



XIWANG SUGAR HOLDINGS COMPANY LIMITED

西王糖業控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 2088)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

The board of directors (the “Directors” or the “Board”) of Xiwang Sugar Holdings Company Limited (“Xiwang Sugar” or the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) prepared under the Hong Kong Financial Reporting Standards for the six months ended 30 June 2008 (the “Interim Period”), together with the comparative figures, as follows. The consolidated results are unaudited, but have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended 30 June	
		2008	2007
	<i>Note</i>	RMB'000	<i>RMB'000</i>
			<i>(Note 10)</i>
Revenue	2	1,386,228	879,028
Cost of goods sold		<u>(1,122,647)</u>	<u>(692,712)</u>
Gross profit		263,581	186,316
Other gains – net		11,810	15,212
Selling and marketing costs		(40,604)	(15,069)
Administrative expenses		<u>(32,972)</u>	<u>(16,004)</u>
Operating profit		201,815	170,455
Finance income and costs, net	3	<u>25,238</u>	<u>(12,069)</u>
Profit before income tax		227,053	158,386
Income tax expense	4	<u>(8,468)</u>	<u>(6,518)</u>
Profit attributable to equity holders of the Company		<u>218,585</u>	<u>151,868</u>
Earnings per share for profit attributable to equity holders of the Company during the period (RMB per share)			
– basic	5	<u>0.2633</u>	<u>0.1834</u>
– diluted	5	<u>0.2633</u>	<u>0.1831</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2008	31 December 2007
		Unaudited	Audited
	<i>Note</i>	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		1,270,521	1,299,985
Land use rights		161,974	163,696
Construction in progress		140,504	43,737
		<hr/> 1,572,999	<hr/> 1,507,418
Current assets			
Inventories	7	362,020	329,962
Trade and other receivables	8	536,565	509,173
Amounts due from related companies		25,933	87,442
Derivative financial instruments		–	1,446
Cash and cash equivalents		307,702	343,085
		<hr/> 1,232,220	<hr/> 1,271,108
Total assets		<hr/> 2,805,219	<hr/> 2,778,526
EQUITY			
Attributable to equity holders of the Company			
Share capital		86,455	86,375
Share premium		470,920	468,998
Other reserves		236,570	236,570
Retained earnings			
– Proposed dividend		–	126,329
– Others		724,656	506,188
		<hr/> 1,518,601	<hr/> 1,424,460
Total equity		<hr/> 1,518,601	<hr/> 1,424,460

		30 June 2008 Unaudited RMB'000	31 December 2007 Audited RMB'000
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Borrowings		<u>604,032</u>	<u>846,772</u>
Current liabilities			
Trade and other payables	9	316,963	308,117
Current income tax liabilities		1,690	10,497
Amounts due to related companies		8,333	6,055
Borrowings		<u>355,600</u>	<u>182,625</u>
		<u>682,586</u>	<u>507,294</u>
Total liabilities		<u>1,286,618</u>	<u>1,354,066</u>
Total equity and liabilities		<u>2,805,219</u>	<u>2,778,526</u>
Net current assets		<u>549,634</u>	<u>763,814</u>
Total assets less current liabilities		<u>2,122,633</u>	<u>2,271,232</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Attributable to equity holders of the Company					
	Share Capital	Share Premium	Capital Reserve	Statutory Reserves	Retained Earnings	Total Equity
<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January 2007	86,175	461,305	117,023	82,942	423,956	1,171,401
Profit for the period	–	–	–	–	151,868	151,868
Proceeds from share options exercised	197	4,728	–	–	–	4,925
Share options granted	–	2,274	–	–	–	2,274
Final dividend for 2006	–	–	–	–	(115,871)	(115,871)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30 June 2007	86,372	468,307	117,023	82,942	459,953	1,214,597
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 1 January 2008	86,375	468,998	117,023	119,547	632,517	1,424,460
Profit for the period	–	–	–	–	218,585	218,585
Proceeds from share options exercised	80	1,812	–	–	–	1,892
Share options granted	–	110	–	–	–	110
Final dividend for 2007	–	–	–	–	(126,446)	(126,446)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30 June 2008	86,455	470,920	117,023	119,547	724,656	1,518,601
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of preparation

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

The accounting policies and method of computation used in the preparation of these condensed consolidated interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31 December 2007.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Group’s audited 2007 annual financial statements.

In the Interim Period, HKICPA has issued a number of new standards, amendments to standards and interpretations that are effective for accounting periods beginning on or after 1 January 2008. The Group has carried out an assessment of these standards, amendments and interpretations and considered that they have no significant impact on these unaudited condensed consolidated interim financial statements.

2 Segment information

Primary reporting format – business segments

The Group is organised on a nationwide basis in the People’s Republic of China (the “PRC”) with two main business segments:

- (1) Manufacture and sales of sweetener products such as crystallised glucose and crystallised fructose from the processing of corn starch (hereinafter collectively referred to as the “Sweetener products”).
- (2) Manufacture and sales of corn gluten meal, corn germ, animal feed, corn starch and other by-products from the processing of corn (hereinafter collectively referred to as the “Co-products and others”).

The segment results for the six months ended 30 June 2008 are as follows:

	Sweetener products	Co-products and others	Unallocated	Group
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Segment sales, gross	607,595	1,367,289	–	1,974,884
Intra-segment sales	–	(588,656)	–	(588,656)
Revenue	607,595	778,633	–	1,386,228
Operating profit	78,582	125,362	(2,129)	201,815
Finance income and costs, net				25,238
Profit before income tax				227,053
Income tax expense (<i>Note 4</i>)				(8,468)
Profit for the period				218,585

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

	Sweetener products	Co-products and others	Unallocated	Group
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 10)</i>	<i>(Note 10)</i>		
Segment sales, gross	476,885	826,393	–	1,303,278
Intra-segment sales	–	(424,250)	–	(424,250)
Revenue	<u>476,885</u>	<u>402,143</u>	<u>–</u>	<u>879,028</u>
Operating profit	100,570	68,907	978	170,455
Finance income and costs, net				(12,069)
Profit before income tax				<u>158,386</u>
Income tax expense <i>(Note 4)</i>				(6,518)
Profit for the period				<u><u>151,868</u></u>

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

Secondary reporting format – geographical segments

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

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

	For the six months ended 30 June	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
REVENUE		
The PRC	1,182,083	743,845
Other countries/cities	204,145	135,183
	<u>1,386,228</u>	<u>879,028</u>

3 Finance income and costs, net

	For the six months ended 30 June	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
		(Note 10)
Interest expenses – borrowings	29,865	29,245
Less: amount capitalised as construction in progress	–	(2,469)
	<hr/>	<hr/>
	29,865	26,776
Net foreign exchange translation gains	(51,219)	(10,787)
	<hr/>	<hr/>
Finance costs	(21,354)	15,989
Finance income – interest income on bank balance	(3,884)	(3,920)
	<hr/>	<hr/>
Net financial (income)/costs	<u>(25,238)</u>	<u>12,069</u>

4 Income tax expense

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

	For the six months ended 30 June	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
– PRC enterprise income tax	8,468	6,518
	<hr/>	<hr/>

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 the period presented (2007: Nil).

No Hong Kong profits tax was provided as the Group had no assessable profit arising in or derived from Hong Kong (2007: Nil).

Group companies registered in the PRC are subject to PRC Enterprise Income Tax (“EIT”) on the taxable profit 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 was 33% up to 31 December 2007. According to the new Corporate Income Tax Law of the People’s Republic of China (the “new CIT Law”) newly approved by the National People’s Congress in 2007 and the relevant regulations, the new EIT tax rate applicable to Shandong Xiwang Sugar Industry Co., Ltd. (“Xiwang Sugar”) and Shandong Xiwang Bio-Chem Technology Co., Ltd. (“Xiwang Technology”) is 25% from 1 January 2008 onwards.

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”). Both companies are still entitled to the EIT Tax Holiday mentioned above after the new CIT Law was effective. 2005 is the first profit-making year of Xiwang Sugar. Therefore, the applicable tax rate for Xiwang Sugar in 2008 is 12.5% (2007: 15%). 2007 is the first profit-making year of Xiwang Technology. Therefore, Xiwang Technology is exempted from the entire EIT in 2008.

5 Earnings per share

(a) Basic

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

	For the six months ended 30 June	
	2008	2007
Profit attributable to equity holders of the Company (<i>RMB'000</i>)	218,585	151,868
Weighted average number of ordinary shares in issue (thousands)	830,343	828,071
Basic earnings per share (RMB per share)	0.2633	0.1834

(b) Diluted

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

	For the six months ended 30 June	
	2008	2007
Profit attributable to equity holders of the Company (<i>RMB'000</i>)	218,585	151,868
Weighted average number of ordinary shares in issue (<i>thousands</i>)	830,343	828,071
Adjustments for share options (<i>thousands</i>)	–	1,902
Weighted average number of ordinary shares for diluted earnings per share (<i>thousands</i>)	830,343	829,973
Diluted earnings per share (<i>RMB per share</i>)	0.2633	0.1831

6 Dividend

A final dividend for the year ended 31 December 2007 of RMB0.14 per share, amounting to a total dividend of approximately RMB126,446,000, was approved at the annual general meeting held on 20 May 2008 and paid in June 2008.

No interim dividend was proposed for the Interim Period (2007: nil).

7 Inventories

	As at	
	30 June 2008	31 December 2007
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	173,155	190,305
Work in progress	56,475	50,100
Finished goods	132,390	89,557
	362,020	329,962

The cost of inventories recognised as expenses and included in “cost of goods sold” amounted to approximately RMB1,122,647,000 for the period ended 30 June 2008 (2007: RMB692,712,000).

As at 30 June 2008, there were no inventories stated at net realisable value (2007: Nil).

8 Trade and other receivables

	As at	
	30 June 2008 <i>RMB'000</i>	31 December 2007 <i>RMB'000</i> <i>(Note 10)</i>
Trade receivables	191,953	112,748
Less: provision for impairment of receivables	—	—
	<u>191,953</u>	<u>112,748</u>
Bills receivables	184,373	299,027
Other receivables	160,239	97,398
	<u>536,565</u>	<u>509,173</u>

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

Ageing analysis of the gross trade receivables is as follows:

	As at	
	30 June 2008 <i>RMB'000</i>	31 December 2007 <i>RMB'000</i>
0 – 30 days	73,344	44,677
31– 60 days	40,932	13,174
61– 90 days	34,017	2,161
Over 90 days	43,660	52,736
	<u>191,953</u>	<u>112,748</u>

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.

Included in other receivables was an advance of RMB81,185,000 (2007: 68,029,000) paid to the electricity and steam suppliers in order to obtain stable supply and favourable price of electricity and steam purchase. For similar reasons, RMB51,107,000 was prepaid to corn suppliers as at 30 June 2008 (2007: RMB97,000) to secure the supply of corn at a stable price level.

9 Trade and other payables

	As at	
	30 June 2008 <i>RMB'000</i>	31 December 2007 <i>RMB'000</i>
Trade payables	136,380	143,602
Other payables	117,770	144,249
Other taxes payables	10,450	4,697
Deposits and advance from customers	52,363	15,569
	<u>316,963</u>	<u>308,117</u>

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

Ageing analysis of the trade payables is as follows:

	As at	
	30 June 2008 <i>RMB'000</i>	31 December 2007 <i>RMB'000</i>
0 – 30 days	94,849	123,583
31 – 60 days	14,671	11,212
61 – 90 days	11,000	5,221
Over 90 days	15,860	3,586
	<u>136,380</u>	<u>143,602</u>

Approximately RMB87,183,000 (2007: RMB97,845,000) of other payables as at 30 June 2008 represent payables to vendors in relation to the construction of a new production line for crystallised fructose.

10 Comparative figures

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

MANAGEMENT DISCUSSION AND ANALYSIS

1. OVERVIEW

The Group operated two main product categories: (1) sweetener products and (2) co-products and others. Sweetener products included crystallised glucose and crystallised fructose while co-products and others included corn germ, corn gluten meal, animal feed, corn starch and other by-products.

During the period under review, we were the largest crystallised glucose producer in the PRC. The Group recorded a strong growth in this product which is a type of healthy sweetener in people's diets. Crystallised glucose has been gaining popularity as a sweetening ingredient in various food such as desserts and snacks, and beverages such as health drinks and soft drinks. Apart from that, it has shown strong consumption in fermentation, chemicals and pharmaceutical sectors. The Group's crystallised glucose was competitive in maintaining stable prices and satisfactory profit margin, even though cane sugar price has stayed low in recent years. In expanding the sweetener portfolio, we have begun crystallised fructose trial production and pre-marketing.

Corn gluten meal and animal feed have both experienced strong volume growth and price movement, due to the recovery of some pig diseases occurred in late 2007 and the fact that the Chinese government has not adopted any price control on these products. Moreover, the Group has the leadership position in capturing sales orders from overseas, a market having increasing demand for animal feed products. Another co-product, corn germ, was solely sold to Shandong Xiwang Food Co., Ltd. ("Xiwang Food"), an affiliate company which manufactures and sells corn oil. The significant price increment of corn and corn oil in the PRC market has driven the corn germ price to grow.

The Group's key raw material is corn. Corn price increased by approximately 21.1% during the period under review compared to the same period of last year. The Group was successful in passing a major part of the corn cost increment to our customers. Nevertheless, the Group's overall gross profit margin was still slightly squeezed by 2.2% to 19.0% for the six months ended 30 June 2008.

Notwithstanding the slight downward adjustment of gross profit margin, the Group recorded a 43.9% year-on-year growth in net profit to reach RMB219 million (first half of 2007: RMB152 million), mainly due to the higher utilisation of the Group's production facilities which resulted in higher output volume and higher sales volume, and also a large exchange gain resulting from the favourable revaluation of the Group's borrowings which were largely denominated in United States ("US") dollar.

2. REVIEW OF OPERATING AND FINANCIAL RESULTS

Turnover

Business segments

	For the six months ended 30 June				
	2008		2007		Percentage of change
	Amount <i>RMB'000</i>	Percentage of total	Amount <i>RMB'000</i>	Percentage of total	
Sweetener products:					
Crystallised glucose	607,595	43.8	476,885	54.3	27.4
Crystallised fructose	1,496	0.1	—	—	—
Subtotal	609,091	43.9	476,885	54.3	27.7
Co-products and others:					
Corn gluten meal	149,229	10.8	94,899	10.8	57.3
Animal feed	189,451	13.7	75,171	8.6	152.0
Corn germ	181,000	13.1	80,583	9.2	124.6
Corn starch	63,960	4.6	64,206	7.3	(0.4)
Other by-products	193,497	14.0	87,284	9.9	121.7
Subtotal	777,137	56.1	402,143	45.7	93.2
Total	1,386,228	100.0	879,028	100.0	57.7

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

Sales Volume

	For the six months ended 30 June		
	2008 <i>tonnes</i>	2007 <i>tonnes</i>	Percentage of change
Sweetener products:			
Crystallised glucose	251,912	207,715	21.3
Crystallised fructose	152	–	–
Co-products and others:			
Corn gluten meal	34,363	35,480	(3.1)
Animal feed	159,871	86,910	84.0
Corn germ	40,218	31,187	29.0
Corn starch	34,423	36,337	(5.3)

Average Selling Price

	For the six months ended 30 June		
	2008 <i>RMB/tonne</i>	2007 <i>RMB/tonne</i>	Percentage of change
Sweetener products:			
Crystallised glucose	2,412	2,296	5.1
Crystallised fructose	9,860	–	–
Co-products and others:			
Corn gluten meal	4,343	2,675	62.4
Animal feed	1,185	865	37.0
Corn germ	4,500	2,584	74.1
Corn starch	1,858	1,767	5.1

During the period under review, the Group realised a turnover of RMB1,386,228,000, representing an increase of 57.7% compared to the same period of 2007. The turnover growth was contributed by both strong demand for crystallised glucose and several co-products, as reflected by both strong sales volume and sharp rise of the average selling prices of them. The turnover of our sweetener products segment rose by 27.7% and that of co-products and others segment also increased by 93.2% as compared to the same period last year.

Sweetener Products

Crystallised glucose: The turnover of crystallised glucose rose by 27.4% compared to the same period of 2007. This was attributable to both increases in sales volume of 21.3% and average selling price of 5.1% compared with the previous same period. The production volume of crystallised glucose increased sharply because of the higher utilisation rate of about 75% of the 800,000 tonnes production facility in the first half of 2008 versus an approximate 50% in the first half of 2007. The solid growth in the sales volume was due to its wider applications in many industries. Crystallised glucose was used as a sweetening ingredient in many food and beverages, and it was often mixed with cane sugar to complement the sweet taste in drinks and confectionaries. It was regarded as a healthy sweetener since its monosaccharide (simple sugar) nature is easily digested by human bodies. On industrial applications, we saw strong consumption in fermentation, chemical and pharmaceutical sectors. Crystallised glucose was associated with a chemical property of readily releasing heat energy. This advantage favoured it to serve as a heat efficient feedstock over cane sugar in the fermentation process, which was a key step for various chemical and pharmaceutical production.

Crystallised glucose was often priced with reference to cane sugar price in the market. It was observed that the domestic cane sugar price in the first half of 2008 fell by about 10% compared to the average price in the second half of 2007. Nevertheless, the Group was capable to adjust the average selling price upwards by 5%, given also an estimated supply growth of around 20% in the domestic market. This strong pricing power, even under a more difficult operating condition, clearly demonstrated the wider applications of crystallised glucose, and our influential position in the industry.

Crystallised fructose: We began crystallised fructose production as the first domestic player. It is a healthy sweetener gaining popularity in the peoples' diet and it tastes natural sweeter than cane sugar but has a lower energy value which makes it suitable for people with weight concerns or patients suffer from diabetes. The sales volume was not significant in the period under review as we operated the trial production and pre-marketing of this product.

Co-products and others

Corn gluten meal and animal feed: Turnover of corn gluten meal and animal feed increased by 57.3% and 152.0% respectively in the period under review. This was due to the recovery of the Chinese animal feed market, which has experienced a downturn in 2007 when the Blue-Ear Pig Disease (Formal name: Porcine Reproductive and Respiratory Syndrome Virus) occurred and killed many pigs. The Agricultural Department of the Chinese government has reinforced affirmative actions soon after the disease. This has released the concern that it would strike the inland Sichuan province which was the center of the Chinese pork industry. During the period under review, the selling prices of corn gluten meal and animal feed rose sharply by 62.4% and 37.0% respectively. The sales volume of corn gluten meal was similar to the same period in 2007, while an increase of 84.0% occurred for animal feed.

Corn germ: Corn germ demonstrated impressive results during the period under review. The turnover increased by 124.6%, driven by a 74.1% increase in average selling price and 29.0% increase in sales volume. Corn germ was a raw material for extraction of corn oil and all of this product was sold to Xiwang Food. As the domestic demand for corn and corn oil increased, their prices went up and pulled up our corn germ price accordingly.

Corn starch: Corn starch was used for the production of crystallised glucose and we sold the excess to the market. This explained the relatively small proportion to total turnover of 4.6% in this period, compared to a 7.3% in the same period of 2007.

Other by-products: These were mainly glucose syrup, glutamic acid and semi-alcohol. These by-products were generated during the crystallisation process and from our treatment of residual liquid. As the production capacity of crystallised glucose has expanded, the volume of the by-products increased.

Geographical segments

	For the six months ended 30 June				
	2008		2007		Percentage of change
	Amount RMB'000	Percentage of total	Amount RMB'000	Percentage of total	
Domestic sales	1,182,083	85.3	743,845	84.6	58.9
Export sales	204,145	14.7	135,183	15.4	51.0
Total	<u>1,386,228</u>	<u>100.0</u>	<u>879,028</u>	<u>100.0</u>	<u>57.7</u>

During the period under review, export sales increased 51.0% to RMB204,145,000, representing 14.7% of the total turnover (first half of 2007: 15.4%).

The Group's export sales was mainly contributed by corn gluten meal, animal feed and crystallised glucose. Major overseas markets included Korea, Switzerland and Vietnam. The Group's corn gluten meal was highly recognised because of the high protein content necessarily for feeding the animals.

Cost of sales

Details of cost of sales are shown below:

	For the six months ended 30 June				
	2008		2007		Percentage of change
	Amount <i>RMB'000</i>	Percentage of total	Amount <i>RMB'000</i>	Percentage of total	
Corn	837,656	74.6	500,082	72.2	67.5
Other materials needed for production	104,605	9.3	81,042	11.7	29.1
Utilities	103,423	9.2	60,427	8.7	71.2
Depreciation	31,281	2.8	22,720	3.3	37.7
Labour	20,862	1.9	11,734	1.7	77.8
Others	24,820	2.2	16,707	2.4	48.6
Total	<u>1,122,647</u>	<u>100.0</u>	<u>692,712</u>	<u>100.0</u>	<u>62.1</u>

Cost of goods sold was RMB1,122,647,000, increased by 62.1% in the first half of 2008 compared to the same period of 2007. The increase was in line with the increase of sales of crystallised glucose and the co-products.

As all the sweetener products and co-products were derived from corn, corn cost represented 74.6% of the total cost of goods sold (first half of 2007: 72.2%). Owing to the enlarged production capacity, the Group has processed of approximately 597,000 tonnes of corn during the first six months of 2008, a 32.6% up from same period last year. At the same time, the average corn procurement price has risen by 21.1% compared to the same period last year. It was RMB1,486 per tonne in the period under review and RMB1,227 per tonne in the same period of 2007. These two factors explained the significant increment of 67.5% of corn cost year-on-year.

For the same reason of capacity expansion, other materials needed for production, utilities, depreciation and labour also increased accordingly. Other materials needed for production included packaging materials and materials such as chemicals needed in the production process. Utilities consisted of steam and electricity. In addition, the prices of other materials needed for production, utilities cost and labour costs have also revised upwards.

Gross Profit

	For the six months ended 30 June				
	2008		2007		Percentage of change
	Amount <i>RMB'000</i>	Percentage of total	Amount <i>RMB'000</i>	Percentage of total	
Sweetener products:					
Crystallised glucose	117,425	44.5	124,283	66.7	(5.5)
Crystallised fructose	178	0.1	—	—	—
Subtotal	117,603	44.6	124,283	66.7	(5.4)
Co-products and others:					
Corn gluten meal	36,183	13.7	21,683	11.6	66.9
Animal feed	51,273	19.5	17,328	9.3	195.9
Corn germ	42,734	16.2	13,975	7.5	205.8
Corn starch	9,920	3.8	12,034	6.5	(17.6)
Other by products	5,868	2.2	(2,987)	(1.6)	296.4
Subtotal	145,978	55.4	62,033	33.3	135.3
Total	263,581	100.0	186,316	100.0	41.5

Gross Profit Margins

	For the six months ended 30 June		
	2008 Percentage	2007 Percentage	Percentage of change
Sweetener products:			
Crystallised glucose	19.3	26.1	(6.8)
Crystallised fructose	11.9	—	—
Co-products and others			
Corn gluten meal	24.2	22.9	1.3
Animal feed	27.1	23.1	4.0
Corn germ	23.6	17.3	6.3
Corn starch	15.5	18.7	(3.2)
Group's	19.0	21.2	(2.2)

During the period under review, the gross profit of the Group was RMB263,581,000, increased 41.5% from RMB186,316,000 in the same period of 2007. The Group's overall gross profit margin was 19.0%, dropped from 21.2% compared to the same period of 2007. The major reason of this slight downward adjustment was that domestic corn price has risen significantly since early 2007. Our average corn procurement cost increased at a rate faster than the upward adjustment of product prices. As a result, the rise in corn cost was not fully transferred to our customers.

Crystallised glucose: The gross profit margin of crystallised glucose was 19.3%, decreased by 6.8% compared to the same period last year. On the cost side, our purchase price of corn has risen by 21.1% compared to same period between 2008 and 2007. This was mainly due to the high inflationary environment in China pushing up agricultural product and many food prices, and eventually increased our production cost. On the other hand, the price of crystallised glucose followed cane sugar price in the domestic market closely. Cane sugar price fell by 10% compared to the average price in the second half of 2007. The weak market condition posted difficulty for the Group to adjust crystallised glucose price to pass on the effect of corn cost increment.

Co-products and others: The gross profit margins of corn gluten meal, animal feed and corn germ were 24.2%, 27.1% and 23.6% respectively, all revised up by 1.3, 4.0 and 6.3 percentage points compared to same period of 2007. The average selling prices of these products were strong to offset the corn cost increase.

Other gains

Other gains was mainly proceeds from disposal of auxiliary materials, which decreased by RMB3,402,000 compared with the same period of 2007. In 2007, other gains was mostly subsidy income provided by the Chinese government to reward the Group for producing a national new product crystallised glucose. The Group was entitled for this subsidy until 2007.

Selling and marketing costs

Selling and marketing costs were RMB40,604,000 for the Interim Period, increased by RMB25,535,000 compared with the first half of 2007. The increase mainly came from increase in transportation costs and sales commission. The significant increase in sale volume together with the inflated charges by the logistic companies pushed up the transportation costs. In addition, sales commission scheme has been revised to offer higher incentive to the sales persons for obtaining new customers' orders.

Administrative expenses

Compared with first half of 2007, administrative expenses increased by RMB16,968,000 to RMB32,972,000 for the current period. The increase was mainly due to the increase in the Group's head count and staff cost, and also expenses incurred during the transition period at the beginning of the year for upgrading the production facilities of glutamic acid for producing semi-alcohols, which is more effective in handling increased volume of residual.

Finance income and costs

The Group's net finance costs decreased by RMB37,307,000 compared with the last year same period.

To capture the benefits of continued appreciation of Renminbi against US dollar and the decline of the London Inter-Bank Offered Rate ("LIBOR"), the Group re-financed most of the Renminbi denominated borrowings by US dollar denominated borrowings during the second half of 2007. Interest rates of US dollar denominated borrowings were floated with LIBOR. As at 30 June 2008, the Group had about 80.2% (As at 30 June 2007: 56.8%) of total borrowings denominated in US dollar.

During the Interim Period, Renminbi appreciated about 6.1% (first half of 2007: 2.5%) against US dollar. Together with the increased portion of US dollar denominated borrowings, the Group enjoyed a net exchange gain amounted to RMB51,219,000 (first half of 2007: RMB10,787,000).

Liquidity, capital resources and gearing ratio

	As at 30 June 2008 In RMB million	As at 31 December 2007 In RMB million
Net current assets	550	764
Cash and cash equivalents	308	343
Borrowings	960	1,029
Shareholders' equity	1,519	1,424
Current ratio	1.8 times	2.5 times
Gearing ratio:		
– Net debts to equity*	43%	48%

* *Net debts means total interest bearing borrowings less cash and cash equivalents.*

The Group's net current assets decreased by RMB214 million to RMB550 million during the Interim Period and current ratio dropped from 2.5 times to 1.8 times. The decrease was mainly due to the reclassification of certain long term borrowings to short term borrowings according to their maturity terms.

Cash and cash equivalents decreased by RMB35 million during the Interim Period. The Group had net cash inflow from operating activities amounted to RMB209 million in the first half of 2008 and RMB2 million of proceeds received from the exercise of share options during the Interim Period. On the other hand, the Group paid RMB107 million for constructions of the new production plant of crystallised fructose, RMB126 million for the final dividend payment for the year ended 31 December 2007 and net repayment of borrowings of RMB13 million.

The Group's borrowings decreased by 6.7% to RMB960 million during the first half of 2008. Borrowings denominated in US dollar represented 80.2% of the total borrowings outstanding at the end of the Interim Period. The borrowings bore interest, mainly floated with LIBOR. During the period, Renminbi appreciated about 6.1% against the US dollar which led to the decrease in carrying amounts of the Group's borrowings.

Gearing ratio decreased from 48% as at 31 December 2007 to 43% as at 30 June 2008. It was resulted from the decrease of borrowings by 6.7% during the Interim Period mentioned above together with the increase of equity by RMB95 million. The increase of the equity was arisen from the profits of the first half of 2008 amounting to RMB219 million, RMB2 million of proceeds received from the exercise of share options during the current period, net off by the dividend payments of financial year of 2007 amounting to RMB126 million.

Foreign Exchange Risk

Most of the cash balances of the Group were deposited in Renminbi with major banks in the PRC, and most of assets, liabilities, revenues and payments of the Group were in Renminbi, except for the US Dollar loans mentioned above. In view of the appreciation of Renminbi, the Directors consider the risk exposure of the Group to foreign exchange rate fluctuation was minimal. The Group did not use any financial instruments for hedging purposes during the Interim Period.

Human Resources

The Group had 2,661 employees as at 30 June 2008 (30 June 2007: 2,543). The increase was mainly for the expanded trial production of the new product, crystallised fructose during the Interim Period.

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

3. LATEST BUSINESS OUTLOOK AND FUTURE DEVELOPMENT

Outlook:

The Group's crystallised glucose is largely affected by two factors: cane sugar price and corn cost.

Over the last few years, there has been an oversupply situation of cane sugar in China, leading to its continued weak market prices. We have observed cane sugar price has dropped by over 20% from the first half of 2006 to the first half of 2008. We expected the price would stay flat in the short to medium terms. Despite crystallised glucose was, to a certain extent, a substitute to cane sugar in many food and beverages uses, we were able to achieve a price increment. This reflected our leading position in the industry, and the efforts we paid on extending the application areas to a wider customer base.

The rising corn cost remained a key concern for corn processors. Domestic corn price has shown a double-digit growth over the last two years. However, we saw the price has reached a plateau in the last six months, as further industrial demand was tightened by the Chinese government. The Group decided not to enter into any significant hedging activity as we believed the corn market demand and supply were well regulated by the Chinese government. With coming harvest expected to be fruitful, we expect the price would move in a gentle pace.

The Group foresaw the co-products would maintain the same growth momentum as happened in the first half of the year, thanks to the strong animal feed market and corn oil market. Our recent sales book has shown continual strong demand for our major products, which was a strong evidence such trend would follow over 2008.

Future development:

The Group continued its mission to offer healthy sweetener and food products. Even though the operating environment has become tough, the Group's key strategy is to strengthen its leadership position in crystallised glucose. We would continue to strengthen the R&D to improve product quality, along with the provision of comprehensive customer services. The next step was to sustain the market niche by development of further downstream products which were of higher values, crystallised fructose was a significant milestone in this regard. Crystallised fructose contained a natural fruity sweet taste yet low in energy value, making it a proper choice for people with weight concerns. The intake would not cause a sudden rise of blood sugar, making it an ideal sweetener for the diabetes. The Group would be the first Chinese supplier of crystallised fructose with an annual production capacity of 50,000 tonnes. The new crystallised fructose production plant is under construction and is expected to commence production in November 2008.

On 4 July 2008, the Group has entered into a Memorandum Of Understanding ("MOU") for the possible acquisition of Xiwang Food, a company engaged in the production of edible corn oil. We have been selling all the corn germ to Xiwang Food for corn oil production. The Group considered the corn oil business to be of significant growth prospect since people had become more aware of healthy food. It was expected the due diligence related to the acquisition and transactions would be completed within six months from the date of MOU.

The Group is committed to total environmental friendliness. Our R&D department has entered into the feasibility study of turning the residuals into a series of chemical products, namely ethanol, acetone and butanol. These chemicals were widely applied in plastic, solvents, fuel and textiles. The purpose of upgrading the product mix after residual treatment was to enhance overall operational efficiency and profitability. We expected this operation would become more material by the end of this year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the Interim Period.

CORPORATE GOVERNANCE PRACTICES

The Company has complied throughout the six months ended 30 June 2008 with all the code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

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

The Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2008 have been reviewed by the audit committee, who is of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

INTERIM REPORT

The 2008 Interim Report will be despatched to shareholders and published on the Stock Exchange's website (www.hkex.com.hk) and the Company's website (www.irasia.com/listco/hk/xiwangsugar) in due course.

By order of the Board
Xiwang Sugar Holdings Company Limited
WANG Yong
Chairman

Hong Kong, 26 August 2008

* *for identification purpose only*

As at the date of this announcement, the executive Directors are Mr. WANG Yong, Chairman, Mr. WANG Liang, Dr. LI Wei, Mr. WANG Cheng Qing, Mr. HAN Zhong and Mr. LIU Ji Qiang, the non-executive Director is Mr. LIU Heng Fang and the independent non-executive Directors are Mr. SHI Wei Chen, Mr. SHEN Chi and Mr. WONG Kai Ming.