

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

Xiwang Sugar Holdings Company Limited (the “Company”) has adopted the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) as its own code of corporate governance. The directors of the Company (the “Directors”) consider that during the year ended 31 December 2006 (the “Review Period”), the Company has complied with the code provisions under the CG Code and a majority of the recommended best practices of the CG Code.

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

A. DIRECTORS’ SECURITIES TRANSACTIONS

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

B. BOARD OF DIRECTORS

(i) Board composition

The Board currently comprises a combination of six executive Directors, one non-executive Director and three independent non-executive Directors. As at 31 December 2006, 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

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Non-executive Director

Mr. LIU Heng Fang

Independent non-executive Directors

Mr. SHI Wei Chen

Mr. YU Xiao Lei*

Mr. WONG Kai Ming

* Mr. YU Xiao Lei resigned as independent non-executive Director on his own accord on 14 February 2007. On the same date, Mr. SHEN Chi was appointed as an independent non-executive Director.

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

(ii) Board meetings

During the Review Period, 8 full board meetings were held, at which:

- the Directors approved the capital expenditure for review period which amounted to approximately RMB720 million;
- 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 a connected transaction in relation to the engagement of two connected parties of the Company for the construction of new production plants;
- 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 proposed grant of the general and repurchase mandates proposal;
- the Directors approved the issue of 24,000,000 shares to CCB International Finance Limited pursuant to an amended and restated option deed dated as of 21 November 2005; and the issue of shares to the holders of share options of the Company upon receipt of their exercise notices;
- the Directors approved the interim results of the Group for the six months ended 30 June 2006;

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- the Directors approved a term loan facility of up to US\$60,000,000; and
- the Directors approved the acquisition of two parcel of land use right approximately amounted RMB85 million.

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 full board meetings held by the Board during the Review Period:

Attendance at meeting

Executive Directors

Mr. WANG Yong (<i>Chairman</i>)	8/8
Mr. WANG Liang (<i>Chief executive officer</i>)	7/8
Dr. LI Wei	7/8
Mr. WANG Cheng Qing	6/8
Mr. HAN Zhong	7/8
Mr. LIU Ji Qiang	7/8

Non-executive Director

Mr. LIU Heng Fang	4/8
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Independent non-executive Directors

Mr. SHI Wei Chen	3/8
Mr. YU Xiao Lei	5/8
Mr. WONG Kai Ming	8/8

(iv) Independent non-executive Directors

In compliance with Rule 3.10(1) of the Listing Rules, the Company has appointed and maintained to have during the review period, 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.

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

The independent non-executive Directors who have attended the meetings of the Board have provided independent judgment on the issues discussed.

(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, was 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.

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

On the same day, Mr. SHEN Chi was appointed as an independent non-executive Director for a term of three years which may be terminated by either party by giving to the other not less than three month's prior notice in writing.

E. REMUNERATION OF DIRECTORS

The Company established a remuneration committee with written terms of reference in compliance with the CG Code. During the Review Period, the remuneration committee comprised Mr. WANG Liang (chairman), Mr. SHI Wei Chen and Mr. 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.

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The remuneration committee has not held any meeting during the Review Period as the remuneration package and the service agreement of each Director had been considered and approved at a full Board meeting held before the establishment of the remuneration committee. It is the Company's policy that the remuneration package of each Director and senior management shall be determined by reference to the duties, responsibilities, experience and qualifications of each candidate.

F. NOMINATION OF DIRECTORS

The Company established a nomination committee with written terms of reference in compliance with the CG Code. During the Review Period, the nomination committee comprised 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 during the Review Period.

According to the bye-laws of the Company, one-third of the Directors are subject to retirement by rotation or, if 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 30 March 2007, the Directors reviewed the performance of the Directors who would 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 2006, the Company has not appointed PricewaterhouseCoopers to provide non-audit services. A breakdown of the remuneration paid by the Group to its external auditors are as follows:

	For the year ended 31 December 2006 <i>(RMB'000)</i>
Service rendered	
Annual audit services	
– PricewaterhouseCoopers	2,500
– Others	162
Non-audit services	Nil

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H. AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based on the provisions and recommended practices of the CG Code. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. During the Review Period, members of the audit committee comprised Mr. WONG Kai Ming (chairman), Mr. SHI Wei Chen and Mr. YU Xiao Lei. During the Review Period, the audit committee has held 4 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 were 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;
- the audit committee also reviewed the reasonableness and fairness of the continuing connected transactions of the Company for the year ended 31 December 2005; and
- the audit committee members have reviewed the Group's financial results for the six months ended 30 June 2006.

The following is the attendance record of the committee meetings held by the audit committee during the Review Period:

	Attendance at meeting
Mr. SHI Wei Chen	1/4
Mr. YU Xiao Lei	4/4
Mr. WONG Kai Ming	4/4

I. DIRECTORS' AND AUDITORS' ACKNOWLEDGEMENT

All Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2006. The reporting responsibilities of the Company's external auditors, Messrs. PricewaterhouseCoopers, are set out in the Auditors' Report on page 52.

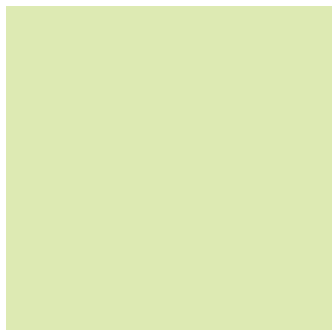
J. INTERNAL CONTROL

With a view to enhancing the Group's internal control system, the Company has established an internal audit department to review the effectiveness of the internal control measures. 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, 30 March 2007



POTENTIAL TO NOURISH



Looking forward, the Group will make its best endeavors to capture increasing market opportunities and growth potentials through mass production capacity, vertically integrated production system, strong research and development capability and highly experienced management experts, and strives to become a leading glucose producer in the world and create satisfactory returns for shareholders.