

REPORT OF THE DIRECTORS

The board of directors (the "Board" or the "Directors") of Xiwang Sugar Holdings Company Limited (the "Company") is pleased to present its first annual report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2005.

INITIAL PUBLIC OFFERING

On 9 December 2005, the shares of the Company successfully commenced dealings on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") by offering initially 280,000,000 shares (comprising 240,000,000 new shares and 40,000,000 sale shares) at the offer price of HK\$1.88 per share. The Company issued additional 3,552,000 shares pursuant to the exercise of the over-allotment option granted by the Company to CCB International Capital Limited in connection with the initial public offering on 28 December 2005.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the Company's issue of new shares at its listing on the Stock Exchange, amounted to approximately HK\$419.4 million, which are intended to be or have been applied in accordance with the proposed applications set out in the section headed "Future plans and proposed use of net proceeds from the new issue" in the prospectus of the Company dated 30 November 2005 (the "Prospectus"). Up to the date of this report and in line with the plan to construct a new glucose production plant as set out in the Prospectus, approximately RMB60.3 million have been utilised to acquire the land use right of a plot of land, located at Xiwang Industrial Area, Zouping County, Binzhou City, Shandong province, the PRC, for the construction of a new glucose production plant as set out in the Prospectus. Further details of such acquisition is set out in the Company's announcement dated 13 January 2006 and the circular dated 27 January 2006. The Group also utilised RMB60.0 million for the repayment of bank loans advanced by Bank of China, the details of which are set out in the Prospectus. The remaining un-utilised net proceeds is temporarily placed in short term deposits with licensed banks in the PRC.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the manufacture, distribution and sale of corn refined products and corn-based biochemical products. The Group's products were sold mainly in the PRC while some were exported to various countries. The activities of its principal subsidiaries are set out in note 10 to the audited consolidated financial statements.

DIVIDENDS

Pursuant to a resolution passed on 21 July 2005 and approved by the then sole shareholder of the Company, a special dividend of RMB80,000,000 was declared, of which an amount of approximately RMB76,986,000 had been paid as of 31 December 2005.

The Directors recommend the payment of a final dividend of RMB0.87 cents per ordinary share for the period began from 9 December 2005, the listing date, and ended on 31 December 2005.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year under review are set out in note 7 to the consolidated financial statements.

BORROWINGS

Details of the Group's borrowings as at the balance sheet date are set out in note 18 to the consolidated financial statement.

SHARE CAPITAL

Details of movements in the Company's share capital for the year ended 31 December 2005 are set out in note 14 to the consolidated financial statements.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") on 6 November 2005. The purpose of the Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

The principal terms of the Scheme are summarised as follows:

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

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

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

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

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

The Scheme shall be valid and effective for a period of ten years commencing on 9 December 2005.

Details of the Scheme are set out in the Prospectus.

As at 31 December 2005, no share option has been granted by the Company under the Scheme.

PRE-IPO SHARE OPTION

Pursuant to an amended and restated option deed dated 21 November 2005 (the "Option Deed"), the Company granted an option (the "Pre-IPO Share Option") to CCB International Finance Limited ("CCBI Finance") which CCBI Finance may, at its sole discretion and in accordance with the specified basis, subscribe for shares of the Company, which shall in aggregate be equivalent to up to three per cent. of the shares of the Company in issue on the Listing Date. The Pre-IPO Share Option may be exercised during the period from the expiry of the first six months from the Listing Date to the last day of 48th month after the Listing Date (both days inclusive). The exercise price of the Pre-IPO Share Option shall, subject to adjustments, be HK\$1.88 per share.

Pursuant to the Option Deed, CCBI Finance may subscribe for the shares in accordance with the following basis:

- (i) up to three per cent. of the issued shares of the Company as at the Listing Date within the period from the expiry of the first six months from the Listing Date to the last day of the 24th month after the Listing Date (both days inclusive) (the "First Option Period");
- (ii) up to "A" per cent. of the issued shares of the Company as at the Listing Date within the period from the first day of the 25th month after the Listing Date to the last day of the 36th month after the Listing Date (both days inclusive) (the "Second Option Period"); and
- (iii) up to "B" per cent. of the issued shares of the Company as at the Listing Date within the period from the first day of the 37th month after the Listing Date to the last day of the 48th month after the Listing Date (both days inclusive),

where:

"A" is the result of 3 minus "X" provided that if "X" is less than 1, "X" is deemed to be 1, and "X" per cent. is the percentage represented by the total number of shares of the Company issued upon the exercise of the Pre-IPO Share Option during the First Option Period divided by the total number of the shares of the Company in issue on the Listing Date; and

"B" is the result of "A" minus "Y" provided that "B" shall not exceed 1, and "Y" per cent. is the percentage represented by the total number of shares of the Company issued upon the exercise of the Pre-IPO Share Option during the Second Option Period divided by the total number of the shares of the Company in issue on the Listing Date.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Group during the year are set out in note 15 to the consolidated financial statements and in the consolidated statement of changes in equity.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2005, sales to the Group's five largest customers accounted for 21% of the Group's turnover.

For the year ended 31 December 2005, the largest supplier accounted for approximately 24% of the Group's total cost of purchase and the five largest suppliers accounted for approximately 62% of the Group's total cost of purchase.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers during the year ended 31 December 2005.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive Directors

Mr. WANG Yong (<i>Chairman</i>)	(appointed on 1 March 2005)
Mr. WANG Liang	(appointed on 1 March 2005)
Dr. LI Wei	(appointed on 6 November 2005)
Mr. WANG Cheng Qing	(appointed on 6 November 2005)
Mr. HAN Zhong	(appointed on 6 November 2005)
Mr. LIU Ji Qiang	(appointed on 6 November 2005)

Non-executive Director

Mr. LIU Heng Fang	(appointed on 6 November 2005)
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Independent non-executive Directors:

Mr. SHI Wei Chen	(appointed on 6 November 2005)
Mr. YU Xiao Lei	(appointed on 6 November 2005)
Mr. WONG Kai Ming	(appointed on 6 November 2005)

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS *(Continued)*

In accordance with Bye-law 86(2) of the Bye-laws of the Company, each of Dr. LI Wei, Mr. WANG Cheng Qing, Mr. HAN Zhong, Mr. LIU Ji Qiang, Mr. LIU Heng Fang, Mr. SHI Wei Chen, Mr. YU Xiao Lei and Mr. WONG Kai Ming will retire as Director and, being eligible, offer himself for re-election as Director at the forthcoming annual general meeting.

In addition, in accordance with Bye-Law 87(1) of the Bye-laws of the Company, Mr. WANG Liang will retire as Director by rotation at the forthcoming annual general meeting and, being eligible, offer himself for re-election as Director.

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

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

Each of Mr. SHI Wei Chen, Mr. YU Xiao Lei and Mr. WONG Kai Ming has been appointed for an initial 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.

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

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of 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 25 to 28 of the annual report.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the paragraph headed "Connected transactions" below and in the Group reorganisation as described in the Prospectus, 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 the companies which have become its subsidiaries upon the Group Reorganisation was a party during the year under review.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

As at 31 December 2005, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Company/Name of associated corporations	Name of directors	Capacity	Number and class of securities (Note 1)	Percentage shareholding in the same class of securities as at 31 December 2005
Company	WANG Yong	Interest of controlled corporations (Note 2)	520,000,000 ordinary shares (L) (Note 3)	64.71%
Xiwang Holdings Limited ("Xiwang Holdings")	WANG Yong	Beneficial owner	5,842 shares (L)	58.42%
Xiwang Investment Company Limited ("Xiwang Investment" (BVI))	WANG Yong	Interest of a controlled corporation (Note 2)	3 shares (L)	100%
Xiwang Holdings	LIU Heng Fang	Beneficial owner	266 shares (L)	2.66%
Xiwang Holdings	WANG Cheng Qing	Beneficial owner	230 shares (L)	2.30%
Xiwang Holdings	WANG Liang	Beneficial owner	230 shares (L)	2.30%
Xiwang Holdings	HAN Zhong	Beneficial owner	177 shares (L)	1.77%
Xiwang Holdings	LI Wei	Beneficial owner	89 shares (L)	0.89%
Xiwang Holdings	LIU Ji Qiang	Beneficial owner	89 shares (L)	0.89%

Notes:

- (1) The letter "L" represents the Director's interests in the shares.
- (2) Mr. WANG Yong holds 58.42% of the issued share capital of Xiwang Holdings which in turn holds 100% interests in Xiwang Investment (BVI).
- (3) These shares are registered in the name of Xiwang Investment (BVI). Mr. WANG Yong is deemed to be interested in all shares of the Company in which Xiwang Investment (BVI) is interested.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year was the Company, its subsidiaries or its associated companies a party to any arrangement to enable the Directors (including their spouse and children under 18 years of age) to acquire benefits by means of an acquisition of shares or underlying shares in, or debentures of, the Company or its associated corporations.

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 2005, the following shareholders (other than the directors and chief executive of the Company whose interests and short positions in the shares and underlying shares of the Company are set out above) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of substantial shareholders	Capacity	Number of shares of the Company held (Note 1)	Approximate percentage of interest as at 31 December 2005
Xiwang Investment (BVI)	Beneficial owner	520,000,000 ordinary shares (L)	64.71%
Xiwang Holdings	Interest of a controlled corporation (Note 2)	520,000,000 ordinary shares (L)	64.71%
Zhang Shufang	Interest of spouse	520,000,000 ordinary shares (L)	64.71%
CCB International (Holdings) Limited	Interest of controlled corporations	100,896,000 ordinary shares (L)	12.55%
		38,448,000 ordinary shares (S)	4.78%
CCB International Holdings (Cayman) Limited	Interest of controlled corporations	100,896,000 ordinary shares (L)	12.55%
		38,448,000 ordinary shares (S)	4.78%
China Construction Bank (Asia) Limited	Interest of controlled corporations	100,896,000 ordinary shares (L)	12.55%
		38,448,000 ordinary shares (S)	4.78%
China Construction Bank Corporation	Interest of controlled corporations	100,896,000 ordinary shares (L)	12.55%
		38,448,000 ordinary shares (S)	4.78%

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO (Continued)

(a) Substantial shareholders of the Company (Continued)

Name of substantial shareholders	Capacity	Number of shares of the Company held (Note 1)	Approximate percentage of interest as at 31 December 2005
China SAFE Investments Limited	Interest of controlled corporations	100,896,000 ordinary shares (L)	12.55%
		38,448,000 ordinary shares (S)	4.78%
CCB International Capital (Cayman) Limited	Interest of controlled corporation	76,896,000 ordinary shares (L)	9.56%
		38,448,000 ordinary shares (S)	4.78%
CCB International Capital Limited	Beneficial owner	76,896,000 ordinary shares (L)	9.56%
		38,448,000 ordinary shares (S)	4.78%

Notes:

- (1) The letter "L" represents the entity's interests in the shares or the underlying shares. The letter "S" represents the entity's short position in the shares or the underlying shares.
- (2) Xiwang Investment (BVI) is a wholly owned subsidiary of Xiwang Holdings.

(b) Other persons who are required to disclose their interests pursuant to Part XV of the SFO

Save as disclosed in the paragraph headed "Directors' Interests in shares, underlying shares and debentures of the Company and its associated corporations" and paragraph (a) above, as at 31 December 2005, no other person had interests or short positions in the shares and underlying shares of the Company which are required to be recorded in the register required to be kept by the Company under section 336 of the SFO.

CONNECTED TRANSACTIONS

The following transactions between the companies within the Group and these persons upon listing of the Company's shares on the Stock Exchange constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

- A. The following continuing connected transactions are exempt from the reporting, announcement or independent shareholders' approval requirement under Rule 14A.33 of the Listing Rules and are included herein for information only.

Shandong Xiwang Group Company Limited ("Xiwang Group") licenses the right to use its trademarks (nos. 3199140, 3199141, 3199143 and 3199139) and patents (nos. ZL 02135121.X and ZL 02110310.0) to Shandong Xiwang Sugar Industry Co., Ltd. ("Xiwang Sugar"), a wholly owned subsidiary of the Company. Mr. WANG Yong, an executive Director, is interested in approximately 58.42% interests in Xiwang Group. Pursuant to four trademark licence agreements and two patent licence agreements, Xiwang Group licenses the right to use the above trademarks and patents to Xiwang Sugar for a period of more than eight years and ten years, respectively, from the date of the agreements at nil consideration.

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

		Annual caps		
		For the year ended	For the year ending	
		31 December 2005	31 December 2006	
			For the year ending	
			31 December 2007	
1	Sales of corn germs by Xiwang Sugar to Shandong Xiwang Savola Oil Limited Liability Company ("Xiwang Savola Oil")	RMB80 million	RMB100 million	RMB150 million
2	Sales of glucose syrup by Xiwang Sugar to Shandong Xiwang Leavening Company Limited	RMB3.1 million	RMB3.2 million	RMB3.4 million
3	Purchase sewage services by Xiwang Sugar from Xiwang Group	RMB2.55 million	RMB2.60 million	RMB2.75 million
4	Purchase of packaging bags by Xiwang Sugar from Shandong Biyundong Alcohol Company Limited	RMB25 million	RMB41 million	RMB49 million
5	Xiwang Sugar purchases corn germ dregs from Xiwang Savola Oil	RMB8.4 million	RMB8.4 million	RMB8.4 million

CONNECTED TRANSACTIONS (Continued)

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

- (1) in the ordinary course and usual course of business of the Company;
- (2) on normal commercial terms or terms no less favourable to the Company than terms available to or from independent third parties; and
- (3) 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 under review has not exceeded the annual cap for that transaction.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 19 to 24 of this annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has also adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all directors, all directors confirmed that they had complied with the required standard set out in the Model Code throughout the year under review.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the provisions and recommended practices of the Code on Corporate Governance Practices 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.

The Group's consolidated financial statements for the year ended 31 December 2005 have been reviewed by the audit committee, who is of the opinion that such statement complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float since the Company's listing on the Stock Exchange on 9 December 2005.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company will be held on Thursday, 25 May 2006.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 22 May 2006 to Thursday, 25 May 2006, both days inclusive, during which period no transfer of shares will be effected. All transfers accompanied by the relevant certificates must be lodged with the Company's transfer office and share registrar in Hong Kong, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4:00 p.m. on Friday, 19 May 2006.

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, 7 April 2006