

# Report of Directors

The board of directors (the "Board" or the "Directors") of Xiwang Sugar Holdings Company Limited (the "Company") is pleased to present its annual report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2006.

## PRINCIPAL ACTIVITIES

The Group is principally engaged in the manufacture, distribution and sale of corn refined products and corn-based biochemical products. During the year ended 31 December 2006, the Group's products were sold mainly in the PRC while some were exported to various countries. An analysis of the Group's performance for the year by business and geographical segments is set out in note 5 to the financial statements. The activities of its principal subsidiaries are set out in note 9 to the audited consolidated financial statements.

## DIVIDENDS

The Directors recommend the payment of a final dividend of RMB0.14 per share in respect of the year ended 31 December 2006, totalling approximately RMB115,871,000. Subject to shareholders' approval at the forthcoming annual general meeting of the Company, the final dividend will be paid in cash on or about 31 May 2007 to shareholders whose names appear on the register of members of the Company on 18 May 2007.

## PROPERTY, PLANT AND EQUIPMENT

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

## BORROWINGS

Details of the Group's borrowings as at 31 December 2006 are set out in note 16 to the consolidated financial statement.

## SHARE CAPITAL

Details of movements in the Company's share capital for the year ended 31 December 2006 are set out in note 13 to the consolidated financial statements.

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### 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 12.

### 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 granted and 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 of Hong Kong Limited (the "Listing Date") unless shareholders' approval has been obtained. Shares of the Company which may fall to be issued upon the exercise of options granted and not yet exercised under the Scheme and any other schemes 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.

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During the year ended 31 December 2006, options carrying rights to subscribe for a total of 4,000,000 shares of the Company of HK\$0.10 each (each, a "Share") were granted under the Scheme. No option granted under the Scheme was exercised. No option lapsed or was cancelled during the period under review.

Details of the options granted under the Scheme during the period under review are as follows:

Class of grantee	Date of grant (Note 2)	During the year ended 31 December 2006				Outstanding	Outstanding	Exercise price per Share (HK\$)	Exercise period
		Granted	Exercised	Cancelled	Lapsed	as at 1 January 2006	as at 31 December 2006		
Employees (Note 1)	9 January 2006	2,000,000	-	-	-	-	2,000,000	2.50	1 January 2007- 31 December 2016
		2,000,000	-	-	-	-	2,000,000	2.50	1 January 2008- 31 December 2017
		4,000,000	-	-	-	-	4,000,000		

### 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 Shares as stated in the Stock Exchange's daily quotations sheet on 6 January 2006, being the trading day immediately preceding the date of grant of options, was HK\$2.275 per Share.
3. The value of options is set out in note 13 to the consolidated financial statement.

### 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.

On 4 July 2006, CCBI Finance exercised the Pre-IPO Share Option in full at an exercise price of HK\$1.88 per share, pursuant to which an aggregate of 24,000,000 Shares were allotted and issued to CCBI Finance on 12 July 2006.

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### 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 14 to the consolidated financial statements and in the consolidated statement of changes in equity.

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2006, sales to the Group's five largest customers accounted for 22.6% of the Group's turnover.

For the year ended 31 December 2006, the largest supplier accounted for approximately 7.4% of the Group's total cost of purchase and the five largest suppliers accounted for approximately 32.5% 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 2006.

## Report of Directors

### 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 (*Chairman*)  
Mr. WANG Liang  
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 (resigned on 14 February 2007)  
Mr. WONG Kai Ming  
Mr. SHEN Chi (appointed on 14 February 2007)

Mr. SHEN Chi 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 addition, in accordance with Bye-Law 87(1) of the Bye-laws of the Company, each of Mr. WONG Yong, Mr. LIU Heng Fang and Mr. WANG Cheng Qing 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. 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.

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Mr. SHEN Chi has been appointed for an initial term of three years commencing on 14 February 2007 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 terminable 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 34 to 38 of the annual report.

### **DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

Save as disclosed in the paragraph headed "Related party transactions" below and in note 26 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 during the year under review.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed above, at no time during the year were rights to acquire benefits by means of an acquisition of shares in, or debentures of, the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

As at 31 December 2006, 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 Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

<b>Company/Name of associated corporations</b>	<b>Name of directors</b>	<b>Capacity</b>	<b>Number and class of securities</b> <i>(Note 1)</i>	<b>Percentage shareholding in the same class of securities as at 31 December 2006</b>
Company	WANG Yong	Interest of a controlled corporation <i>(Note 2)</i>	520,000,000 ordinary shares (L) <i>(Note 3)</i>	62.84%
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 <i>(Note 2)</i>	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.

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### 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 2006, 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 <i>(Note 1)</i>	Approximate percentage of interest as at 31 December 2006
Xiwang Investment (BVI)	Beneficial owner	520,000,000 ordinary shares (L)	62.84%
Xiwang Holdings	Interest of a controlled corporation <i>(Note 2)</i>	520,000,000 ordinary shares (L)	62.84%
Zhang Shufang	Interest of spouse	520,000,000 ordinary shares (L)	62.84%
JPMorgan Chase & Co. <i>(Note 3)</i>	Investment manager	22,508,000 ordinary shares (L)	2.72%
	Custodian corporation/ approved lending agent	19,548,000 ordinary shares (L)	2.36%



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*Notes:*

- (1) The letter "L" represents the entity's interests in the shares.
- (2) Xiwang Investment (BVI) is a wholly owned subsidiary of Xiwang Holdings.
- (3) Of these shares, 19,548,000 shares were registered in the name of JPMorgan Chase Bank, N.A. and 22,508,000 shares were registered in the name of JF Asset Management Limited. JPMorgan Chase Bank, N.A. is wholly owned by JPMorgan Chase & Co.. JF Asset Management Limited is wholly owned by JPMorgan Asset Management (Asia) Inc. which is in turn wholly owned by JPMorgan Asset Management Holdings Inc.. JPMorgan Asset Management Holdings Inc. is wholly owned by JPMorgan Chase & Co.. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SFO, JPMorgan Chase & Co. is deemed to be interested in the shares held by JPMorgan Chase Bank, N.A. and JF Asset Management Limited.

According to the corporate substantial shareholder notice filed by JPMorgan Chase & Co. on 29 November 2006, 19,548,000 shares held by JPMorgan Chase & Co. was in lending pool.

**(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 2006, 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.

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### CONNECTED TRANSACTIONS

The following are the details of the connected transactions undertaken by the Group during the year ended 31 December 2006 which were subject to reporting requirements under Chapter 14A of the Listing Rules.

- A. 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/or independent shareholders' approval requirement have been granted by the Stock Exchange.

		Annual caps		
		For the year ended 31 December 2005	For the year ended 31 December 2006	For the year ended 31 December 2007
1	Sales of corn germs by Shandong Xiwang Sugar Industry Co., Ltd. ("Xiwang Sugar") to Shandong Xiwang Savola Oil and Fats Company Limited ("Xiwang Savola Oil")	RMB80 million	RMB100 million	RMB150 million
2	Sales of glucose syrup by Xiwang Sugar to Shandong Xiwang Leavening Company Limited ("Xiwang Leavening")	RMB3.1 million	RMB3.2 million	RMB3.4 million
3	Purchase sewage services by Xiwang Sugar from Shandong Xiwang Group Company Limited ("Xiwang Group")	RMB2.55 million	RMB2.60 million	RMB2.75 million
4	Purchase of packaging bags by Xiwang Sugar from Shandong Biyundong Alcohol and Water Company Limited ("Biyundong Alcohol")	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

Details of the total transaction amount of each of the above continuing connected transactions during the year ended 31 December 2006 and the description of the connection relationship are set out in note 26 to the consolidated financial statements.

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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.

- B. The following connected transaction was subject to reporting and announcement requirements.

On 19 April 2006, the Group appointed Shandong Xiwang Steel Structure Co., Ltd (“Xiwang Steel Structure”) and Zouping Xiwang Construction Company Limited (“Xiwang Construction”) to undertake a new glucose production plant and a new starch processing plant (the “Construction Project”) for the Group. The total contract price of the Construction Project is approximately RMB27,811,000. Xiwang Steel Structure is responsible for the production and construction of the steel structure of the production plants while Xiwang Construction is responsible for the corresponding construction works under the Construction Project. Xiwang Steel Structure and Xiwang Construction are subsidiaries of Xiwang Group.

### GENERAL DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

On 21 November 2006, the Company (as borrower), Master Team International Limited (a wholly owned subsidiary of the Company) (as guarantor), Oversea-Chinese Banking Corporation Limited (as the mandated lead arranger), certain financial institutions (as lenders) and Oversea-Chinese Banking Corporation Limited, Hong Kong Branch (as agent) entered into a facility agreement (“Facility Agreement”) which contained specific performance obligations on Mr. WANG Yong (“Mr. Wang”), the chairman (“Chairman”) of the Board and Xiwang Investment (BVI), both being the controlling shareholders of the Company.

The Facility Agreement is for a term loan facility of up to US\$60,000,000, the final maturity date of which shall be the date falling three years from the date of the Facility Agreement or, in respect of any part of the loan facility in respect of which an extension has been agreed pursuant to the Facility Agreement, the date falling five years from the date of the Facility Agreement.

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

- (1) Xiwang Investment (BVI), a company incorporated in the British Virgin Islands, shall, directly or indirectly, own not less than 45 per cent. of the entire issued share capital of the Company and there shall be no major change in the shareholdings in Xiwang Investment (BVI); and
- (2) the Company shall ensure that Mr. WANG remains as Chairman of the Company and the single largest shareholder of the Company through his attributable interests in Xiwang Holdings and Xiwang Investment (BVI).

A breach of any of the above specific performance obligations would constitute a default under the Facility Agreement. Such default would permit the lenders to accelerate the maturity of the indebtedness under the Facility Agreement. As at the date of this annual report, the indebtedness under the Facility Agreement remained outstanding.

### CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 26 to 31 of this annual report.

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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. 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. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. At present, members of the audit committee comprise Mr. WONG Kai Ming (chairman), Mr. SHI Wei Chen and Mr. SHEN Chi, being the three independent non-executive Directors.

The Group's consolidated financial statements for the year ended 31 December 2006 have been reviewed by the audit committee, who was 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.

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### 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 as at the date of this report.

### USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

Up to the date of this report, net proceeds of approximately HK\$419.4 million from the Company's initial public offering in December 2005 were utilised as follows:

- RMB60.0 million have been utilised for the repayment of bank loans advanced by Bank of China; and
- approximately RMB368 million have been utilised for the acquisition of a plot of land and the construction of a new glucose production plant having annual production of 550,000 tonnes of glucose and a new starch processing plant having an annual production of 600,000 tonnes of starch paste.

### ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company will be held on Friday, 18 May 2007.

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 16 May 2007 to Friday, 18 May 2007, 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 Tuesday, 15 May 2007.

### AUDITORS

There has been no change to the Company's auditors since its incorporation. The consolidated financial statements have been audited by PricewaterhouseCoopers who will 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, 30 March 2007