings	LIU Ji Qiang	Beneficial owner	89 shares (L)	0.71%

Notes:

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

(2) Mr. WANG Yong holds 46.74% 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 31 December 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 31 December 2007
Xiwang Investment (BVI)	Beneficial owner	522,000,000 ordinary shares (L)	62.93%
Xiwang Holdings	Interest of a controlled corporation *(Note 2)*	522,000,000 ordinary shares (L)	62.93%
Zhang Shufang	Interest of spouse	522,000,000 ordinary shares (L)	62.93%
Atlantis Investment Management Ltd	Investment manager	75,000,000 ordinary shares (L)	9.04%

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.

(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 31 December 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.

CONNECTED TRANSACTIONS

The following are the details of the connected transactions undertaken by the Group during the year ended 31 December 2007 which were subject to reporting requirements under Chapter 14A of the Listing Rules.

A. The following continuing connected transactions are non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules and waivers from strict compliance with the announcement and/or independent shareholders' approval requirement have been sought from the Stock Exchange.

			Annual caps	
	Description	**For the year ended 31 December 2007**	**For the year ending 31 December 2008**	**For the year ending 31 December 2009**
1	Sales of corn germs by the Group to Shandong Xiwang Savola Oil Limited Liability Company ("Xiwang Savola Oil")	RMB210 million	RMB230 million	RMB240 million
2	Sales of glucose syrup by the Group to Shandong Xiwang Leavening Company Limited ("Xiwang Leavening")	RMB10 million	RMB10 million	RMB10 million
3	Purchase of packaging bags by the Group from Shandong Biyundong Alcohol Company Limited ("Biyundong Alcohol")	RMB55 million	RMB85 million	RMB91 million
4	The Group purchases corn germ dregs from Xiwang Savola Oil	RMB30 million	RMB31.5 million	RMB33 million
5	Purchase of sewage services by the Group from Xiwang Group Company Limited ("Xiwang Group")	RMB2.75 million	N/A	N/A

Details of the total transaction amount of each of the above continuing connected transactions and the description of the connection relationship are set out in note 26 to the consolidated financial statements.

The independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

(1) in the ordinary course and usual course of business of the Company;

(2) on normal commercial terms or terms no less favourable to the Company than terms available to or from independent third parties; and

(3) save as noted below, in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

According to the terms of the agreement between the Group and Xiwang Savola Oil (transaction category 1 above), sale proceeds arising from the sale of corn germs from the Group to Xiwang Savola Oil are to be settled by cash immediately after goods delivery. However, it was noted that during the year ended 31 December 2007, sale proceeds of certain transactions had not been settled in cash immediately after goods deliveries and that bank acceptance notes with maturity within 6 months were used for settlement instead of cash payments.

As at 31 December 2007, approximately RMB86,899,000 of trade receivables of the Group was attributable to the sales of corn germs to Xiwang Savola Oil, among which approximately RMB60,000,000 bank acceptance notes with maturity within 6 months from 31 December 2007 were accepted for settlement. All the above mentioned outstanding amount has been fully settled subsequently. Nevertheless, the Directors considered that the continuing connected transactions of the Group shall be conducted in accordance with the terms of the agreements and accordingly, the Directors have reminded the management to closely monitor the execution of the continuing connected transactions which shall be strictly in accordance with the terms of the relevant agreements.

The transaction amount in respect of each type of the continuing connected transactions above during the year under review has not exceeded the annual cap for that transaction.

B. The following connected transaction was subject to reporting and announcement requirements

On 31 December 2007, the Group appointed Shandong Xiwang Steel Structure Co., Ltd (“Xiwang Steel Structure”) for the construction of a new fructose production plant for the Group and the installation of the related machinery and equipment. The total contract price of the project is approximately RMB8,105,000. Xiwang Steel Structure is a subsidiary of Xiwang Group Company Limited and therefore, a connected person of the Company.

GENERAL DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

During the year, the Company (as borrower), Master Team International Limited (a wholly owned subsidiary of the Company) (as guarantor), has entered into two facility agreements ("Facility Agreements") for term loan facilities of up to US$38,000,000 and US$27,000,000 respectively. Both of which contain specific performance obligations on Mr. WANG Yong ("Mr. Wang"), the chairman ("Chairman") of the board of Directors and Xiwang Investment (BVI), both being the controlling shareholders of the Company.

The Facility Agreements provides that so long as there remains any amount outstanding under the Facility Agreements:

(1) Xiwang Investment (BVI), a company incorporated in the British Virgin Islands, shall, directly or indirectly, own not less than 45 per cent. of the entire issued share capital of the Company and there shall be no major change in the shareholdings in Xiwang Investment (BVI); and

(2) the Company shall ensure that Mr. WANG remains as Chairman of the Company and the single largest shareholder of the Company through his attributable interests in Xiwang Holdings and Xiwang Investment (BVI).

A breach of any of the above specific performance obligations would constitute a default under the Facility Agreements. Such default would permit the lenders to accelerate the maturity of the indebtedness under the Facility Agreements. As at the date of this Report, the indebtedness under the Facility Agreements remained outstanding.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 23 to 28 of this annual report.

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. Having made specific enquiry of all directors, all Directors confirmed that they had complied with the required standard set out in the Model Code throughout the year under review.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference based upon the provisions and recommended practices of the Code on Corporate Governance Practices. 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. SHEN Chi, being the three independent non-executive Directors.

The Group's consolidated financial statements for the year ended 31 December 2007 have been reviewed by the audit committee, who is of the opinion that such statement complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float not less than 25% of the total issued share capital as at the date of this report.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company will be held on Tuesday, 20 May 2008.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 16 May 2008 to Tuesday, 20 May 2008, both days inclusive, during which period no transfer of shares will be effected. All transfers accompanied by the relevant certificates must be lodged with the Company's transfer office and share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4:00 p.m. on Thursday, 15 May 2008.

AUDITORS

There has been no change to the Company's auditors since its incorporation. The consolidated financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming annual general meeting to re-appoint PricewaterhouseCoopers as auditors of the Company.

On behalf of the Board

WANG Yong
Chairman

Hong Kong, 2 April 2008

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

Independent Auditor's Report
To the shareholders of Xiwang Sugar Holdings Company Limited
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Xiwang Sugar Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 48 to 95, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the «Companies Act» 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 2 April 2008

Consolidated Balance Sheet

As at 31 December

	Note	**2007 RMB'000**	2006 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**1,299,985**	821,570
Land use rights	7	**163,696**	167,141
Construction in progress	8	**43,737**	296,748
		1,507,418	1,285,459
Current assets			
Inventories	10	**329,962**	135,872
Trade and other receivables	11	**509,173**	106,671
Amounts due from related companies	26(d)	**87,442**	4,879
Derivative financial instruments		**1,446**	–
Cash and cash equivalents	12	**343,085**	662,609
		1,271,108	910,031
Total assets		**2,778,526**	2,195,490
EQUITY			
Attributable to equity holders of the Group			
Share capital	13	**86,375**	86,175
Share premium	13	**468,998**	461,305
Other reserves	14	**236,570**	199,965
Retained earnings			
– Proposed final dividend		**126,329**	115,871
– Others		**506,188**	308,085
Total equity		**1,424,460**	1,171,401
LIABILITIES			
Non-current liabilities			
Borrowings	16	**846,772**	664,314
Current liabilities			
Trade and other payables	15	**308,117**	145,775
Current income tax liabilities		**10,497**	–
Amounts due to related companies	26(d)	**6,055**	7,200
Borrowings	16	**182,625**	206,800
		507,294	359,775
Total liabilities		**1,354,066**	1,024,089
Total equity and liabilities		**2,778,526**	2,195,490
Net current assets		**763,814**	550,256
Total assets less current liabilities		**2,271,232**	1,835,715

The notes on pages 53 to 95 are an integral part of these consolidated financial statements.

WANG Yong
Director

WANG Liang
Director

Balance Sheet

As at 31 December

	Note	2007 RMB'000	2006 RMB'000 (Note 28)
ASSETS			
Non-current assets			
Property, plant and equipment		**22**	–
Investment in a subsidiary	*9*	**–**	–
Amount due from a subsidiary	*9, 26(d)*	**697,169**	697,169
		697,191	697,169
Current assets			
Trade and other receivables	*11*	**7,890**	7,042
Amount due from a subsidiary	*9, 26(d)*	**821,133**	452,277
Amount due from other subsidiaries	*26(d)*	**40,724**	46,300
Dividend receivable from a subsidiary	*26(d)*	**200,000**	–
Cash and cash equivalents	*12*	**2,413**	999
		1,072,160	506,618
Total assets		**1,769,351**	1,203,787
EQUITY			
Attributable to equity holders of the Company			
Share capital	*13*	**86,375**	86,175
Share premium	*13*	**468,998**	461,305
Other reserves	*14*	**151,442**	151,442
Retained earnings/(accumulated losses)	27	**129,903**	(17,184)
Total equity		**836,718**	681,738
LIABILITIES			
Non-current liabilities			
Borrowings	*16*	**736,772**	421,200
Current liabilities			
Amount due to a related company	*26(d)*	**1,034**	–
Trade and other payables	*15*	**12,202**	4,049
Borrowings	*16*	**182,625**	96,800
		195,861	100,849
Total liabilities		**932,633**	522,049
Total equity and liabilities		**1,769,351**	1,203,787
Net current liabilities		**876,299**	405,769
Total assets less current liabilities		**1,573,490**	1,102,938

The notes on pages 53 to 95 are an integral part of these consolidated financial statements.

WANG Yong
Director

WANG Liang
Director

Consolidated Income Statement – by function of expense

Year ended 31 December

	Note	**2007**	2006
		RMB'000	*RMB'000*
			(Note 28)
Turnover	*5*	**2,062,256**	1,384,945
Cost of goods sold	*17*	**(1,597,955)**	(1,019,899)
Gross profit		**464,301**	365,046
Other income – net	*18*	**9,489**	5,312
Selling and marketing costs	*17*	**(35,216)**	(35,775)
Administrative expenses	*17*	**(32,928)**	(22,988)
Operating profit		**405,646**	311,595
Finance income	*20*	**5,547**	4,844
Finance costs	*20*	**(29,157)**	(26,214)
Finance costs – net	*20*	**(23,610)**	(21,370)
Profit before income tax		**382,036**	290,225
Income tax expense	*21*	**(21,096)**	–
Profit for the year		**360,940**	290,225
Attributable to:			
Equity holders of the Company		**360,940**	290,225
Earnings per share for profit attributable to the equity holders of the Company during the year *(expressed in RMB per share)*			
– basic	*23*	**0.435**	0.356
– diluted	*23*	**0.435**	0.352
Dividends	*22*	**126,329**	115,871

The notes on pages 53 to 95 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December

	Attributable to equity holders of the Company				
	Share capital RMB'000 *(Note 13)*	**Share premium** RMB'000 *(Note 13)*	**Other reserves** RMB'000 *(Note 14)*	**Retained earnings** RMB'000	**Total equity** RMB'000
Balance at 1 January 2006	83,708	416,558	124,133	216,563	840,962
Profit for the year – total recognised income and expense for 2006	–	–	–	290,225	290,225
Employee share option scheme – value of service provided	–	835	–	–	835
Proceeds from pre-IPO share option exercised	2,467	43,912	–	–	46,379
Appropriation to reserves	–	–	75,832	(75,832)	–
Dividend relating to 2005 *(Note 22)*	–	–	–	(7,000)	(7,000)
Balance at 31 December 2006	86,175	461,305	199,965	423,956	1,171,401
Balance at 1 January 2007	86,175	461,305	199,965	423,956	1,171,401
Profit for the year – total recognised income and expense for 2007	–	–	–	360,940	360,940
Employee share option scheme – value of service provided	–	2,920	–	–	2,920
Proceeds from employee share option exercised	200	4,773	–	–	4,973
Appropriation to reserves	–	–	36,605	(36,605)	–
Dividend relating to 2006 *(Note 22)*	–	–	–	(115,774)	(115,774)
Balance at 31 December 2007	**86,375**	**468,998**	**236,570**	**632,517**	**1,424,460**

The notes on pages 53 to 95 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

Year ended 31 December

	Note	2007 RMB'000	2006 RMB'000
Cash flows from operating activities			
Cash (used for)/generated from operations	24	**(46,859)**	270,402
Interest paid		**(66,591)**	(26,559)
Income tax paid		**(10,599)**	–
Net cash (used in)/generated from operating activities		**(124,049)**	243,843
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(283,495)**	(547,417)
Acquisition of land use rights		**–**	(100,129)
Interest received		**5,547**	4,844
Net cash used in investing activities		**(277,948)**	(642,702)
Cash flows from financing activities			
Proceeds from the issuance of ordinary shares		**4,973**	46,379
Payment of share issuance costs		**–**	(3,374)
Proceeds from borrowings		**561,940**	748,000
Repayment of borrowings		**(368,666)**	(221,566)
Dividend paid		**(115,774)**	(10,014)
Net cash generated from financing activities		**82,473**	559,425
Net (decrease)/increase in cash and cash equivalents		**(319,524)**	160,566
Cash and cash equivalents at beginning of the year		**662,609**	502,043
Cash and cash equivalents at end of the year		**343,085**	662,609

The notes on pages 53 to 95 are an integral part of these consolidated financial statements.

Notes to 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 crystallised glucose, corn gluten meal, corn germ, animal feed, corn starch paste and glumatic acid 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 liability 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 been listed on The Stock Exchange of Hong Kong Limited since 9 December 2005.

The English names of the PRC companies referred to in the consolidated financial statements represent management's translation of the Chinese names of these companies as these companies have not adopted formal English names.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 2 April 2008.

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 as modified by the revaluation of derivative financial instruments.

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 to the consolidated financial statements.

The following new standards, amendments to standards and interpretations are mandatory for financial year ended 31 December 2007:

- HK(IFRIC)-Int 7, 'Applying the Restatement Approach under HKAS 29', this interpretation is not relevant to the Group's operations.

- HK(IFRIC)-Int 8, 'Scope of HKFRS 2', 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 in order to establish whether or not they fall within the scope of IFRS/HKFRS 2. This standard does not have any impact on the Group's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of presentation *(continued)*

- HK(IFRIC)-Int 9, 'Reassessment of Embedded Derivatives', this interpretation is not relevant to the Group's operations.

- HK(IFRIC)-Int 10, 'Interim Financial Reporting and Impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

- 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 and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and other payables.

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 or are not relevant to the Group's operations:

- HK(IFRIC)-Int 11, 'HKFRS 2 – Group and Treasury Share Transactions', effective for annual periods beginning on or after 1 March 2007. This interpretation provides guidance on whether share-based transactions involving treasury shares or involving group entities should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. 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 contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. The Group will apply this interpretation from 1 January 2008. The interpretation is not relevant to the Group's operations.

- HK(IFRIC)-Int 13, 'Customer Loyalty Programmes', effective for annual periods beginning on or after 1 July 2008. This interpretation clarifies that where goods or services are sold together with a customer loyalty incentive, the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The interpretation is not relevant to the Group's operations.

- HK(IFRIC)-Int 14, 'HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction', effective for annual periods beginning on or after 1 January 2008. This interpretation provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation is not relevant to the Group's operations.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of presentation *(continued)*

- HKFRS 3 (Revised)* 'Business Combination' (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. The expected impact is still being assessed in detail by management.

- HKFRS 8, 'Operating Segments', effective for annual periods beginning on or after 1 January 2009. HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosure about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management.

- HKAS 1 (Revised), 'Presentation of Financial Statements' (effective from 1 January 2009). HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 January 2009.

- HKAS 23 (Revised), 'Borrowing Costs', effective for annual periods beginning on or after 1 January 2009. The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply this revised standard from 1 January 2009. The existing accounting policy of the Group is consistent with this revised standard and the adoption will not result in any changes.

- HKAS 32 and HKAS 1 Amendments* 'Puttable Financial Instruments and Obligations Arising on Liquidation' (effective from 1 January 2009). The amendment requires some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. The Group will apply IAS 32 and IAS 1 Amendments from 1 January 2009, but it is not expected to have any impact on the Group's accounts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of presentation *(continued)*

- HKAS 27 (Revised)* 'Consolidated and Separate Financial Statements' (effective from annual period beginning on or after 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 January 2010.

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.

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 investment in a subsidiary is stated at cost less provision for impairment losses (Note 2.8). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 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.

(c) *Group's entities*

The results and financial position of all the Group's 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 recognised as a separate component of equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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. The carrying amount of the replaced part is derecognised. 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 costs 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 ranged from 5% to 10% of their costs. 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 (Note 2.8).

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

2.6 Construction-in-progress

Construction-in-progress ("CIP") represents plants and properties under construction and machinery pending installation or testing. CIP is stated at cost which includes all expenditures and other direct costs, site restoration costs, prepayments and deposits attributable to the installation and borrowing costs arising from borrowings used to finance the installation during the installation period. CIP is not depreciated until such time as the assets are completed and ready for their intended use. When the assets concerned are brought into use, the cost are transferred to respective property, plant and equipment and depreciated in accordance with the policy as stated above.

2.7 Land use rights

Land use rights are up-front payments to acquire a long-term interest in land, which are regarded as operating leases. These payments are stated at cost and amortised over their respective lease terms on a straight-line basis, net of accumulated impairment charge.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation or depreciation and are tested annually for impairment. Assets that are subject to amortisation or depreciation 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Derivate financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of the item being hedged. The Group has not designed any derivative as hedging instrument. Accordingly, the Group's derivative instruments are not qualified for hedge accounting. Change in the fair value of these derivative instruments is recognised immediately in the income statement within "other income – net".

2.10 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). It excludes borrowing costs.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.11 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.

2.12 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.

2.13 Share capital

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

2.14 Trade payables

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

2.15 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 as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.16 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 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.

2.17 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% (2006: 18%) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.17 Employee benefits *(continued)*

(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 and credited to share premium. 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. 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.

2.18 Provisions

Provisions 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. 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.

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.

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities, 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 the Group's 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 the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired receivables is recognised using the original effective interest rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.20 Government subsidy

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

2.21 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.

2.22 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the Finance Department.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. As at 31 December 2007, the Group had no significant assets dominated in non-functional currency while a significant amount of bank borrowings were denominated in US dollars ("US$") and Hong Kong dollars ("HK$"). The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

In 2007, RMB appreciated by approximately 6.9% and 7.29% over US$ and HK$ respectively. The directors of the Company expect that appreciation of RMB against US$ and HK$ will continue in the future. Accordingly, the Group has reduced the bank borrowings denominated in RMB during the year and replaced them with loans denominated in US$ and HK$. In addition, a large portion of the proceeds of such foreign currency borrowings had been remitted into the RPC and were converted into RMB.

As at 31 December 2007, if RMB had strengthened by 5% against HK$, with all other variables held constant, profit for the year would have been approximately RMB1,396,000 higher, mainly arising from net foreign exchange gains on translation of HK$-denominated cash in banks and borrowings. If RMB had strengthened by 5% against the US$, with all other variable held constant, profit for the year would have been approximately RMB43,620,000 higher, arising from foreign exchange gains on translation of US$-denominated borrowings.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk (continued)

(ii) Price risk

Corn kernels are the major raw materials of the products of the Group and they are subject to commodity price changes in the commodity market. During the year, management had made an attempt to use certain commodity futures to hedge the expected price fluctuations of corn kernel purchases. However, the effect of such hedging transactions had not been significant to the Group during the year.

(iii) Cash flow and fair value 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 variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. As at 31 December 2007, a substantial portion of the bank borrowings of the Group were bank loans at variable rates.

In order to mitigate the impact of interest rate fluctuations, the Group continually assesses and monitors the exposure to interest rate risk. During the year, the Group has not used any interest rate swaps to hedge its exposure to interest rate risk. With majority of the Company's borrowings are denominated in US$ or HK$, given the downward trend and outlook for the US interest rate environment and the existing peg between US$ and HK$, the directors of the Company consider that current interest rate risk in the PRC is not subject to material fluctuations.

In 2007, if the interest rates on bank borrowings had been 5% higher during the year with all other variables held constant, profit for the year would have been approximately RMB3,075,000 (2006: RMB1,328,000) lower mainly as a result of higher interest expense on bank borrowings.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk

Credit risk of the Group is mainly arising from cash and cash equivalents, trade and other receivables and amount due from related companies.

The Group's bank deposits are mainly limited to high credit rating banks which are listed or state-owned. The table below shows the bank deposits balance of the major counterparties of the Group as at 31 December 2007 and 2006:

	2007	2006
	RMB'000	*RMB'000*
Counterparty		
State-owned or listed banks	**342,679**	616,971
Other banks	**386**	45,634
	343,065	662,605

For trade and other receivables and amount due from related companies, the credit quality of the counterparties is assessed by taking into account their financial position, credit history and other factors. Individual credit limits are set based on the assessment of the credit quality. Given the trade and credit history of the parties who had maintained receivable balances due from the Group as at 31 December 2007, the directors are of the opinion that the risk of default by these counterparties is not significant. In addition, the Group has no significant concentration of credit risk from customers.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. 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.

The table below sets out an analysis of the Group's financial liabilities based on their maturity as at the respective balance sheet dates. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 1 year equal their carrying balances as the impact of discounting is not significant.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) *Liquidity risk (continued)*

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
	RMB'000	*RMB'000*	*RMB'000*
Group			
At 31 December 2007			
Borrowings	182,625	513,208	333,564
Trade and other payables	308,117	–	–
Amount due to related companies	6,055	–	–
At 31 December 2006			
Borrowings	206,800	123,600	540,714
Trade and other payables	145,775	–	–
Amount due to related companies	7,200	–	–
Company			
At 31 December 2007			
Borrowings	182,625	403,208	333,564
Trade and other payable	12,202	–	–
Amount due to related companies	1,034	–	–
At 31 December 2006			
Borrowings	96,800	93,600	327,600
Trade and other payable	4,049	–	–
Amount due to related companies	–	–	–

As at 31 December 2007, the Group had recorded net cash out flow from operating activities of approximately RMB124,049,000, mainly due to increase in accounts receivables and inventory balances. Management will closely monitor credit controls on customers and the inventory level.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Capital risk management *(continued)*

Consistent with other industry players, the Group monitors its capital to debt position based on its gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents.

The Group's strategy is maintaining a gearing ratio below 50%. The gearing ratio of the Group as at 31 December 2007 and 2006 are as follows:

	2007	2006
	RMB'000	*RMB'000*
Total borrowings *(Note 16)*	**1,029,397**	871,114
Less: Cash and cash equivalents *(Note 12)*	**(343,085)**	(662,609)
Net debt	**686,312**	208,505
Total equity	**1,424,460**	1,171,401
Total capital	**2,110,772**	1,379,906
Gearing ratio	**33%**	15%

The increase in gearing ratio from 15% in 2006 to 33% in 2007 was primarily the result of increased borrowings to finance the expansion of the Group's production capacity.

3.3 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

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 long-term borrowings 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.

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.

Useful lives and residual values of property, plant and equipment

The Group's management determines the residual values, useful lives and related depreciation charges for its property, plant and equipment. These estimates are based on the historical experience of the actual residual value and useful lives of plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where residual values or useful lives are less than previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

The depreciation charges are estimated to be RMB6,852,000 higher or lower for year ended 31 December 2007 were the useful lives differ by 10% from management's estimates.

5 REVENUE AND 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 (i) crystallised glucose and glucose syrup from the processing of corn starch paste; and (ii) glumatic acid products from the processing of glucose syrup (hereinafter collectively referred to as the "Corn-based biochemical products"); and

(2) Manufacture and sale 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 revenue and turnover of the Group represents sales of goods.

Year ended 31 December 2007

	Corn-based biochemical products *RMB'000*	**Corn refined products** *RMB'000*	**Unallocated** *RMB'000*	**Group** *RMB'000*
Total gross segment sales	**1,347,450**	**1,624,721**	**–**	**2,972,171**
Intra-segment sales	**–**	**(909,915)**	**–**	**(909,915)**
Sales	**1,347,450**	**714,806**	**–**	**2,062,256**
Operating profit	**186,605**	**230,188**	**(11,147)**	**405,646**
Finance costs *(Note 20)*				**(23,610)**
Profit before income tax				**382,036**
Income tax expense *(Note 21)*				**(21,096)**
Profit for the year				**360,940**
Total assets	**1,710,264**	**627,570**	**440,692**	**2,778,526**
Total liabilities	**178,459**	**113,690**	**1,061,917**	**1,354,066**
Depreciation *(Note 6)*	**50,982**	**17,539**	**–**	**68,521**
Amortisation *(Note 7)*	**3,105**	**340**	**–**	**3,445**
Capital expenditures *(Note 6, 7, 8)*	**264,852**	**29,073**	**–**	**293,925**

5 REVENUE AND SEGMENT INFORMATION *(continued)*

Primary reporting format – business segments *(continued)*

Segment assets and liabilities are reconciled to entity assets and liabilities as follows:

	Assets	Liabilities
Segment assets/liabilities	2,337,834	(292,149)
Unallocated:		
Cash and cash equivalents	343,085	–
Short-term investments	1,446	–
Amount due from related companies	87,442	–
Other receivables	8,549	–
Fixed assets – cost	170	–
Amount due to related companies	–	(6,055)
Current tax	–	(10,497)
Other payables	–	(15,968)
Current borrowings	–	(182,625)
Non-current borrowings	–	(846,772)
Total	2,778,526	(1,354,066)

5 REVENUE AND SEGMENT INFORMATION *(continued)*

Primary reporting format – business segments *(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	(3,917)	311,595
Finance costs *(Note 20)*				(21,370)
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

Segment assets and liabilities are reconciled to entity assets and liabilities as follows:

	Assets	**Liabilities**
Segment assets/liabilities	1,520,710	(147,660)
Unallocated:		
Cash and cash equivalents	662,609	–
Amount due from related companies	4,879	–
Other receivables	7,292	–
Amount due to related companies	–	(1,064)
Other payables	–	(4,251)
Current borrowings	–	(206,800)
Non-current borrowings	–	(664,314)
	2,195,490	(1,024,089)

5 REVENUE AND SEGMENT INFORMATION *(continued)*

Primary reporting format – business segments *(continued)*

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, leasehold land, inventories and trade receivables. Unallocated assets comprise mainly cash and cash equivalents.

Segment liabilities comprise trade payables. 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).

Secondary reporting format – geographical segments

The Group's two business segments operate in two main geographical areas, domestic sales in the PRC and overseas export sales.

An analysis of the secondary reporting segment is as follows:

Revenue	**2007** ***RMB'000***	2006 *RMB'000*
The PRC	**1,809,255**	1,223,365
Other countries	**253,001**	161,580
	2,062,256	1,384,945

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

Total assets	**2007** ***RMB'000***	2006 *RMB'000*
The PRC	**2,740,887**	2,155,158
Other countries	**37,639**	40,332
	2,778,526	2,195,490

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

Capital expenditure	**2007** ***RMB'000***	2006 *RMB'000*
The PRC	**293,888**	684,955
Other countries	**37**	190
	293,925	685,145

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

6 PROPERTY, PLANT AND EQUIPMENT – GROUP

	Buildings	Plant and machinery	Equipment and motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
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
At 31 December 2007				
Cost	**191,370**	**1,259,429**	**2,032**	**1,452,831**
Accumulated depreciation	**(12,982)**	**(139,162)**	**(702)**	**(152,846)**
Net book amount	**178,388**	**1,120,267**	**1,330**	**1,299,985**
Year ended 31 December 2007				
Opening net book amount	**182,793**	**638,155**	**622**	**821,570**
Additions	**–**	**9,028**	**85**	**9,113**
Transfers from construction in progress *(Note 8)*	**–**	**536,918**	**905**	**537,823**
Depreciation charge	**(4,405)**	**(63,834)**	**(282)**	**(68,521)**
Closing net book amount	**178,388**	**1,120,267**	**1,330**	**1,299,985**

As at 31 December 2007, there was no property, plant and equipment that had been pledged for bank borrowings of the Group (2006: RMB335,048,000).

7 LAND USE RIGHT – GROUP

It mainly represents prepaid operating lease payment associated with parcels of land located in the PRC which bear lease periods between 10 to 50 years.

	2007	2006
	RMB'000	*RMB'000*
Year ended 31 December 2006		
Opening net book amount	**167,141**	9,037
Additions	**–**	160,462
Amortisation charge	**(3,445)**	(2,358)
Closing net book amount	**163,696**	167,141
At 31 December 2006		
Cost	**169,876**	169,876
Accumulated amortisation	**(6,180)**	(2,735)
Net book amount	**163,696**	167,141

As at 31 December 2007, there was no leasehold land of the Group that had been pledged for bank borrowings of the Group (2006: RMB67,965,000).

8 CONSTRUCTION IN PROGRESS – GROUP

	2007	2006
	RMB'000	*RMB'000*
Beginning of the year	**296,748**	611
Additions	**284,812**	511,262
Transferred to property, plant and equipment *(Note 6)*	**(537,823)**	(215,125)
End of the year	**43,737**	296,748

Construction in progress mainly comprises construction costs incurred for the construction of a new crystallised glucose production factory. During 2007, the construction had been completed and the costs were transferred to property, plant and equipment. Interest costs incurred from the related borrowings amounting to approximately RMB2,443,000 for the year ended 31 December 2007 (2006: RMB4,261,000) were capitalised as part of the construction costs of CIP. The capitalisation rate was 5.94% (2006: 6.59%) per annum.

9 INVESTMENT IN AND LOANS TO A SUBSIDIARY – COMPANY

(a) Investment in a subsidiary

Investment in a subsidiary represents the Company's equity investment in Master Team International Limited ("Master Team") amounting to US$1 (equivalent to approximately RMB8).

The principal subsidiaries of the Group as at 31 December 2007 are set out below. They are all limited liability companies.

Name	Place of incorporation	Issued share and fully paid-up capital	Principal activities and place of operations	Interest held
Held directly:				
Master Team International Limited ("Master Team")	British Virgin Islands (the "BVI")	US$1	Investment holding, the BVI	100%
Held indirectly by a subsidiary:				
Winning China International Limited	Hong Kong	HK$1	Investment holding, Hong Kong	100%
Shandong Xiwang Sugar Industry Co., Ltd. ("Xiwang Sugar")	The PRC	RMB438,000,000	Manufacture and sales of crystallised glucose and lysine products, the PRC	100%
Shandong Xiwang Bio-Chem Technology Co., Ltd. ("Xiwang Technology")	The PRC	RMB206,000,000	Manufacture and sales of crystallised glucose products, the PRC	100%
Xiwang Sugar (Hong Kong) Limited ("Xiwang Sugar HK")	Hong Kong	HK$10,000	Export trading of glucose and other products, Hong Kong	100%

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

(b) Amount due from a subsidiary

		2007	2006
		RMB'000	*RMB'000*
Amount due from Master Team			
– quasi-equity	*(i)*	**697,169**	697,169
– advances	*(ii)*	**821,133**	452,277
		1,518,302	1,149,446
Less: non-current portion		**697,169**	697,169
Current portion – advances	*(ii)*	**821,133**	452,277

(i) The amount is neither planned nor likely to be settled in the foreseeable future. Accordingly, the directors of the Company consider the balance is quasi-equity in nature. The balance is unsecured, non-interest bearing and denominated in HK$.

(ii) The advances to Master Team are unsecured, non-interest bearing and repayable on demand.

10 INVENTORIES – GROUP

	2007	2006
	RMB'000	*RMB'000*
Raw materials	**190,305**	92,433
Work in progress	**50,100**	17,605
Finished goods	**89,557**	25,834
	329,962	135,872

The cost of inventories recognised as expenses and included in cost of goods sold amounted to approximately RMB1,597,955,000 for the year ended 31 December 2007 (2006: RMB1,019,899,000).

As at 31 December 2006 and 2007, inventories are stated at cost.

11 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables (a)	**411,775**	85,250	**–**	–
Other receivables (b)	**97,398**	21,421	**7,890**	7,042
	509,173	106,671	**7,890**	7,042

(a) 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.

Trade receivables include bills receivables amounting to RMB299,027,000 (2006: RMB36,112,000). These bills receivables are received from customers under the ordinary course of business and all of them are bank accepted bills with maturity period within 6 months.

(b) Other receivables included advance payments made to the electricity and steam suppliers amounting to approximately RMB 68,029,000 (2006: Nil). Such advance payment was made by the Group in order to obtain stable supply and favourable price in electricity and steam purchase.

Ageing analysis of the Group's gross trade receivables is as follows:

	2007	2006
	RMB'000	*RMB'000*
0-30 days	**224,689**	65,186
31-60 days	**102,366**	17,563
61-90 days	**26,562**	218
Over 90 days	**58,158**	2,283
	411,775	85,250

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2007, the trade receivables that were past due but not impaired were insignificant. These mainly relate to a number of independent customers for whom there is no recent history of default.

11 TRADE AND OTHER RECEIVABLES *(continued)*

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**492,014**	85,262	**–**	–
US$	**16,317**	472	**7,890**	7,042
HK$	**842**	20,937	**–**	–
	509,173	106,671	**7,890**	7,042

The carrying amounts of the Group's trade and other receivables approximate their fair values. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable as mentioned above. The Group does not hold any collateral as security.

12 CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank and in hand	**103,085**	662,609	**2,413**	999
Short-term bank deposits	**240,000**	–	**–**	–
	343,085	662,609	**2,413**	999

The maximum exposure to credit risk at the reporting date is the carrying amounts of cash and cash equivalents.

The effective weighted average rate of these short-term deposits was 4.26% per annum. These deposits have an average maturity of 158 days but could be withdrawn anytime without restriction.

The carrying amounts of the Group's cash and cash equivalents as at 31 December 2007 are denominated in the following currencies:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**314,877**	639,436	**–**	–
US$	**24,922**	17,836	**2,161**	206
HK$	**3,286**	1,104	**252**	793
EUR	**–**	4,233	**–**	–
	343,085	662,609	**2,413**	999

13 SHARE CAPITAL AND SHARE PREMIUM

		Number of shares in issue *(thousands)*	Share capital *RMB'000*	Share premium *RMB'000*	Total *RMB'000*
At 1 January 2006		**803,552**	**83,708**	**416,558**	**500,266**
Proceeds from Pre-IPO share options exercised		24,000	2,467	43,912	46,379
Employee share option scheme-value of service	*(i)*	–	–	835	835
At 31 December 2006		**827,552**	**86,175**	**461,305**	**547,480**
Proceeds from employee share options exercised	*(ii)*	2,000	200	4,773	4,973
Employee share option scheme-value of service	*(i)*	–	–	2,920	2,920
At 31 December 2007		**829,552**	**86,375**	**468,998**	**555,373**

The total authorised number of ordinary shares is 2,000 million ordinary shares (2006: 2,000 million shares) with a par value of HK$0.1 per share (2006: HK$0.1 per share). All issued shares are fully paid.

(i) Employee share options

A share option scheme was approved and adopted by the Company according to a written resolution passed on 6 November 2005 (the "Scheme"). The Scheme is made to enable the Group to grant options to select participants as incentives or rewards for their contribution made 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.

13 SHARE CAPITAL AND SHARE PREMIUM *(continued)*

(i) Employee 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:

	2007 Average exercise price in HK dollar per share	**2007** Options (in thousands)	2006 Average exercise price in HK dollar per share	2006 Options (in thousands)
At 1 January	**2.50**	**4,000**	1.88	24,000
Granted	**3.86**	**5,792**	2.50	4,000
Exercised	**2.50**	**(2,000)**	1.88	(24,000)
Forfeited	**2.50**	**(1,200)**	–	–
At 31 December	**3.69**	**6,592**	2.50	4,000

Out of the 6,592,000 outstanding options (2006: 4,000,000 options), 2,454,000 options (2006: 2,000,000) were exercisable. Options exercised in 2007 resulted in 2,000,000 shares (2006: 24,000,000 shares) being issued at HK$2.5 each (2006: HK$1.88 each). The related weighted average share price at the time of exercise was HK$4.14 (2006: 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) 2007**	2006
31 January 2008	2.50	**800**	–
31 December 2015	2.50	**–**	4,000
1 May 2017	3.86	**5,792**	–
		6,592	4,000

The fair value of options granted in 2007 determined using the Binomial Option Pricing Model was approximately RMB3,583,000 (2006: RMB1,671,000). The significant inputs into the model were share price of HK$3.83 and HK$4.4 (2006: HK$2.50) at the grant date, the exercise price shown above; volatility of 36% to 38% (2006: 30%); dividend yield of 3.86% (2006: 0.36%); an expected average option life of 600 days (2006: 540 days); and annual risk-free interest rate ranged from 3.89% to 3.95% (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.

14 OTHER RESERVES

Group

		Capital reserve	Statutory reserves	Total
		RMB'000	*RMB'000*	*RMB'000*
Balance at 1 January 2006		**117,023**	**7,110**	**124,133**
Appropriation to reserves	*(a)*	–	75,832	75,832
Balance at 31 December 2006		**117,023**	**82,942**	**199,965**
Appropriation to reserves	*(a)*	–	36,605	36,605
Balance at 31 December 2007		**117,023**	**119,547**	**236,570**

Company

		Capital reserve
		RMB'000
Balance at 31 December 2006 and 2007	*(b)*	151,442

(a) In accordance with the relevant government regulations in the PRC and the provisions of the articles of association of Xiwang Sugar and Xiwang Technology, it is required to appropriate at each year end 10% 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. Xiwang Sugar and Xiwang Technology had made appropriations at 10% to the statutory surplus reserve account for the year ended 31 December 2007. These reserves are required to be retained for designated usages.

(b) The amount arose from a group reorganisation carried out in 2005.

15 TRADE AND OTHER PAYABLES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**143,602**	17,169	**–**	–
Other payables	**144,249**	106,479	**12,202**	4,049
Other taxes payables	**4,697**	8,374	**–**	–
Deposits and advance from customers	**15,569**	13,753	**–**	–
	308,117	145,775	**12,202**	4,049

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

Approximately RMB97,845,000 (2006: RMB89,738,000) of other payables as at 31 December 2007 represents payables for purchases of property, plant and equipment in relation to the construction of the new starch and glucose production plants and the transformation of alcohol plant from the original glutamic acid plant of the Group.

Ageing analysis of the trade payables is as follows:

	2007	2006
	RMB'000	*RMB'000*
0-30 days	**123,583**	15,146
31-60 days	**11,212**	1,023
61-90 days	**5,221**	350
Over 90 days	**3,586**	650
	143,602	17,169

The carrying amount of trade and other payables are primarily denominated in RMB. The directors of the Group are of the opinion that the carrying amount of trade and other payables approximate their fair values.

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	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Non-current				
Bank borrowings – secured	**–**	243,114	**–**	–
Bank borrowings – unsecured	**846,772**	421,200	**736,772**	421,200
	846,772	664,314	**736,772**	421,200
Current				
Bank borrowings – secured				
– Short term bank borrowings	**–**	90,000	**–**	–
– Current portion of long term bank borrowings	**–**	20,000	**–**	–
Bank borrowings – unsecured				
– Short term bank borrowings	**47,000**	50,000	**47,000**	50,000
– Current portion of long term bank borrowings	**135,625**	46,800	**135,625**	46,800
	182,625	206,800	**182,625**	96,800
	1,029,397	871,114	**919,397**	518,000

As at 31 December 2007, all bank borrowings were guaranteed by other companies within the Group.

The maturity of the borrowings is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**182,625**	206,800	**182,625**	96,800
1-2 years	**513,208**	123,600	**403,208**	93,600
2-5 years	**333,564**	540,714	**333,564**	327,600
	1,029,397	871,114	**919,397**	518,000

16 BORROWINGS *(continued)*

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

	Group		Company	
	2007	2006	**2007**	2006
Bank borrowings	**5.746%**	6.640%	**5.640%**	6.375%

The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates are within one year.

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

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Carrying amounts	**846,772**	664,314	**736,772**	421,200
Fair values	**845,111**	669,320	**736,368**	421,931

The fair values are determined based on cash flow discounted using a rate based on the annual borrowing rate of 5.94% for 2007 (2006: 6.556%).

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

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**110,000**	353,114	**–**	–
US$	**872,397**	468,000	**872,397**	468,000
HK$	**47,000**	50,000	**47,000**	50,000
	1,029,397	871,114	**919,397**	518,000

As of 31 December 2007, the Group had no undrawn borrowing facilities (2006: undrawn bank facilities of RMB130 million).

17 EXPENSES BY NATURE

	2007 *RMB'000*	2006 *RMB'000*
Depreciation and amortisation *(Notes 6 and 7)*	**71,966**	35,650
Employee benefit expenses *(Note 19)*	**45,007**	26,098
Changes in inventories of finished goods and work in progress	**(96,219)**	(19,434)
Raw materials and consumables used	**1,412,862**	834,083
Transportation	**17,015**	17,537
Utility	**146,565**	126,177
Auditor's remuneration	**3,027**	2,662
Other expenses	**65,876**	55,889
Total	**1,666,099**	1,078,662
Representing:		
Cost of goods sold	**1,597,955**	1,019,899
Selling and marketing costs	**35,216**	35,775
Administrative expenses	**32,928**	22,988
	1,666,099	1,078,662

18 OTHER INCOME – NET

	2007 *RMB'000*	2006 *RMB'000*
Subsidy income	**810**	2,781
Gains on sales of scrap materials	**6,803**	2,306
Gains on derivative financial instruments	**1,431**	–
Others	**445**	225
	9,489	5,312

19 EMPLOYEE BENEFIT EXPENSES

	2007 *RMB'000*	2006 *RMB'000*
Wages, salaries and other staff benefits	**40,659**	24,062
Pension costs – defined contribution plans	**1,428**	1,201
Share options granted to employees	**2,920**	835
	45,007	26,098

(a) Director's emoluments

The remuneration of each Director of the Company for the year ended 31 December 2007 is set out below:

2007

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	–	–	–	3	–	303
Mr. Wang Liang	–	250	–	–	–	5	–	255
Mr. Wang Chengqing	–	150	–	–	–	5	–	155
Mr. Liu Hengfang	–	150	–	–	–	1	–	151
Mr. Han Zhong	–	150	–	–	–	1	–	151
Ms. Li Wei	–	200	–	–	–	3	–	203
Mr. Liu Jiqiang	–	150	–	–	–	4	–	154
Mr. Shi Weichen	–	100	–	–	–	–	–	100
Mr. Wong Kaiming	–	146	–	–	–	–	–	146
Mr. Shen Chi	–	92	–	–	–	–	–	92

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

2006

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

No director waived or has agreed to waive any emoluments during the years presented.

19 EMPLOYEE BENEFIT EXPENSES *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group in 2007 include two directors (2006: three) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals in 2007 (2006: two) are as follows:

	2007	2006
	RMB'000	*RMB'000*
Basic salaries, share option and benefits in kind	**4,549**	1,639
Pensions	**20**	44
	4,569	1,683

The emoluments fell within the following band:

	Number of individuals	
	2007	2006
Emolument bands		
RMBnil-RMB940,000 (HK$nil-HK$1,000,000)	**1**	1
RMB940,000-RMB1,880,000 (HK$1,000,000-HK$2,000,000)	**1**	1
RMB 1,880,000-RMB2,820,000 (HK$ 2,000,000-HK$3,000,000)	**1**	–
	3	2

20 FINANCE INCOME AND COSTS

	2007	2006
	RMB'000	*RMB'000*
Interest expenses – bank borrowings	**66,591**	30,820
Less: amount capitalised in construction in progress *(Note 8)*	**(2,443)**	(4,261)
	64,148	26,559
Net foreign exchange translation gain	**(34,991)**	(345)
Finance costs	**29,157**	26,214
Finance income – interest income on bank balance	**(5,547)**	(4,844)
Net finance costs	**23,610**	21,370

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 (2006: Nil).

No Hong Kong profits tax was provided as the Group had no assessable profit arising in or derived from Hong Kong (2006: Nil).

Group companies registered in the PRC are subject to PRC Enterprise Income Tax ("EIT") on the taxable income as reported in their PRC statutory accounts adjusted for items, which are not assessable or deductible in accordance with relevant PRC income tax laws. The standard overall EIT rate applicable to all PRC subsidiaries is 33% which comprises of 30% state EIT and 3% local EIT up to 31 December 2007.

With the approval of related tax authority, Xiwang Sugar and Xiwang Technology, being production enterprises with foreign investment, are entitled to exemption from the local EIT and two years' exemption from state EIT starting from the first cumulative profit-making year after compensating the accumulated losses, followed by a 50% reduction in the state EIT in the following three years ("EIT Tax Holiday"). 2005 is the first profit-making year of Xiwang Sugar. Therefore, the applicable tax rate for Xiwang Sugar in 2007 is 15% (2006: 0%). 2007 is the first profit-making year of Xiwang Technology. Therefore, Xiwang Technology is exempted from the entire EIT in 2007.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"). Effective from 1 January 2008, all enterprises are subject to a standard PRC enterprise income tax rate of 25%, except for particular provisions and preferential policies. According to the new CIT Law and the relevant regulations, the new EIT tax rate applicable to Xiwang Sugar and Xiwang Technology will be 25% from 1 January 2008 onwards but both companies are still entitled to the EIT Tax Holiday mentioned above.

(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:

	2007 ***RMB'000***	2006 *RMB'000*
Profit before tax	**382,036**	290,225
Tax calculated at tax rate of 33% applicable to profits in PRC	**130,538**	95,774
Utilisation of previously unrecognised deferred tax assets	**–**	(35)
Expenses not deductible for tax purposes	**–**	(190)
Effect of EIT Tax Holiday *(Note a)*	**(109,442)**	(95,549)
Tax charge	**21,096**	–

(c) As at 31 December 2007, 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 (2006: Nil).

22 DIVIDEND

The dividend in respect of the year ended 31 December 2006 of RMB0.14 per share, amounting to a total dividend of RMB115,871,000, was paid in 2007. A dividend in respect of the year ended 31 December 2007 of RMB0.15 per share, amounting to a total dividend of RMB126,329,000 is to be proposed at the Annual General Meeting on 20 May 2008. These financial statements do not reflect this dividend payable.

	2007	2006
	RMB'000	*RMB'000*
Interim dividend paid	**–**	–
Proposed final dividend of RMB0.15 (2006: RMB0.14) per ordinary share	**126,329**	115,871
	126,329	115,871

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.

	2007	2006
Profit attributable to the equity holders of the Company *(RMB'000)*	**360,940**	290,225
Weighted average number of ordinary shares in issue *(thousands)*	**828,818**	814,927
Basic earnings per share *(RMB per share)*	**0.435**	0.356

(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.

23 EARNINGS PER SHARE *(continued)*

(b) Diluted *(continued)*

	2007	2006
Profit attributable to the equity holders of the Company *(RMB'000)*	**360,940**	290,225
Weighted average number of ordinary shares in issue *(thousands)*	**828,818**	814,927
Adjustments for share options *(thousands)*	**689**	8,601
Weighted average number of ordinary shares for diluted earnings per share *(thousands)*	**829,507**	823,528
Diluted earnings per share (RMB per share)	**0.435**	0.352

24 CASH GENERATED FROM OPERATIONS

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

	2007 *RMB'000*	2006 *RMB'000*
Profit for the year	**360,940**	290,225
Adjustments for:		
– Income tax expenses	**21,096**	–
– Depreciation *(Note 6)*	**68,521**	33,292
– Amortisation *(Note 7)*	**3,445**	2,358
– Share-based payment	**2,920**	835
– Interest income	**(5,547)**	(4,844)
– Foreign exchange gains	**(34,991)**	–
– Interest expense	**64,148**	26,559
Changes in working capital:		
– Inventories	**(194,090)**	(57,661)
– Trade and other receivables	**(402,502)**	(23,773)
– Derivative financial instruments	**(1,446)**	–
– Amounts due from related companies	**(82,563)**	23,218
– Trade and other payables	**153,949**	(15,672)
– Amounts due to related companies	**(739)**	(4,135)
Cash generated from operations	**(46,859)**	270,402

25 COMMITMENTS

Capital commitment

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

	2007	2006
	RMB'000	*RMB'000*
Property, plant and equipment		
– Contracted but not provided for	**60,425**	145,460
– Authorised but not contracted for	**–**	–
	60,425	145,460

Operating lease commitments

The Group leases offices in Hong Kong under non-cancellable operating lease agreements. The lease terms are between 2 and 3 years, and the majority of lease agreements are renewable at the end of the period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2007	2006
	RMB'000	*RMB'000*
No later than 1 year	**1,312**	144
Later than 1 year and no later than 5 years	**1,083**	12
	2,395	156

26 RELATED PARTY TRANSACTIONS

The Group is controlled by the Xiwang Investment Company Limited (incorporated in BVI), which owns about 63% of the Company's shares. The remaining about 37% of the shares are widely held. 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 year ended 31 December 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")	山東西王集團有限公司	Company 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 Fangong Wine Industry Co., Ltd. ("Fangong Wine", previously known as Biyundong Alcohol and Water Co., Ltd.)	山東范公酒業有限公司 (前稱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 Co., Ltd. ("Xiwang Construction")	鄒平西王建築有限公司	Subsidiary of Xiwang Group
Shandong Xiwang Steel Structure Co., Ltd ("Xiwang Steel Structure")	山東西王鋼結構有限公司	Subsidiary of Xiwang Group

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 2007:

(a) Sales of goods

	2007	2006
	RMB'000	*RMB'000*
Sales of corn germs		
– Xiwang Savola Oil	**206,944**	78,820
Sales of glucose syrup		
– Xiwang Leavening	**4,621**	3,139
	211,565	81,959

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.

26 RELATED PARTY TRANSACTIONS *(continued)*

(b) Purchases of goods and services

	2007	2006
	RMB'000	*RMB'000*
Purchase of corn germ dregs		
– Xiwang Savola Oil	**19,190**	5,701
Purchase of packaging materials		
– Fangong Wine	**51,926**	27,770
Construction of property, plant and equipment		
– Xiwang Steel Structure	**4,569**	6,216
– Xiwang Construction	**11**	12,434
Sewage services		
– Xiwang Group	**740**	732
	76,436	52,853

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.

During the year, Xiwang Group took up certain bank accepted bills received from customers by the Group which did not reach their maturity. Xiwang Group paid to the Group cash consideration at face value of these bills, resulting in no gain or losses to the Group.

(c) Key management compensation

	2007	2006
	RMB'000	*RMB'000*
Basic salaries and benefits in kind	**3,547**	2,813
Termination benefits	**–**	–
Pensions	**50**	30
Other long-term benefits	**–**	–
Share-based payments	**2,920**	835
	6,517	3,678

The key management include directors (executive and non-executive) and senior management and there are in total 15 (2006: 19) key management personnel of the Group.

26 RELATED PARTY TRANSACTIONS *(continued)*

(d) Balances due from/to related parties

Group

	2007	2006
	RMB'000	*RMB'000*
Receivables (ii)		
Amounts outstanding, end of the years		
– Xiwang Savola Oil (iii)	**86,889**	4,795
– Fangong Wine	**252**	84
– Xiwang Leavening	**262**	–
– Xiwang Investment	**39**	–
	87,442	4,879
Maximum amounts outstanding during the year		
– Xiwang Group	**–**	170,475
– Xiwang Savola Oil	**102,803**	47,846
– Xiwang Import & Export	**–**	3
– Xiwang Steel Structure	**5,767**	716
– Xiwang Construction	**9,101**	7
– Xiwang Levening	**1,311**	742
– Fangong Wine	**3,072**	1,716
– Xiwang Transportation	**235**	–
Payables (ii)		
– Xiwang Steel Structure	**3,083**	2,152
– Xiwang Group	**1,445**	191
– Xiwang Construction	**1,518**	4,847
– Wang Yong	**9**	10
	6,055	7,200

26 RELATED PARTY TRANSACTIONS *(continued)*

(d) Balances due from/to related parties *(continued)*

Company

	2007	2006
	RMB'000	*RMB'000*
Receivables (ii)		
Amounts outstanding, end of the year		
– Xiwang Sugar	**37,086**	40,258
– Xiwang Technology	**2,356**	–
– Xiwang Sugar HK	**1,282**	6,042
– Master Team		
– Advance *(Note 9)*	**1,518,302**	1,149,446
– Dividend receivable	**200,000**	–
	1,759,026	1,195,746
Payables: (ii)		
– Xiwang Group	**1,034**	–

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

(ii) Except for the advance from the Company to Master Team as disclosed in Note 9, all the current accounts maintained with related parties aged within one year as at 31 December 2007 (2006: same). They are unsecured, non-interest bearing and repayable on demand.

(iii) The balance included bills receivables with bank acceptance amounting to approximately RMB60,000,000 with maturity within 6 months from 31 December 2007, which had been subsequently used or settled up to the date of the approval of these financial statements. In addition, the remaining balance of approximately RMB26,899,000 had also been subsequently settled up to the date of approval of these financial statements.

27 PROFIT/(LOSSES) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB129,903,000 (2006: losses RMB17,184,000).

28 COMPARATIVE FIGURES

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

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 AND QUALIFIED ACCOUNTANT

Miss. LAM Wai Lin, *FCCA, CPA*

AUTHORISED REPRESENTATIVES

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

INVESTOR RELATIONS

Mr. CHIEN Kun, Allen
Chief Financial Officer
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Fax: (852) 3107 3510

Miss Gisele SUEN
Assistant Manager, Investor Relations
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Zouping Country
Shandong Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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23 Harbour Road
Wanchai
Hong Kong

WEBSITES

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

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of China
China Construction Bank
The Bank of East Asia, Limited

AUDITORS

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

LEGAL ADVISERS

As to Hong Kong law:
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41st Floor, Jardine House
1 Connaught Place
Hong Kong

As to Bermuda law:
Conyers Dill & Pearman
2901, One Exchang Square
8 Connaught Place
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26/F, Tesbury Centre
28 Queen's Road East
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Information for Shareholders

ANNUAL REPORT

This annual report is printed in English and Chinese and is available on The Stock Exchange of Hong Kong Limited's corporate website at www.hkexnews.hk and the Company's website at www.irasia.com/listco/hk/xiwangsugar.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 16 May 2008 to Tuesday, 20 May 2008 (both dates inclusive), during which no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong no later than 4:00 p.m. on Thursday, 15 May 2008.

ANNUAL GENERAL MEETING

The annual general meeting of the Company is expected to be held on Tuesday, 20 May 2008. A notice convening the annual general meeting will be available on The Stock Exchange of Hong Kong Limited's corporate website at www.hkexnews.com.hk and the Company's website at www.irasia.com/listco/hk/xiwangsugar.

STOCK INFORMATION

Stock Code: 2088
(Listed on the Main Board of The Stock Exchange of Hong Kong Limited)
Trading board lot size: 2,000 shares

SUMMARY OF IMPORTANT DATES

Announcement of 2007 annual results	2 April 2008
Last day for registration of the proposed final dividend for 2007	15 May 2008
Book close dates for proposed final dividend	16 May to 20 May 2008
Annual General Meeting	20 May 2008
Expected payment date of the proposed final dividend for 2007	2 June 2008