

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

Xiawang Sugar Holdings Company Limited (the "Company") has adopted the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code of corporate governance. The directors of the Company (the "Directors") consider that since the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 9 December 2005 (the "Listing Date"), the Company has complied with the code provisions under the CG Code and a majority of the recommended best practices of the Corporate Governance Code.

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

Set out below is a detailed discussion of the major corporate governance practices adopted and observed by the Company from the Listing Date to 31 December 2005 (the "Review Period") or where applicable, up to the date of this report.

### A. DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own securities dealing code for the Directors. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard set out in the Model Code throughout the Review Period.

## B. BOARD OF DIRECTORS

### (i) Board composition

The Board currently comprises a combination of six executive Directors, one non-executive Directors and three independent non-executive Directors. As at 31 December 2005 and the date of this report, the Board consisted of the following Directors:

#### *Executive Directors*

Mr. WANG Yong (*Chairman*)  
Mr. WANG Liang (*Chief executive officer*)  
Dr. LI Wei  
Mr. WANG Cheng Qing  
Mr. HAN Zhong  
Mr. LIU Ji Qiang

#### *Non-executive Director*

Mr. LIU Heng Fang

#### *Independent non-executive Directors*

Mr. SHI Wei Chen  
Mr. YU Xiao Lei  
Mr. WONG Kai Ming

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

**(ii) Board meetings**

Up to the date of this report, two full board meetings were held, at which:

- the Directors approved a discloseable transaction of the Company in relation to the acquisition of a parcel of land for the construction of a new glucose production plant;
- the Directors approved the annual results of the Group for the year ended 31 December 2005 and reviewed the results announcement, annual report and the circular to the shareholders of the Company in relation to the general and repurchase mandates

proposal and the amendments to the bye-laws of the Company; and

- the Directors also reviewed the continuing connected transactions carried on by the Group during the year ended 31 December 2005.

Prior notices convening the meetings of the Board were despatched to the Directors setting out the matters to be discussed. At the meetings, the Directors were provided with the relevant documents to be considered and approved. The company secretary of the Company is responsible for keeping minutes for the meetings of the Board.

**(iii) Attendance record**

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

	<b>Attendance at meeting</b>
<i>Executive Directors</i>	
Mr. WANG Yong (Chairman)	2/2
Mr. WANG Liang (Chief executive officer)	2/2
Dr. LI Wei	2/2
Mr. WANG Cheng Qing	2/2
Mr. HAN Zhong	2/2
Mr. LIU Ji Qiang	2/2
<i>Non-executive Director</i>	
Mr. LIU Heng Fang	2/2
<i>Independent non-executive Directors</i>	
Mr. SHI Wei Chen	0/2
Mr. YU Xiao Lei	1/2
Mr. WONG Kai Ming	1/2

**(iv) Independent non-executive Directors**

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

Prior to their respective appointment, each of the independent non-executive Directors has submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence. The Company has also received their annual written confirmations from all independent non-executive Directors in respect of their independence. Based on such confirmations, the Board considers that all independent non-executive Directors are being considered to be independent.

**(v) Relationship among members of the Board**

There is no family relationship between any of the Directors or chief executive officer. All of them are free to exercise their independent judgment.

**C. CHAIRMAN AND CHIEF EXECUTIVE OFFICER**

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

**D. NON-EXECUTIVE DIRECTORS**

The non-executive Director, Mr. LIU Heng Fang, has been appointed for a term of three years commencing on 6 November 2005 which may be terminated by either party by giving to the other not less than one month's prior notice in writing. Other than Mr. SHI Wei Chen who was absent for the meetings due to personal reasons, all the independent non-executive Directors have attended the meetings of the Board and provided independent judgment on the issues discussed.

All the independent non-executive Directors have been appointed for a term of three years commencing on 6 November 2005 which may be terminated by either party by giving to the other not less than three months' prior notice in writing.

**E. REMUNERATION OF DIRECTORS**

The Company established a remuneration committee on 6 November 2005 with written terms of reference in compliance with the CG Code. The remuneration committee comprises Mr. WANG Liang (chairman), Mr. SHI Wei Chen and Mr. YU Xiao Lei. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management.

The remuneration committee has not held any meeting during the Review Period as the remuneration package and the service agreement of each Director have been considered and approved at a full Board meeting held before the establishment of the remuneration committee. After the Listing Date, there is no appointment of any new Director. It is the Company's policy that the remuneration package of each Director and senior management shall be determined by reference to the duties, responsibilities, experience and qualifications of each candidate.

**F. NOMINATION OF DIRECTORS**

The Company established a nomination committee on 6 November 2005 with written terms of reference in compliance with the CG Code. The nomination committee comprises Mr. WANG Liang (chairman), Mr. SHI Wei Chen and Mr. YU Xiao Lei. The primary duties of the nomination committee are to make recommendations to the Board on the nominees for appointment as Directors and senior management of the Group.

The nomination committee has not held any meeting during the Review Period as the Company has not appointed any new Director or senior management staff after the Listing Date.

Before the listing of the Company, the Directors have been provided with briefing on their duties and responsibilities as a director of a listed company and the compliance issues under the Listing Rules.

Code provision A.4.2 of the CG Code provides that all directors appointed to fill a casual vacancy by the board of directors shall hold office until the first next general meeting after their appointment while the bye-laws of the Company provides that any Director so appointed by the Board shall hold office until the next following annual general meeting. The Directors consider that the requirement under code provision A.4.2 of the CG Code is more stringent than the relevant provision of the bye-laws of the Company and will propose the relevant provision of the Bye-laws be amended at the forthcoming annual general meeting so that the provision of the Bye-laws will be consistent with code provision A.4.2 of the CG Code.

According to the bye-laws of the Company, one-third of the Directors are subject to retirement by rotation or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from the office and offer themselves for re-election. The Directors to be retired by rotation shall be those who have been longest in office since their last appointment.

At a full Board meeting held on 7 April 2006, the Directors have reviewed the performance of the Directors who will retire at the forthcoming annual general meeting of the Company and approved to recommend the re-election of such Directors at the forthcoming annual general meeting of the Company.

**G. AUDITORS' REMUNERATION**

For the year ended 31 December 2005, apart from the provisions of annual audit services, the Group's external auditor, PricewaterhouseCoopers, was also the reporting

accountants of the Company in relation to the listing. The Company has not appointed PricewaterhouseCoopers to provide non-audit services. A breakdown of the remuneration of the Group's external auditor is as follows:

**For the year ended  
31 December 2005**  
(RMB'000)

**Audit service**

Annual audit services	1,568
Reporting accountants in relation to the listing	6,442

**H. AUDIT COMMITTEE**

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

Up to the date of this report, the audit committee has held two meetings, at which:

- the audit committee members have discussed with the external auditors of the Company on the internal control and financial reporting systems of the Group;

- the audit committee members have reviewed and discussed with the external auditors of the Company the Group's consolidated financial statements for the year ended 31 December 2005, who is of the opinion that such statement complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made; and
- the audit committee also reviewed the reasonableness and fairness of the continuing connected transactions of the Company for the year ended 31 December 2005.

The following is the attendance record of the committee meetings held by the audit committee from the Listing Date up to the date of this report:

**Attendance at meeting**

Mr. SHI Wei Chen	1/2
Mr. YU Xiao Lei	2/2
Mr. WONG Kai Ming	2/2

**I. DIRECTORS' AND AUDITORS' ACKNOWLEDGEMENT**

All Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2005.

The reporting responsibilities of the Company's external auditors, Messrs. PricewaterhouseCoopers, are set out in the Auditors' report on page 40.

**J. INTERNAL CONTROL**

With a view to enhancing the Group's internal control system, the Company has appointed RSM Nelson Wheeler to perform an internal control and systems review. The Group is in the process of improving its internal control measures as recommended by RSM Nelson Wheeler in certain areas, such as computerised management system and payroll management.

The Board acknowledged that it is responsible for the Company's system of internal control and for reviewing its effectiveness. The Board will conduct periodical review on the progress of the improvement and enhancement with an effort to enhance the internal control measures of the Group.

On behalf of the Board

**WANG Yong**

Chairman

Hong Kong, 7 April 2006