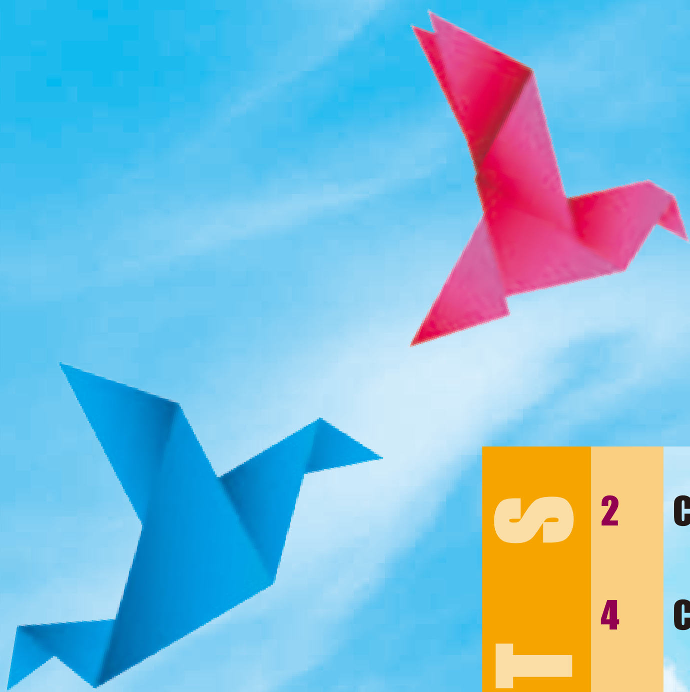
Xiwang Sugar Holdings Company Limited
西 王 糖 業 控 股 有 限 公 司 *

(Incorporated in Bermuda with limited liability)
(於 百 慕 達 註 冊 成 立 之 有 限 公 司)

Stock code 股份代號 : 2088

ANNUAL REPORT 2012 年報



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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. WANG Yong *(Chairman)*
Dr. ZHANG Yan
(resigned on 5 July 2012)
Mr. WANG Di *(Deputy Chairman)*
Mr. WANG Fangming *(General Manager)*
(appointed on 5 July 2012)
Dr. LI Wei
Mr. HAN Zhong

Non-Executive Director

Mr. SUN Xinhu
(re-designated on 5 July 2012)

Independent Non-Executive Directors

Mr. SHI Wei Chen
Mr. SHEN Chi (resigned on 1 April 2013)
Mr. WONG Kai Ming
Mr. WANG An (appointed on 1 April 2013)

Committees

Audit Committee

Mr. WONG Kai Ming *(Chairman)*
Mr. SHI Wei Chen
Mr. SHEN Chi (resigned on 1 April 2013)
Mr. WANG An (appointed on 1 April 2013)

Remuneration Committee

Mr. WONG Kai Ming *(Chairman)*
Mr. SHI Wei Chen
Mr. SHEN Chi (resigned on 1 April 2013)
Mr. WANG An (appointed on 1 April 2013)

Nomination Committee

Mr. WONG Kai Ming *(Chairman)*
Mr. SHI Wei Chen
Mr. SHEN Chi (resigned on 1 April 2013)
Mr. WANG An (appointed on 1 April 2013)

Company Secretary

Miss. LAM Wai Lin *(FCCA, CPA)*

Authorised Representatives

Mr. WANG Yong
Miss. LAM Wai Lin
Mr. SUN Xinhu *(alternate to Mr. WANG Yong and Miss. LAM Wai Lin)*

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Bermuda

Head Office and Principal Place of Business in the PRC

Xiwang Industrial Area
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Shandong Province
People's Republic of China

Principal Place of Business in Hong Kong

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Hong Kong

Principal Bankers

Agricultural Bank of China
Bank of China
China Construction Bank
The Hong Kong and Shanghai Banking Corporation Limited
The Bank of East Asia, Limited

Auditors

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Certified Public Accountants
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Central
Hong Kong

Legal Advisers

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Hong Kong

As to Bermuda law:
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Central
Hong Kong

Principal Share Registrar and Transfer Office

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Hamilton HM 11
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

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Investor Relations and Corporate Communication

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Company Website

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CHAIRMAN'S STATEMENT

WANG Yong
Chairman and
Executive Director

Dear Shareholders

The operating environment for our corn processing business in 2012 was filled with huge challenges with outspread of the European debt crisis to the global market, continued slowdown of the economic growth of the People's Republic of China (the "**PRC**" or "**China**") and shrinking demand from food & beverage and construction industries resulted from macro-economic measures launched by the PRC Government. Adversely affected by these unfavourable factors, we were facing falling prices of our major products including starch sugars and sodium gluconate, while domestic corn price continued to rise. There has been pressure to our profitability and our gross profit margin has been substantially squeezed. The trend towards high production costs and low gross profit margin for our products will continue as the economic outlook remains uncertain. With a view to improving financial performance, we were driven to seek diversification of business into areas of high-growth potential and we consider the PRC property market as an area with plenty of opportunities and positive outlook in the long run. Leveraging on our extensive experience and the network we built in the PRC and Shandong Province in the past, we have taken a new step in our business development by expanding into property development business.

We recorded a revenue of approximately RMB 4.33 billion for the year ended 31 December 2012 (the "**Year**"), increased approximately 19.1% as compared with 2011, of which approximately RMB 173 million was contributed by the property development business. Group net loss of approximately RMB 18 million was incurred for the Year, in which the property development business contributed net profit of approximately RMB 18 million.

To reserve the working capital, no final dividend was proposed for the ordinary shares and convertible preference shares by the board (the "**Board**") of directors (the "**Directors**") of the Company in respect of the Year.

In 2012, global and domestic economy witnessed slower growth. Growth of the food manufacturing sector decelerated and led to reducing market demand for sugar. Annual white sugar output for 2011/12 grinding season grew 10% from 2010/11 period to reach 11.5 million tonnes because of the favourable weather condition across China. In 2012, China imported 3.75 million tonnes white sugar, 28% higher than that of 2011. The market imbalance between supply and demand caused the white sugar price continued its downtrend. Selling price of crystalline glucose, one of our major products, fell to a level approximated to its costs and significantly contributed to the weakening of our operating results.

CHAIRMAN'S STATEMENT

Corn is the major raw material of our corn processing business. According to statistics of the PRC National Bureau of Statistics, total domestic corn production in 2012 was 208 million tonnes, up 15.34 million tonnes or 7.9% compared with 2011 which already hit historical high. Despite the uptrend of corn production over the recent years, corn prices remained on the higher side given extensive application of and therefore huge demand for corn in a variety of industries, including deep processing products and animal husbandry. Corn costs represented approximately 76% of the total production cost in 2012. The Group's average corn cost (tax inclusive) was approximately RMB 2,347 per tonne in 2012, increased by approximately 5.4% compared with the previous year. The rise in cost has presented even greater challenges to the operating environment of our corn processing business.

Meanwhile, we will actively review the performance of corn processing business and from time to time evaluate its contribution to the Group.

In December 2012, having approved by independent shareholders, the Group acquired a property development business in Shandong Province from Xiwang Investment Company Limited ("**Xiwang Investment**"), the major shareholder of the Company (the "**Acquisition**"). Details of the Acquisition was disclosed in the circular published on 11 December 2012. Our extensive business experience and network in Shandong Province and our knowledge and insights of the local market enable us to diversify our business into property development in order to improve our future income base and strengthen our development potential. As at 31 December 2012, we have four property projects in Zouping County of Shandong Province with a gross floor area ("**GFA**") of approximately 2.4 million square metres. Currently, the four projects including three residential projects namely Qinghe, Lanting and Meijun, and a comprehensive project namely Yintaishan Corn Cultural Project, were under different stages of development. Saved for Phase One of Meijun Project which was completed in 2008, these projects are estimated to be completed by phases from 2013 to 2018 onwards and we expect the property development business will continue to generate satisfactory revenue in the years to come.

The revenue recognized from property sales in 2012 after we entered into acquisition agreements in November 2012 was around RMB 173 million with gross profit margin of approximately 16%. Under the continued PRC economic growth, urbanisation trends, high household saving rates and increasing demand of end-users, the property development business will have great potential and will bring satisfactory returns to the shareholders of the Company.

I hereby express my gratitude to the Board, management and all the staff members for their continual contribution to the Company, and to our shareholders, business partners and customers for their strong support and loyalty amid a challenging environment. We would continue to do our best and strive for a new phase of development for the Group in order to maximize values for our shareholders, customers and staff.

WANG Yong
Chairman
26 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

1. Introduction

Xiwang Sugar Holdings Company Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**") was established in 2001 with headquarters located in Zouping County, Shandong Province of the PRC. The Group was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") in December 2005.

The Group is principally engaged in corn processing business with a focus on the production of starch sugars and corn co-products in China, and the distribution and the sale of such products within and outside China. The Group's products are functional ingredients which are mainly applied to food and beverage, fermentation, pharmaceutical, chemical, animal feed and construction industries.

The Group entered into property development business in 2012. Currently there are four property projects under different stages of development, namely the Lanting Project, the Meijun Project, the Qinghe Project and the Yintaishan Corn Cultural Project.

Accordingly, the Group's two businesses as at 31 December 2012 are:

I. Corn Processing

II. Property Development

I. Corn Processing

The Group's corn processing facilities are vertically integrated which maximizes the use of resources and greatly enhances the operational efficiency. Currently, the Group has an annual effective corn processing capacity of approximately 1.7 million tonnes. The Group is the largest provider of crystalline glucose, crystalline fructose and sodium gluconate in China, with an annual capacity of approximately 800,000 tonnes, 50,000 tonnes and 120,000 tonnes respectively.

Our major raw material is corn kernels. We refine corn kernels into corn starch and other corn co-products which include corn gluten meal, corn gluten feed and corn germ. We further process corn starch into a series of starch sugars which include crystalline glucose, crystalline fructose, crystalline fructose-glucose and fructose-glucose syrup, and other products such as sodium gluconate and maltodextrin.

Corn processing business organizes its key products into two operating segments:

(i) Starch sugars, which include crystalline glucose, crystalline fructose, crystalline fructose-glucose and fructose-glucose syrup; and

(ii) Corn co-products and others, which include corn gluten meal, corn gluten feed, corn germ, corn starch, sodium gluconate and maltodextrin.

(i) Starch sugars

Crystalline glucose, or dextrose monohydrate, is in the form of white, crystalline solid and soluble in water. With a natural sweet taste, glucose is used to enhance the flavor of food such as snacks and biscuit. In addition, it helps to improve the texture and retain the moisture of dairy products, particularly for ice-cream. Glucose is the basic unit of many complex compounds. It is widely used in fermentation by which a number of products such as vitamin C and antibiotics can be synthesized. It can also be combined with other compounds to form different chemicals such as oxalic acid, citric acid or sorbitol. Crystalline glucose can be used to make glucose anhydrous which is largely used for medical transfusion.

Crystalline fructose is in white, fine-crystalline form, and is highly soluble in water. Fructose and glucose are both six-carbon compounds, however, since their chemical bondings are different, their properties and functions are different. Fructose is the sweetest sugar among all the natural sugars, therefore the amount to be used and hence the calorie value in food is largely reduced. In addition, the fruity fragrance of fructose gives a great sensation to mouth. Fructose has the lowest GI among all the natural sugars, which is suggested for people with diabetes. Because of the various functions, crystalline fructose is used to make healthy and high-end food products, such as cereals, sports drinks, cakes and milk powder.

Crystalline fructose-glucose is in white, fine-crystalline form and soluble in water. Crystalline fructose-glucose is a solid mixture of crystalline fructose and crystalline glucose, in a proportion of 4:6. Crystalline fructose-glucose has the same sweetness as white sugar, which can be used as a sweetener in a number of food and beverage products. As the product is in a solid form, it can be conveniently stored and transported.

Fructose-glucose syrup, also known as high fructose corn syrup, is sweet, colorless liquid which is viscous in texture. It is a collective name of various mixtures of fructose and glucose in different proportion. The most common one is F42, which has approximately 42% fructose content (The Group's fructose-glucose syrup also includes pure glucose syrup). Fructose-glucose syrup is typically used as a sweetener in soft drinks, baked goods and condiments. As fructose-glucose syrup is in syrup form, the product is ready to be used by the customers. The Group uses the residual sugar syrup from the crystallization processes of crystalline glucose and crystalline fructose to produce fructose-glucose syrup.

The following table shows a comparison of the most commonly used sugars:

Name of sugar	Raw material	Basic unit(s)	Relative sweetness	GI	Chemical grouping
Crystalline glucose	Corn (natural)	Glucose	0.7	100	Monosaccharide
Crystalline fructose	Corn (natural)	Fructose	1.3 – 1.8	19	Monosaccharide
Fructose-glucose syrup (F42)	Corn (natural)	Glucose and fructose	1.0	62	Mixture
White sugar	Sugar cane (natural)	Sucrose	1.0	65	Disaccharide
Aspartame	Chemicals (artificial)	Amino acids	200	0	Non-saccharide

(ii) Corn co-products and others

Corn gluten meal is in the form of yellow fine powder, so it is commonly known as yellow powder. It is a feed ingredient highly rich in protein (about 60%) which is used to enhance animal growth. Corn gluten meal is mainly applied to feed pigs, chickens and ducks. It is also used for making pet food.

Corn gluten feed is a yellowish powder. It contains mostly fiber, some protein (about 20-25%) and starch. Corn gluten feed is an excellent feed ingredient as it provides digestive fiber and energy to the animals. The Group's corn gluten meal and corn gluten feed are collectively named as "corn feed products".

Corn germ is the embryo part of a corn kernel. Corn germ is very rich in corn oil, which is extracted and refined to become edible corn oil.

Corn starch is the major part of corn, approximately 70%. Corn starch is white, tasteless in either slurry or powder form. Starch consists of long chains of glucose units linked together (i.e. polysaccharide). The chains can be broken or altered to develop into specific substances with different properties. Therefore, corn starch is widely applied to make starch sugars, food, paper, textile etc..

Sodium gluconate appears as white and odorless powder. It is non-corrosive and non-toxic. Sodium gluconate is a highly efficient set retarder used in construction. It is mixed with concrete and mortar for modifying the solidification for the construction industry. Sodium gluconate can also be used to clean metal and glass, with applications such as bottle washing, utensil cleansing and food processing equipment cleansing. Sodium gluconate has the advantage of being biodegradable, thus is more environmental-friendly.

MANAGEMENT DISCUSSION AND ANALYSIS

Maltodextrin is a useful food and beverage ingredient in the form of white powder, moderately sweet in taste and is easily digestible. Maltodextrin can facilitate the dissolving process of food substances, so it is widely used in instant drink concentrates such as coffee, tea and milk powder. Maltodextrin can help prevent crystallization of food products, so it is widely used in candies, puddings and milk shake. Maltodextrin also has the functions of thickening the texture of food like sauces and salad dressings, and stabilizing the foam for beer and cocktails.

II. Property Development

The Company diversified its business development in property development in Zouping County, Binzhou City of Shandong Province in 2012. Shandong is a coastal province and is part of the East China region. Its capital city is Jinan. Binzhou City is one of the 17 municipalities in Shandong with a population of around 3.7 million. Zouping County has an area of approximately 1,250 sq. km. and a population of over 700,000. The County is west 240 kilometres from Qingdao Port and east 62 kilometres from Jinan International Airport. The location enjoys an efficient transport network and is conveniently accessible. Zouping County is a prosperous county in China with 9 local companies listed on the stock exchanges of Hong Kong, Shenzhen and Singapore. Its economy is mainly supported by agriculture, food processing and textile manufacturing.

As at 31 December 2012, there are four property projects under different stages of development. The Lanting Project, the Meijun Project and the Qinghe Project are residential projects, while the Yintaishan Corn Cultural Project is a key cultural industry park in Shandong which consists of cultural, residential and commercial portions. Details of the projects are as follows:

Project Name	Group's Interest	Location	Land-use Purpose	Land Area (sq m)	Estimated GFA (sq m)	Development Stage
Lanting Project	100%	South of Heban 3rd Road and west of Liquan 1st Road, Zouping County, Binzhou City, Shandong	residential	42,031	112,689	Under development
Meijun Project	100%	East of Daiqi 3rd Road South – 1st Road, Chengnan New District, Zouping County, Binzhou City, Shandong				
Phase One			residential	13,333	21,407	Completed in December 2008; GFA around 2,665 sq m unsold as at 31 December 2012
Phase Two			residential	54,330	153,674	Launched for pre-sale; GFA around 74,486 sq m completed and sold in December 2012
Phase Three			residential	159,821	489,051	To be developed
Qinghe Project	100%	Kaihe Village, Handian Town, Zouping County, Binzhou City, Shandong	residential	131,258	200,000	To be developed
Yintaishan Corn Cultural Project	100%	South of Jinan-Qingdao Expressway, North of Yintai Mountain and the ridge of Laorenfeng, extending in the north-south orientation to the east of Tourist Road of Tangli Nunnery and to the west of west outer loop of Zouping County, Binzhou City, Shandong	a comprehensive project with cultural, residential and commercial construction	3,200,016	1,400,000	To be developed
Total				3,600,789	2,376,821	

MANAGEMENT DISCUSSION AND ANALYSIS

Located at the junction between the south of Heban 3rd Road and the west of Liquan 1st Road which is a newly developed area in Zouping County closed to the county government headquarters, Lanting Project is a comprehensive residential development project which will be developed into two phases, known as North Zone and South Zone. There will be 14 blocks of 6 to 14-storey residential buildings providing around 510 residential units.

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Meijun Project is located at the east of Daiqi 3rd Road South of Chengnan New District, a newly developed area in Zouping County and the county government headquarters, hospital and colleges are nearby. The Meijun Project is a residential development project divided into 3 phases. Phase One was completed in December 2008 and comprises 4 blocks of 5-storey residential buildings providing around 110 residential units. Phase Two will comprise 19 blocks of 5 to 18-storey residential buildings providing around 700 residential units. Planning of Phase Three is in progress.

MANAGEMENT DISCUSSION AND ANALYSIS

Qinghe Project is located at Kaihe Village, Handian Town of Zouping County. The project comprises a parcel of land with a site area of approximately 131,258 sq.m. The project will comprise residential units. The construction work of the property with a site area of approximately 66,667 sq.m. is currently estimated to be commenced in 2014 and completed in 2017 while the remaining portion of the property with a site area of approximately 64,591 sq.m. is currently estimated to be commenced in 2015 and completed in 2018.

Yintaishan Corn Cultural Project lies to the south of Jinan-Qingdao expressway and to the north of Yintai Mountain. It is one of the 20 key cultural industry parks of Shandong Province. The project will include a conference reception centre, a corn kingdom film studio, a corn museum, a leisure aged-nursing home as well as tourist and cultural real estates. Of the total estimated GFA of 1,400,000 sq.m., cultural real estate will take up a GFA not less than 400,000 sq.m., and its ancillary residences will take up a GFA of not less than 800,000 sq.m., with ancillary commercial real estate for the residential cluster area cover a GFA of not less than 200,000 sq.m.

2. Review of Financial Results

Financial results of the Group for 2012, together with the comparative figures of 2011, is summarized as follow:

For the year ended 31 December	2012		2011		Increase/(Decrease)
	RMB'000	%	RMB'000	%	%
Revenue					
– Corn Processing	4,155,145	96.0	3,632,861	100.0	14.4
– Property Development	172,999	4.0	–	–	N/A
	4,328,144	100.0	3,632,861	100.0	19.1
Gross Profit					
– Corn Processing	252,386	90.2	456,022	100.0	(44.7)
– Property Development	27,344	9.8	–	–	N/A
	279,730	100.0	456,022	100.0	(38.7)
Operating Profit					
– Corn Processing	50,572	65.2	256,044	100.0	(80.2)
– Property Development	26,987	34.8	–	–	N/A
	77,559	100.0	256,044	100.0	(69.7)
Profit Attributable to Equity Holders					
– Corn Processing	(36,248)	201.0	179,281	100.0	(120.2)
– Property Development	18,215	(101.0)	-	-	N/A
	(18,033)	100.0	179,281	100.0	(110.1)

Because of the unfavourable operating environment in domestic and global markets, the performance of corn processing business of the Group deteriorated significantly, with net loss amounted to approximately RMB 36 million for the Year. With the net profit amounted to approximately RMB 18 million contributed by the property development business for the Year, the Group incurred net loss amounted to approximately RMB 18 million in 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

I. Corn Processing

Financial performance of the key products of corn processing business is as follows:

Revenue

For the year ended 31 December	2012 RMB'000	2011 RMB'000	Increase/(Decrease) %
Starch Sugars:			
Crystalline glucose	1,432,328	1,663,847	(13.9)
Crystalline fructose	183,837	92,841	98.0
Crystalline fructose-glucose	13,085	23,691	(44.8)
Fructose-glucose syrup	373,559	348,720	7.1
	2,002,809	2,129,099	(5.9)
Corn co-products and others:			
Corn gluten meal	258,207	230,607	12.0
Corn gluten feed	240,660	227,521	5.8
Corn germ	404,216	347,792	16.2
Corn starch	457,866	90,930	403.5
Sodium gluconate	522,833	561,461	(6.9)
Maltodextrin	172,002	-	N/A
Others	96,552	45,451	112.4
	2,152,336	1,503,762	43.1
	4,155,145	**3,632,861**	**14.4**

During the Year, revenue of starch sugars was approximately RMB 2,003 million (2011: RMB 2,129 million) which accounted for approximately 48% of the total revenue of the corn processing business (2011: 59%). Revenue of corn co-products and others was approximately RMB 2,152 million (2011: RMB 1,504 million) which accounted for approximately 52% of the total revenue of the corn processing business (2011: 41%).

Sales volume:

For the year ended 31 December	2012 Tonnes	2011 Tonnes	Increase/(Decrease) %
Starch sugars:			
Crystalline glucose	453,309	474,665	(4.5)
Crystalline fructose	27,731	12,933	114.4
Crystalline fructose-glucose	2,671	4,700	(43.2)
Fructose-glucose syrup	183,217	157,380	16.4
Corn co-products and others:			
Corn gluten meal	65,426	59,271	10.4
Corn gluten feed	183,547	184,992	(0.8)
Corn germ	112,158	97,631	14.9
Corn starch	181,723	36,096	403.4
Sodium gluconate	120,814	119,942	0.7
Maltodextrin	49,686	–	N/A

Average selling prices:

For the year ended 31 December	2012 RMB per tonne		2011 RMB per tonne		Increase/ (Decrease)
	Tax-inclusive	Tax-exclusive	Tax-inclusive	Tax-exclusive	%
Starch Sugars:					
Crystalline glucose	3,697	3,160	4,101	3,505	(9.8)
Crystalline fructose	7,756	6,629	8,399	7,179	(7.7)
Crystalline fructose-glucose	5,732	4,899	5,897	5,040	(2.8)
Fructose-glucose syrup	2,386	2,039	2,593	2,216	(8.0)
Corn co-products and others:					
Corn gluten meal	4,618	3,947	4,552	3,891	1.4
Corn gluten feed	1,534	1,311	1,230	1,230	6.6
Corn germ	4,073	3,604	4,025	3,562	1.2
Corn starch	2,948	2,520	2,947	2,519	-
Sodium gluconate	5,064	4,328	5,477	4,681	(7.5)
Maltodextrin	4,051	3,462	-	-	N/A

(i) Crystalline glucose

In 2012, white sugar price continued to drop because of weaker market demand resulted from slowdown of economic development. In addition, the growth in overall production volume in the industry also led to severe competition and drove down the average selling price of our crystalline glucose.

(ii) Crystalline fructose

Demand for our crystalline fructose is mainly from food and beverage companies during the Year. Despite the slowdown of economic growth, crystalline fructose witnessed strong growth in 2012 as a result of our stronger sales and marketing effort. However, we encountered pressure from customers who bargained for lower raw material cost amid the weak economy, our average selling price was lower when compared to 2011.

(iii) Crystalline fructose-glucose

As crystalline fructose-glucose is a perfect substitute for white sugar, the fall in white sugar price in 2012 has adversely affected the demand of the product.

(iv) Fructose-glucose syrup

Approximately 80% of customers of fructose-glucose syrup are from beverage industry. Being substitute of white sugar, the drop of white sugar price in 2012 had led to the fall of price of its substitute fructose-glucose syrup.

(v) Corn feed products

Average selling price of corn feed products adjusted upward in 2012 as the price of meat increased and therefore the performance of our corn feed products improved in 2012.

(vi) Corn germ

Growth in production of corn germ (the major raw material for corn oil) and higher consumption of edible corn oil in China drove the sales volume and revenue to rise.

(vii) Corn starch

During 2012, sales volume of corn starch increased significantly when compared to the same period in 2011, as a result of the increase in production capacity of corn starch of the Group but weak market demand of starch sugars. Direct sales of corn starch increased accordingly.

(viii) Sodium gluconate

The slowdown of economic growth in China coupled with the austerity measures launched by the Central Government on property sector and the slowdown of infrastructure investment had driven down the market demand for sodium gluconate in the construction industry. Average selling price dropped in 2012.

(ix) Maltodextrin

Maltodextrin was a new product launched by the Group in 2012 and the product is mainly consumed by food and beverage sectors.

Revenue by geographical segments:

The Group conducts its corn processing business in both the PRC and the overseas countries.

For the year ended 31 December	2012	2011	Increase/(Decrease)
	RMB'000	RMB'000	%
The PRC	**3,728,321**	3,218,086	**15.9**
Other Countries	**426,824**	414,775	**2.9**
	4,155,145	3,632,861	**14.4**

During 2012, our sales in domestic market increased 15.9% and export sales increased by 2.9%. A majority of revenue was generated from domestic sales. Revenue from China accounted for approximately 90% (2011: 89%) while revenue from other countries accounted for approximately 10% (2011: 11%).

Cost of goods sold

Breakdown of cost of goods sold of the corn processing business was as follows:

For the year ended 31 December	2012 RMB'000	2011 RMB'000	Increase/(Decrease) %
Corn	2,970,589	2,354,038	26.2
Other raw materials	240,285	196,794	22.1
Utilities	391,421	403,527	(3.0)
Depreciation	123,296	91,115	35.3
Labour	102,459	79,542	28.8
Others	74,709	51,823	44.2
	3,902,759	3,176,839	22.9

In 2012, total cost of goods sold for the corn processing business was approximately RMB 3,902 million (2011: RMB 3,177 million), increased by approximately 22.9% when compared with 2011. The increase in production cost was resulted from increase of price of corn, our major raw materials, and rise of fixed costs such as depreciation and labour cost due to the growth of corn processing capacity during the Year.

Corn cost constituted a majority portion of the cost of goods sold and accounted for approximately 76% in 2012 (2011: 74%). During the Year, the Group processed approximately 1.50 million tonnes of corn (2011: 1.25 million tonnes). This is equivalent to a utilization rate (utilization rate is based on actual processing volume of corn over the effective capacity) of our corn processing facility of approximately 88% (2011: 83%). The average corn cost for the Year was approximately RMB 2,347 per tonne (tax inclusive) or RMB 2,077 per tonne (tax exclusive), rose by approximately 5.4% from the previous year (2011: RMB 2,226 per tonne (tax inclusive) or RMB 1,970 per tonne (tax exclusive)).

Other raw materials included auxiliary material for production and packaging materials. The prices of such raw materials also increased during the Year.

Utilities were mainly steam and electricity. During the Year, the Group increased the production volume and consumed more energy. However, the unit costs of steam and electricity decreased during the Year and caused utilities expenses slightly dropped as compared with last year.

Labour cost in the Year increased by approximately 28.8% from 2011 as more employees were recruited for the new production lines and the increase in general wages in China.

Others included inventory write-down amounted to approximately RMB 13.3 million for the Year.

Gross profit margins

Gross profit margins of the corn processing business were as follow:

For the year ended 31 December	2012 RMB'000	2011 RMB'000	Increase/(Decrease) %
Starch Sugars:			
Crystalline glucose	7.6	18.7	(11.1)
Crystalline fructose	14.2	18.9	(4.7)
Crystalline fructose-glucose	15.2	20.3	(5.1)
Fructose-glucose syrup	8.1	11.1	(3.0)
Corn co-products and others:			
Corn gluten meal	(22.2)	(32.3)	10.1
Corn gluten feed	(3.5)	(5.4)	1.9
Corn germ	6.8	11.7	(4.9)
Corn starch	4.2	7.5	(3.3)
Sodium gluconate	9.0	17.2	(8.2)
Maltodextrin	10.6	-	N/A
Overall gross profit margins	6.1	12.6	(6.5)

During the Year, as corn price continued to rise while our product prices were adversely affected by the economic slowdown, the Group's gross profit margin decreased by 6.5 percentage points to approximately 6.1%. Gross profit margin of our major product crystalline glucose dropped by 11.1% as a result of the rise in corn cost and fall in average selling price.

MANAGEMENT DISCUSSION AND ANALYSIS

II. Property Development

During 2012, the Central Government continued its policy to curb speculation activities in the property market and stood firm on the implementation of austerity measures with an aim to stabilize rising property price. Amid the challenging market situation, the Group managed to generate a revenue of approximately RMB 173 million from its property development business with gross profit of approximately RMB 27 million. In 2012, the property development business has achieved contracted sales of approximately RMB 181 million, GFA of approximately 68,741 square metres, which were mainly generated from the Meijun Project.

Major Results for the Year:	2012
Revenue (RMB million)	173
Gross Profit (RMB million)	27
GFA Completed during the Year (sq m)	80,771

Revenue by project for the Year:

Project	2012 GFA Delivered (sq m)	2012 Revenue (RMB million)
Meijun	74,486	173

Contracted sales by project for the Year:

Project	2012 GFA (sq m)	2012 Amount (RMB million)
Lanting	13,157	56
Meijun	55,584	125
Total	68,741	181

Other Income

Other income – net was approximately RMB 8.4 million (2011: RMB 2.6 million) for the Year. Except income from the sales of scrap products, about RMB 5.8 million of income of gain from corn futures was recorded during the Year.

Selling and marketing costs

The Group's selling and marketing costs mainly consisted of transportation expenses and commission for sales staff. Selling and marketing costs during the Year were approximately RMB 106.6 million (2011: RMB 128.2 million), decreased by about 16.9% when compared with 2011, mainly caused by decrease in transportation expenses of corn processing business.

Administrative expenses

Administrative expenses of the Group included general administrative overheads, staff cost for management and non-production staff, research and development expenditure and etc. Administrative expenses in 2012 was approximately RMB 104.0 million (2011: RMB 74.4 million). The rise was mainly due to the research and development expenses for product packaging and sewage treatment plant.

During the Year, the Group's selling, marketing and administrative expenses altogether represented approximately 4.9% of the total revenue (2011: 5.6%).

Finance costs

The net finance costs of the Group comprised of interest expense and foreign exchange effect. The net finance cost of the Group was approximately RMB 93.0 million in 2012 of which approximately RMB 92 million was incurred by the corn processing business (2011: RMB 43.5 million).

Interest expense for the Year increased to approximately RMB 86 million (2011: RMB 54 million) as a result of the increase in average interest rates and a higher average balance of the borrowings during the Year. Moreover, there was no interest expenses entitled to be capitalised for the Year (2011: RMB 22.8 million). The Group's effective interest rate of bank borrowings and other borrowings for the Year were 6.9% and 4.9% respectively (2011: 6.2% and 4.7%).

The Group recorded a net exchange loss of approximately RMB 8 million (2011: net exchange gain of RMB 7 million) which mainly caused by loss in sales to other countries denominated in USD.

The Group recorded an interest income of approximately RMB 1 million in 2012 (2011: RMB 3 million).

Income tax expense

The Group's income tax expense was approximately RMB 2.6 million during the Year (2011: RMB 33.2 million).

In 2012, the corn processing business recorded a tax credit of approximately RMB 5 million, mainly arisen from the reversal of overprovisions of income tax expense in previous years while property development business incurred tax expense of approximately RMB 8 million.

Pursuant to the PRC Corporate Income Tax ("**CIT**"), all PRC enterprises are subject to a standard enterprise income tax of 25%, except for enterprise under specific preferential policies and provisions.

In November 2010, Shandong Xiwang Sugar Company Limited ("**Xiwang Sugar**") (previously known as Shandong Xiwang Bio-chem Technology Co., Ltd.) was recognized as the enterprise with "New and Advanced Technology" by the relevant authorities in the PRC. Xiwang Sugar is therefore eligible to enjoy relief of CIT from 25% to 15% from January 2011 onwards. In 2012, the applicable tax rate of Xiwang Sugar was 15% (2011: 15%).

In 2012, the applicable tax rate of Xiwang Sugar (Beijing) Co., Limited, Shandong Yintaishan Cultural Development Company Limited, Shandong Xiwang Investment Holdings Company Limited and Shandong Xiwang Property Company Limited was 25% (2011:25%).

Pursuant to the new CIT Law and relevant regulations, withholding tax is levied on dividends paid to foreign investors from PRC enterprises relating to profit earned after 1 January 2008. The Directors consider that its subsidiary in the PRC, Xiwang Sugar, would not distribute its profits earned after 1 January 2008 in the foreseeable future, accordingly, no deferred tax had been recognized for the undistributed retained earnings as at 31 December 2012.

Liquidity, capital resources and gearing ratio:

	31 December 2012 RMB million	31 December 2011 RMB million
Cash and cash equivalents	592	232
Total borrowings[a]	2,139	1,432
Net current assets	52	404
Total equity	2,813	2,149
Current ratio[b]	1.02	1.24
Gearing ratio[c]	0.55	0.56

a Total borrowings include borrowings and promissory note payable.

b Current ratio is calculated as total current assets divided by total current liabilities.

c Gearing ratio is calculated as net borrowings divided by total equity, of which net borrowings equals to total borrowings minus cash and cash equivalents.

The Group's cash and cash equivalents as at 31 December 2012 amounted to approximately RMB 592 million (as at 31 December 2011: RMB 232 million). During the Year, the Group had net cash inflow from operating activities of approximately RMB 283 million (2011: net cash outflow of RMB 51 million). The Group has a larger amount of trade payables of corn processing business and advance from consumers of property development business as at 31 December 2012. The Group has net cash used in investing activities of approximately RMB 1,213 million (2011: net cash outflow of RMB 135 million) which is mainly used for the acquisition of new starch plant and the acquisition of property development business. The Group has net cash inflow from financial activities of approximately RMB 1,289 million during the Year (2011: net cash outflow of RMB 130 million), mainly arisen from the increase of net borrowings of approximately RMB 490 million and net proceeds of issue of convertible preference shares amounted to approximately RMB 862 million. Final dividend for the year ended 31 December 2011 amounted to approximately RMB 63 million in total was paid to the holders of the Company's ordinary shares and convertible preference shares during the Year.

Total borrowings of the Group increased to approximately RMB 2,139 million as at 31 December 2012 (as at 31 December 2011: RMB 1,432 million). Short-term borrowings represented approximately 83% of the total borrowings as at 31 December 2012 (as at 31 December 2011: 57%). As at 31 December 2012, part of the Group's borrowings were secured by the Group's certain buildings and machinery with an aggregate carrying value of approximately RMB 415 million, and the Group's certain land use rights with an aggregate carrying value of approximately RMB 220 million.

The Group has breached certain financial covenants as at 31 December 2012 as required by the loan agreements of certain USD-denominated bank loans. Accordingly, bank loans of approximately USD 10.8 million (equivalent to approximately RMB 68 million) which was originally scheduled for repayment after 2013 was reclassified as current liabilities as at 31 December 2012 in order to comply with the relevant accounting standards. In addition, certain financial covenant as required by loan agreements of short term bank loans of approximately RMB 300 million was breached as at 31 December 2012. As as the date of this report, the Group has secured new banking facilities amounted to approximately RMB 457 million from banks in the PRC. We are in the process of discussion with the relevant lenders to obtain waiver of the above-mentioned breach of financial covenants. The Directors believe that with the new banking facilities and strong cash flow from operations, the Group will have sufficient financial resources and liquidity to meet its short-term financial obligations and the Group's operations will not be significantly affected by the above-mentioned breach of financial covenants.

Total equity increased from approximately RMB 2,149 million as at 31 December 2011 to approximately RMB 2,813 million as at 31 December 2012 mainly as a result of the issue of convertible preference shares by the Group during the Year.

Current ratio as at 31 December 2012 decreased to 1.02 (as at 31 December 2011: 1.24) was mainly due to the increase in short-term borrowings and advanced proceeds from customers as deposits received on properties sold prior to completion and delivery of the properties.

Capital Investment

The Group's capital investment during the Year was approximately RMB 991 million (2011: RMB 163 million), which was mainly for the acquisition of new starch plant.

Contingent liabilities

As at 31 December 2012, the Group had no material contingent liabilities.

Foreign exchange risk

The Group's main operation is in the PRC while the functional currency is RMB. During the Year, majority of the Group's assets, liabilities, incomes, payments and cash balances were denominated in RMB, the rest were sales from export and bank loans which were denominated in USD. Therefore, the Directors believed that the risk exposure of the Group to fluctuation of foreign exchange rate was not significant as a whole.

Human Resources

As at 31 December 2012, the Group employed approximately 3,680 staff (as at 31 December 2011: 3,226). The Group reviews regularly the remuneration packages of the directors and employees with respect to their experience and responsibilities to the Group's business. The Group has established a remuneration committee to determine and review 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, share options may be granted based on individual performance.

3. Outlook and Development

During 2012, corn price remained on the higher side while prices of white sugar price and starch sugars were driven down. The International Sugar Organization forecasted that production volume of white sugar for grinding season in 2012/13 of China is approximately 14 million tonnes which is at historical high level. We anticipated that white sugar price will still be under pressure in the short term and our product prices will also be adversely affected. The dilemma of high production cost and low gross profit margin will remain and we anticipated a challenging operating environment ahead in 2013. The Group will actively review the financial and operating results of corn processing business from time to time.

To achieve new business breakthroughs and seek business diversification for the benefits of the shareholders of the Company, we gained approval from shareholders in the special general meeting held at the end of 2012 in a move to step into the property development business. As all of the existing business and plants are located in Zouping County of Shandong Province, we have already established constructive relationship in the area and have extensive regional experience and foundation. In particular, we have knowledge and insights of the local market. In recent years, Zouping County experienced burgeoning economic growth with 9 local companies listed on the stock exchanges of Hong Kong, Shenzhen and Singapore. Gross domestic product ("**GDP**") and purchasing power of the region also experienced rapid growth, combined with the supportive measures by the PRC in recent years that aim to stimulate development of the county. With the Central Economic Work Conference held at the end of 2012 further highlighted the importance of urbanization, we believe that there are huge potentials for property development. The PRC rate of urbanization was 51.3% in 2011, which was falling 20% to 30% behind of the average rate of developed countries of 80%. We expect that there are huge potentials for second and third-tier cities in the future. The move of the Group to tap the real estate market in Zouping County, Shandong Province has timely captured the opportunities arising from urbanization.

MANAGEMENT DISCUSSION AND ANALYSIS

Pursuant to a document issued by Propaganda Department of Shandong Province CCP Committee (中共山東省委宣傳部), Development and Reform Commission of Shandong Province (山東省發展和改革委員會) and Finance Bureau of Shandong Province (山東省財政廳) dated 29 December 2011, the Yintaishan Corn Cultural Project is one of 20 key cultural industry parks of Shandong Province. It is a diversified and comprehensive development project composed of cultural, commercial and residential elements. It will include the construction of an eco-tourism centre, a corn kingdom film studio, a corn museum, a conference reception centre, a leisure aged-nursing home as well as tourist and cultural real estates. The other three projects, namely Qinghe, Lanting and Meijun Projects are residential buildings with premium locations in Zouping County. The newly acquired property projects are in different development phases and we expect that turnover of our property development business will contribute a significant proportion to the overall results of the Group in the near future upon completion and recognition of revenue.

The Group is optimistic about the long term economic potentials of the real estate market in China. We will focus on the development of residential projects in the local market and will look for development potential in other areas in China from time to time to explore new markets when there are business opportunities, so as to maximize returns and investment values of the Group.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS
Executive Directors

WANG Yong 王勇
Chairman and Executive Director

Aged 62, is the Chairman and Executive Director of the Company. He is one of the founders of the Group. Mr. WANG was the legal representative of Zouping County Xiwang Social Benefits Oil and Cotton Factory* (鄒平縣西王社會福利油棉廠) from 1986 to 1992 and of Zouping County Xiwang Industrial Head Company* (鄒平縣西王實業總公司) from 1993 to 1996. He was the managing director of Xiwang Group Company Limited* ("**Xiwang Group**") (西王集團有限公司) 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 Professional Position Evaluation Committee of Binzhou Non-Public Ownership Organisations* (濱州市非公有制經濟組織專業技術職務評審委員會) as a senior economist. He was awarded as the National Labour Role Model* (全國勞動模範) by the State Council in 2000 and was appointed as the vice president of the third council of China Fermentation Industry Association (中國發酵工業協會) in 2004.

Mr. WANG was awarded with several prizes and titles, including the National Advanced Worker in Quality Management of Township Enterprise (全國鄉鎮企業質量管理先進工作者) awarded by the Ministry of Agriculture of the PRC (中華人民共和國農業部) in 2000, the Fourth National Township Entrepreneur Award (第四屆全國鄉鎮企業家) and National Advanced Worker in Technological Progress of Township Enterprise of the Eighth Five-year Plan (「八五」全國鄉鎮企業科技進步先進工作者) awarded by the Ministry of Agriculture of the PRC in 2001. Mr. WANG received secondary education in the PRC.

Mr. WANG has held several positions in listed companies. Mr. WANG is a director of Xiwang Foodstuffs Co. Ltd. ("**Xiwang Foodstuffs**") (a company publicly listed on the Main Board of the Shenzhen Stock Exchange in February 2010 and is effectively held as to 52.08% by Xiwang Group). He is also a non-executive director of Xiwang Special Steel Company Limited ("**Xiwang Special Steel**") (a company publicly listed on the Main Board of the Stock Exchange in February 2012 and is effectively held as to 75% by Xiwang Holdings Limited ("**Xiwang Holdings**"), the ultimate holding company of the Company). Mr. WANG was appointed as the Executive Director of the Company in March 2005. Mr. WANG is father of Mr. WANG Di, who is the Deputy Chairman and Executive Director of the Company.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

ZHANG Yan 張研

Chief Executive Officer and Executive Director
(resigned on 5 July 2012)

Aged 48, was the previous Chief Executive Officer and Executive Director of the Company. Dr. ZHANG obtained his doctorate degree in Economics from The School of Finance of Renmin University of China (中國人民大學財政金融學院). Dr. ZHANG is experienced in the corporate strategic management and had held several senior management positions, including general manager and subsequently the chairman in a listed company in Shanghai. Dr. ZHANG joined Xiwang Group in 2010 and resigned in 2012. Dr. ZHANG was also a director of Xiwang Foodstuffs and resigned on in 2012. Dr. ZHANG resigned as the Chief Executive Officer and Executive Director of the Company on 5 July 2012.

WANG Di 王棣

Deputy Chairman and Executive Director

Aged 29, is the Deputy Chairman and Executive Director of the Company. Mr. WANG is the deputy chairman of Xiwang Group and Head of Branding of the Group. Mr. WANG attended the bachelor's degree course of Information Conflict from the Electronic Engineering Institute of the Chinese People's Liberation Army (中國人民解放軍電子工程學院) from 2001 to 2005. Mr. WANG joined Xiwang Group in August 2005 and the Group in January 2006. He has been in charge of the international trading business of the Group and Xiwang Group for more than seven years. Mr. WANG has been granted with various awards and honors, including outstanding worker for enterprise education and training of Shandong Province of the PRC in 2006, labour model of Binzhou city, labour model of Shandong Province and outstanding entrepreneur in food industry of Shandong Province, of the PRC. Mr. WANG is director and the chairman of Xiwang Foodstuffs, and a non-executive director of Xiwang Special Steel. Mr. WANG was appointed as an Executive Director of the Company on 30 November 2010. Mr. WANG is the son of Mr. WANG Yong, who is the Chairman and Executive Director of the Company.

WANG Fangming 王方明

General Manager and Executive Director

(appointed on 5 July 2012)

Aged 45, is the General Manager and Executive Director of the Company. He is responsible for the execution of plans and policies as determined by the Board. Mr. WANG joined Xiwang Group since 1998. He has been appointed as the general manager of Shandong Xiwang Sugar Industry Company Limited, the major operational subsidiary of the Company, since October 2009. Mr. WANG is the vice president of China Starch Industry Association (中國澱粉工業協會) and the vice president of Binzhou City Association of Grain Sector (濱州市糧食行業協會). Mr. WANG has obtained several awards, including Outstanding Entrepreneur of Binzhou City Non-stated owned Enterprise* (濱州市優秀民營企業家) and Labour Model of the Nation* (全國優秀農民工). Mr. WANG has been appointed as the General Manager and Executive Director of the Company on 5 July 2012.

LI Wei 李偉

Executive Director

Aged 36, is an Executive Director of the Company, and is responsible for the manufacturing, production technology and quality control of the Group. Dr. LI obtained a doctorate certificate in food science from Southern Yangtze University (江南大學) in 2003, and has been the chief engineer of the Group since May 2003. Dr. LI is the spouse of Mr. SUN Xinhu who is a Non-executive Director of the Company. Dr. LI was appointed as an Executive Director of the Company in November 2005.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

HAN Zhong 韓忠

Executive Director

Aged 57, is an Executive Director of the Company and one of the founders of the Group. Mr. HAN is responsible for the overall financial management of the Group's operation in the PRC. Mr. HAN was the deputy head of the finance department of Zouping County Cotton Mill* (鄒平縣棉紡織廠) from 1980 to 1997 and joined Xiwang Group since 1997. He graduated from Shandong Chinese Accountant's School Zouping* (山東省中華會計函授學校鄒平分校) in 1990 and obtained the accountant's qualification in the PRC in 1992. Mr. HAN was appointed as an Executive Director of the Company in November 2005.

Non-Executive Director

SUN Xinhu 孫新虎

(re-designated on 5 July 2012)

Aged 38, is a Non-executive Director of the Company and the Head of the Business Development Department of the Group. Mr. SUN joined the Group since 2003. He had over four years of experience in an international fast food chain in China. Mr. SUN graduated with a bachelor degree in food science from Shandong Institute of Light Industry (山東輕工業學院) in 1997, and a master degree in food science from Southern Yangtze University (江南大學) in 2004. Mr. SUN is the spouse of Dr. LI Wei who is an Executive Director of the Company. Mr. SUN is also a director and secretary of the board of Xiwang Foodstuffs since 2010, and a non-executive director of Xiwang Special Steel since 2011. Mr. SUN was appointed as an Executive Director of the Company in December 2008 and re-designated as a Non-executive Director on 5 July 2012.

Independent Non-Executive Directors

SHI Wei Chen (石維忱)

Aged 56, is an Independent Non-Executive Director of the Company. Mr. SHI is a professor and has been the president of China Fermentation Industry Association since 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 Commission for Economic and Trade of Wulanchabu League of Inner Mongolia* (內蒙古烏蘭察布盟經委) from 1991 to 1992, the deputy head of Administration Office of the Food Processing and Paper Making Department of Food Industry of the Ministry of Light Industry of the PRC* (中國輕工業部食品工業食品造紙部任綜合辦公室) from 1992 to 1998, and the head of Food Management Centre of the China National Bureau of Light Industry* (國家輕工業局食品管理中心) from 1998 to 1999. From January 2011, Mr. SHI is an independent director of Mei Hua Holdings Group Co., Ltd., a company publicly listed on the Shanghai Stock Exchange and is not a related party of the Group. Mr. SHI was appointed as an Independent Non-Executive Director of the Company in November 2005.

SHEN Chi (沈篪)

(resigned on 1 April 2013)

Aged 55, is an Independent Non-Executive Director of the Company. Mr. SHEN has extensive experience in the food industry in the PRC and currently is the vice chairman of the China National Food Industry Association (中國食品工業協會). Mr. SHEN was the deputy head of the Secretariat of the General Office of the State Commission for Economic and Trade (國家經委辦公廳秘書處) from 1982 to 1984. Mr. SHEN worked in the chief editor's office of China Food News (中國食品報總編室) from 1984 to 1987. Mr. SHEN was the head of the Economic Division of China Enterprise News (中國企業報社經濟部) from 1987 to 1990. From 1990 onwards, Mr. SHEN was the deputy secretariat and secretariat of the China National Food Industry Association (中國食品工業協會) and the deputy head and head of statistics and information division (統計信息部). Mr. SHEN was appointed as an Independent Non-Executive Director of the Company in February 2007.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

WONG Kai Ming (黃啟明)

Aged 58, is an Independent Non-Executive Director of the Company. Mr. WONG has over 22 years of experience in accounting and finance 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). He is a fellow member of the Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. Mr. WONG was appointed as an Independent Non-Executive Director of the Company in November 2005.

WANG AN (王安)

(appointed on 1 April 2013)

Aged 66, is an Independent Non-Executive Director of the Company. Mr. WANG has extensive experience in agriculture and knowledge in economics. He graduated from Beizhen Agricultural Professional College of Shandong Province* (山東省北鎮農業專科學校) in 1968. In 1971, he graduated from the Professional Course in Economic Statistics from the Party School of Liaoning Province* (遼寧省黨校函授經濟統計專業班) and was promoted to Senior Professor. During the period from 1968 to 1998, Mr. WANG worked at Agricultural Bureau and Forestry Bureau of Zouping County (鄒平縣農業局及林業局) and was the secretary and deputy director of the County Government Office and Director of Bureau of the Legislative Affairs (法制局), Director of the County Government Office, and communist party member of the County Government Office of Zouping County, Shandong Province, of the PRC. Before retirement in 2007, he was the secretary of the Party's Committee at the Luzhong Professional School in Shandong Province, of the PRC* (山東省魯中職業學院).

Senior Management

CHUNG Kwok Mo John (鍾國武)

Aged 44, is the Financial Consultant of the Company. Mr. CHUNG joined our Company as the Chief Financial Officer from May 2008 to September 2011. Mr. CHUNG is the chief financial officer of Xiwang Special Steel since September 2011. In addition, he is an independent non-executive director of Zhengye International Holdings Company Limited, a company publicly listed on the Stock Exchange under Stock Code 3363 since March 2011. Mr. CHUNG has about 21 years of experience in auditing, financial management and corporate finance. Mr. CHUNG was an auditor in an international accounting firm during 1992 to 1999. Since 2000 and prior to joining the Company, Mr. CHUNG had held several senior management positions, including chief financial officer, executive director and independent non-executive director, in listed companies in Hong Kong. Mr. CHUNG has a bachelor degree of Economics from Macquarie University, Australia. He is also a member of Hong Kong Institute of Certified Public Accountants and CPA Australia.

LAM Wai Lin (林惠蓮)

Aged 44, is the Financial Controller and Company Secretary of the Company. Ms. LAM joined the Company in June 2007 and is responsible for the financial management and company secretarial functions of the Group. Ms. LAM has over 16 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 auditor of an international accounting firm in Hong Kong. Ms Lam has been appointed as the company secretary of Xiwang Special Steel since 2 June 2011. 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.

* For identification

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

The Company is committed to maintain good corporate governance practices and procedures. The Company has adopted the code provisions in the Code on Corporate Governance Practices (effective until 31 March 2012) (the "**Former CG Code**") and the Corporate Governance Code and Corporate Governance Report (effective from 1 April 2012) (the "**New 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 Board considers that the Company was in compliance with all applicable code provisions set out in the Former CG Code and the New CG Code throughout the Year except for the code provision A.6.7 as described below.

Code provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. SHI Wei Chen and Mr. SHEN Chi did not attend the general meetings of the Company held during the Year due to other business commitment.

The Board is committed to upholding the corporate governance of the Company to ensure that formal and transparent procedures are in place to protect and maximize the interests of the shareholders.

The Board is responsible for performing the duties on corporate governance function as set out below:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance and legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- to review the Company's compliance with the New CG Code and disclosure in the corporate governance report.

During the year ended 31 December 2012, the Board has developed and reviewed the Company's corporate governance practices, including the revised terms of reference for the Remuneration Committee, Nomination Committee and the Audit Committee.

CORPORATE GOVERNANCE REPORT

Set out below is a detailed discussion of the major corporate governance practices adopted and observed by the Company during the Year 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 the Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its model code for securities transactions by Directors. Having made specific enquiries, all the Directors confirmed that they have complied with the Model Code during the Year and up to the date of this report.

B. Board of directors

(i) Board composition

The Board currently comprises a combination of five Executive Directors, one Non-executive Director and three Independent Non-executive Directors. During the year and up to the date of this annual report, the Board consisted of the following Directors:

Executive Directors:
Mr. WANG Yong *(Chairman)*
Dr. ZHANG Yan (resigned on 5 July 2012)
Mr. WANG Di *(Deputy Chairman)*
Mr. WANG Fangming *(General Manager)* (appointed on 5 July 2012)
Dr. LI Wei
Mr. HAN Zhong

Non-executive Director:
Mr. SUN Xinhu (re-designated on 5 July 2012)

Independent Non-executive Directors:
Mr. SHI Wei Chen
Mr. SHEN Chi
Mr. WONG Kai Ming

During the Year, the Board at all times met the requirements under Rules 3.10 and 3.10 (A) of the Listing Rules that, at least one-third of members of the Board being independent non-executive directors, with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

On 1 April 2013, Mr. SHEN Chi resigned and Mr. WANG An was appointed as an Independent Non-executive Director.

(ii) Appointment and re-elections of directors

In accordance with the Bye-laws of the Company, the Board is authorized to appoint any person as a director of the Company either to fill a casual vacancy on the Board or, subject to authorization by the members in general meeting, as an additional member of the Board.

Nomination Committee would make recommendations to the Board regarding the appointment and re-appointment of both executive and non-executive Directors, with reference to the skills, knowledge and experience of each candidate.

According to the Bye-laws of the Company, new appointments to the Board are subject to re-election by shareholders at the next following annual general meeting ("**AGM**"). Moreover, one-third of the Directors of the Board (or, the number nearest to but not less than one-third if the number of directors is not a multiple of three) shall retire from office by rotation and is eligible for re-election by shareholders at the AGM. A retiring Director shall continue to act as a Director throughout the meeting at which he retires. The Board should ensure that every Director shall be subject to retirement at least once every three years.

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 as a whole. One of the Independent Non-executive Directors, Mr. WONG Kai Ming, has over 22 years of experience in the accounting and finance fields and is a fellow member of the Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. Non-executive Directors are appointed for a term of three years.

The Company has received their annual written confirmations from each of Mr. SHI Wei Chen, Mr. SHEN Chi and Mr. WONG Kai Ming in respect of their independence respectively pursuant to Rule 3.13 of the Listing Rules. Based on such confirmations, the Board considers that all Independent Non-executive Directors are independent.

(iii) Responsibilities and contributions of the Board

The Board, with the assistance from the senior management, forms the core management team of the Company. The Board takes the overall responsibility for management of the Company, formulating the business strategies and development plan of the Company, decision making on important issues, including but not limited to substantial mergers and acquisitions and disposals, directors' appointments and significant operational and financial matters, and review and approval of annual and interim results of the Company. The senior management are responsible for supervising and executing the Board policies and strategies including the provision of monthly updates of the Group's performance, position and prospects to the Board, to enable the Board and each of the Directors to deliver and discharge their duties under the Listing Rules. Daily management, administration and operation of the Company are delegated to the management team of the Company.

The Board has timely and full access to all relevant information of the Company. The company secretary of the Company (the "**Company Secretary**") provides advice and services to the Board to ensure the Board follows all the Company's Board procedures and all applicable rules and regulations. Company Secretary notifies the Board of rule amendments and updates in respect of corporate governance practices, to assist the Directors of the Company to fulfill their responsibilities.

(iv) Financial reporting

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2012, which give a true and fair view of the state of affairs of the Group, and ensure that they are prepared in accordance with statutory requirements and applicable accounting standards. The financial statements of the Company and the Group for the year ended 31 December 2012 were prepared on a going concern basis. The Audit Committee reviewed and recommended the Board to adopt the audited accounts for the year ended 31 December 2012. The Board is not aware of any material uncertainties relating to the events or condition that may undermine the Company's ability to continue as a going concern.

The statements of the external auditors of the Company with regard to their reporting responsibilities on the financial statements of the Company are set out in the Auditor's Report on page 64.

(v) Relationship among members of the Board

Non-executive Director, Mr. SUN Xinhu and each of the Executive Directors, except Dr. ZHANG Yan, are shareholders of Xiwang Group which is connected person of the Group. Dr. LI Wei, an Executive Director, is the spouse of Mr. SUN Xinhu, a Non-executive Director of the Company. Mr. WANG Di, the Deputy Chairman and Executive Director is the son of Mr. WANG Yong, the Chairman and Executive Director of the Company. Saved as disclosed, there is no relationship (including financial, business, family or other material/relevant relationship(s)) between any of the Directors or Chief Executive Officer.

Each of Mr. WANG Di, Mr. WANG Fangming, Dr. LI Wei, Mr. HAN Zhong and Mr. SUN Xinhu, among others, have entered into a voting agreement in respect of their shares held in Xiwang Holdings dated 27 September 2011 and as supplemented by a supplemental voting agreement dated 7 February 2012. Under these agreements, each of the shareholders of Xiwang Holdings shall only vote, when in the capacity of a shareholder of Xiwang Holdings, in accordance with the instruction of Mr. WANG Yong at any shareholders meeting of Xiwang Holdings.

(vi) Continuous professional development of directors

Induction seminars of comprehensive guidance on directors' duties and liabilities are provided by the Company's legal advisors to Directors once they joined the Board. Senior management of the Company provides briefings to all Directors of the Company for updates of their knowledge and skills of the industry of the Company. Company Secretary provides updates or amendments of the Listing Rules of the Stock Exchange and other statutory regulations for directors' fulfillment of their responsibilities and duties in the Company.

During the Year, the Company provided a seminar of "Directors' Duties and Responsibilities under Listing Rules of the Hong Kong Stock Exchange and Securities and Futures Ordinance", lectured by a partner of a recognized international law firm, to all the Directors and senior management of the Company. All Directors of the Company, except Mr. SHI Wei Chen, attended the seminar, and the Company received attendance record of the Directors of this seminar. Although Mr. SHI Wei Chen was absent from this seminar, he received the materials of this seminar for his own updates.

C. Chairman and chief executive officer

Mr. WANG Yong is the Chairman of the Board who is principally responsible for formulation of plans and policies of the Group. The Chairman also chairs the Board meetings and briefs the Board members on the issues discussed at the Board meetings. The Chief Executive Officer is responsible for the supervision for the execution of the plans and policies determined by the Board. Dr. ZHANG Yan, the former Chief Executive Officer of the Company resigned with effect from 5 July 2012. Since then, the role of the Chief Executive Officer is taken up by Mr. WANG Fangming, the General Manager of the Company.

D. Board committees

The Board has three board committees, namely Audit Committee, Remuneration Committee and Nomination Committee. All the Independent Non-executive Directors of the Company are members of these committees appointed by the Board. Revised written terms of reference of these committees based on the New CG Code have been approved by the Board and adopted since 30 March 2012.

Sufficient resources are provided to the Board committees for their discharge of their duties. They are able to seek independent professional advice, at the Company's expenses, upon reasonable request and under appropriate circumstances.

(i) Audit Committee

In accordance with the written terms of reference of the Audit Committee, all members of the Audit Committee should be Non-executive Directors with majority of them being Independent Non-executive Directors. At least one of them shall be an Independent Non-executive Director with appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules. Former partner of the Company's existing external auditors from time to time may not act as a member of the Audit Committee for a period of at least one year from the date of his ceasing (a) to be a partner of the firm or (b) to have any financial interest in the firm, whichever is later.

During the Year, the members of Audit Committee comprised Mr. WONG Kai Ming (Chairman), Mr. SHI Wei Chen and Mr. SHEN Chi. All of the members of the Audit Committee are Independent Non-executive Directors of the Company. The chairman has the appropriate professional qualifications as required under the Listing Rules and none of the members of the Audit Committee was a former partner of the Company's existing external auditors.

On 1 April 2013, Mr. SHEN Chi resigned as a member of Audit Committee of the Company, and an Independent Non-executive Director, Mr. WANG An was appointed as a member of Audit Committee of the Company on 1 April 2013.

The primary responsibilities of the Audit Committee are to monitor the integrity of the Group's financial statements and reports and review significant financial reporting judgements contained therein, exercise independent judgment in reviewing and supervising the Group's financial reporting process and internal control procedures; and system of the Group, to provide recommendations to the Board for the improvements of the Group's financial reporting system and internal control procedures and system and to provide recommendations to the Board for the appointment and removal of external auditors. The terms of reference of the Audit Committee are available on the Company's website and the website of the Stock Exchange.

Three meetings were held by the Audit Committee during the year ended 31 December 2012. During the Year, the Audit Committee reviewed the Company's internal control procedures. The Audit Committee reviewed and recommended the Board to adopt the audited accounts and final result announcement for the year ended 31 December 2011 and the unaudited accounts and interim result announcement for the six months ended 30 June 2012. The Audit Committee also reviewed the continuing connected transactions of the Company for the year ended 31 December 2011, and satisfied that these continuing connected transactions were performed in accordance with the contracts approved by the shareholders in annual general meetings. The Audit Committee reviewed and recommended the Board for the re-appointment of external auditor. During the Year, the Audit Committee also revised the terms of reference of the Audit Committee for the compliance of the New CG Code.

At the meeting held on 26 March 2013, the Audit Committee has reviewed the Company's annual results for the year ended 31 December 2012 and the continuing connected transactions of the Company during the Year as disclosed in the Directors' Report of this Annual Report.

(ii) Remuneration Committee

In accordance with the written terms of reference of the Remuneration Committee, majority of members of the Remuneration Committee should be Independent Non-executive Directors, with the Chairman must be an Independent Non-executive Director. The terms of reference of the Remuneration Committee are available on the Company's website and the website of the Stock Exchange.

Dr. ZHANG Yan resigned as member and chairman of Remuneration Committee with effect from 1 April 2012. Mr. WONG Kai Ming was appointed as chairman of Remuneration Committee with effect from 1 April 2012. During the Year, Mr. SHI Wei Chen and Mr. SHEN Chi continued to be members of the Remuneration Committee. From 1 April 2012, all of the members of the Remuneration Committee are Independent Non-executive Directors of the Company.

On 1 April 2013, Mr. SHEN Chi resigned as a member of the Remuneration Committee of the Company, and an Independent Non-executive Director, Mr. WANG An was appointed as a member of the Remuneration Committee of the Company on 1 April 2013.

The primary responsibilities of the Remuneration Committee are to make recommendations to the Board on the policy and structure of the Company for all Directors and senior management remuneration, and to review and recommend to the Board on the remuneration packages of individual executive Directors and senior management, by reference to the duties, responsibilities, experience and qualifications of each candidate.

Two meetings were held by the Remuneration Committee during the Year. During the Year, the Remuneration Committee reviewed and recommended to the Board the remuneration package of Mr. WANG Fangming as an Executive Director of the Company appointed during the Year. The Remuneration Committee also revised the terms of reference of the Remuneration Committee for the compliance of the New CG Code during the Year.

Details of remuneration payable to members of senior management by band are set out in note 22(b) to the financial statements.

(iii) Nomination Committee

In accordance with the written terms of reference of the Nomination Committee, majority of members of the Nomination Committee should be Independent Non-executive Directors, with the Chairman must be an Independent Non-executive Director. The terms of reference of the Nomination Committee are available on the Company's website and the website of the Stock Exchange.

Dr. ZHANG Yan resigned as member and chairman of Nomination Committee with effect from 1 April 2012. Mr. WONG Kai Ming was appointed as chairman of Nomination Committee with effect from 1 April 2012. During the Year, Mr. SHI Wei Chen and Mr. SHEN Chi continued to be members of the Nomination Committee. From 1 April 2012, all of the members of the Nomination Committee are Independent Non-executive Directors of the Company.

On 1 April 2013, Mr. SHEN Chi resigned as a member of the Nomination Committee of the Company, and an Independent Non-executive Director, Mr. WANG An was appointed as a member of the Nomination Committee of the Company on 1 April 2013.

The primary responsibilities of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the

Company's corporate strategy and make recommendations to the Board on the nominees for appointment as Directors and senior management of the Group, by reference to the experience and qualification of each candidate.

Three meetings were held by the Nomination Committee during the year ended 31 December 2012. During the Year, the Nomination Committee revised the terms of reference of the Nomination Committee for the compliance of the New CG Code. The Nomination Committee reviewed and recommended to the Board the appointment of Mr. WANG Fangming as Executive Director and general manager of the Company. During the Year, the Nomination Committee performed annual review of the structure of the Board.

(iv) Attendance record of the Board and Board Committee meetings

The details of Directors' attendance of the Board and board committee meetings as well as general meetings held during the Year are set out in the following table:

	No. of meetings attended/no. of meetings held				
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	General Meeting
Executive Directors:					
WANG Yong *(Chairman) (Note 1)*	6/7	N/A	N/A	N/A	1/3
WANG Di *(Deputy Chairman) (Note 2)*	4/7	N/A	N/A	N/A	0/3
ZHANG Yan *(Note 3)*	1/7	N/A	1/2	1/3	0/3
WANG Fangming *(General Manager) (Note 4)*	3/7	N/A	N/A	N/A	0/3
LI Wei	6/7	N/A	N/A	N/A	0/3
HAN Zhong	7/7	N/A	N/A	N/A	0/3
Non-executive Director:					
SUN Xinhu *(Note 5)*	7/7	N/A	N/A	N/A	3/3
Independent Non-executive Directors:					
SHI Wei Chen	3/7	3/3	2/2	3/3	0/3
SHEN Chi	3/7	1/3	2/2	2/3	0/3
WONG Kai Ming *(Note 6)*	5/7	3/3	1/2	2/3	3/3

Note 1: One Board meeting during the Year was to consider the connected transactions with the company controlled by Mr. WANG Yong. Absence of Mr. WANG Yong in this meeting was due to his deemed interests in the transactions discussed at the meeting.

Note 2: Mr. WANG Di was appointed as Deputy Chairman of the Company with effect from 5 July 2012.

Note 3: Dr. ZHANG Yan resigned as member and chairman of Remuneration Committee and Nomination Committee with effect from 30 March 2012. He also resigned as Executive Director, and Chief Executive Officer of the Company with effect from 5 July 2012.

Note 4: Mr. WANG Fangming was appointed as Executive Director and General Manager of the Company with effect from 5 July 2012.

Note 5: Mr. SUN Xinhu was re-designated from Executive Director to Non-executive Director with effect from 5 July 2012.

Note 6: Mr. WONG Kai Ming was appointed as a member and the chairman of Remuneration Committee and Nomination Committee with effect from 30 March 2012.

Note 7: Mr. WANG Yong, the Chairman of the Board, had a meeting with the Non-executive Directors (without the presence of the Executive Directors of the Company) of the Company during the Year. Non-executive Directors recommended improvements on internal control and asset management of the Group in the meeting.

E. Auditors' remuneration

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

	For the year ended 31 December 2012 (RMB'000)
Service rendered	
PricewaterhouseCoopers	
Annual audit services	2,300
Non-audit services	
– Major acquisition of assets and open offer of convertible preference shares	389
– Major acquisition of a company from major shareholder of the Company	1,800

F. Internal control

All directors acknowledge their responsibility for establishing and maintaining a sound and effective internal control system to safeguard the Group's assets and shareholders' interests, and to ensure the quality of internal and external reporting and compliance with applicable laws and regulations.

During the Year, the Board has reviewed through the Audit Committee the effectiveness of the Group's internal control systems and financial reporting system. Relevant recommendations made by the Audit Committee and external auditors who perform the reviews at least annually would be adopted, if appropriate, as soon as possible by the Group to improve its internal control systems. There were no irregularities or material deficiencies found during the Year.

G. Company secretary

The Company Secretary provides advice and services to the Board to ensure the Board follows all the Company's Board procedures and all applicable rules and regulations. Company Secretary notifies the Board of rule amendments and updates in respect of corporate governance practices, to assist the Directors of the Company to fulfill their responsibilities.

The biographical details of the Company Secretary are set out on page 37 of this Annual Report.

The Company Secretary has sufficient relevant professional training during the Year as required under Rule 3.29 of the Listing Rules.

H. Directors' and Officers' liability insurance

The Company has taken out liability insurance to indemnify its Directors and senior management for their liabilities arising from the performance of their duties. The insurance coverage is reviewed by the Company on an annual basis. No claim has been made against the Directors and senior management of the Company during the Year.

I. Shareholders' Rights and Investor Relations

The Company's shareholders' communication policy is to maintain transparency and provide timely information of the Group's material developments to shareholders and investors.

Apart from publishing statutory required documents and corporate presentation, the Company also publishes the quarterly operational performance announcement of the Group after the end of each quarter to provide timely operational information of the Group to shareholders.

General meetings of the Company are formal channels for communication between shareholders and the Board. The chairmen of the Board and the Board committees are invited to attend the general meetings to have direct communication with the shareholders. External auditor of the Company also attend annual general meetings to answer shareholders' enquires.

Under the Company's bye-laws, the Bermuda Companies Act 1981 and applicable legislation and regulation, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition sent to the Company's registered office at Clarendon House, 2 Church Street, Hamilton, Bermuda HM11 and its principal office at Unit 2110, 21/F, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong, for the attention of the Board or the Company Secretary, to require a special general meeting ("**SGM**") to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

The written requisition must state the purposes of the general meeting, signed by the shareholder(s) concerned and may consist of several documents in like form, each signed by one or more of those shareholders.

If the requisition is in order, the Company Secretary will ask the Board to convene a SGM by serving sufficient notice in accordance with the statutory requirements to all the registered shareholders. On the contrary, if the requisition is invalid, the shareholders concerned will be advised of this outcome and accordingly, a SGM will not be convened as requested.

The notice period to be given to all the registered shareholders for consideration of the proposal raised by the shareholder(s) concerned at a SGM varies according to the nature of the proposal, as follows:

– at least twenty-one (21) clear days' and not less than ten (10) clear business days' notice in writing if the proposal constitutes a special resolution of the Company, which cannot be amended other than to a mere clerical amendment to correct a patent error; and

– at least fourteen (14) clear days' and not less than ten (10) clear business days' notice in writing if the proposal constitutes an ordinary resolution of the Company.

Shareholders who have enquires about the above procedures or have enquires to put to the Board or have suggestions on the Company's business may write to the Company Secretary at Unit 2110, 21/F, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong. The Board and senior management of the Company will seriously consider shareholders' enquiries and address them accordingly and in compliance with the Listing Rules. During the Year, no shareholders' written enquiry was received.

The investor relations and corporate communication department of the Company in Hong Kong maintains regular communication and dialogue with shareholders, investors and analysts. It can be accessed during normal business hour by phone (Telephone: 3188 4518) or email (ir@xiwang-sugar.com).

Shareholders and investors can also visit the Company's website at www.xiwang-sugar.com and the Stock Exchange's website for the Company's announcements, circulars, financial information, corporate governance practices, annual reports, interim reports and other corporate information and updates of business development and operations.

Significant Changes in Constitutional Documents

At the special general meeting held on 27 March 2012, the increase of authorized share capital of the Company from HKD200,000,000 divided into 2,000,000,000 ordinary shares to HKD600,000,000 divided into 4,000,000,000 ordinary shares and 2,000,000,000 convertible preference shares was approved by shareholders of the Company. Relevant definition, interpretation and respective rights, privileges and restrictions regarding the convertible preference shares were approved to be amended or inserted in the Bye-laws of the Company. Details of the amendments to the Bye-laws are set out in the circular of the Company dated 2 March 2012.

Business Model and Strategy

The Group will maintain flexible strategies in business development and prudent risk and capital management in order to achieve sustainable long term profitability and asset growth which in turns will maximize the shareholders' interest.

The Group always maintains its gearing at reasonable level and good banking relationships which enables the Group to obtain the funding for business needs and investments when opportunities arise.

As discussed in the "Management Discussion and Analysis" section of this annual report, the dilemma of high production cost and low gross profit margin of corn processing business will remain and the Group will actively review the financial and operating results of our corn processing business from time to time. On the other hand, the Group is optimistic about the long term economic potentials of the real estate market in China. The Group will focus on the development of residential projects in Shandong Province and will look for development potential in other areas in China from time to time to explore new markets.

On behalf of the Board

WANG Yong
Chairman

Hong Kong, 26 March 2013

DIRECTORS' REPORT

The Board is pleased to present its annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2012.

Principal activities

The Group is principally engaged in refining corn to a variety of starch sugars and corn co-products that are widely applied in food and beverage, animal feed, and many other consumer and industrial products. Starch sugars include crystalline glucose, crystalline fructose, crystalline fructose-glucose and fructose-glucose syrup from the processing of corn starch. Corn co-products include corn gluten meal, corn gluten feed, corn germ, corn starch from direct processing of corn. Sodium gluconate and maltodextrin are produced from corn starch.

The Group has started property development business in the PRC since December 2012. Four projects under different development stages and situated in Zouping County of Shandong Province were acquired in December 2012 and are expected to contribute to the Group with promising returns. The Board will continue to explore opportunities in property development market under moderate business plans and prudent financial policies.

Dividend

No final dividend was proposed by the Board for both ordinary shares and convertible preference shares in respect of the year ended 31 December 2012 (2011: RMB 2.8 cents per ordinary share, RMB3.8 cents per convertible preference share).

Payment of the preferred annual distribution of RMB1 cent per convertible preference share will be deferred.

Property, plant and equipment

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

Borrowings

Details of the Group's borrowings as at the end of the reporting period are set out in note 18 to the consolidated financial statements.

Share capital

Details of movements in the Company's share capital for the year ended 31 December 2012 are set out in note 15 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 153.

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 defined in Clause 4 of the Scheme as incentives or rewards for their contribution to the Group.

The principal terms of the Scheme are summarised as follows:

The maximum number of ordinary 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 ordinary shares, being 10% of ordinary shares in issue on the date of listing of the ordinary shares on the Stock Exchange (the "**Listing Date**") and approximately 7.93% of ordinary shares in issue and listed on the Stock Exchange as at the date of this report and which must not in aggregate exceed 30% of the ordinary shares in issue from time to time.

The maximum number of ordinary 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 ordinary shares from time to time.

The subscription price for the ordinary 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 the ordinary share as stated in the Stock Exchange's daily quotations sheet 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 the ordinary share as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the Offer Date; and (iii) the nominal value of the ordinary 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 HKD1.00 to the Company as consideration for the grant.

The Scheme shall be valid and effective for a period of ten years commencing on 6 November 2005 i.e. the date of adoption of the Scheme.

As at 31 December 2012, the outstanding share options were 9,693,000 shares of the Company, details of which are set out in note 15 to the consolidated financial statements and below:

Class of grantee	Date of grant	During the year ended 31 December 2012 Granted	Exercised	Outstanding as at 1 January 2012	Outstanding as at 31 December 2012	Exercise price per Share *(HKD)*	Exercise period
Employees *(Note 1)*	8 May 2009	–	–	2,193,000	2,193,000	1.32	*(Note 2,4)*
	14 September 2011	–	–	7,500,000	7,500,000	1.55	*(Note 3,4)*
		–	–	9,693,000	9,693,000		

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 price of the ordinary shares as stated in the Stock Exchange's daily quotations sheet on 7 May 2009, being the trading day immediately preceding the date of grant of options, was HKD1.28 per share.

3. The closing price of the ordinary shares as stated in the Stock Exchange's daily quotations sheet on 12 September 2011, being the trading day immediately preceding the date of grant of options was HKD1.49 per share.

4. These options can only be exercised by the grantee in the following manner:

Commencing from	Maximum cumulative number of ordinary shares under the options that can be subscribed for pursuant to the exercise of the options
8 May 2012	2,193,000
13 September 2012	2,333,333
13 September 2013	2,333,333
13 September 2014	2,333,334
13 September 2016	500,000

5. The value of options is set out in note 15 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 has purchased, sold or redeemed any of the listed securities of the Company during the Year.

Reserves

Details of movements in the reserves of the Group during the Year are set out in note 16 to the consolidated financial statements and in the consolidated statement of changes in equity.

As the 31 December 2012, the reserves available for distribution to shareholders of the Company was approximately RMB409,040,000.

Major customers and suppliers

Xiwang Pharmaceutical Company Limited ("**Xiwang Pharmaceutical**") was the largest customer of the Group for the year ended 31 December 2012, and accounted for approximately 11.97% (2011: 10.1%) of the Group's turnover for the Year. During the Year, the Group's five largest customers accounted for approximately 30.94% (2011: 25.23%) of the total turnover of the Group. During the Year, Xiwang Pharmaceutical and Shandong Xiwang Food Company Limited ("**Xiwang Food**") are the top two customers of the Group. As of the date of this report, Xiwang Pharmaceutical is 64.36% effectively held by Mr. WANG Yong, and Xiwang Food is 33.52% effectively held by Mr. WANG Yong.

For the year ended 31 December 2012, the largest supplier accounted for approximately 10.66% (2011:10.5%) of the Group's total cost of purchase and the Group's five largest suppliers accounted for approximately 38.21% (2011: 33.7%) of the Group's total cost of purchase.

Save as disclosed in note 31 to the consolidated financial statements and save as disclosed above, 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 suppliers and five largest customers of the Group during the Year.

Directors and Directors' service contracts

The Directors during the Year and up to the date of this report were:

Executive Directors:

Mr. WANG Yong *(Chairman)*

Dr. ZHANG Yan (resigned on 5 July 2012)

Mr. WANG Di *(Deputy Chairman)*

Mr. WANG Fangming *(General Manager)* (appointed on 5 July 2012)

Dr. LI Wei

Mr. HAN Zhong

Non-executive Director:

Mr. SUN Xinhu (re-designated on 5 July 2012)

Independent Non-executive Directors:

Mr. SHI Wei Chen

Mr. SHEN Chi

Mr. WONG Kai Ming

On 1 April 2013, Mr. SHEN Chi resigned and Mr. WANG An was appointed as an Independent Non-executive Director.

Each of Mr. WANG Fangming, Mr. SUN Xinhu and Mr. WANG An will retire as Director, and being eligible, offer himself for re-election as Director at the forthcoming annual general meeting in accordance with Bye-law 86(2) of the Bye-laws of the Company.

In accordance with Bye-law 87(1) of the Bye-laws of the Company, each of Mr. WANG Yong, Mr. WANG Di and Mr. SHI Wei Chen will retire as Director by rotation at the forthcoming annual general meeting and, being eligible, offer himself for re-election as Director.

During the Year, Mr. SUN Xinhu was re-designated from Executive Director to Non-executive Director. The Company renewed the service contract with Mr. SUN Xinhu for a term of three years. The Company has also appointed Mr. WANG Fangming as an Executive Director with no fixed term of appointment. The service agreement with Mr. WANG Fangming may be terminated by either party by giving to the other not less than three months' prior notice in writing.

Each of the Independent Non-executive Directors, Mr. WONG Kai Ming and Mr. SHI Wei Chen was re-appointed with a fixed term of three years, commencing from November 2011. Their appointment may be terminated by either party by giving to the other not less than three months' prior notice in writing.

The Company appointed Independent Non-executive Director, Mr. SHEN Chi for a term of three years in February 2010. Upon the expiry of the term of office of Mr. SHEN Chi, the Company entered into a letter of agreement with Mr. SHEN to extend his term of appointment up to 31 March 2013.

The Company appointed Mr. WANG An as Independent Non-executive Director for a term of three years, effective from 1 April 2013. His appointment may be terminated by either party by giving to the other not less than three months' prior notice in writing.

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 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 31 to 37 of this annual report.

Directors' interests in contracts of significance

Save as disclosed in the paragraph headed "Connected transactions" below and in note 31 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 subsisted at the end of the Year or at any time during the Year.

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 2012, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("**SFO**")) as recorded in the register required to be kept by the Company under section 352 of the SFO, or were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

Company/Name of associated corporations	Name of directors	Capacity	Number/amount and class of securities *(Note 1)*	Approximate percentage of the issued securities as at 31 December 2012
Company	WANG Yong	Interest of a controlled corporation *(Note 2)*	584,790,077 ordinary shares (L) *(Note 4)*	57.98%
			904,454,180 convertible preference shares (L) *(Note 4)*	99.64%
			promissory note amounting RMB308,000,000 *(Note 4)*	N/A
Xiwang Holdings	WANG Yong	Beneficial owner *(Note 2)*	128,722 shares (L)	64.36%
		Others *(Note 2)*	71,278 shares (L)	35.64%
Xiwang Investment	WANG Yong	Interest of controlled corporations *(Note 2)*	3 shares (L)	100%
Xiwang Special Steel	WANG Yong	Interest of controlled corporations *(Note 2)*	1,500,000,000 shares(L) *(Note 3)*	75%

Company/Name of associated corporations	Name of directors	Capacity	Number and class of securities *(Note 1)*	Approximate percentage shareholding in the same class of securities as at 31 December 2012
Xiwang Holdings	WANG Di	Beneficial owner *(Note 2)*	3,546 shares (L)	1.77%
Xiwang Holdings	WANG Fangming	Beneficial owner *(Note 2)*	3,546 shares (L)	1.77%
Xiwang Holdings	HAN Zhong	Beneficial owner *(Note 2)*	3,546 shares (L)	1.77%
Xiwang Holdings	LI Wei	Beneficial owner *(Note 2)*	1,773 shares (L)	0.89%
Xiwang Holdings	SUN Xinhu	Beneficial owner *(Note 2)*	1,773 shares (L)	0.89%

Notes:

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

(2) Xiwang Investment is a wholly-owned subsidiary of Xiwang Holdings, the voting right of which is in turn controlled as to 100% by Mr. WANG Yong and the shares of which are directly and beneficially owned as to 64.36% by Mr. WANG Yong. Mr. WANG Yong is therefore deemed to be interested in the entire issued share capital in Xiwang Investment and Xiwang Holdings. Mr. WANG Yong is the sole director of Xiwang Investment and Xiwang Holdings.

Xiwang Holdings is directly and beneficially owned as to 64.36% by Mr. WANG Yong, 1.77% by each of Mr. WANG Di, Mr. WANG Fangming and Mr. HAN Zhong respectively and 0.89% by each of Dr. LI Wei and Mr. SUN Xinhu respectively.

(3) These shares are registered in the name of Xiwang Investment. Mr. WANG Yong is deemed to be interested in all the shares of Xiwang Special Steel held by Xiwang Investment.

(4) These shares and promissory note are registered in the name of Xiwang Investment. Mr. WANG Yong is deemed to be interested in all shares and the promissory note of the Company held by Xiwang Investment.

The promissory note was issued by the Company to Xiwang Investment as settlement of the consideration for the acquisition of the entire issued share capital of Keen Lofty Investments Limited from Xiwang Investment. For details, please refer to the section of "Connected transactions" of this report.

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 2012, so far as it is known to any Directors of the Company, 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 or were deemed or taken to have 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 2012
Xiwang Investment	Beneficial owner	584,790,077 ordinary shares (L)	57.98%
		904,454,180 convertible preference shares (L)	99.64%
Xiwang Holdings	Interest of a controlled corporation *(Note 2)*	584,790,077 ordinary shares (L)	57.98%
		904,454,180 convertible preference shares (L)	99.64%
ZHANG Shufang	Interest of spouse *(Note 3)*	584,790,077 ordinary shares (L)	57.98%
		904,454,180 convertible preference shares (L)	99.64%

Notes:

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

(2) Xiwang Investment is a wholly owned subsidiary of Xiwang Holdings. Xiwang Holdings is deemed to be interested in the shares in which Xiwang Investment is interested.

(3) Ms. ZHANG Shufang, being the spouse of Mr. WANG Yong, is deemed to be interested in all the shares in which Mr. WANG Yong is deemed to be interested.

(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 2012, 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

Details of the connected transactions undertaken by the Group during the year ended 31 December 2012 which were subject to reporting requirements under Chapter 14A of the Listing Rules are set out below.

A. Set out below is a brief description of the continuing connected transactions which are non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules and their annual cap amounts 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 2012	For the year ending 31 December 2013	For the year ending 31 December 2014
1.	Sales of corn germs by the Group to Xiwang Food	RMB 639 million	RMB 874 million	RMB988 million
2.	Sale of corn starch by the Group to Xiwang Pharmaceutical	RMB 854 million	RMB 1,609 million	RMB1,818 million
3.	Sale of crystalline glucose by the Group to Xiwang Pharmaceutical	RMB 460 million	RMB 505 million	–
4.	Provision of sewage service by the Group to Xiwang Group	RMB 5.2 million	RMB 6.3 million	RMB7.7million

Xiwang Food is a wholly owned subsidiary of Xiwang Foodstuffs. Xiwang Foodstuffs is a company publicly listed on the Main Board of the Shenzhen Stock Exchange and is effectively held as to 52.08% by Xiwang Group. Xiwang Pharmaceutical is wholly owned by Xiwang Group, Xiwang Group is owned as to 64.36% by Mr. Wang Yong, an executive Director of the Company.

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 31 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 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;

(3) 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.

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

The Company has received a written confirmation from the auditors. The auditors have confirmed that the continuing connected transactions during the Year compiled with Rule 14A.38, that is, the continuing connected transactions:

(1) have received the approval of the Board;

(2) are in accordance with the pricing policies of the Group, if the transactions involve provision of goods or services by the Group;

(3) have been entered into in accordance with the relevant agreements governing the transactions; and

(4) have not exceeded the caps disclosed in previous announcements.

B. During the Year, the Group entered an agreement with Xiwang Pharmaceutical to acquire a bundle of operating assets, including a brand new production line of corn starch with annual production capacity of 600,000 tonnes, a used production line of corn starch with annual production capacity of 150,000 tonnes, two used production lines of maltodextrin with annual production capacity of 120,000 tonnes and the corresponding facilities and related land and properties, at the consideration of RMB825,000,000. This acquisition was approved by shareholders of the Company (the "**Shareholders**") at the special general meeting ("**SGM**") held on 27 March 2012. For details, please refer to the circular of the Company dated 2 March 2012.

At the SGM held on 27 March 2012, the Shareholders also approved the new corn starch supply agreement with Xiwang Pharmaceutical and the new corn germ supply agreement with Xiwang Food, and the new annual caps of these transactions as stated in the table above. For details, please refer to the circular of the Company dated 2 March 2012.

On 18 November 2012, the Group entered an agreement (as supplemented by a supplemental agreement dated 10 December 2012) with Xiwang Investment, a controlling shareholder of the Company, to acquire the entire issued share capital of Keen Lofty Investments Limited, a company incorporated in BVI, of which the subsidiaries are engaged in property development business in the PRC at the consideration of RMB 308 million, to be satisfied by the issuing by the Company of the promissory note in the principal amount of RMB 308 million in favour of Xiwang Investment. This acquisition was approved by the Shareholders at the SGM held on 28 December 2012. For details, please refer to the circular of the Company dated 11 December 2012.

C. Related Party Transactions

Details of the related party transactions undertaken by the Group during the year ended 31 December 2012 are set out in note 31 to the financial statements. The Company has complied with the applicable requirements under the Listing Rules for those related party transactions which constituted non-exempt connected transactions/continuing connected transactions. Other related party transactions either did not constitute connected transactions/continuing connected transactions or constituted connected transactions/continuing connected transactions but were exempted from all disclosure and independent shareholders' approval requirements under the Listing Rules.

General disclosure pursuant to rule 13.18 of the Listing Rules

As disclosed in the announcement dated 2 March 2010 made in accordance with Rule 13.18 of the Listing Rules, on 2 March 2010, a subsidiary of the Group (the "**Borrower**"), the Company, and two of its wholly owned subsidiaries, Master Team International Limited and Winning China Limited (the "**Guarantors**"), entered into a facility agreement for a seven year term loan facilities of USD 20,000,000 with the International Finance Corporation ("**IFC**"). ("**Facility Agreement**"). Pursuant to the Facility Agreement, Mr. WANG Yong ("**Mr. WANG**"), the Chairman of the Board, entered into an agreement ("**Share Retention Agreement** ") with, among others, the IFC pursuant to which so long as there remains any amount outstanding under the Facility Agreement, Mr. WANG undertakes that he shall directly or indirectly own not less than 30.76% of the shareholdings in each of the Guarantors and the Borrower and keep his shareholding free from any sale, transfer, assignment, lien or disposition.

The Facility Agreement provides (among others) that so long as there remains any amount outstanding under the Facility Agreement:

(1) Mr. WANG should comply with any of his obligations under the Share Retention Agreement;

(2) any representation or warranty made by Mr. WANG in the Share Retention Agreement or in connection with the execution of, or any request under, any other loan document is correct in any material respect;

(3) Mr. WANG, or any of his affiliates or any person or entity acting on his behalf has not been found by a judicial process or other official inquiry to have committed or engaged in any corrupt, fraudulent, coercive, collusive or obstructive practice; and

(4) Mr. WANG and the other shareholders of Xiwang Group collectively hold not less than 51% of the beneficial interest in each Guarantor and the Borrower.

Under the Facility Agreement, a breach of any of the above specific performance obligations would constitute a default under the Facility Agreement. Such default would permit the lender to accelerate the maturity of the indebtedness under the Facility Agreement. There was no breach of the above specific performance during the Year and as at the date of the report.

As disclosed in the announcement dated 1 April 2010 made in accordance with Rule 13.18 of the Listing Rules, on 1 April 2010, a subsidiary of the Group as borrower entered into a loan agreement with certain financial institutions as lenders for a three year term loan facility of USD 20,000,000 ("**Loan Agreement**").

The Loan Agreement provides, among others, that all outstanding amounts and the interest accrued under the loan facility may become immediately due and repayable where any of the following events (among others) occurs:

(1) Xiwang Investment ceases to hold directly or indirectly at least 45% of the entire issued share capital of the Company;

(2) Xiwang Holdings ceases to hold directly or indirectly 100% of the entire issued share capital of Xiwang Investment; and

(3) Mr. WANG ceases to:

(a) be the Chairman and Executive Director of the Company;

(b) have the management and board control of the Company;

(c) hold, whether directly or indirectly, at least 50% of the entire issued share capital of Xiwang Holdings; or

(d) remain as the single largest and controlling shareholder of the Company.

There was no breach of the above specific performance during the Year and all the outstanding amount of the loan under this agreement was fully settled as at the date of the report.

Corporate governance

A report on the principal corporate governance practices adopted by the Company is set out on pages 38 to 48 of this annual report.

Audit Committee

The Company established an Audit Committee with written terms of reference based upon the provisions and recommended practices of the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control procedures and system of the Group. During the year, 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. Mr. SHEN Chi resigned and Mr. WANG An was appointed as an Independent Non-executive Director and member of the Audit Committee of the Company, both effective from 1 April 2013.

The Group's consolidated financial statements for the year ended 31 December 2012 have been reviewed by the Audit Committee, which 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 Wednesday, 22 May 2013.

Closure of register of members

The register of members in respect of ordinary shares of the Company will be closed from Monday, 20 May 2013 to Wednesday, 22 May 2013, (both days inclusive), during which period no transfer of ordinary shares will be registered, for the purpose of ascertaining shareholders' entitlement for attending and voting at the annual general meeting. In order to be eligible to attend and vote at the annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration 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, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 16 May 2013.

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, 26 March 2013

INDEPENDENT AUDITOR'S REPORT

pwc 羅兵咸永道

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 66 to 152, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the financial statements are free from material misstatement.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 of the Group as at 31 December 2012 and of the Group's loss 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, 26 March 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012	Note	2012 RMB'000	2011 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**2,641,718**	1,824,965
Goodwill	7	**180,405**	–
Land use rights	8	**268,518**	234,298
Deferred income tax assets	19	**6,587**	5,051
		3,097,228	2,064,314
Current assets			
Inventories	10	**714,343**	584,148
Completed properties for sale	11	**27,973**	–
Properties under development	12	**460,656**	–
Trade and other receivables	13	**1,115,419**	1,156,885
Prepaid income taxes		**586**	–
Amounts due from related parties	31(f)	**144,002**	101,879
Restricted cash	14	**287,358**	–
Cash and cash equivalents	14	**591,690**	232,491
		3,342,027	2,075,403
Total assets		**6,439,255**	4,139,717
EQUITY			
Attributable to equity holders of the Company			
Share capital	15		
– Ordinary shares		**102,086**	102,086
– Convertible preference shares		**73,586**	–
Share premium	15	**1,121,704**	332,207
Other reserves	16		
– Proposed final dividend	25	**–**	62,733
– Others		**991,438**	933,015
Retained earnings		**524,012**	718,611
Total equity		**2,812,826**	2,148,652

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012	Note	**2012 RMB'000**	2011 RMB'000
LIABILITIES			
Non-current liabilities			
Promissory note payable	31(f)	**217,155**	–
Borrowings	18	**–**	319,447
Deferred tax liabilities	19	**119,742**	–
		336,897	319,447
Current liabilities			
Trade and other payables	17	**1,030,766**	483,008
Current income tax liabilities		**–**	8,084
Amounts due to related parties	31(f)	**336,672**	67,731
Borrowings	18	**1,922,094**	1,112,795
		3,289,532	1,671,618
Total liabilities		**3,626,429**	1,991,065
Total equity and liabilities		**6,439,255**	4,139,717
Net current assets		**52,495**	403,785
Total assets less current liabilities		**3,149,723**	2,468,099

The notes on pages 73 to 152 are an integral part of these consolidated financial statements.

The financial statements on pages 66 to 152 were approved by the Board of Directors on 26 March 2013 and were signed on its behalf.

WANG Yong
Director

WANG Di
Director

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012	Note	2012 RMB'000	2011 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**457**	576
Investments in subsidiaries	9	**217,215**	13
Amount due from a subsidiary	9(b),31(f)	**697,169**	697,169
		914,841	697,758
Current assets			
Trade and other receivables	13	**1,072**	1,218
Amount due from a subsidiary	9(b),31(f)	**95,841**	95,823
Amounts due from other related parties	31(f)	**920,452**	45,467
Dividend receivable	31(f)	**222,875**	222,838
Cash and cash equivalents	14	**8,701**	43,874
		1,248,941	409,220
Total assets		**2,163,782**	1,106,978
EQUITY			
Attributable to equity holders of the Company			
Share capital	15		
– Ordinary shares		**102,086**	102,086
– Convertible preference shares		**73,586**	–
Share premium	15	**1,121,704**	332,207
Other reserves	16		
– Proposed final dividend	25	**–**	62,733
– Others		**560,482**	560,562
Retained earnings		**18,766**	33,062
Total equity		**1,876,624**	1,090,650

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012	Note	**2012 RMB'000**	2011 RMB'000
LIABILITIES			
Non-current liabilities			
Promissory note payable	31(f)	**217,155**	–
		217,155	–
Current liabilities			
Borrowings	18	**62,922**	–
Amounts due to related parties	31(f)	**2,136**	16,266
Trade and other payables	17	**4,945**	62
		70,003	16,328
Total liabilities		**287,158**	16,328
Total equity and liabilities		**2,163,782**	1,106,978
Net current assets		**1,178,938**	392,892
Total assets less current liabilities		**2,093,779**	1,090,650

The notes on pages 73 to 152 are an integral part of these consolidated financial statements.

The financial statements on pages 66 to 152 were approved by the Board of Directors on 26 March 2013 and were signed on its behalf.

WANG Yong
Director

WANG Di
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012	Note	2012 RMB'000	2011 RMB'000
Turnover	5	**4,328,144**	3,632,861
Cost of goods sold	20	**(4,048,414)**	(3,176,839)
Gross profit		**279,730**	456,022
Other income – net	21	**8,447**	2,614
Selling and marketing costs	20	**(106,597)**	(128,236)
Administrative expenses	20	**(104,021)**	(74,356)
Operating profit		**77,559**	256,044
Finance income		**878**	3,063
Finance costs		**(93,905)**	(46,586)
Finance costs – net	23	**(93,027)**	(43,523)
(Loss)/profit before income tax		**(15,468)**	212,521
Income tax expense	24	**(2,565)**	(33,240)
(Loss)/profit for the year		**(18,033)**	179,281
Other comprehensive income for the year, net of tax		**–**	–
Total comprehensive (loss)/income for the year		**(18,033)**	179,281
Attributable to:			
Equity holders of the Company		**(18,033)**	179,281
(Loss)/earnings per ordinary share for (loss)/profit attributable to the ordinary shareholders of the Company (expressed in RMB per share)			
– basic	26	**(0.05)**	0.18
– diluted	26	**(0.05)**	0.18
Dividend	25	**–**	62,733

The notes on pages 73 to 152 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012	Share capital RMB'000 *(Note 15)*	Share premium RMB'000 *(Note 15)*	Other reserves RMB'000 *(Note 16)*	Retained earnings RMB'000	Total Equity RMB'000
	Attributable to equity holders of the Company				
Balance at 1 January 2011	**101,896**	**328,531**	**921,492**	**613,586**	**1,965,505**
Comprehensive income					
Profit for the year	–	–	–	179,281	179,281
Transactions with owners					
Employee share option scheme					
– value of services provided	–	1,288	–	–	1,288
Appropriation to reserves	–	–	231,344	(231,344)	–
Proceeds from share options exercised	184	2,247	–	–	2,431
Proceeds from bonus issue of warrants	6	141	–	–	147
Transfer of reserves upon merger of subsidiaries	–	–	(157,088)	157,088	–
Total transactions with owners	**190**	**3,676**	**74,256**	**(74,256)**	**3,866**
Balance at 31 December 2011	**102,086**	**332,207**	**995,748**	**718,611**	**2,148,652**
Balance at 1 January 2012	**102,086**	**332,207**	**995,748**	**718,611**	**2,148,652**
Comprehensive income					
Loss for the year	–	–	–	(18,033)	(18,033)
Transactions with owners					
Proceeds from issue of convertible					
preference shares	73,586	787,957	–	–	861,543
Acquisition of subsidiaries	–	–	(118,063)	–	(118,063)
Employee share option scheme					
– value of services provided	–	1,538	–	–	1,538
Dividend	–	–	(62,813)	–	(62,813)
Appropriation to reserves	–	–	176,566	(176,566)	–
Proceeds from bonus issue of warrants	–	2	–	–	2
Total transactions with owners	**73,586**	**789,497**	**(4,310)**	**(176,566)**	**682,207**
Balance at 31 December 2012	**175,672**	**1,121,704**	**991,438**	**524,012**	**2,812,826**

The notes on pages 73 to 152 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012	Note	2012 RMB'000	2011 RMB'000
Cash flows from operating activities			
Cash generated from operations	27	**406,026**	50,228
Interest paid		**(106,759)**	(89,460)
Income tax paid		**(15,902)**	(11,431)
Net cash generated from/(used in) operating activities		**283,365**	(50,663)
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**(217,486)**	–
Acquisition of property, plant and equipment		**(976,599)**	(151,013)
Acquisition of land use rights		**(40,074)**	–
Interest received		**21,409**	15,753
Net cash used in investing activities		**(1,212,750)**	(135,260)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**–**	2,431
Proceeds from issue of convertible preference shares		**868,312**	–
Proceeds from bonus issue of warrants		**2**	147
Proceeds from borrowings		**1,602,943**	810,000
Repayment of borrowings		**(1,113,091)**	(942,666)
Dividend paid to company's shareholders		**(28,272)**	–
Dividend paid to holders of convertible preference shares		**(34,541)**	–
Issuance cost of convertible preference shares		**(6,769)**	–
Net cash generated from/(used in) financing activities		**1,288,584**	(130,088)
Net increase/(decrease) in cash and cash equivalents		**359,199**	(316,011)
Cash and cash equivalents at beginning of the year		**232,491**	548,502
Cash and cash equivalents at end of the year		**591,690**	232,491

The notes on pages 73 to 152 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 sales of a variety of starch sugars and corn co-products within and outside of the People's Republic of China (the "**PRC**"). On 31 December 2012, the Group acquired the entire issued share capital of Keen Lofty Investments Limited ("**Keen Lofty**") and its subsidiaries, a group engaged in the property development in the PRC. Details of the acquisition are set out in note 30.

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 26 March 2013.

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 the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**"), and have been prepared under the historical cost convention.

The Group incurred a net loss of approximately RMB 18 million for the year ended 31 December 2012 (2011: net profit of approximately RMB 179 million). In addition, the Group has breached certain borrowing covenants (Note 18). As at 31 December 2012, total borrowings of the Group amounted to approximately RMB 1,922 million of which approximately RMB 1,854 million will be due for repayment in the coming year. Furthermore, as at 31 December 2012, the Group has capital commitments of approximately RMB 208 million (2011: RMB 74 million) (Note 29).

2 Summary of significant accounting policies (continued)

2.1 Basis of presentation (continued)

The Group meets its day to day working capital requirements, capital expenditure and financing obligations through cash inflows from operating activities and credit facilities obtained from banks.

Management maintains continuous communication with the Group's principal banks on the renewal of existing credit facilities and grant of additional credit facilities. During January to February 2013, new short-term borrowings of approximately RMB 457 million with a term of twelve months were obtained and short-term borrowings of RMB 200 million were repaid. The Group has not experienced any significant difficulties in renewing its short-term borrowings upon their maturity and there is no evidence indicating that the banks will not renew the existing short-term borrowings upon the Group's application for renewal. Subsequent to the date of financial position and up to the date of approval of the financial statements, short-term borrowings of approximately RMB 410 million have been renewed for a further year. In addition, certain banks have advised their intention in writing, though not legally binding, to renew or to extend the loans (including certain loans as at 31 December 2012 and certain loans that were renewed or newly granted subsequent to the date of financial position and up to the date of approval of the financial statements) of approximately RMB 1,847 million for a further year when they fall due.

Based on the directors' review of the Group's cash flow projection, taking into account the anticipated cash flows from operations, the reasonably possible changes in the operational performance and the ongoing support from the banks, the Group expects to generate sufficient cash flows to fulfill its financial obligations as and when they fall due in the coming twelve months from the date of the financial statements. Accordingly, the directors are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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.

2 Summary of significant accounting policies (continued)

2.1 Basis of presentation (continued)

These consolidated financial statements have also been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

The consolidated financial statements include the financial position, results and cash flows of the companies comprising the Group as if the current group structure had been in existence since 1 January 2012, or since their respective dates of incorporation/establishment. For companies acquired from a third party during the period, they would be included in the consolidated financial statements of the Group from the date of that acquisition.

Changes in accounting policies and disclosures

(a) New and amended standards and interpretations mandatory for the first time for the financial year beginning 1 January 2012 applicable to the Group:

- HKFRS 7 (amendment), ‘Financial instruments: Disclosures’ on transfer of financial assets is effective for annual periods beginning on or after 1 July 2011.

- HKAS 12 (amendment), ‘Income taxes’ on recovery of underlying assets is effective for annual periods beginning on or after 1 January 2012.

The adoption of such standards and interpretations did not have any significant effect on the results or financial positions of the Group for the current year.

2 Summary of significant accounting policies (continued)

2.1 Basis of presentation (continued)

Changes in accounting policies and disclosures (continued)

(b) New and amended standards have been issued but not effective for the financial year beginning 1 January 2012 and have not been early adopted by the Group:

The Group's assessment of the impact of these new and amended standards is set out below:

	Effective for annual periods beginning on or after
HKAS 1 'Financial statements presentation' regarding other comprehensive income – Amendment	1 July 2012
HKFRS 1 'First time adoption' on government loans – Amendment	1 January 2013
HKFRS 10, 11, 12 'Transition guidance' on consolidated financial statements, joint arrangements and disclosure of interests in other entities: – Amendment	1 January 2013
HKFRS 10 'Consolidated financial statements'	1 January 2013
HKFRS 11 'Joint arrangements'	1 January 2013
HKFRS 12 'Disclosures of interests in other entities'	1 January 2013
HKFRS 13 'Fair value measurement'	1 January 2013
HKAS 27 'Separate financial statements' – Revised	1 January 2013
HKAS 28 'Associates and joint ventures' – Amendment	1 January 2013
HKAS 19 'Employee benefits' – Amendment	1 January 2013
HKFRS 7 'Financial instruments Disclosures' on assets and liability offsetting	1 January 2013
HK(IFRIC) – Int 20 'Stripping costs in the production phase of a surface mine'	1 January 2013
Annual improvements 2011	1 January 2013

2 Summary of significant accounting policies (continued)

2.1 Basis of presentation (continued)

Changes in accounting policies and disclosures (continued)

	Effective for annual periods beginning on or after
HKAS 32 'Financial instruments: Presentation' – Amendment	1 January 2014
HKFRS 7 and HKFRS 9 'Mandatory effective date and transition disclosures'	1 January 2015
HKFRS 9, 'Financial instruments' on classification and measurement	1 January 2015

The adoption of such standards is not expected to have any significant effect on the results or financial positions of the Group.

2.2.1 Consolidation

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. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

De-facto control may arise from circumstances where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

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.

2 Summary of significant accounting policies (continued)

2.2.1 Consolidation (continued)

Intra-group transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from intra-group transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(a) Business combinations (exclude combination under common control)

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a charge to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2 Summary of significant accounting policies (continued)

2.2.1 Consolidation (continued)

(a) Business combinations (exclude combination under common control) (continued)

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

(b) Business combination involving entities under common control

For acquisition under common control, the Group has been using the principles of merger accounting as prescribed in Hong Kong Accounting Guideline 5 'Merger Accounting for Common Control Combinations' issued by the HKICPA ("**HKAG 5**").

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing carrying amounts from the controlling party's perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

A uniform set of accounting policies is adopted by those entities. All intra-Group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

2 Summary of significant accounting policies (continued)

2.2.1 Consolidation (continued)

(b) Business combination involving entities under common control (continued)

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for using merger accounting are recognised as an expense in the period in which they were incurred.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer.

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 the Group's presentation currency.

2 Summary of significant accounting policies (continued)

2.4 Foreign currency translation (continued)

(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 profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or cost'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'other income – net'.

(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 statement of financial position presented are translated at the closing rate at the end of reporting period;

b. income and expenses for each statement of comprehensive income 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 in other comprehensive income.

2 Summary of significant accounting policies (continued)

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment loss, if any. 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 profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the costs of the assets to their residual values over their estimated useful lives as follows:

Buildings	40 years
Plant and machinery	15 years
Furniture, equipment and motor vehicles	3-10 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 the end of each reporting period.

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 within 'other income – net' in the statement of comprehensive income.

2 Summary of significant accounting policies (continued)

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 expenditure and other direct costs, site restoration costs, prepayments and deposits attributable to the installation and borrowing costs arising from borrowings used to finance the construction during the construction 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 costs 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.

2.8 Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures. It represents the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest in the acquiree over the net of the amounts of the assets acquired and the liabilities and contingent liabilities assumed.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("**CGUs**"), or a group of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of the fair value less costs to sell and value in use. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2 Summary of significant accounting policies (continued)

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill or intangible assets not ready to use are not subject to amortisation or depreciation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are Grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. Management determines the classification of its financial assets at initial recognition. The Group only holds "loans and receivables" in the statement of financial position.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' (Note 2.14), 'amounts due from related companies' and 'cash and cash equivalents' in the statement of financial position (Note 2.15).

2 Summary of significant accounting policies (continued)

2.10 Financial assets (continued)

(b) Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

(c) Impairment of financial assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "**loss event**") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2 Summary of significant accounting policies (continued)

2.10 Financial assets (continued)

(c) Impairment of financial assets carried at amortised cost (continued)

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

2.11 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)

2.12 Property under development

Properties under development are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses and the anticipated costs to completion, or by management estimates based on prevailing marketing conditions.

Development cost of property comprises cost of land use rights, construction costs, depreciation of machinery and equipment, borrowing costs capitalised for qualifying assets and professional fees incurred during the development period. On completion, the properties are transferred to completed properties for sale.

Properties under development are classified as current assets when the construction of the relevant properties commences unless the construction of the relevant property development project is expected to complete beyond normal operating cycle.

2.13 Completed properties for sale

Completed properties remaining unsold at year end are stated at the lower of cost and net realisable value.

Cost comprises development costs attributable to the unsold properties.

Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing marketing conditions.

2.14 Trade and other receivables

Trade receivables are amounts due from customers for merchandise and properties sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2 Summary of significant accounting policies (continued)

2.15 Cash and cash equivalents

In the consolidated statement of cash flows, 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, bank overdrafts and exclude restricted cash. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

2.16 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.

2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.18 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 statement of comprehensive income 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 end of the reporting period.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

2 Summary of significant accounting policies (continued)

2.18 Borrowings and borrowing costs (continued)

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group operates and generates 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.

2 Summary of significant accounting policies (continued)

2.19 Current and deferred income tax (continued)

(b) Deferred income tax

Inside basis difference

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, 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 substantively 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 only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability 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.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 Summary of significant accounting policies (continued)

2.20 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% (2011: 19%) 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 contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions are not allowed to be used to reduce the Group's contributions. The Group has no further payment obligations once the contributions have been paid.

The contributions are charged to the profit or loss of the Group as they become payable in accordance with the rules of the schemes/plan.

(b) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2 Summary of significant accounting policies (continued)

2.21 Share based compensation

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);

- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining as an employee of the entity over a specified time period); and

- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

2 Summary of significant accounting policies (continued)

2.21 Share based compensation (continued)

(b) Share-based payment transactions among Group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2.22 Provisions and contingent liabilities

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.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2 Summary of significant accounting policies (continued)

2.22 Provisions and contingent liabilities (continued)

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of other companies to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the consolidated financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms, and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by management's judgement. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the combined statement of comprehensive income statement within other operating expenses.

2.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

(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.

2 Summary of significant accounting policies (continued)

2.23 Revenue recognition

(b) Sales of properties

Revenue from sales of properties is recognised when the risks and rewards of properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position as advance proceeds received from customers under current liabilities.

(c) Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow 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.

2.24 Operating leases

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), including upfront payment made for acquiring land use rights, are charged to the profit or loss on a straight-line basis over the period of the lease.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company'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, price risk, fair value interest rate risk and cash flow interest rate 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 2012, the Group had no significant assets denominated in foreign currencies other than the functional currency, while there were significant bank borrowings denominated in US dollars ("**US$**"). Accordingly, foreign exchange risk of the Group mainly results from these foreign currency denominated borrowings.

As at 31 December 2012, if RMB had weakened/strengthened by 2% (2011: 2%) against the US$, with all other variables held constant, profit before tax for the year would have been approximately RMB 3,502,000 (2011: RMB 3,645,000) lower/higher, arising from foreign exchange losses/gains on translation of US$ denominated borrowings.

(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.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets except for cash and cash equivalents, 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 2012, about 20% of the Group's bank borrowings were at floating rates, while the remaining 80% were at fixed rates.

As of 31 December 2012 and 31 December 2011, a substantial portion of the outstanding bank borrowings of the Group were obtained from domestic banks in Mainland China. In 2012, if the interest rates on bank borrowings had decreased/increased by 40 basis points (2011: 40 basis points), the usual interest adjustment scale imposed by the People's Bank of China during the year with all other variables held constant, profit before tax for the year would have been approximately RMB 5,661,000 (2011: RMB 5,265,000) higher/lower mainly as a result of lower/higher interest expense on bank borrowings.

(b) Credit risk

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

The Group's bank deposits are mainly placed with banks with high credit ratings which are either listed or state-owned. The table below shows the balance of the bank deposits in the principal banks of the Group as at 31 December 2012 and 2011:

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) *Credit risk (continued)*

	2012	2011
	RMB'000	RMB'000
Principal banks:		
State-owned or listed banks	**858,278**	232,432
Other banks	**20,671**	12
	878,949	232,444

For trade and other receivables and amounts due from related companies, the credit quality of the counterparties is assessed by taking into account their financial position, credit history and other economic factors. Individual credit limits are set based on the assessment of the credit quality. Based on the trade and credit history of the parties having receivable balances due to the Group as at 31 December 2012, 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 (Note 13).

In addition, the Group is exposed to credit risk arising from a financial guarantee issued (Note 28).

(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 end of respective reporting periods. The amounts disclosed in the table are the contractual undiscounted cash flows.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

	Less than 1 year RMB'000	**Between 1 and 2 years** RMB'000	**Between 2 and 5 years** RMB'000	**Over 5 years** RMB'000
Group				
At 31 December 2012				
Borrowings	**2,021,104**	**–**	**–**	**–**
Trade and other payables	**770,139**	**–**	**–**	**–**
Amounts due to related parties	**336,672**	**–**	**–**	**–**
Promissory note payable	**–**	**–**	**331,100**	**–**
At 31 December 2011				
Borrowings	1,147,974	277,169	67,650	12,075
Trade and other payables	483,008	–	–	–
Amounts due to related parties	67,731	–	–	–
Company				
At 31 December 2012				
Borrowings	**63,105**	**–**	**–**	**–**
Trade and other payables	**4,945**	**–**	**–**	**–**
Amounts due to related parties	**2,136**	**–**	**–**	**–**
At 31 December 2011				
Trade and other payables	62	–	–	–
Amounts due to related parties	16,266	–	–	–

3 Financial risk management (continued)

3.2 Capital risk management

The Group's objectives when managing capital (which comprises total equity) 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.

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 equity. Net debt is calculated as total borrowings (including current and non-current borrowings and promissory note as shown in the consolidated statement of financial position) less cash and cash equivalents.

The Group's strategy is maintaining a gearing ratio below 70%. The gearing ratio of the Group as at 31 December 2012 and 2011 are as follows:

	2012	2011
	RMB'000	RMB'000
Total borrowings (Notes 18 and 31(f))	**2,139,249**	1,432,242
Less: Cash and cash equivalents (Note 14)	**(591,690)**	(232,491)
Net debt	**1,547,559**	1,199,751
Total equity	**2,812,826**	2,148,652
Gearing ratio	**55%**	56%

3 Financial risk management (continued)

3.3 Fair value estimation

Financial instruments are measured in the statement of financial position at fair value, which requires disclosure of fair value measurements by level of fair value measurement hierarchy. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at 31 December 2012, the Group had no financial instrument re-measured at fair value subsequent to initial recognition.

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.

(a) Useful lives of property, plant and equipment

The estimate of useful lives of property, plant and equipment were made by the directors with reference to the established industry practices, technical assessments made on the durability of the assets, as well as the historical magnitude and trend of repair and maintenance expenses incurred by the Group. It could change significantly as a result of technical innovations and competitor actions in responses to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

4 Critical accounting estimates and judgements (continued)

(b) Allowance for impairment of trade receivables

The Group makes allowance for impairment of trade receivables based on the assessment of the recoverability of trade receivables with reference to the extent and duration that the amount will be recovered. Allowances are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables and impairment expenses in the period in which such estimate has been changed.

(c) Income taxes and deferred tax

The Group is mainly subject to income taxes in the Mainland China. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the tax losses can be utilised. Recognition of deferred tax assets primarily involves management judgement and estimations regarding the taxable profits of the entities in which the losses arose. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits.

Pursuant to the Corporate Income Tax Law and its implementation rules, effective from 1 January 2008, certain non-resident enterprises (for instance, those without an establishment or place of business in Mainland China or which have an establishment or place of business in Mainland China but whose relevant income is not effectively connected with the establishment or a place of business in the Mainland China) are subject to withholding tax at the rate of 5% or 10% on various types of passive income such as dividends derived from sources within Mainland China. Management has no intention to distribute the retained profits earned after 1 January 2008. Accordingly, no provision for withholding tax has been made in this respect as at 31 December 2012 (2011: Nil).

4 Critical accounting estimates and judgements (continued)

(d) Estimated impairment of property, plant and equipment

At 31 December 2012, the total carrying amounts of property, plant and equipment are RMB2,641,718,000 (As at 31 December 2011: RMB1,824,965,000), representing 41% (As at 31 December 2011: 44%) of the total consolidated assets of the Group. Management performs review for impairment of property, plant and equipment whenever events or changes in circumstances indicate that the carrying amounts of property, plant and equipment may not be recoverable. In such case, the recoverable amounts of property, plant and equipment have been determined based on value-in-use method. For the purpose of assessing impairment, management had grouped property, plant and equipment at the lowest levels for which there are separately identifiable cash flows CGUs. The value-in-use calculations require the use of significant estimates and assumptions on the projections of cash flows from the continuous use of property, plant and equipment. The key assumptions used in determining the value-in-use of property, plant and equipment mainly include:

CGUs	pre-tax discount rate	Gross margin	Growth rate	Residual useful life
Glucose	15.55%	13.29%	–5.00%	10
Fructose	17.69%	23.59%	2.14%	12
Fructose-glucose syrup	15.46%	13.40%	–1.67%	14
Sodium gluconate	15.36%	15.40%	–1.67%	11

(a) Average gross margin within 5 years

(b) Average growth rate used to extrapolate cash flows beyond 5 years.

Based on management's best estimates, there is no material impairment for property, plant and equipment at 31 December 2012.

4 Critical accounting estimates and judgements (continued)

(e) Estimated impairment of goodwill

As mentioned in note 30, the Group acquired a property development business in the PRC during the year ended 31 December 2012. Goodwill of RMB180,405,000 was recognised on the acquisition and represented the excess of the consideration over the Group's interest in net fair value of the identifiable net assets of the acquisition. The determination of the value of the goodwill requires significant estimates and judgement.

The Group assessed the fair value less cost of sale of the acquired business. The fair value was made by referencing to comparable sales evidences as available in the relevant market and the management's judgment that the Group is highly probable to obtain certain land use rights. When the final outcome is different from that of the original expectation, the carrying value of goodwill recognised will be impaired.

Based on management's best estimates, there is no material impairment for goodwill at 31 December 2012.

5 Revenue and segment information

The chief operating decision-maker has been identified as the General Manager of the Company. The General Manager reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The General Manager assesses the performance of the operating segments based on a measure of operating profit. This measurement basis excludes the effects of non-recurring expenditure from the operating segments, such as restructuring costs, legal expenses and impairments when the impairment is the result of an isolated, non-recurring event. Other information provided to the General Manager is measured in a manner consistent with that in the financial statements.

The turnover of the Group represents sales of starch sugars, corn co-products and others and completed properties.

5 Revenue and segment information (continued)

For the year ended 31 December 2012, management had identified three operating segments as shown below, including starch sugars, corn co-products and others and property development resulted from the acquisition as set out in note 30.

Segment assets consist of both current assets and non-current assets. Segment liabilities consist of both current liabilities and non-current liabilities.

Year ended 31 December 2012

	Starch sugars RMB'000	Corn co-products and others RMB'000	Subtotal RMB'000	Property development RMB'000	Total RMB'000
Segment sales	2,002,809	4,436,804	6,439,613	172,999	6,612,612
Inter-segment sales	–	(2,284,468)	(2,284,468)	–	(2,284,468)
Sales from external customers	2,002,809	2,152,336	4,155,145	172,999	4,328,144
Operating profit/(loss)/Segment results	68,310	(17,738)	50,572	26,987	77,559
Finance costs – net (note 23)			(92,223)	(804)	(93,027)
(Loss)/profit before income tax			(41,651)	26,183	(15,468)
Income tax credit/(expense) (note 24)			5,403	(7,968)	(2,565)
(Loss)/profit for the year			(36,248)	18,215	(18,033)
Capital expenditure (note 6 and 8)			991,420	–	991,420
Depreciation (note 6)			135,635	63	135,698
Amortisation (note 8)			5,854	–	5,854
Segment assets			5,157,496	1,281,759	6,439,255
Segment liabilities			(2,461,978)	(1,164,451)	(3,626,429)

For the year ended 31 December 2011, management had identified two operating segments as shown below, including starch sugars and corn co-products and others.

5 Revenue and segment information (continued)

Year ended 31 December 2011

	Starch sugars RMB'000	Corn co-products and others RMB'000	Total RMB'000
Segment sales	2,129,099	2,995,695	5,124,794
Inter-segment sales	–	(1,491,933)	(1,491,933)
Sales from external customers	2,129,099	1,503,762	3,632,861
Operating profit/Segment results	254,099	1,945	256,044
Finance costs – net (note 23)			(43,523)
Profit before income tax			212,521
Income tax expense (note 24)			(33,240)
Profit for the year			179,281
Capital expenditure (note 6)	91,708	70,968	162,676
Depreciation (note 6)	62,649	35,230	97,879
Amortisation (note 8)	2,981	2,231	5,212

Because the General Manager reviews the financial position of the Group as a whole, no segment information relating to assets/liabilities was disclosed in 2011.

5 Revenue and segment information (continued)

The Group conducts its business in both China and overseas countries. Total revenue derived from external customers in the PRC and external customers from other countries is as below:

	2012	2011
	RMB'000	RMB'000
China	**3,901,320**	3,218,086
Overseas countries	**426,824**	414,775
	4,328,144	3,632,861

Inter-segment transfers or transactions are entered into under the terms and conditions agreed by both parties.

Capital expenditure comprises additions to property, plant and equipment, land use rights and construction in progress (notes 6 and 8).

The total of non-current assets other than financial instruments, deferred tax assets and goodwill located in the PRC is RMB 2,909,779,000 (2011: RMB 2,058,687,000), and the total of such non-current assets located in other countries is RMB 457,000 (2011: RMB 576,000).

None of the revenue derived from any single external customer amounted to more than 10% of the Group's revenue during the year (2011: Nil).

6 Property, plant and equipment – Group

	Buildings RMB'000	Plant and machinery RMB'000	Equipment and motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2011					
Cost	301,825	1,478,671	27,263	322,660	2,130,419
Accumulated depreciation	(28,254)	(299,163)	(4,018)	–	(331,435)
Accumulated impairment	(1,758)	(37,058)	–	–	(38,816)
Net book amount	**271,813**	**1,142,450**	**23,245**	**322,660**	**1,760,168**
Year ended 31 December 2011					
Opening net book amount	271,813	1,142,450	23,245	322,660	1,760,168
Additions	–	4,012	1,099	157,565	162,676
Transfers from construction in progress	118,558	340,090	7,047	(465,695)	–
Depreciation charge	(7,112)	(87,218)	(3,549)	–	(97,879)
Closing net book amount	**383,259**	**1,399,334**	**27,842**	**14,530**	**1,824,965**
At 31 December 2011					
Cost	420,383	1,822,773	35,409	14,530	2,293,095
Accumulated depreciation	(35,366)	(386,381)	(7,567)	–	(429,314)
Accumulated impairment	(1,758)	(37,058)	–	–	(38,816)
Net book amount	**383,259**	**1,399,334**	**27,842**	**14,530**	**1,824,965**
Year ended 31 December 2012					
Opening net book amount	383,259	1,399,334	27,842	14,530	1,824,965
Acquisition of subsidiaries (note 30)	–	–	1,105	–	1,105
Additions	35,815	48,502	557	866,472	951,346
Transfers from construction in progress	520,892	287,214	59,772	(867,878)	–
Depreciation charge	(11,783)	(118,447)	(5,468)	–	(135,698)
Closing net book amount	**928,183**	**1,616,603**	**83,808**	**13,124**	**2,641,718**
At 31 December 2012					
Cost	977,090	2,158,489	97,725	13,124	3,246,428
Accumulated depreciation	(47,149)	(504,828)	(13,917)	–	(565,894)
Accumulated impairment	(1,758)	(37,058)	–	–	(38,816)
Net book amount	**928,183**	**1,616,603**	**83,808**	**13,124**	**2,641,718**

6 Property, plant and equipment – Group (continued)

No borrowing costs (2011: RMB 22,757,000) had been capitalised as part of its construction costs for the year (2011: at rates ranging from 5.68% to 6.51%).

Part of the borrowings are secured by certain buildings and machinery of the Group with an aggregate carrying value of RMB 415,146,000 as of 31 December 2012 (2011: RMB 462,727,000) (Note 18).

As at 31 December 2012, buildings with net book values of approximately RMB 356,481,000 (2011: RMB 56,445,000) have no property title certificates. The application for certificates was in progress as at 31 December 2012. Buildings with net book values of approximately RMB 29,596,000 (2011: Nil) were under the name of Xiwang Pharmaceutical Company Limited ("**Xiwang Pharmaceutical**", a related party of the Group). The change of certificates was in progress as at 31 December 2012.

Payments amounting to RMB 934,000 (2011: RMB 1,350,000) relating to the lease of property are recognised as expense (note 20).

7 Goodwill – Group

	2012 **RMB'000**
Year ended 31 December	
Opening net book amount	–
Addition	**180,405**
Impairment	–
Disposal	–
Closing net book amount	**180,405**

The goodwill of RMB 180,405,000 is recognised which represents the excess of consideration over the fair value of the identifiable net assets of Shandong Xiwang Investment Holdings Company Limited ("**Property Holdings**") as at 21 November 2012 (Note 30).

7 Goodwill – Group (continued)

Goodwill is allocated to the Group's CGUs which are three property projects under development, as follows:

	2012 RMB'000
Meijun project Phase Three	**107,875**
Qinghe project	**56,146**
Lanting project	**16,384**
	180,405

The recoverable amount of all CGUs has been determined based on the fair value less costs to sell. The key assumptions used for the fair value assessment are as follows:

	Plot ratio
Meijun project Phase Three	3.06
Qinghe project	1.52
Lanting project	2.07

8 Land use right – Group

It mainly represents prepaid operating lease payments associated with parcels of land located in the PRC. The remaining unexpired lease periods range between 10 to 50 years.

	2012 **RMB'000**	2011 RMB'000
Year ended 31 December		
Opening net book amount	**234,298**	239,510
Addition	**40,074**	–
Amortisation charge	**(5,854)**	(5,212)
Closing net book amount	**268,518**	234,298
At 31 December		
Cost	**298,251**	258,177
Accumulated amortisation	**(29,733)**	(23,879)
Net book amount	**268,518**	234,298

8 Land use right – Group (continued)

Part of the borrowings are secured by certain land use rights of the Group with an aggregate carrying amount of RMB 219,856,000 as of 31 December 2012 (2011: RMB 150,491,000) (Note 18).

As at 31 December 2012, land use rights acquired during the year with a carrying amount of approximately RMB39,432,000 (2011: Nil) were under the name of Xiwang Pharmaceutical. The change of certificates was in progress as at 31 December 2012.

9 Investments in and amount due from subsidiaries – Company

(a) Investments in subsidiaries

	Note	**2012 RMB'000**	2011 RMB'000
Investments, at cost:			
Unlisted shares	(i)	**217,155**	–
Capital contribution relating to share-based payment	(ii)	**60**	13
		217,215	13

(i) This item represents the Company's equity investments in Master Team International Limited ("**Master Team**") amounting to US$1 (equivalent to approximately RMB 8); Hong Kong Xiwang Sugar Trading Company Limited ("**HK Trading**") amounting to HKD 1,000 (equivalent to approximately RMB 818); and Keen Lofty amounting to RMB 217,155,000 (note 30), respectively.

(ii) The capital contribution arose from share-based payments relating to options over 500,000 shares granted to an employee of a subsidiary in the Group. For further details of the Group's share option scheme, please refer to note 15(b).

9 Investment in and amount due from a subsidiary – Company (continued)

(a) Investment in a subsidiary (continued)

The Group's subsidiaries are all limited liability companies. Particulars of the principal subsidiaries of the Group as at 31 December 2012 are as follows:

Name	Place of incorporation	Date of incorporation	Issued share and fully paid-up capital	Principal activities and place of operations	Interest held
Held directly:					
Master Team	British Virgin Islands (the "**BVI**")	15 March 2004	US$1	Investment holding, the BVI	100%
Keen Lofty	The BVI	13 August 2012	US$15,756,000	Investment holding, the BVI	100%
HK Trading	Hong Kong	9 April 2010	HKD1,000	Trading of starch sugars and corn co-products, Hong Kong	100%
Held indirectly:					
Winning China Limited ("**Winning China**")	Hong Kong	2 November 2007	HKD1	Investment holding, Hong Kong	100%
Glorious Prosper Limited ("**Glorious Prosper**")	The BVI	28 September 2012	HKD1	Investment holding, Hong Kong	100%
Shandong Yintaishan Cultural Development Company Limited ("**Yintaishan Cultural**")	The PRC	30 October 2012	US$15,000,000	Property development, the PRC	100%
Property Holdings	The PRC	9 November 2012	RMB20,000,000	Investment holding, the PRC	100%
Shandong Xiwang Property Company Limited ("**Property Project Company**")	The PRC	16 October 2002	RMB200,000,000	Property development, the PRC	100%
Shandong Xiwang Sugar Industry Co., Ltd ("**Xiwang Sugar**") (*)	The PRC	14 December 2005	RMB1,300,000,000	Manufacture and sale of starch sugars and corn co-products, the PRC	100%
Xiwang Sugar (Beijing) Co., Ltd. ("**Xiwang Sugar (Beijing)**")	The PRC	20 August 2010	RMB10,000,000	Sale of starch sugars, the PRC	100%

* During the year, Shandong Xiwang Bio-Chem Technology Co., Ltd changed its name to Shandong Xiwang Sugar Industry Co., Ltd.

9 Investment in and amount due from subsidiaries – Company (continued)

(b) Amount due from a subsidiary

	Note	2012 RMB'000	2011 RMB'000
Amount due from Master Team			
– quasi-equity	(i)	**697,169**	697,169
– advances	(ii)	**95,841**	95,823
		793,010	792,992
Less: non-current portion		**(697,169)**	(697,169)
Current portion – advances	(ii)	**95,841**	95,823

(i) The directors of the Company have no intention to demand for repayment in the foreseeable future and consider the balance is quasi-equity in nature, the balance is unsecured, non-interest bearing and denominated in HKD.

(ii) The advance to Master Team is unsecured, non-interest bearing, repayable on demand and denominated in HKD.

10 Inventories – Group

	2012 RMB'000	2011 RMB'000
Raw materials	**382,632**	305,216
Work in progress	**106,024**	95,576
Finished goods	**225,687**	183,356
	714,343	584,148

10 Inventories – Group (continued)

The cost of inventories recognised as expenses and included in cost of goods sold amounted to approximately RMB 3,889,438,000 for the year ended 31 December 2012 (2011: RMB 3,176,839,000).

Allowance for inventories of RMB 13,321,000 was charged to cost of sales for the year ended 31 December 2012 (2011: Nil). Inventories amounting to RMB 653,677,000 were stated at net realisable value.

No bank borrowings are secured by raw materials of the Group with an aggregate carrying amount as of 31 December 2012 (2011: RMB 100,000,000) (Note 18).

11 Completed properties for sale – Group

	2012 **RMB'000**	2011 RMB'000
Completed properties for sale, at cost	**27,973**	–

The completed properties for sale were located in the PRC. As at 31 December 2012, no completed properties for sale was considered as impaired.

12 Properties under development – Group

	2012 **RMB'000**	2011 RMB'000
Properties under development expected to be completed:		
– Within the normal operating cycle included under current assets	**460,656**	–
Amounts comprise:		
– Purchase cost arising from acquisition	**451,057**	–
– Construction costs	**9,599**	–
	460,656	–

The properties under development were located in Zouping County, Shandong Province, the PRC.

13 Trade and other receivables – Group and Company

		Group		Company	
		2012	2011	**2012**	2011
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Trade receivables					
– gross	(a)	**140,932**	117,206	**–**	–
Bills receivables	(b)	**575,723**	568,426	**–**	–
Advances to suppliers	(c)	**143,438**	462,873	**–**	–
Prepayments for construction cost	(d)	**227,778**	–	**–**	–
Prepayments for tax	(e)	**17,306**	–	**–**	–
Other receivables		**10,242**	8,380	**1,072**	1,218
		1,115,419	1,156,885	**1,072**	1,218

(a) Certain major customers are granted credit periods ranging from 30 to 90 days while most sales to other customers are on cash on delivery basis, or with prepayments covering the full sales amounts being made before goods delivery.

(b) Bills receivables are received from customers under the ordinary course of business. All of them are bank acceptance bills with a maturity period within 6 months.

(c) Advance payments to suppliers were made by the Group in order to ensure stable supplies of corn kernels at more favourable prices. The Group has entered into some agreements with an independent supplier. Please refer to note 23(a) for details.

(d) This item represents prepayments to suppliers for which property construction activity has not commenced.

(e) This item mainly represents prepayments for tax on advance proceeds from customers regarding sale of properties.

13 Trade and other receivables – Group and Company (continued)

An ageing analysis of the Group's gross trade receivables, presented according to the invoice date, is as follows:

	2012 RMB'000	2011 RMB'000
0 – 30 days	**93,198**	66,045
31 – 60 days	**26,348**	32,885
61 – 90 days	**11,272**	7,876
Over 90 days	**10,114**	10,400
	140,932	117,206

Trade receivables that are less than three months are generally within the credit period and hence are not considered impaired. As at 31 December 2012, the trade receivables that were past due but not impaired were insignificant. These were mainly receivables due from a number of independent customers for whom there was no recent history of default.

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

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
RMB	**688,362**	688,381	**–**	–
US$	**37,450**	4,396	**–**	–
HKD	**1,085**	1,235	**1,072**	1,218
	726,897	694,012	**1,072**	1,218

13 Trade and other receivables – Group and Company (continued)

As at 31 December 2012 and 2011, the fair values of trade and other receivables of the Group and the Company approximated to their carrying amounts. The maximum exposure to credit risk at the reporting date was the fair value of the receivable balances mentioned above. The Group did not hold any collateral as security.

14 Cash and cash equivalents and restricted cash – Group and Company

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and on hand	**276,690**	132,491	**8,701**	43,874
Short-term bank deposits	**315,000**	100,000	**–**	–
Total	**591,690**	232,491	**8,701**	43,874
Restricted cash (a)	**287,358**	–	**–**	–

(a) This item mainly includes guarantee deposits of pre-sale proceeds of properties and pledged deposits of notes payable. All restricted cash can be utilised in 12 months.

In accordance with relevant requirements promulgated by the PRC State-Owned Land and Resource Bureau, the Property Project Company was required to deposit certain amounts of pre-sale proceeds of properties as guarantee deposits in designated bank accounts for the construction of the relevant properties. Such deposits could only be used for the purchases of construction materials and the payments of construction fees relating to the relevant property projects when approval from the PRC State-Owned Land and Resource Bureau was obtained. Such deposits amounted to RMB 116,160,000.

Deposits amounting to RMB 150,000,000 are pledged for the notes payable issued by the Group. The effective interest rate on pledged bank deposits is 3.05%.

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 3.15% (2011: 2.86%) per annum. These deposits have an average maturity of 82 days (2011: 180 days) from the date of financial position.

14 Cash and cash equivalents and restricted cash – Group and Company (continued)

The Group's cash and cash equivalents denominated in RMB are deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies and the remittance of funds out of the PRC is subject to rules and regulations of foreign exchange controls promulgated by the PRC government.

The carrying amounts of the Group's and the Company's cash and cash equivalents and restricted cash as at 31 December 2012 are denominated in the following currencies:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**819,008**	186,051	**–**	–
US$	**49,741**	685	**30**	25
HKD	**10,299**	45,755	**8,671**	43,849
	879,048	232,491	**8,701**	43,874

15 Share capital and share premium – Group and Company

		Number of shares in issue (thousands)	Number of convertible preference shares (thousands)	Ordinary shares RMB'000	Convertible preference shares RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2011		1,006,303	–	101,896	–	328,531	430,427
Employee share option scheme – value of services provided	(b)	–	–	–	–	1,288	1,288
Proceeds from employee share option exercised	(b)	2,193	–	184	–	2,247	2,431
Proceeds from bonus issue of warrants	(d)	69	–	6	–	141	147
At 31 December 2011		1,008,565	–	102,086	–	332,207	434,293
Employee share option scheme- value of services provided	(b)	–	–	–	–	1,538	1,538
Proceeds from issue of convertible preference shares	(c)	–	907,710	–	73,586	787,957	861,543
Proceeds from bonus issue of warrants	(d)	–	–	–	–	2	2
At 31 December 2012		1,008,565	907,710	102,086	73,586	1,121,704	1,297,376

15 Share capital and share premium – Group and Company (continued)

(a) Increase of authorised share capital

In the special general meeting of the shareholders held on 27 March 2012, the authorised share capital of the Company has been increased from HKD200,000,000 divided into 2,000 million ordinary shares to HKD600,000,000 divided into 4,000 million ordinary shares and 2,000 million convertible preference shares ("**CPS**").

The total authorised number of shares is 4,000 million ordinary shares and 2,000 million CPS (2011: 2,000 million ordinary shares) with a par value of HKD 0.1 per share (2011: HKD 0.1 per share). All issued shares are fully paid.

(b) Employee share options

A share option scheme was approved and adopted by the Company according to a written resolution of the board of directors of the Company passed on 6 November 2005 (the "**Scheme**"). The Scheme is made to enable the Group to grant options to selected participants as incentives or rewards for their contribution made to the Group. The total number of ordinary shares that may be issued upon exercise of all outstanding options to be granted under the Scheme and any other share option schemes of the Company must not exceed 80,000,000 ordinary shares in aggregate.

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

	2012		2011	
	Average exercise price in HKD per ordinary share	**Options (in thousands)**	Average exercise price in HKD per ordinary share	Options (in thousands)
At 1 January	**1.50**	**9,693**	1.32	4,386
Granted	**–**	**–**	1.55	7,500
Exercised	**–**	**–**	1.32	(2,193)
At 31 December	**1.50**	**9,693**	1.50	9,693

15 Share capital and share premium – Group and Company (continued)

(b) Employee share options (continued)

Out of the options over 9,693,000 ordinary shares (2011: 9,693,000 options), options over 4,526,000 ordinary shares can be exercised as at 31 December 2012 (2011: Nil). Options exercised in 2011 resulted in 2,193,000 ordinary shares being issued at HKD1.32 each.

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

Expiry date	Exercise price HKD per ordinary share	Number of options (in thousands) 2012	2011
13 March 2017	1.55	**500**	500
7 May 2019	1.32	**2,193**	2,193
13 September 2021	1.55	**7,000**	7,000
		9,693	9,693

(c) Issue of convertible preference shares

On 30 June 2011, Xiwang Sugar entered into an acquisition agreement ("**Acquisition Agreement**") with Xiwang Pharmaceutical for the purchase of a bundle of operating assets ("**Target Assets**") at a consideration of RMB 850,000,000.

15 Share capital and share premium – Group and Company (continued)

(c) Issue of convertible preference shares (continued)

On 27 January 2012, Xiwang Sugar and Xiwang Pharmaceutical entered into a supplemental agreement to the Acquisition Agreement, pursuant to which Xiwang Pharmaceutical agreed to sell and Xiwang Sugar agreed to acquire the revised Target Assets at the revised consideration of RMB 825,000,000 ("**Consideration**") payable by way of cash.

In order to finance the consideration, on 3 May 2012, the Company allotted and issued 907,709,900 unlisted CPSs at par value of HKD 0.1 each in issue at a subscription price of HKD 1.18 per CPS. The increase in the share premium is related to the difference of the proceeds raised, net of directly related costs, and the par value of the new shares issued.

The acquisition of the revised Target Assets was completed on 30 April 2012.

According to the terms of the CPS, the CPS shall be non-redeemable, each CPS holder is entitled to a preferred distribution from 3 May 2012, the issue date of the CPS, at a rate of RMB 0.01 per CPS, payable in HKD equivalent annually in arrears. Each preferred distribution is cumulative. Any arrears of preferred distribution and accrued but unpaid preferred distribution shall be extinguished upon any voluntary conversion of the CPS by a holder. The Board may, in its sole discretion, elect to defer or not make a preferred distribution.

Each CPS also confers on the holder thereof the right to receive, in addition to the preferred distribution, dividend pari passu with holders of the ordinary shares on the basis of the number of the share(s) into which CPS may be converted and on an as converted basis.

During the period of existence of the CPS, subject to some conversion restriction, each holder of the CPS shall have the right to convert all or part of any CPSs into new ordinary shares at any time at the initial conversion price of HKD1.18 per share.

The CPSs are recognised as equity.

(d) Bonus issue of warrants scheme

On 21 January 2011, the board of the Company proposed a bonus issue of warrants on the basis of one warrant for every six shares ("**bonus issue of warrants scheme**"). As a result, an aggregate of 167,717,242 warrants shares were issued in February 2011. The registered holder of the warrants have the right, which may be exercised in whole or in part to subscribe for fully paid ordinary shares before 22 February 2012, at a price of HKD2.55 per share.

During the year, warrants over 1,047 ordinary shares were exercised at a price of HKD2.55 per ordinary share under the bonus issue of warrants scheme (2011: 69,000 shares were exercised at a price of HKD2.55 per ordinary share).

16 Other reserves – Group and Company

Group

	Note	Capital reserve RMB'000	Statutory reserve RMB'000	Discretionary reserve RMB'000	Contributed surplus RMB'000	Merger reserve RMB'000	Total RMB'000
Balance at 1 January 2011		117,023	168,023	164,593	471,853	–	921,492
Appropriation to statutory reserves		–	19,372	–	–	–	19,372
Appropriation to discretionary reserves		–	–	211,972	–	–	211,972
Transfer of reserves upon merger of a subsidiary		(13,963)	(99,929)	(43,196)	–	–	(157,088)
Balance at 31 December 2011		**103,060**	**87,466**	**333,369**	**471,853**	**-**	**995,748**
Appropriation to statutory reserves	(a)	–	–	2,213	–	–	2,213
Appropriation to discretionary reserves	(b)	–	–	174,353	–	–	174,353
Acquisition of subsidiaries	(c)	–	–	–	–	(118,063)	(118,063)
Dividend payment		–	–	–	(62,813)	–	(62,813)
Balance at 31 December 2012		**103,060**	**87,466**	**509,935**	**409,040**	**(118,063)**	**991,438**

Company

	Capital reserve RMB'000	Contributed surplus RMB'000 *(d)*	Total RMB'000
Balance at 31 December 2011	151,442	471,853	623,295
Dividend payment	–	(62,813)	(62,813)
Balance at 31 December 2012	**151,442**	**409,040**	**560,482**

16 Other reserves – Group and Company (continued)

(a) In accordance with the relevant government regulations in the PRC and the provisions of the articles of association of Property Project Company, the PRC subsidiaries are required to appropriate at each year end 10% of their profit for the year after offsetting any accumulated losses brought forward (based on figures reported in the statutory financial statements) to a statutory surplus reserve account. Property Project Company had made appropriations at 10% to these statutory surplus reserves for the year ended 31 December 2012. These reserves are required to be retained for designated usages.

(b) In March 2012, the directors of Xiwang Sugar resolved that amounts totalling RMB 174,353,000 be set aside from profits earned in 2011 by Xiwang Sugar to the discretionary reserves which are designated for future expansion of operations of these subsidiaries.

(c) It resulted from the acquisition of Keen Lofty, details please refer to note 30.

(d) According to a resolution passed at the special general meeting held on 26 June 2009, the Company transferred all its share premium as at 31 December 2008 to other reserves, thereby increasing the distributable reserves of the Company under the Companies Act 1981 of Bermuda (as amended).

17 Trade and other payables – Group and Company

	Group		**Company**	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**186,376**	190,909	**–**	–
Note payables	**297,000**	–	–	–
Other payables (a)	**238,235**	195,864	**–**	–
Customer deposits and advances on sales of properties (b)	**185,219**	–	**–**	–
Accruals	**70,135**	35,283	**4,945**	62
Other taxes payables	**5,131**	24,510	**–**	–
Other deposits and advance from customers	**48,670**	36,442	**–**	–
	1,030,766	483,008	**4,945**	62

17 Trade and other payables – Group and Company (continued)

(a) As at 31 December 2012, approximately RMB 127,764,000 (2011: RMB 153,017,000) of other payables represented payables for purchases of property, plant and equipment. Advance payments received for subscription of properties for which the Group has not obtained commodity housing pre-sale permit amounting to RMB40,472,000.

(b) This item represented the deposits and instalments received on properties sold prior to the date of revenue recognition.

The fair values of trade and other payables primarily denominated in RMB, approximated their carrying amounts.

An ageing analysis of the trade payables is as follows:

	2012	2011
	RMB'000	RMB'000
0 – 30 days	**150,686**	48,817
31 – 60 days	**9,928**	59,277
61 – 90 days	**6,734**	32,827
Over 90 days	**19,028**	49,988
	186,376	190,909

18 Borrowings – Group and Company

		Group		Company	
		2012	2011	**2012**	2011
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Non-current					
Bank borrowings – secured	(b)	**–**	25,204	**–**	–
Bank borrowings – unsecured		**–**	207,000	**–**	–
Other borrowings – secured	(b),(c)	**–**	87,243	**–**	–
		–	319,447	**–**	–
Current					
Bank borrowings – secured:					
– Short term bank borrowings	(b)	**100,000**	100,000	**–**	–
– Current portion of long term bank borrowings	(b),(d)	**25,142**	50,407	**–**	–
Bank borrowings – unsecured:					
– Short term bank borrowings	(a)	**1,502,922**	710,000	**62,922**	–
– Current portion of long term bank borrowings		**207,000**	233,000	**–**	–
Other borrowings – secured:					
– Current portion of long term other borrowings	(b),(c),(d)	**87,030**	19,388	**–**	–
		1,922,094	1,112,795	**62,922**	–
		1,922,094	1,432,242	**62,922**	–

18 Borrowings – Group and Company (continued)

(a) Borrowings amounting to RMB 1,297,000,000 (2011: RMB 200,000,000) were guaranteed by Xiwang Group Company Limited ("**Xiwang Group**"), a related company of the Group (Note 31(c)).

(b) As at 31 December 2012, no borrowings were secured by the Group's inventories (2011: borrowings amounting to RMB 100,000,000 were secured by the Group's inventories with the carrying amount of RMB 100,000,000), borrowings amounting to RMB 212,172,000 (2011: RMB 182,242,000) were secured by the Group's certain buildings, machinery and land use rights (Notes 6 and 8).

(c) Other borrowings represented a seven-year term loan facilities of US$20,000,000 from International Finance Corporation.

(d) As at 31 December 2012, the Group has breached certain financial covenants as required by the loan agreements. Due to this breach of the covenant clauses, the lenders are contractually entitled to request early repayment of the outstanding amount of RMB412,172,000. The bank loan of approximately RMB 67,690,000 which was originally scheduled for repayment after 2013 was reclassified as current liabilities as at 31 December 2012.

The lenders have not requested early repayment of the loan as of the date when these financial statements were approved by the board of directors.

At 31 December 2012, the Group's borrowings were repayable as follows:

	Group				Company	
	Bank borrowings		Other borrowings		Bank borrowings	
	2012	2011	**2012**	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Within 1 year	**1,835,064**	1,093,407	**87,030**	19,388	**62,922**	–
1 to 2 years	**–**	232,204	**–**	19,387	**–**	–
2 to 5 years	**–**	–	**–**	58,162	**–**	–
Over 5 years	**–**	–	**–**	9,694	**–**	–
	1,835,064	1,325,611	**87,030**	106,631	**62,922**	–

18 Borrowings – Group and Company (continued)

	Group				Company	
	Bank borrowings		Other borrowings		Bank borrowings	
	2012	2011	**2012**	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Wholly repayable within 5 years	**1,835,064**	1,325,611	**87,030**	–	**62,922**	–
Wholly repayable after 5 years	**–**	–	**–**	106,631	**–**	–
	1,835,064	1,325,611	**87,030**	106,631	**62,922**	–

The weighted average annual effective interest rates at the end of each reporting period were as follows:

	Group		Company	
	2012	2011	**2012**	2011
Bank borrowings	**6.891%**	6.150%	**3.713%**	–
Other borrowings	**4.893%**	4.682%	**–**	–

As at 31 December 2012, the carrying amounts of current borrowings approximate their fair values. The carrying amounts of non-current borrowings also approximate their fair values since interests are levied at floating rate.

18 Borrowings – Group and Company (continued)

The fair values of the borrowings are denominated in the following currencies:

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**1,747,000**	1,250,000	**–**	–
US$	**175,094**	182,242	**62,922**	–
	1,922,094	1,432,242	**62,922**	–

19 Deferred income tax assets and deferred income tax liabilities – Group

Deferred income tax assets and liabilities are offset when there is legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to the same fiscal authority. No amounts were offset during 2011 and 2012.

	2012	2011
	RMB'000	RMB'000
Deferred tax assets:		
– to be recovered after more than 12 months	**4,129**	4,590
– to be recovered within 12 months	**2,458**	461
	6,587	5,051
Deferred tax liabilities:		
– to be recovered after more than 12 months	**(103,952)**	–
– to be recovered within 12 months	**(15,790)**	–
	(119,742)	–
Deferred tax (liabilities)/assets- net	**(113,155)**	5,051

19 Deferred income tax assets and deferred income tax liabilities – Group (continued)

The gross movement on the deferred income tax account are as follows:

	2012 RMB'000	2011 RMB'000
At 1 January	**5,051**	5,512
Acquisition of subsidiaries	**(119,579)**	–
Income statement credit/(charge)	**1,373**	(461)
At 31 December	**(113,155)**	5,051

The movement in deferred tax assets are as follows:

	Tax losses RMB'000	Inventory provision RMB'000	Impairment charge on property, plant and equipment RMB'000	Total RMB'000
At 1 January 2011	–	–	5,512	5,512
Charged to profit or loss	–	–	(461)	(461)
At 31 December 2011	–	–	5,051	5,051
Acquisition of subsidiaries (note 30)	3,197	–	–	3,197
Charged/(Credited) to profit or loss	(3,197)	1,997	(461)	(1,661)
At 31 December 2012	**–**	**1,997**	**4,590**	**6,587**

19 Deferred income tax assets and deferred income tax liabilities – Group (continued)

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefits through the future taxable profits is probable. Due to the fact that the directors are not certain on whether future taxable profit would be available, the Group did not recognise deferred income tax assets of approximately RMB 9,235,000 (2011: RMB 2,860,000) in respect of tax losses amounting to approximately RMB 49,404,000 (2011: RMB 11,440,000) as at 31 December 2012 that can be carried forward to offset against future taxable income. Tax losses amounting to RMB 11,440,000 and RMB 37,964,000 will expire in 2016 and 2017, respectively.

The movement in deferred tax liabilities are as follows.

	Land appreciation tax from sale of properties RMB'000	**Fair value gain arising from acquisitions** RMB'000	**Prepaid tax from advance proceeds from properties** RMB'000	**Total** RMB'000
At 31 December 2011	–	-	-	-
Acquisition of subsidiaries (Note 30)	(49,623)	(73,153)	-	(122,776)
Credited/(charged) to profit or loss	1,597	4,874	(3,437)	3,034
At 31 December 2012	**(48,026)**	**(68,279)**	**(3,437)**	**(119,742)**

20 Expenses by nature

	2012 RMB'000	2011 RMB'000
Changes in inventories of finished goods and work in progress (note 10)	**(52,779)**	(110,727)
Cost of completed properties sold	**145,655**	–
Raw materials and consumables used	**3,283,549**	2,624,376
Inventory write-down (note 10)	**13,321**	–
Utility expenses	**430,968**	447,673
Depreciation and amortisation (notes 6 and 8)	**141,552**	103,091
Carriage outwards expense	**85,299**	102,357
Employee benefit expenses (note 22)	**153,297**	137,005
Un-deductible input value-added tax charged to cost of goods sold	**22,403**	39,931
Auditor's remuneration	**4,100**	2,200
Operating lease payments	**934**	1,350
Other expenses	**30,733**	32,175
Total	**4,259,032**	3,379,431
Representing:		
Cost of goods sold	**4,048,414**	3,176,839
Selling and marketing costs	**106,597**	128,236
Administrative expenses	**104,021**	74,356
	4,259,032	3,379,431

21 Other income – net

	2012 RMB'000	2011 RMB'000
Corn futures	**5,777**	–
Gains on sales of scrap materials	**2,044**	1,792
Other gains	**626**	822
	8,447	2,614

22 Employee benefit expenses

	2012 RMB'000	2011 RMB'000
Wages, salaries and other staff benefits	**139,044**	126,952
Pension costs – defined contribution plans	**12,715**	8,765
Share options granted to employees	**1,538**	1,288
	153,297	137,005

(a) Directors' emoluments

The remuneration of each director and the chief executive of the Company for the year ended 31 December 2012:

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		–	–	–	–	–	–	–	–
Dr. Zhang Yan	(i)	–	–	–	–	–	–	–	–
Mr. Wang Di		–	–	–	–	–	–	–	–
Mr. Wang Fangming		–	–	–	–	–	–	–	–
Mr. Han Zhong		–	–	–	–	–	–	–	–
Dr. Li Wei		–	120	–	–	–	–	–	120
Mr. Sun Xinhu		–	–	–	–	–	–	–	–
Mr. Wong Kaiming		–	122	–	–	–	–	–	122
Mr. Shi Weichen		–	100	–	–	–	–	–	100
Mr. Shen Chi		–	100	–	–	–	–	–	100

(i) Dr. Zhang Yan resigned as executive director on 5 July 2012.

22 Employee benefit expenses (continued)

(a) Directors' emoluments (continued)

The remuneration of each director of the Company for the year ended 31 December 2011:

Name of Director		Fees	Salary	Discretionary bonuses	Inducement fees	Other benefits	Employer's contribution to pension scheme	Compensation for loss of office as director	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Wang Yong		–	–	–	–	–	–	–	–
Dr. Zhang Yan		–	–	–	–	–	–	–	–
Mr. Wang Di		–	–	–	–	–	–	–	–
Mr. Han Zhong		–	–	–	–	–	–	–	–
Dr. Li Wei		–	120	–	–	–	8	–	128
Mr. Sun Xinhu		–	–	–	–	–	–	–	–
Mr. Wong Kaiming		–	124	–	–	–	–	–	124
Mr. Shi Weichen		–	100	–	–	–	–	–	100
Mr. Shen Chi		–	100	–	–	–	–	–	100
Mr. Song Jie	(i)	–	–	–	–	–	–	–	–

(i) Mr. Song Jie resigned as executive director on 31 May 2011.

Six (2011: Six) directors waived emoluments amounting to RMB1,250,000 in aggregate during 2012 (2011: RMB 1,250,000).

22 Employee benefit expenses (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group in 2012 include no director (2011: Nil). The emoluments paid and payable to these five individuals in 2012 (2011: five) are as follows:

	2012 RMB'000	2011 RMB'000
Basic salaries and benefits in kind	**1,637**	2,921
Share options	**1,538**	1,288
Pensions	**43**	47
	3,218	4,256

The emoluments fell within the following bands:

	Number of individuals 2012	2011
Emolument bands		
Nil – RMB 810,775 (Nil – HKD 1,000,000)	**4**	4
RMB 810,775 – RMB1,621,550 (HKD 1,000,001 – HKD 2,000,000)	**–**	–
RMB 1,621,550 – RMB 2,432,325 (HKD 2,000,001 – HKD 3,000,000)	**1**	–
RMB 2,432,325 – RMB 3,243,100 (HKD 3,000,001 – HKD 4,000,000)	**–**	1
	5	5

23 Finance costs – net

	2012 RMB'000	2011 RMB'000
Interest expenses – borrowings	**106,759**	89,460
Less:		
– interest expenses borne by suppliers (a)	**(20,531)**	(12,690)
– amount capitalised in construction in progress (note 6)	**–**	(22,757)
– net exchange losses/(gains)	**7,677**	(7,427)
– interest income on bank balances	**(878)**	(3,063)
Net finance costs	**93,027**	43,523

(a) As stated in Note 13(c), the Group made advances to suppliers. The Group entered into some agreements with an independent supplier. Pursuant to the aforesaid agreements, the supplier is obliged to bear interest on the Group's bank loan of RMB410 million from 31 January 2012 to 20 September 2012, loan of RMB200 million from 1 January 2011 to 20 January 2012, and loan of RMB100 million from 16 December 2011 to 30 January 2012. The related interest expenses bore the same interest rate which being charged by the banks.

For the year ended 31 December 2012, the Group's interest expenses were paid as follows:

	Interest expenses on bank borrowings		Interest expenses on other borrowings	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Borrowings wholly repayable within 5 years	**101,752**	83,646	**5,007**	–
Borrowings wholly repayable after 5 years	**–**	–	**–**	5,814
	101,752	83,646	**5,007**	5,814

24 Income tax expense

Pursuant to the PRC Corporate Income Tax ("**CIT**"), all PRC enterprises are subject to a standard enterprise income tax rate of 25%, except for enterprises under specific preferential policies and provisions.

In November 2010, Xiwang Sugar was recognized as the enterprise with "New and Advanced Technology" by the relevant authorities in the PRC, Xiwang Sugar is therefore eligible to enjoy relief of CIT from 25% to 15% from January 2011 onwards. In 2012, the applicable tax rate of Xiwang Sugar was 15% (2011: 15%).

In 2012, the applicable tax rate of Xiwang Sugar (Beijing), Yintaishan Cultural, Property Holdings and Property Project Company was 25% (2011: 25%).

Pursuant to the new CIT Law and relevant regulations, withholding tax is levied on dividends paid to foreign investors from PRC enterprises relating to profit earned after 1 January 2008. The directors of the Company consider that its subsidiaries in the PRC, would not distribute their profits earned after 1 January 2008 in the foreseeable future, accordingly, no deferred tax had been recognised for the undistributed retained earnings as at 31 December 2012.

24 Income tax expense (continued)

	2012 RMB'000	2011 RMB'000
Current tax		
– Current tax on profits for the year	**5,570**	34,235
– Adjustments in respect of prior years	**(4,433)**	(1,456)
– Land appreciation tax	**2,801**	–
	3,938	32,779
Deferred tax		
– (Origination)/reversal of deferred tax recognised on originating temporary differences	**(1,373)**	461
	(1,373)	461
Income tax expense	**2,565**	33,240

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:

	2012 RMB'000	2011 RMB'000
(Loss)/profit before tax	**(15,468)**	212,521
Tax calculated at statutory tax rate of 25% (2011:25%)	**(3,867)**	53,130
Tax effects of:		
– Effect of tax concessions from lower tax rate	**6,459**	(23,389)
– Overprovision in respect of prior years	**(4,433)**	(1,456)
– Expenses not deductible for tax purpose	**3,546**	2,095
– Research and development expenses super-deduction	**(6,721)**	–
– Tax losses for which no deferred income tax asset was recognised	**6,375**	2,860
	1,359	33,240
Land appreciation tax	**1,206**	–
Income tax expense	**2,565**	33,240

25 Dividend

	2012 RMB'000	2011 RMB'000
Proposed final dividend per ordinary share (2011: RMB2.8 cents)	–	28,240
Proposed final dividend per convertible preference share (2011: RMB3.8 cents)	–	34,493
Total proposed final dividend	–	62,733

A final dividend for the year ended 31 December 2011 of RMB2.8 cents per ordinary share and of RMB3.8 cents per convertible preference share, both payable in cash, totalling approximately RMB63 million, was approved at the annual general meeting held on 11 May 2012 and paid in May 2012.

No final dividend was proposed for the year ended 31 December 2012.

26 (Loss)/earnings per share

(a) Basic

Basic (loss)/earnings per ordinary share is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2012	2011
(Loss)/profit attributable to the equity holders of the Company (RMB'000)	(18,033)	179,281
Less: Dividend paid in 2012 to holders of CPSs (RMB'000)	(34,542)	–
(Loss)/profit attributable to ordinary shareholders of the Company (RMB'000)	(52,575)	179,281
Weighted average number of ordinary shares in issue (thousands)	1,008,566	1,007,762
Basic (loss)/earnings per ordinary share (RMB per share)	(0.05)	0.18

26 (Loss)/earnings per share (continued)

(b) Diluted

Diluted (loss)/earnings per ordinary share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive ordinary shares. The two categories of equity instruments considered in the calculation were convertible preference shares and share options. As both categories would not have a dilutive effect on the (loss)/earnings per share for 2012, they have not been included in the diluted (loss)/earnings per ordinary share calculation.

	2012	2011
(Loss)/profit attributable to the equity holders of the Company (RMB'000)	**(18,033)**	179,281
Less: Dividend paid in 2012 to holders of CPSs (RMB'000)	**(34,542)**	–
(Loss)/profit attributable to ordinary shareholders of the Company (RMB'000)	**(52,575)**	179,281
Weighted average number of ordinary shares in issue (thousands)	**1,008,566**	1,007,762
Adjustments for		
– share options (thousands)	**–**	1,142
Weighted average number of ordinary shares for diluted (loss)/earnings per share (thousands)	**1,008,566**	1,008,904
Diluted (loss)/earnings per ordinary share (RMB per share)	**(0.05)**	0.18

27 Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations is as follows:

	2012 RMB'000	2011 RMB'000
(Loss)/profit before income tax	**(15,468)**	212,521
Adjustments for:		
– Depreciation (note 6)	**135,698**	97,879
– Amortisation (note 8)	**5,854**	5,212
– Share-based payments (note 22)	**1,538**	1,288
– Interest income (note 23)	**(21,409)**	(15,753)
– Interest expenses (note 23)	**106,759**	66,703
Changes in working capital:		
– Inventories	**(130,195)**	(23,578)
– Properties under development and completed properties for sale	**117,375**	–
– Trade and other receivables	**192,270**	(389,987)
– Amounts due from related parties	**(32,123)**	(15,344)
– Trade and other payables	**192,684**	73,466
– Amounts due to related companies	**137,033**	37,821
– Restricted cash	**(283,990)**	–
Cash generated from operations	**406,026**	50,228

28 Financial guarantee contract

As at 31 December 2012, the Group had the following financial guarantee contract:

	2012	2011
	RMB'000	RMB'000
Guarantee to a third party in respect of borrowings	**350,000**	–

This represented the maximum exposure of the guarantee provided by Property Project Company in favour of a PRC bank in respect of a bank loan of RMB350 million of an independent company for a term of 10 years from December 2011, with a guarantee period up to the end of two years after the next day following repayment of the bank loan in full (the "**PRC Company Guarantee**"). Xiwang Investment Company Limited ("**Xiwang Investment**"), the vendor of the Acquisition, agreed to provide an indemnity on 18 November 2012 to the Company and Property Project Company against any loss arising from any claim or demand of repayment made against the Property Project Company under the PRC Company Guarantee. This was arisen from the acquisition of Keen Lofty (Note 30).

29 Commitments

Capital expenditure and property development expenditure committed at the end of the reporting period but not yet incurred are as follows:

	2012 RMB'000	2011 RMB'000
Property, plant and equipment expenditure:		
– Contracted but not provided for	**10,137**	4,844
– Authorised but not contracted for	**101,800**	69,530
	111,937	74,374
Property development expenditure:		
– Contracted but not provided for	**96,337**	–
	208,274	74,374

Operating lease commitments

The Group leases offices under non-cancellable operating lease agreements. The lease terms are within 2 years.

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

	2012 RMB'000	2011 RMB'000
No later than 1 year	**1,224**	1,577
Later than 1 year and no later than 5 years	**433**	1,139
	1,657	2,716

30 Business combination

During the year, the Group had carried out a major acquisition. As a result of the acquisition, the Group entered into the property development business in Shandong Province. The goodwill of RMB 180,405,000 arising from the acquisition is attributable to the land use rights which Property Project Company has not obtained. Details of the acquisition are as below:

(a) Acquisition of Keen Lofty

On 31 December 2012, the Company acquired the entire issued share capital of Keen Lofty from Xiwang Investment. The consideration was settled by the promissory note issued by the Company to Xiwang Investment at the principal amount of RMB308,000,000 repayable in 2015 at an interest rate of 2.5% per annum. Based on the assessment made by Grant Sherman Appraisal Limited, an independent valuer, the fair value of the promissory note was approximately RMB 217,155,000 (Note 31(f)).

As both the Company and Keen Lofty are subsidiaries of Xiwang Investment before and after the acquisition, the acquisition is accounted for as a business combination under common control. The following is a reconciliation of the effect arising from the common control combination on the consolidated statement of financial position as at 31 December 2012.

	The Company	**Keen Lofty**	**Adjustments**	**Consolidated**
			(Note (i))	
	RMB'000	RMB'000	RMB'000	RMB'000
Investment in Keen Lofty	217,155	–	(217,155)	–
Other assets/(liabilities) – net	1,659,469	117,308	–	1,776,777
Net Assets	1,876,624	117,308	(217,155)	1,776,777
Share Capital	102,086	99,092	(99,092)	102,086
Capital Reserve	151,442	–	–	151,442
Merger Reserve	–	–	(118,063)	(118,063)
Retained earnings and other reserves	1,623,096	18,216	–	1,641,312
	1,876,624	117,308	(217,155)	1,776,777

30 Business combination (continued)

(a) Acquisition of Keen Lofty (continued)

(i) The above adjustment represents an adjustment to eliminate the share capital of the combining entities against the investment cost. The difference of RMB 118,063,000 has been made to the merger reserve in the consolidated statement of financial position.

No other significant adjustments were made to the net assets and net profit or loss of any entities or businesses as a result of the common control combination to achieve consistency of accounting policies.

Acquisition-related costs of RMB 4,023,438 have been charged to administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2012.

As Keen Lofty was incorporated on 13 August 2012, the Group consolidated its profit/(loss) and cash flow since 13 August 2012.

(b) Acquisition of Property Holdings

On 21 November 2012, Yintaishan Cultural, a subsidiary of Keen Lofty, acquired 100% of the equity interest of Property Holdings for RMB 360,400,000 and obtained the control of Property Holdings. At the acquisition date, the fair value of net assets of Property Holdings amounted to RMB 179,995,000. The goodwill of RMB 180,405,000 represents the value of land use rights which the Property Project Company has the opportunity to obtain.

Consideration	**21 November 2012** RMB'000
Cash	300,000
Due to a related party (Note 31(d))	60,040
Total consideration	360,400

30 Business combination (continued)

(b) Acquisition of Property Holdings (continued)

Recognised amounts of identifiable assets acquired and liabilities assumed	**21 November 2012**
	RMB'000
Cash and cash equivalents	142,914
Restricted cash	3,368
Completed properties for sale	15,304
Properties under development	590,700
Prepaid tax and other receivables	150,804
Amounts due to a related party	(221,000)
Property, plant and equipment (Note 6)	1,105
Deferred income tax assets (Note 19)	3,197
Trade and other payables	(380,327)
Current income tax payable	(3,294)
Deferred tax liabilities (Note 19)	(122,776)
Net assets acquired by Yintaishan Cultural	179,995
Goodwill (note 7)	180,405
Total	360,400

The fair value of other receivable is RMB 30,581,000. The gross contractual amount for other receivable due is RMB 30,581,000. No amount is expected to be uncollectible.

The revenue included in the consolidated income statement since 21 November 2012 contributed by Property Holdings was RMB 172,999,000. Property Holdings also contributed profit of RMB 18,215,000 over the same period.

Had Property Holdings been consolidated from 1 January 2012, the consolidated income statement would show revenue of RMB 173,392,000 and profit of RMB 16,375,000.

31 Related party transactions

The Group is controlled by Xiwang Investment (incorporated in the BVI), which owns about 58% of the Company's ordinary shares at the year ended 31 December 2012. The remaining about 42% of the ordinary shares is widely held. The ultimate holding company of the Group is Xiwang Holdings Limited ("**Xiwang Holdings**"), a company incorporated in the BVI. The directors consider Mr. WANG Yong to be the ultimate controlling party of the Group.

Except the related party transaction as disclosed in note 15(c), note 28 and note 30, the Group had undertaken material transactions with the following related companies during the year ended 31 December 2012:

English Name	Chinese Name	Relationship with the Company
Xiwang Group	西王集團	Company controlled by Mr. WANG Yong
Shandong Xiwang Food Company Limited ("**Xiwang Food**") (i)	山東西王食品有限公司 (「**西王食品**」) (i)	Subsidiary of Xiwang Group
Xiwang Investment	西王投資	Immediate holding company
Xiwang Hong Kong Company Limited ("**Xiwang Hong Kong**")	西王香港有限公司 (「**西王香港**」)	Subsidiary of Xiwang Group
Xiwang Pharmaceutical	西王藥業	Subsidiary of Xiwang Group
Zouping Xiwang Power Company Limited ("**Xiwang Power**")	鄒平西王動力有限公司 (「**西王動力**」)	Subsidiary of Xiwang Group

(i) Xiwang Food is a wholly owned subsidiary of Xiwang Foodstuffs Co., Ltd ("**Xiwang Foodstuffs**") since December 2010. Xiwang Foodstuffs is a company publicly listed on the Main Board of the Shenzhen Stock Exchange and is effectively held as 52.08% by Xiwang Group.

(ii) The related parties are all under the control of Mr. WANG Yong, chairman and director of the Company.

31 Related party transactions (continued)

(a) Sales of goods and provision of services

	2012 RMB'000	2011 RMB'000
Sales of crystalline glucose		
– Xiwang Pharmaceutical	**269,191**	361,148
Sales of corn germs		
– Xiwang Food	**392,168**	261,488
Sales of corn starch		
– Xiwang Pharmaceutical	**248,985**	5,426
Provision of sewage services		
– Xiwang Group	**4,420**	3,064
Sales of crystalline fructose		
– Xiwang Food	**–**	132
	914,764	631,258

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 pursuant to the guidance laid down in the relevant framework agreements executed.

(b) Purchases of assets

	2012 RMB'000	2011 RMB'000
Purchase of assets		
– Xiwang Pharmaceutical	**825,000**	–

(c) Guarantee provided by a related party

As at 31 December 2012, the Company's related party, Xiwang Group, provided guarantee to Xiwang Sugar for bank borrowings amounting to RMB 1,297,000,000 (2011: RMB 200,000,000) (note 18(a)).

31 Related party transactions (continued)

(d) Loan from Xiwang Group

	2012 RMB'000	2011 RMB'000
Loan from Xiwang Group	**60,040**	–

The loan from Xiwang Group was interest-free, unsecured and repayable on demand. Xiwang Group has provided an undertaking to the Company, Yintaishan Cultural and Property Holdings stating that, without prior consent of the Company, Xiwang Group may not demand repayment of the Loan by Yintaishan Cultural or Property Holdings.

(e) Key management compensation

	2012 RMB'000	2011 RMB'000
Basic salaries and benefits in kind	**1,209**	2,352
Pensions	**19**	28
Share-based payments	**1,482**	1,288
	2,710	3,668

The key management include directors (executive and non-executive) and senior management and there are in total 12 (2011: 12) key management personnel of the Group.

31 Related party transactions (continued)

(f) Balances due from/to related parties

Group

	2012 RMB'000	2011 RMB'000
Receivables:		
– Xiwang Pharmaceutical	**143,197**	100,323
– Xiwang Hong Kong (iv)	**696**	1,298
– Xiwang Investment (iv)	**109**	258
	144,002	101,879
Payables:		
– Xiwang Group (iii)	**292,094**	42,642
– Xiwang Food	**30,782**	25,081
– Xiwang Power (iv)	**13,789**	–
– Mr. WANG Yong (iv)	**7**	8
	336,672	67,731

31 Related party transactions (continued)

(f) Balances due from/to related parties (continued)

Company

	2012 RMB'000	2011 RMB'000
Receivables		
– Winning China	892,992	45,443
– Xiwang Holding	–	24
– Xiwang Sugar	27,460	–
– Master Team		
– Advance (Note 9(b))	793,010	792,992
– Dividend receivable	222,875	222,838
	1,936,337	1,061,297
Payables:		
– Xiwang Group	2,136	2,135
– Xiwang Sugar	–	14,130
– Xiwang Investment	–	1
	2,136	16,266

31 Related party transactions (continued)

(f) Balances due from/to related parties (continued)

		2012 RMB'000	2011 RMB'000
Promissory note payable:			
– Xiwang Investment	(iv)	**217,155**	–

(i) Except for the advance due from Master Team as disclosed in Note 9 and (iii) below, all the current accounts maintained with related parties were aged within one year as at 31 December 2012. They are interest-free, unsecured and repayable on demand.

(ii) The loan from Xiwang Group with RMB 291,040,000 was interest-free, unsecured and repayable on demand. Xiwang Group has provided an undertaking that it will not, without the consent of the Group, demand repayment.

(iii) The amounts were arisen from receipts or payments on behalf of related parties.

(iv) On 31 December 2012, the Company issued the promissory note to Xiwang Investment at the principal amount of RMB 308,000,000 repayable in 2015 at an interest rate of 2.5% per annum.

32 Profit attributable to equity holders of the Company

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB 14,296,000 (2011: profit of RMB 3,520,000).

FIVE-YEAR FINANCIAL SUMMARY

	2012	2011	2010	2009	2008
For the year (RMB million)					
Revenue	**4,328**	3,633	3,257	2,481	2,544
Gross profit	**280**	456	472	317	220
EBITDA	**233**	382	395	269	216
Operating profit	**78**	256	293	172	50
Net (loss)/profit	**(18)**	179	210	102	64
As at December 31 (RMB million)					
Current assets	**3,342**	2,075	1,976	2,184	1,041
Non-current assets	**3,097**	2,065	2,005	1,826	1,656
Total assets	**6,439**	4,140	3,981	4,010	2,697
Current liabilities	**3,289**	1,672	1,184	2,347	1,329
Non-current liabilities	**337**	319	831	190	–
Total liabilities	**3,626**	1,991	2,015	2,537	1,329
Total equity	**2,813**	2,149	1,966	1,473	1,368
Total liabilities and equity	**6,439**	4,140	3,981	4,010	2,697
Per share (RMB)					
Basic (loss)/earnings per share	**(0.05)**	0.18	0.21	0.12	0.08
Dividends per ordinary share	**–**	0.028	–	0.037	0.027
Dividends per CPS	**–**	0.038	N/A	N/A	N/A
Financial and performance ratios					
Gross profit margin (%)	**6.5**	12.6	14.5	12.8	8.6
Operating profit margin (%)	**1.8**	7.0	9.0	6.9	2.0
Net (loss)/profit margin (%)	**(0.4)**	4.9	6.4	4.1	2.5
Current ratio	**1.02**	1.24	1.67	0.93	0.78
Net debts to equity	**0.55**	0.56	0.52	0.92	0.45
Average inventory turnover days	**61**	66	61	59	55
Average debtor turnover days	**11**	9	14	23	18
Average creditor turnover days	**17**	18	15	28	27

ORGANIZATION STRUCTURE

As at the date of this annual report:

- **Xiwang Investment Company Limited** *57.98%
- **Free float** *42.02%
  - **Xiwang Sugar Holdings Company Limited** (Bermuda) 100%
    - **Hong Kong Xiwang Sugar Trading Company Limited** (Hong Kong) 100%
    - **Master Team International Limited** (BVI) 100%
      - **Winning China Limited** (Hong Kong) 100%
        - **Shandong Xiwang Sugar Industry Company Limited** (PRC) 100%
          - **Xiwang Sugar (Beijing) Company Limited** (PRC) 100%
    - **Keen Lofty Investments Limited** (BVI) 100%
      - **Glorious Prosper Limited** (Hong Kong) 100%
        - **Shandong Yintaishan Cultural Development Company Limited** (PRC) 100%
          - **Shandong Xiwang Investment Holdings Company Limited** (PRC) 100%
            - **Shandong Xiwang Property Company Limited** (PRC) 100%

* These represent the percentage shareholdings of ordinary shares of the Company issued as at the date of this annual report.

INFORMATION FOR SHAREHOLDERS

Corporate calendar

Announcement of 2012 annual results	26 March 2013 (Tuesday)
Annual general meeting	22 May 2013 (Wednesday)

Website

www.xiwang-sugar.com

Stock code

The Stock Exchange of Hong Kong Limited:	2088
Bloomberg:	2088 HK EQUITY

Board lot

2,000 shares

Financial year-end date

31 December

As at 31 December 2012

Market Value:	HKD 908 million
Issued shares:	
Ordinary shares	1,008,566,555 shares
Convertible preference shares	907,709,900 shares
Closing market price:	HKD 0.90 per share

Annual report

This annual report is printed in English and Chinese and available on the respective websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.xiwang-sugar.com).

Closure of register of members

The register of members in respect of ordinary shares of the Company will be closed from Monday, 20 May 2013 to Wednesday, 22 May 2013, (both days inclusive), during which period no transfer of ordinary shares will be registered, for the purpose of ascertaining shareholders' entitlement for attending and voting at the annual general meeting. In order to be eligible to attend and vote at the annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration 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, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 16 May 2013.

INFORMATION FOR SHAREHOLDERS

Annual general meeting

The annual general meeting of the Company will be held on Wednesday, 22 May 2013. A notice convening the annual general meeting will be published on the respective websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.xiwang-sugar.com). The proxy form together with the annual report and expected to be dispatched to shareholders on or around Friday, 19 April 2013.

Principal share registrar and transfer office

Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Hamilton HM 11
Bermuda

Principal share registrar and transfer office

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

Cautionary Statement Regarding Forward-Looking Statements

This annual report contains certain forward-looking statements and opinions with respect to the operations and businesses of the Company. These forward-looking statements and opinions relate to, among other things, our objectives, goals, strategies, intentions, plans, beliefs, expectations and estimates and are generally indicated by the use of forward-looking terminology such as believe, expect, anticipate, estimate, plan, project, target, may, will, would or other results of actions that may or are expected to occur in the future. Shareholders and potential investors should not place undue reliance on these forward-looking statements and opinions, which apply only as of the date of this annual report. These forward-looking statements are based on the Company's own information and on information from other sources which the Company believes to be reliable. Our actual results may be materially less favorable than those expressed or implied by these forward-looking statements and opinions which could affect the market price of our shares. Neither the Company nor its Directors and employees assume any liability in the event that any forward-looking statements or opinions does not materialize or turn out to be incorrect. Subject to the requirements of the Listing Rules, the Company does not undertake to update any forward-looking statements or opinions contained in this annual report.

Miscellaneous

In the event of inconsistency, the English texts of this annual report shall prevail on the Chinese texts.

Xiwang Sugar Holdings Company Limited
西王糖業控股有限公司*

(Incorporated in Bermuda with limited liability)
(於百慕達註冊成立之有限公司)

** For identification purpose only 僅供識別*