CHANGCHUN

Annual Capacity:

- Amino Acids - Lysine 40,000 mt
  - Protein Lysine 60,000 mt
  - Compound Amino Acids 20,000 mt *
- Modified Starch - Food Grade 30,000 mt
  - Paper Grade 100,000 mt
- Corn Sweeteners - Sorbitol 60,000 mt *
  - Polyol 10,000 mt *
- Corn Processing - 1.2 million mt
- Corn Starch - 840,000 mt

Site Area: Approximately 600,000 m^2

Location: Situated within Golden Corn Belt

SHANGHAI

Annual Capacity:

- Corn Sweeteners - HFCS 100,000 mt
  - Maltose, Glucose 60,000 mt

Site Area: Approximately 30,000 m^2

Location: Situated in close proximity to food & beverage manufacturers

Note:
* in progress

Product Diversification in Acceleration

JINZHOU

Annual Capacity:

- Amino Acids - Glutamic Acid 100,000 mt *
- Corn Sweeteners - HFCS 100,000 mt *
- Corn Processing - 600,000 mt *
- Corn Starch - 420,000 mt *

Site Area: Approximately 370,000 m^2

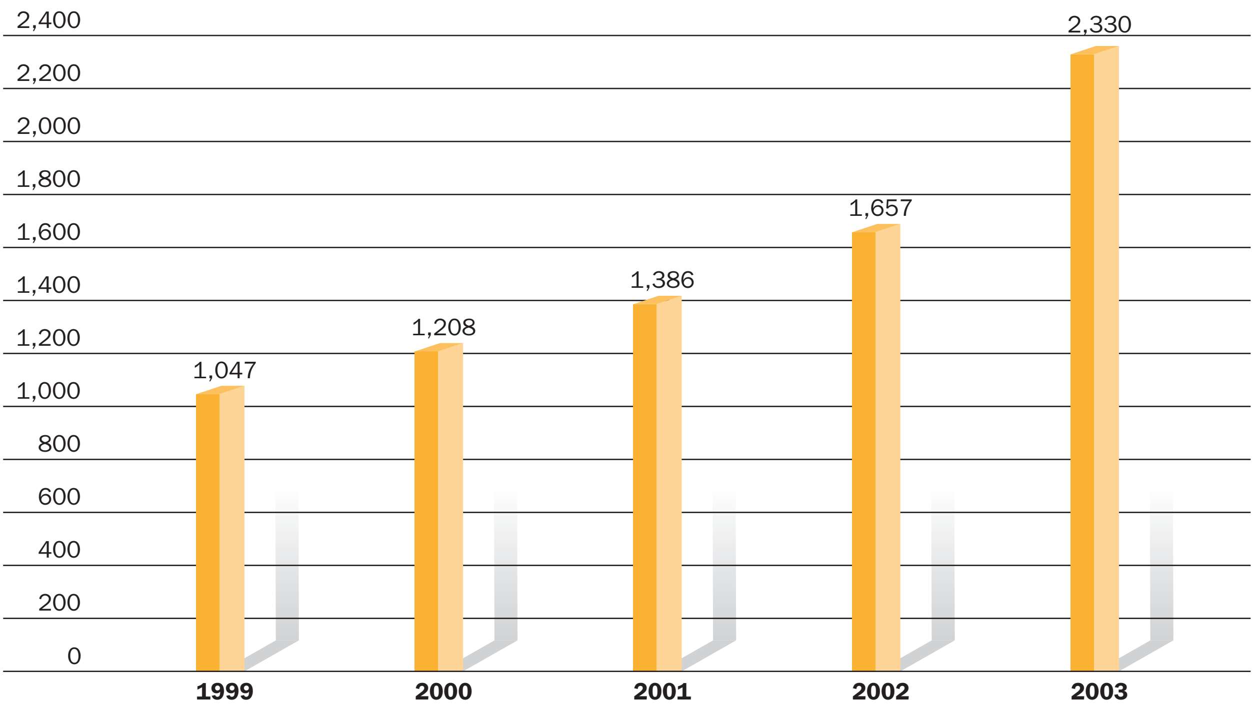
Location: Situated within Golden Corn Belt & at transportation hub

Contents

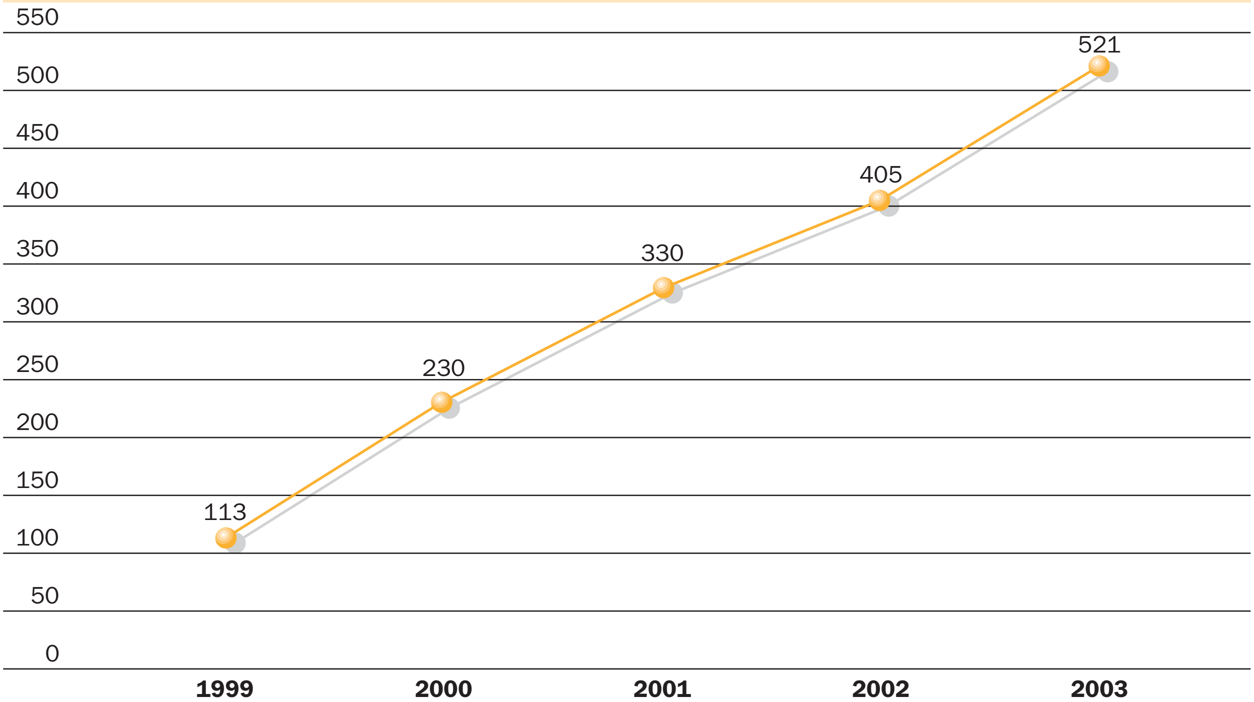
Financial Highlights

	2003	2002	%
	HK$'Mn	HK$'Mn	Change
Turnover	**2,330**	1,657	41
Profit before tax	**636**	496	28
Net profit from ordinary activities			
attributable to shareholders	**521**	405	29
Earnings per share – basic	**HK26.5 cents**	HK21.3 cents	24
Dividends per share			
– Interim	**HK2.0 cents**	HK1.5 cents	33
– Proposed final	**HK2.5 cents**	HK2.0 cents	25
Issue of bonus warrant	**1 bonus warrant for every 8 issued Shares**	Nil	
Return on equity	**21%**	22%	(1)

Turnover (HK$'Mn)



Net profit from ordinary activities attributable to shareholders (HK$'Mn)



OUTSTANDING PERFORMANCE WITH REMARKABLE RESULTS

In 2003, Global Bio-chem sustained marvelous growth with its turnover and net profit increasing 41% and 29% respectively vis-à-vis the same period last year. The overall gross profit margin stayed at a handsome level of 37%.

In accordance with the corporate strategy of downstream products expansion and diversification, the Group speeded up the process of increasing production capacity and product offerings of high value-added downstream corn based biochemical products in the year under review. In the same period, the Group also augmented its corn processing capacity for upstream products. This, coupled with the product diversification process, effectively broadened the Group's profit sources as well as provided the Group with a solid base for high future growth.

ADHERENCE TO CORPORATE STRATEGY

Well-established position as a market leader

The Group has achieved rapid growth and accomplished great successes in various fields since its listing three years ago.

Production Capacity

With the acquisition of a corn refinery in Jinzhou in May 2003, the annual corn processing capacity of the Group increased from 600,000 metric tonnes in 2000 to 1,800,000 metric tonnes. The total volume of lysine produced also jumped in phases from 15,000 metric tonnes in 2000 to over 100,000 metric tonnes at present, which represents a remarkable market share of more than 40% in the PRC. As at today, the Group is the largest corn refiner in the PRC and in Asia and

the largest lysine manufacturer in the PRC. The Group has been recognised as a major player in the world and has committed itself to becoming the largest manufacturer of lysine in the world in the next three to five years.

Product Structure

For the downstream product segment, the portion from the sales of high value-added corn based biochemical products has increased from 29% in 2000 to 43% in 2003. This increase, coupled with a rise in profit contribution of downstream products, paves the way for rapid growth in profits. The Group has also diversified from product offerings, consisting of food-grade modified starch, lysine and corn sweeteners, into new varieties such as paper-grade modified starch, protein lysine and HFCS.

INTERNATIONAL MARKETS AND BUSINESS

The Group has managed to keep an increasing share in the PRC market and has also successfully entered into overseas markets including south-east Asia, Europe and America. Sales to these overseas markets accounted for 6% of the Group's turnover in 2003. In 2004, the Group's export will exceed 10% of turnover. Apart from alleviating the risk of over-concentration in a single market, overseas markets also offer good opportunities for business because of price difference. In addition, collaborations with leading enterprises like Cargill, Mitsui Group of Japan as well as IPP, joint venture partners from the United States, Iceland and South Africa, signify the Group's move from being a regional enterprise to becoming an international player.

CAPITAL RESOURCES

Our shareholders consisted primarily of Asian investors at the time of listing. Currently, our shareholders also include international investors from Europe and America. Apart from maintaining smooth business relationship with banks in the PRC and in Hong Kong, the Group has also built up relationships with some leading and well recognised banks based in Europe, Middle East and other Asian countries via syndicated loan facilities. With adequate funding and effective use of capital, the Group is poised to embark on any future venture whenever business opportunities arise.

CONTINUOUS RESEARCH AND DEVELOPMENT TO SUSTAIN FUTURE GROWTH

For the purpose of securing future growth, the Group will strive hard to keep on improving operating efficiency, to invest in in-house research and development, as well as to form strategic alliances with multinational corporations, thereby upgrading the technology level and developing new products to ensure the continuous launch of high value-added downstream biochemical products to raise future growth of revenue.

For the amino acid series, apart from lysine, protein lysine, compound amino acids and glutamic acid, the Group will continue to collaborate with science and research institutes in the research and development of other amino acids, such as arginine, threonine, valine and methionine for medical, nutrition supplement and food additive markets.

For the modified starch series, the Group has commenced production of paper-grade modified starch apart from food-grade products. For the corn sweeteners series, apart from HFCS, projects on new products, polyol and sorbitol, will also commence in the near future. With the completion of the polyol project, the Group will become the first ever polyol manufacturer in the world employing innovative biological technology using environment-friendly corn starch as raw material.

Leveraging on our competitive advantages, the management will strive to steer a path for continuous growth for Global Bio-chem. On behalf of the management of the Group, we would like to extend our most heartfelt thanks to our customers, business partners, investors, shareholders and staff who have rendered continuous support over the years.

Liu Xiaoming	**Xu Zhouwen**
Co-Chairman	*Co-Chairman*

30 March 2004

Table of Major Events

2004

February

Signed Joint Venture Agreement with Mitsui Group to produce Sorbitol

January

Commenced production of Protein Lysine facility with capacity of 60,000 mtpa; Lysine series' total production capacity more than doubled to 100,000 mtpa

Appointed Mr. Liu Xiaoming and Mr. Xu Zhouwen as Co-Chairmen

2003

December

Selected in the Second Deloitte Touche Tohmatsu Asia Pacific Technology Fast 500

Commenced production of Modified Starch Plant for Paper-Making Industry with capacity of 100,000 mtpa

November

Set up Glutamic Acid subsidiary

October

Signed Joint Venture Agreement with IPP to produce Polyol

July

Set up Protein Lysine and Compound Amino Acids Joint Venture Company

May

Acquired 70% interest of Jinzhou Plant, a corn refinery with capacity of 600,000 mtpa

January

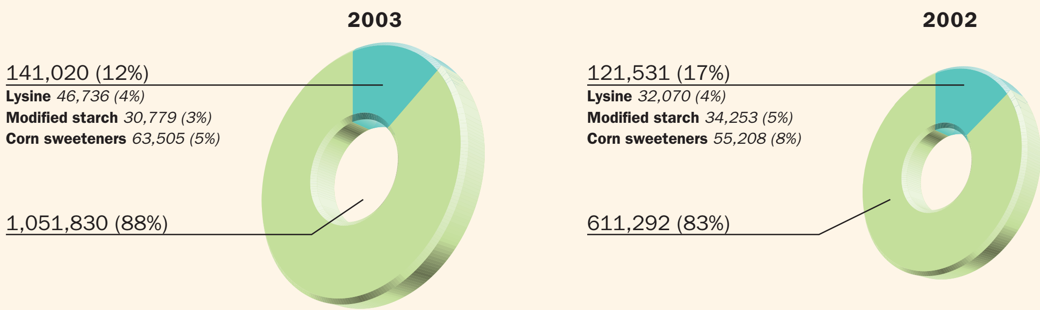
Became a component stock of Hang Seng Freefloat Mainland 25 Index

Signed MOU with Mitsui Group for Sorbitol Joint Venture

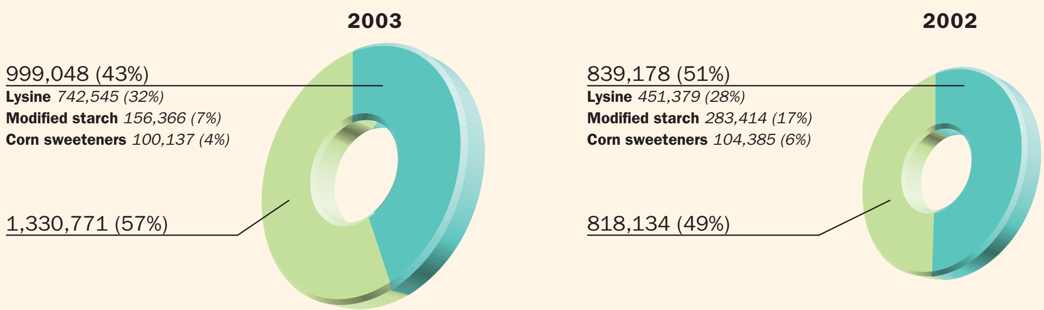
Footnote:
mtpa: metric tonnes per annum
MOU: Memorandum of Understanding

Sales and Gross Profit Analysis

Sales volume (mt)



Sales amount (HK$'000)



Gross Profit (HK$'000)

Upstream products   Downstream products

Footnote:

mt : metric tonne(s)

% : percentage to the Group's total

Global Bio-chem Technology Group Company Limited (the "Company") and its subsidiaries (collectively the "Group") are engaged in the manufacture and sale of corn refined products and corn based biochemical product. Upstream products include corn starch, gluten meal and other corn refined products. Corn starch is then further refined into a wide range of high value-added downstream products including amino acids, corn sweeteners and modified starch.

BUSINESS ENVIRONMENT

Despite the outbreak of SARS and the bird flu, the economic growth of the People's Republic of China (the "PRC") remained steady, which provided a favourable business environment for the Group. Sales in the PRC, our principal market, accounted for approximately 94% (2002: 93%) of the Group's turnover in 2003 (the "Year"). Owing to keen demand for lysine which is a type of amino acid, its price soared to over RMB46,000 per metric tonne ("mt") in November 2003. Currently, there is no comparable domestic competitor for lysine in the PRC and competition comes principally from imports. However, for both modified starch and corn sweeteners, there was pressure for downward price adjustment owing to domestic competition and low-priced substitutes respectively. Upstream products were also beset with pressure on their selling prices arising from increasing competition from domestic manufactures.

To diversify and extend its client base in overseas markets, the Group extended its sales network to countries in Europe, Africa and America. During the Year, sales to these regions recorded an increase of approximately 153%, with lysine forming the majority of these exports which accounted for approximately 42% (2002: 2%) of total export sales. This served to alleviate domestic competition and maintain higher product prices in the PRC.

FINANCIAL PERFORMANCE

The Group's consolidated turnover of approximately HK$2.3 billion, gross profit of approximately HK$865 million and net profit of approximately HK$521 million for the Year increased by 41%, 33% and 29% respectively, as compared to year 2002. This outstanding performance could be attributed to the Group's success in speeding up the diversification process of downstream products as well as increasing upstream corn processing capacity in 2002. Equally important is the substantial increase in lysine price during the fourth quarter of the Year.

DOWNSTREAM PRODUCT SEGMENT

For the downstream product segment, the sales, the gross profit and their respective growth rates were approximately HK$1 billion, HK$548 million, 19% and 22% respectively. The average gross profit percentage of approximately 55% (2002: 54%) remained stable as compared to 2002.

Among downstream products, lysine recorded an excellent performance. The turnover of lysine of approximately HK$743 million and its gross profit of approximately HK$430 million achieved substantial increases of 65% and 73% respectively. This excellent sales performance was the result of a combination of three factors, namely, (i) the impact of a full year's operation of the expansion in production by 25,000 mt completed in the second quarter of 2002, (ii) the increase in average selling price by 13%, and (iii) sales of protein lysine generated from the trial run before commencement of formal production in January 2004.

When the bird flu became rampant in the second half of the Year, the supply of poultry products decreased. Demand for other meat such as beef and pork increased and drove up the demand for pig and cattle feed. Since the volume of lysine added in pig and cattle feed far exceeds the volume added in poultry feed, the impact on lysine turned out to be a positive one.

However, the market condition of other downstream products, i.e. modified starch and corn sweeteners, were less favourable in comparison. Competition from small local suppliers of food-grade modified starch triggered a drop in prices. Moreover, in order to accelerate the market penetration of paper-grade modified starch to be produced by new facilities with an annual capacity of 100,000 mt, approximately 40% capacity of the existing production facilities for food-grade modified starch were reallocated to produce paper-grade modified starch. In addition, some of the modified starch was consumed internally for the production of protein lysine. As a result, the turnover and gross profit of modified starch decreased by 45% and 52% respectively.

The continuous depression in the price of cane sugar, which is a substitute product for corn sweeteners, caused a drop in the selling price of corn sweeteners. Hence, the turnover and gross profit of sweeteners decreased by 4% and 7% respectively. In view of the rebound of cane sugar price since late 2003, it is expected that the performance of sweeteners will improve in the coming years.

UPSTREAM PRODUCT SEGMENT

The second corn refinery in Changchun commenced commercial production in late 2002, which then doubled the Group's annual corn processing capacity from 0.6 million mt to 1.2 million mt. In line with the Group's strategy to expand corn processing capacity for supporting downstream production, the Group acquired 70% equity interest in a joint venture enterprise which operates a corn refinery in Jinzhou, Liaoning Province, the PRC ("Jinzhou Plant") in 2003, which will further expand its annual corn processing capacity to 1.8 million mt upon commencement of operation in the second quarter of 2004.

Because of the capacity expansion, the sales and gross profit of upstream products were approximately HK$1.3 billion and HK$317 million, representing increases of approximately 63% and 59% respectively as compared to those of 2002. Owing to the product nature of the upstream industry, the drop in raw material cost of approximately 6% and keen competition caused the selling price of upstream products to drop by approximately 5%. With the effort of the Group, the drop in selling price was partially offset by the economies of scale when processing capacity was augmented. Therefore, the gross profit margin remained stable at approximately 24% (2002: 24%). There has been a rebound of approximately 15% in both the selling price of upstream products and the cost of raw materials since the last quarter of the Year but the impact on the gross profit margin was neutral.

CHANGE IN SALES MIX AND GROSS PROFIT MIX BETWEEN UPSTREAM AND DOWNSTREAM SEGMENTS

Because corn starch produced from the doubling of corn processing capacity could not be fully consumed internally in the Year, turnover and gross profit from upstream products increased and accounted for approximately 57% (2002: 49%) and 37% (2002: 31%) of the Group's total respectively. Although the gross profit margin of both upstream and downstream products remained at a similar level as compared to last year, the overall gross profit margin dropped by approximately 2% to 37%, among to such a change in sales mix.

OPERATING EXPENSES, FINANCE COSTS, LOSS ON JOINTLY-CONTROLLED ENTITY, TAX AND PROFIT SHARED BY MINORITY INTEREST

Owing to the increase in overseas sales and transportation cost, the percentage of selling and distribution expenses over turnover increased by approximately 1.3% to 4.1% (2002: 2.8%). Excluding the double-fold increase in transportation cost, the percentage of operating expenses over turnover reduced by approximately 1.1%, which was achieved through stringent control over other operating expenses, enhancement in operating efficiency arising from capacity expansion and increase in other income. Included in other operating expenses were research and development expenditure amounting to approximately HK$20 million, which remained at a similar level as compared to previous years. Furthermore, goodwill amounting to approximately HK$14 million arose as a result of the acquisition of the Jinzhou Plant. Such goodwill will be amortised and charged to other operating expenses over a period of 20 years on a straight line basis.

Bank borrowings rose substantially to approximately HK$1.13 billion as at 31 December 2003 (31 December 2002: HK$476 million) as a result of the rapid expansion of the Group. After netting-off interest capitalised as construction in progress of approximately HK$12 million (2002: HK$11 million), finance costs increased to approximately HK$24 million (2002: HK$15 million), which represented 1% (2002: 1%) of turnover.

The high fructose corn syrup ("HFCS") joint venture ("HFCS JV") still recorded an operating loss in the Year. The loss shared by the Group amounted to approximately HK$2.2 million. In view of the rebound of the cane sugar price recently, it is expected that HFCS JV can improve its performance in the near future.

Most of the Group's companies operate either within economic technological development zones or in open costal areas in the PRC, and hence are enjoying income tax relief in accordance with relevant income tax laws and regulations. Since there was no substantial change in the tax relief status in the Year, the effective tax rate of the Group, as a whole, remained at approximately 7% (2002: 7%).

There has been no material change in the shareholding percentage held by minority shareholder in subsidiaries within the Group, and the profit shared by minority shareholder accounted for approximately 12% (2002: 12%) of the profit after tax.

INCREASE IN NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Taking into account the overall effects of capacity expansion, increase in lysine price and stringent control over operating expenses and finance costs, net profit attributable to shareholders increased substantially by approximately 29% to HK$521 million.

FINANCIAL RESOURCES AND LIQUIDITY

Net cash position

As at 31 December 2003, cash and cash equivalents of the Group amounted to approximately HK$736 million (31 December 2002: HK$433 million). With the increase in bank borrowings of approximately HK$657 million, the net borrowing position rose by approximately HK$354 million. In spite of the remarkable profit generated from operation of approximately HK$521 million, the increase in net borrowing was warranted in view of (i) the huge capital expenditure incurred during the Year of approximately HK$721 million and (ii) additional working capital tied up after the Group doubled its annual corn refining capacity to 1.2 million mt in late 2002. During the period under review, syndicated loan facilities of US$100 million was raised to enhance the cash position. As at 31 December 2003, half of these facilities had been utilised.

Capital expenditure

In view of the promising demand for the Group's products, the Group accelerated the process of expansion and product diversification. During the Year, capital expenditure on non-current assets amounted to HK$721 million, which were mainly used for (i) construction work for the production of protein lysine and paper-grade modified starch, (ii) acquisition of and additional construction work in the Jinzhou Plant and (iii) foundation work on a new production base in Changchun. The expenditure for these projects amounted to approximately HK$440 million, HK$150 million and HK$130 million respectively. Commercial production of paper-grade modified starch and protein lysine have commenced in December 2003 and January 2004 respectively.

In view of the Group's rapid expansion and product diversification in high value-added downstream products, including various types of amino acids, the Directors are of the opinion that existing production bases are reaching optimal production capacity. Consequently the Group has decided to develop a new production base in Changchun to mitigate the risk of over-concentration and over-utilisation of existing production facilities. Preparation work, site exploration and surveying have commenced before the end of the Year.

Property Revaluation

As at 31 December 2003, the Group's leasehold land and buildings in the PRC and in Hong Kong were revalued on a depreciated replacement cost basis and an open market basis, respectively, by an independent firm of professionally qualified valuers, at approximately HK$649 million. Surplus on revaluation and deferred tax liability of approximately HK$109 million (2002: Nil) and HK$16 million (2002: Nil) respectively arising from the above valuation has been reflected in the revaluation reserve.

Turnover days, liquidity ratios and gearing ratios

As in the previous year, the Group adopted the strategy of keeping a high level of corn kernels, a major raw material, since the harvest season (i.e. fourth quarter) in order to avoid the anticipated upward price movement of corn in the second half of 2004. As a result, inventory turnover days remained at approximately 91 days (31 December 2002: 94 days). With the same convention that all corn kernels were acquired from farmers on a cash basis, trade creditors turnover days remained at approximately 23 days (31 December 2002: 22 days). Trade receivables turnover days shortened to approximately 72 days (31 December 2002: 84 days) with consistent stringent control over credit policy.

The current ratio and the quick ratio as at 31 December 2003 remained stable and were approximately 2.1 (31 December 2002: 2.1) and 1.7 (31 December 2002: 1.6) respectively.

In view of the increase in bank borrowing including syndicated loan facilities, mainly on a long term basis, for financing expansion projects mentioned in the foregoing, gearing ratios in terms of (i) bank borrowings to total assets, (ii) bank borrowings to equity and (iii) net debts (i.e. net balance between bank borrowings and cash and cash equivalent) to equity increased from approximately 17%, 26% and 2% in 2002 to 27%, 45% and 16% in 2003 respectively. High interest coverage (i.e. profit from operating activities over finance costs) of 28 times (2002: 35 times) indicated that the leverage level of the Group remained healthy. The syndicated loan facilities with repayment terms lasting 3 years helped improve the liquidity of the Group, hence supporting expansion projects.

Structure of interest bearing borrowings

As at 31 December 2003, the Group's bank borrowings amounted to approximately HK$1.13 billion, of which 40% were denominated in Hong Kong dollars or US dollars, with the remaining balance denominated in RMB. The average interest rate during the Year was 4% (2002: 5%).

The percentage of bank borrowings wholly repayable within one year, in the second to fifth years and beyond five years were 40% (2002: 64%), 55% (2002: 33%), and 5% (2002: 3%) respectively. The change of repayment pattern was mainly attributable to the utilisation of half of the syndicated loan facilities of US$100 million obtained during the Year.

As at 31 December 2003, certain borrowings were secured by the Group's fixed assets with a carrying value/aggregate net book value of approximately HK$280 million.

FOREIGN EXCHANGE EXPOSURE

Although most of the operations were carried out in the PRC, in which transactions were denominated in RMB, the Directors consider that there will be sufficient cash resources denominated in Hong Kong Dollars, US dollar and RMB for the repayment of borrowings and future dividends, and there is no unfavourable exposure to foreign exchange fluctuation. During the Year, the Group did not use any financial instrument for the purpose of hedging against foreign exchange fluctuations and the Group did not have any hedging instrument outstanding as at 31 December 2003.

PROSPECT — PRODUCT DIVERSIFICATION IN ACCELERATION

It is the Group's mission to become one of the leading vertically integrated corn based biochemical product manufacturers in the Asian Pacific Region and a significant player in the world. To achieve this objective, the Group will endeavour to enlarge its market share, diversify its product mix, and enhance its competitive edge in developing high value-added downstream products through research and development and through strategic business alliances with other leading international players.

Protein lysine and Compound Amino Acids

Currently, the Group is a world-class lysine manufacturer in terms of production technology, equipment and capacity. In view of strong growth of demand for lysine in the PRC in recent years and since more than 40% of demand in the PRC is currently met by imports, the Group expanded its lysine production capacity in order to capture the soaring demand in the market and enlarge its market share. At the same time, the Group also expanded its export of lysine to countries in Europe, Africa and America for stabilising the selling price in the PRC, as well as mitigating the risk of over-concentration in a single market and attaining worldwide recognition of its products. The Group will strive to become the largest lysine manufacturer in the world in three to five year's time.

In July 2003, the Group entered into agreements with a PRC joint venture partner to establish a joint venture company in Changchun in which the Group will effectively hold 73% equity interest. The scope of the joint venture company's business includes the production and sale of various types of protein lysine and compound amino acids. The expected production capacity of this joint venture company includes 60,000 mt of protein lysine and 20,000 mt of compound amino acids per annum. This project will be implemented in two phases, with total investment amounting to approximately US$45 million to be contributed by the joint venture partners in accordance with their respective equity shareholdings. Trial run of the protein lysine facility has been completed and formal production has commenced in January 2004. Protein lysine will be one of the major sources of income for the Group in coming years.

Upon the completion of the expansion projects on protein lysine and compound amino acids, the Group will become one of the largest lysine manufacturers in the world.

Modified Starch

To capture the emerging market of modified starch used in the paper-making industry, the expansion project on modified starch with an annual capacity of 100,000 mt has been launched in December 2003.

Polyol

In October 2003, the Group entered into an agreement with overseas partners collectively called International Polyol Partners ("IPP") to establish a joint venture company in Changchun. The joint venture company will be principally engaged in the operation of a pilot plant for the research and development of and the commercialisation of polyol chemicals, as well as the manufacturing and sale of polyol chemical products.

IPP are the joint developers and proprietors of polyol technology and have extensive skill, knowledge and experience in the design, construction and operation of pilot plants.

The initial annual production capacity of the pilot plant to be launched in mid-2004 is 10,000 mt and the investment cost amounted to approximately US$2 million. Based on the operating performance, it is expected that the production capacity will increase further by 200,000 mt in two phases for mass commercial production. The Group will hold at least 51% of the effective equity interest in this project.

The Group will become the first manufacturer in the world using biotechnology and an environment friendly natural resource, corn starch, to produce polyol.

Sorbitol

In February 2004, the Group entered into a joint venture agreement with Mitsui Group to carry out a sorbitol project in the PRC. This project is engaged mainly in the manufacture of sorbitol products in Changchun and the sale of these products in the PRC and other countries. Mitsui Group will act as worldwide distributor except for the PRC market. The Group will hold 51% equity interest of the project and the total investment amounting to approximately US$15 million will be injected by joint venture partners in accordance with their respective equity shareholdings. The construction of the refinery, with initial annual production capacity of 60,000 mt, will commence soon and commercial production is expected to begin by the second quarter of 2005.

Jinzhou Plant

To satisfy the growing demand for corn starch from downstream expansion in terms of volume and variety, the Group entered into an agreement in May 2003 to acquire 70% equity interest of the Jinzhou Plant, with annual corn processing capacity of 600,000 mt. Commercial production will commence in the second quarter of 2004, thereby raising the Group's total corn processing capacity to approximately 1.8 million mt per annum.

The Jinzhou Plant is situated within Jinzhou port, a transportation hub in the northeastern part of the PRC. In addition to an abundant supply of starch for downstream products, the Jinzhou Plant is well located with a geographic advantage which facilitates the Group's expansion into the southern part of the PRC and overseas markets as the cost of shipment from Jinzhou is substantially lower than that of land transportation from Changchun.

The consideration for the acquisition of the Jinzhou Plant amounted to approximately HK$82 million, of which approximately HK$49 million was settled by way of cash and approximately HK$33 million by way of the allotment and issue of approximately 13 million ordinary shares of the Company ("Shares"). Goodwill amounting to approximately HK$14 million arising from the acquisition will be amortised over a period of 20 years on a straight line basis.

Glutamic Acid

With the acquisition of the Jinzhou Plant as the second principal production base of the Group, the foundation work of a glutamic acid plant, with a designed annual capacity of 100,000 mt and adjacent to the Jinzhou Plant, has been launched. The plant not only enjoys the benefit from vertical integration of operations, but also gains easy access to the southern part of the PRC, the largest market for glutamic acid. It is expected that commercial production will commence in the first quarter of 2005.

HFCS

During the Year, HFCS JV entered into contracts with international and local beverage bottling plants to supply HFCS to densely populated cities in the PRC. The amount of HFCS to be supplied by the joint venture under the contracts will take up about half of the production capacity of the HFCS refinery. Although this joint venture project recorded operating losses since its inception due to the depression of the price of cane sugar in the past few years and high transportation costs of long haul delivery, the Directors expect that the operating environment will improve as the price of cane sugar has risen substantially recently. Furthermore, a new HFCS refinery situated adjacent to the Jinzhou Plant is under consideration. If the project materialises, the new refinery will not only relieve heavy transportation costs because it will serve mainly customers nearby, but will also save production cost through vertical integration since starch slurry and not powder form adopted by HFCS JV in Shanghai, will be supplied by the Jinzhou Plant.

SHARE OPTIONS TO OTHER CORPORATIONS

During the Year, 23.8 million Shares were allotted and issued to a wholly owned subsidiary of Cargill, from which approximately HK$38 million were received by the Group pursuant to the exercise of the share option granted thereto. As at 31 December 2003, options granted to that wholly owned subsidiary of Cargill for subscription of 84.2 million Shares remained outstanding, with exercise periods up to April 2005. If these options are fully exercised, an aggregate amount of approximately HK$172 million would be raised, which can enhance the Group's financial position and provide additional resources to the Group for its future business development.

NUMBER AND REMUNERATION OF EMPLOYEES

The Group has approximately 2,000 full time employees in Hong Kong and in the PRC as at 31 December 2003. The Group recognises the importance of human resources as one of its most important assets and its importance to the Group's success. Hence, qualified and experienced personnel are recruited to enhance production capability and to develop new biochemical products. Remuneration is maintained at competitive levels with discretionary bonuses payable on a merit basis and in line with industrial practice. Other staff benefits provided by the Group include mandatory provident fund, insurance schemes and performance related commission.

During the Year, no share options were granted to any staff. As at 31 December 2003, shares options with the right to subscribe for a total of approximately 74,428,800 shares were outstanding with exercisable periods up to August 2011 and an exercise price of HK$1.316 per Share.

EXECUTIVE DIRECTORS

LIU Xiaoming

aged 48, is the Co-Chairman of the Group. He is responsible for the Group's overall business development, as well as the formulation of corporate direction and strategies. He holds a bachelor's degree in chemical engineering from the Hua Nan Polytechnic University.

XU Zhouwen

aged 61, is the Co-Chairman of the Group. He is responsible for formulating and implementing the Group's product diversification strategies, managing the Group's product development and technology research, as well as supervising the Group's overall production and operations. He graduated from the Harbin Electric University in 1970.

KONG Zhanpeng

aged 40, is one of the founders of the Group. He is in charge of the Group's corporate management, finance and accounting, as well as information technology. He holds a bachelor's degree in textile engineering and a diploma in international trade from the China Textile University.

WANG Tieguang

aged 39, is responsible for the Group's sales and marketing functions. He holds a bachelor's degree in economics from the University of Heilongjiang.

NON-EXECUTIVE DIRECTORS

Patrick E BOWE

aged 45, is the President of Cargill Sweeteners North America and is responsible for all aspects of Cargill's sweeteners business. He holds a master's degree in economics from Standford University, the United States and has over 20 years of experience in corn milling and sweetener operations.

Steven C WELLINGTON (alternate director to Patrick E BOWE)

aged 50, is the PRC Business Development Manager of Cargill Sweeteners North America and is responsible for the development of corn milling exports and investment opportunities in the PRC. He is the director of Global Bio-chem-Cargill (Holdings) Limited, a jointly-controlled entity established by the Group and Cargill.

INDEPENDENT NON-EXECUTIVE DIRECTORS

LEE Yuen Kwong

aged 43, is a Certified Public Accountant and has been practising since 1990. Graduated from the University of Sunderland, the United Kingdom, he holds a Bachelor of Arts Degree in Business Studies. He has over 17 years' experience in accounting, auditing, taxation and management consulting. Mr. Lee is currently a member of the Advisory Committee on Travel Agents.

CHAN Man Hon, Eric

aged 47, is a solicitor and has been practising in Hong Kong for over 22 years. Mr. Chan holds a bachelor's degree in law from the University of Hong Kong and a master's degree in Business Administration from The Chinese University of Hong Kong. He was admitted as a solicitor of the Supreme Court of Hong Kong in 1981 and is a consultant of Messrs. Vincent T. K. Cheung, Yap & Co.

SENIOR MANAGEMENT

AU Chun Fat

aged 61, is one of the founders of the Group and is currently the senior counsellor of the Group, assisting the board in strategic planning as well as business development and diversification. Prior to founding the Group, Mr. Au accumulated over 12 years' management experience in various companies which engaged in the trading of machinery and equipment in Hong Kong and the PRC.

CHEUNG Chak Fung

aged 39, is the financial controller of the Group. He is an associate member of The Association of Chartered Certified Accountants. He holds a bachelor's degree in accounting from the Hong Kong Baptist University. He has over 14 years' experience in auditing, financial and management accounting, budgeting and treasury.

PON Intranual

aged 63, has over 41 years of professional experience. He joined the Group in 1998 and now acts as chief engineer specialising in lysine culture, fermentation and refining techniques.

WANG Hui

aged 39, is the director of modified starch enterprise of the Group. He graduated from the Qiqihaer University with a bachelor's degree in chemical engineering specialising in high polymer material engineering.

ZHENG Guichen

aged 42, is the general manager of Changchun Jincheng Corn Development Co., Ltd. He graduated from the Jilin Grain High College for Professional Training, specialising in food engineering.

NG Wai Kee

aged 43, is the company secretary of the Company. He holds a diploma in accounting from the Hong Kong Shue Yan College. He is a fellow member of the Hong Kong Society of Accountants and also of The Association of Chartered Certified Accountants. He has over 17 years' experience in auditing, accounting, and secretarial practice.

LI Weigang

aged 45, has a master's degree in banking and finance from the University of Wales, the United Kingdom, as well as a master's degree in economics from The Graduate School of Chinese Academy of Social Sciences. Prior to joining the Group as assistant general manager in May 2001, Mr. Li has held senior positions in various financial institutions in the PRC, with responsibility in corporate finance and general management.

QI Hongbin

aged 37, is the dean of design and research institute and director of development centre of the Group. He holds a master's degree from the Jilin Agricultural University, specialising in mechanical engineering. He has over 7 years' experience in process engineering and technology development.

JIN Zhihui

aged 50, graduated from the Jilin Shulan Ministry of Mining Employee University. Prior to joining the Group as project manager for sweetener operations in January 2002, he has accumulated over 25 years of working experience, including 20 years in senior positions in biochemical and pharmaceutical industries.

WANG Guicheng

aged 36, is the general manager of Jinzhou Yuancheng Bio-chem Technology Co., Ltd. He graduated from the Jilin Grain High College for Professional Training, specialising in storage and analysis.

CHU Lalin

aged 41, is the chief engineer of the Group. He holds a bachelor's degree from the Shijiazhuang Railroad Engineering Academy and has more than 20 years of experience in mechanical and food engineering.

WANG Dongsheng

aged 41, holds a bachelor's degree in chemical engineering from the Jilin Chemical Engineering Academy. Prior to joining the Group as chief supervisor and modified starch design manager in May 2001, he has accumulated 18 years of working experience in production management of chemical engineering projects.

ZHOU Hongquan

aged 65, is the chief engineer with organic chemical specialty. He graduated from Shenyang Institute of Chemical Technology, majoring in organic synthesis. He has 30 years of experience in managing production.

ZHANG Xiuzhen

aged 59, is the manager of the administration department. She is responsible for human resources management of the Group in the PRC.

WANG Dehui

aged 35, is the assistant chief engineer of the Group. He holds a master's degree in science from the Jilin Agricultural University and has extensive of experience in food engineering and organic engineering.

ZHONG Jiemin

aged 51, is the chief engineer of modified starch operation of the Group. He graduated from the faculty of biology at Taiwan Tunghai University. He has 20 years of experience in the production of modified starch.

WANG Jibin

aged 32, is the engineer for chemical polyol projects, and has extensive experience in chemical polyol production.

LEE Chi Yung

aged 29, is the finance manager of the Group. He holds a bachelor's degree in business administration from the City University of Hong Kong. He is an associate member of the Hong Kong Society of Accountants and also of The Association of Chartered Certified Accountants.

The directors present their report and the audited financial statements of Global Bio-chem Technology Group Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is involved in the manufacture and sale of corn refined products and corn based biochemical products. Details of the principal activities of the principal subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 27 to 71.

An interim dividend of HK2.0 cents per ordinary share was paid on 22 October 2003. The directors of the Company recommend the payment of a final dividend of HK2.5 cents per ordinary share in respect of the year, and the grant of one bonus warrant for every eight ordinary shares held, to shareholders whose names appear on the register of members on 4 May 2004. This recommendation of the payment of a final dividend has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated/combined results and of the assets, liabilities and minority interests of the Group for the five years ended 31 December 2003, prepared on the bases set out in the accompanying notes:

Results

	Year ended 31 December				
	2003	2002	2001	2000	1999
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER	**2,329,819**	1,657,312	1,385,808	1,208,026	1,046,910
PROFIT FROM OPERATING ACTIVITIES	**662,371**	512,064	439,625	316,683	165,701
Finance costs	**(23,873)**	(14,556)	(34,495)	(35,947)	(23,812)
Share of profit of an associate	**—**	—	—	—	5,526
Share of losses of jointly-controlled entities	**(2,244)**	(1,691)	(506)	—	—
PROFIT BEFORE TAX	**636,254**	495,817	404,624	280,736	147,415
Tax	**(42,914)**	(35,615)	(23,234)	(14,227)	(174)
PROFIT BEFORE MINORITY INTERESTS	**593,340**	460,202	381,390	266,509	147,241
Minority interests	**(72,568)**	(55,107)	(51,312)	(36,341)	(34,483)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	**520,772**	405,095	330,078	230,168	112,758

SUMMARY FINANCIAL INFORMATION (continued)

Assets, liabilities and minority interests

	At 31 December				
	2003	2002	2001	2000	1999
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
NON-CURRENT ASSETS	**2,572,285**	1,604,800	1,150,053	694,295	575,366
CURRENT ASSETS	**1,656,158**	1,128,298	878,522	499,306	331,896
TOTAL ASSETS	**4,228,443**	2,733,098	2,028,575	1,193,601	907,262
CURRENT LIABILITIES	**780,309**	547,422	343,361	357,453	297,657
NON-CURRENT LIABILITIES	**634,645**	130,889	58,826	296,729	348,229
TOTAL LIABILITIES	**1,414,954**	678,311	402,187	654,182	645,886
MINORITY INTERESTS	**316,829**	200,703	202,340	172,382	130,658
NET ASSETS	**2,496,660**	1,854,084	1,424,048	367,037	130,718

Notes:

1. The summaries of the combined results of the Group for the year ended 31 December 1999 have been extracted from the Company's prospectus dated 7 March 2001, and the results of the Group for the years ended 31 December 2000, 2001, 2002 and 2003 have been extracted from the Company's respective published audited financial statements. Such summaries were prepared from the audited financial statements of the companies now comprising the Group, as if the current structure of the Group had been in existence throughout these financial years and were prepared using the merger basis of accounting as a result of the Group reorganisation completed on 1 March 2001. The Group reorganisation involved companies under common control. Under this basis, the Company has been treated as the holding company of its subsidiaries pursuant to the Group reorganisation for the financial years presented, rather than from the date of acquisition of the subsidiaries. Accordingly, the combined results of the Group for each of the year ended 31 December 1999, 2000 and 2001 include the results of the Company and its subsidiaries with effect from 1 January 1999, 2000 and 2001, respectively, or since their respective dates of incorporation/establishment, where this is a shorter period.

2. The Group's combined balance sheet as at 31 December 1999 has been extracted from the Company's prospectus dated 7 March 2001. The consolidated balance sheets of the Group as at 31 December 2000, 2001, 2002 and 2003 have been extracted from the respective published audited financial statements which were prepared on the basis as if the Group had been in existence as at 31 December 1999 and 2000.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 26 and 27 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, 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, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2003, the Company had distributable reserves of approximately HK$1,152,115,000 of which approximately HK$50,255,000 has been proposed as a final dividend for the year. Under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised), of the Cayman Islands, the share premium account of the Company of approximately HK$1,038,451,000 as at 31 December 2003 is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay its debts as they fall due in the ordinary course of business. The Company's share premium account may also be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers and purchases from the Group's five largest suppliers accounted for less than 30% of the total turnover and purchases for the year, respectively.

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

DIRECTORS

The directors of the Company during the year were:

Executive directors
Liu Xiaoming
Xu Zhouwen
Kong Zhanpeng
Wang Tieguang

Non-executive directors
Patrick E Bowe
Steven C Wellington (alternate non-executive director to Patrick E Bowe)

Independent non-executive directors
Lee Yuen Kwong
Chan Man Hon, Eric

In accordance with the Company's articles of association, Mr. Patrick E Bowe will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

Each of the independent non-executive directors is appointed for a term of two years commencing on 1 March 2003.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 15 to 17 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Liu Xiaoming, Mr. Kong Zhanpeng and Mr. Wang Tieguang have entered into service contracts with the Company for an initial term of three years commencing on 1 March 2001.

Mr. Xu Zhouwen has entered into a service contract with the Company for an initial term commencing from 21 August 2001 to 29 February 2004.

Subsequent to the balance sheet date, on 1 March 2004, the service contracts with Mr. Liu Xiaoming, Mr. Xu Zhouwen, Mr. Kong Zhanpeng and Mr. Wang Tieguang were renewed for terms of three years commencing on 1 March 2004, which will continue thereafter until terminated by either party giving not less than three months' notice in writing.

Apart from the foregoing, no director of the Company proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed elsewhere in the annual report, no director of the Company had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or were in existence during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2003, the interests and short positions of the directors and chief executive of the Company in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in ordinary shares of the Company:

		Number of Shares held, capacity and nature of interest			
Name of director	*Notes*	**Directly beneficially owned**	**Through controlled corporation**	**Total**	**Percentage of the Company's issued shares capital**
Mr. Liu Xiaoming	1	8,890,400	345,600,000	354,490,400	17.6%
Mr. Xu Zhouwen	2	—	211,040,000	211,040,000	10.5%
Mr. Kong Zhanpeng	3	8,294,400	172,800,000	181,094,400	9.0%
Mr. Wang Tieguang	4	4,147,200	172,800,000	176,947,200	8.8%
		21,332,000	902,240,000	923,572,000	45.9%

The interests of the directors of the Company in the share options of the Company are separately disclosed in note 27 to the financial statements.

Notes:

1. 345,600,000 shares are owned by LXM Limited, a company incorporated in the British Virgin Islands (the "BVI"). The entire issued share capital of LXM Limited is beneficially owned by Mr. Liu Xiaoming.

2. 211,040,000 shares are owned by Crown Asia Profits Limited, a company incorporated in the BVI. The entire issued share capital of Crown Asia Profits Limited is beneficially owned by Mr. Xu Zhouwen.

3. 172,800,000 shares are owned by Hartington Profits Limited, a company incorporated in the BVI. The entire issued share capital of Hartington Profits Limited is beneficially owned by Mr. Kong Zhanpeng.

4. 172,800,000 shares are owned by Rich Mark Profits Limited, a company incorporated in the BVI. The entire issued share capital of Rich Mark Profits Limited is beneficially owned by Mr. Wang Tieguang.

Save as disclosed above and in note 27 to the financial statements, none of the directors and chief executive of the Company had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in note 27 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or chief executive of the Company or to any person in whose shares and debentures any director or chief executive of the Company is deemed to be interested under Part XV of the SFO, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors and chief executive of the Company to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

So far as is known to the directors of the Company, as at 31 December 2003, the following person (other than the directors and chief executive of the Company) had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	*Notes*	**Number of Shares held**	**Percentage of the Company's issued shares capital**
LXM Limited	1	345,600,000	17.2%
Crown Asia Profits Limited	2	211,040,000	10.5%
Hartington Profits Limited	3	172,800,000	8.6%
Rich Mark Profits Limited	4	172,800,000	8.6%
J.P. Morgan Chase & Co.		222,671,461	11.1%
J.P. Morgan Fleming Asset Management Holdings Inc.		167,778,800	8.3%
J.P. Morgan Fleming Asset Management (Asia) Inc.		167,778,800	8.3%
JF Asset Management Limited		147,234,800	7.3%

Notes:

1. The entire issued capital of LXM Limited is beneficially owned by Mr. Liu Xiaoming, an executive director of the Company.

2. The entire issued capital of Crown Asia Profits Limited is beneficially owned by Mr. Xu Zhouwen, an executive director of the Company.

3. The entire issued capital of Hartington Profits Limited is beneficially owned by Mr. Kong Zhanpeng, an executive director of the Company.

4. The entire issued capital of Rich Mark Profits Limited is beneficially owned by Mr. Wang Tieguang, an executive director of the Company.

Save as disclosed above, no person, other than the directors and chief executive of the Company, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

RELATED PARTY AND CONNECTED TRANSACTIONS

Related party transactions, which fall within the definition stipulated in the Hong Kong Statement of Standard Accounting Practice No. 20 ("SSAP 20") on "Related party disclosures", undertaken by the Group during the year are set out in note 33 to the financial statements. The transactions included in note 33 to the financial statements also constitute connected transactions as defined under the Listing Rules.

In addition, pursuant to a provisional land acquisition agreement entered into by a wholly-owned subsidiary and Jinzhou Yuancheng Bio-chem Technology Co., Ltd., a 70% owned subsidiary, on 18 November 2003, the wholly-owned subsidiary will acquire a land use rights in relation to a parcel of land held by Jinzhou Yuancheng Bio-chem Technology Co., Ltd. for the purpose of constructing a glutamic acid plant as its production base at a consideration of RMB9 million.

Save as disclosed therein, there were no other transactions needed to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The independent non-executive directors are of the opinion that the terms of the transactions as disclosed in note 33 to the financial statements are fair and reasonable so far as the shareholders of the Company are concerned; and that the transactions have been entered into by the Group in its ordinary and usual course of business and were carried out in accordance with the terms of the agreements governing such transactions.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to date of this report, no director of the Company was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, within the meanings of the Listing Rules, other than those businesses of which the directors of the Company were appointed as directors to represent the interests of the Company and/or the Group.

PRACTICE NOTE 19 OF THE LISTING RULES

In accordance with the disclosure requirements of paragraph 3.7.1 of Practice Note 19 of the Listing Rules, the following disclosures are included in respect of the Company's syndicated loan facility, which contains covenants requiring performance obligations of the controlling shareholders of the Company.

Pursuant to a syndicated loan facilities agreement dated 22 September 2003 entered into between the Company and a syndicate of banks and financial institutions, relating to a 36 months term loan facility of US$80,000,000 and a 35 months revolving loan facility of US$20,000,000, a termination event would occur if Mr. Au Chun Fat, one of the founders and senior counsellor of the Company, and certain existing directors of the Company, cease to own beneficially, directly or indirectly, at least 40% of the shares in the Company's issued share capital.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 34 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors of the Company, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company. Five audit committee meetings were held during the year prior to the date of this report.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Liu Xiaoming
Co-Chairman

Hong Kong
30 March 2004

ERNST & YOUNG
安永會計師事務所

To the members
Global Bio-chem Technology Group Company Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 27 to 71 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
30 March 2004

Year ended 31 December 2003

	Notes	2003 HK$'000	2002 HK$'000
TURNOVER	4	**2,329,819**	1,657,312
Cost of sales		**(1,464,861)**	(1,006,517)
Gross profit		**864,958**	650,795
Other revenue		**15,809**	8,343
Selling and distribution costs		**(94,482)**	(47,116)
Administrative expenses		**(95,456)**	(73,713)
Other operating expenses		**(28,458)**	(26,245)
PROFIT FROM OPERATING ACTIVITIES	6	**662,371**	512,064
Finance costs	8	**(23,873)**	(14,556)
Share of losses of jointly-controlled entities		**(2,244)**	(1,691)
PROFIT BEFORE TAX		**636,254**	495,817
Tax	9	**(42,914)**	(35,615)
PROFIT BEFORE MINORITY INTERESTS		**593,340**	460,202
Minority interests		**(72,568)**	(55,107)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**520,772**	405,095
DIVIDENDS	11		
Interim		**40,510**	28,892
Proposed final		**50,255**	38,634
		90,765	67,526
EARNINGS PER SHARE	12		
— Basic		**HK$0.265**	HK$0.213
— Diluted		**HK$0.255**	HK$0.203

Consolidated Balance Sheet

31 December 2003

	Notes	2003 HK$'000	2002 HK$'000
NON-CURRENT ASSETS			
Fixed assets	*13*	**2,401,267**	1,530,454
Deposits paid for acquisition of fixed assets		**101,861**	31,761
Goodwill	*14*	**13,200**	—
Interests in jointly-controlled entities	*15*	**46,312**	42,585
Long term prepayment	*17*	**9,645**	—
		2,572,285	1,604,800
CURRENT ASSETS			
Inventories	*18*	**366,881**	258,403
Trade receivables	*19*	**461,086**	383,286
Prepayments, deposits and other receivables		**86,274**	53,642
Tax recoverable		**5,846**	—
Cash and cash equivalents	*20*	**736,071**	432,967
		1,656,158	1,128,298
CURRENT LIABILITIES			
Interest-bearing bank and other loans	*22, 23*	**514,549**	344,784
Trade payables	*21*	**92,394**	60,149
Other payables and accruals		**157,313**	113,148
Due to a minority shareholder	*24*	**8,395**	9,770
Tax payable		**7,658**	19,571
		780,309	547,422
NET CURRENT ASSETS		**875,849**	580,876
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,448,134**	2,185,676
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans	*22, 23*	**618,297**	130,889
Deferred tax	*25*	**16,348**	—
		634,645	130,889
MINORITY INTERESTS	*24*	**316,829**	200,703
		2,496,660	1,854,084

31 December 2003

	Notes	**2003 HK$'000**	2002 HK$'000
CAPITAL AND RESERVES			
Issued capital	*26*	**201,019**	193,171
Reserves	*28*	**2,245,386**	1,622,279
Proposed final dividend	*11*	**50,255**	38,634
		2,496,660	1,854,084

Liu Xiaoming
Director

Xu Zhouwen
Director

Consolidated Summary Statement of Changes in Equity

Year ended 31 December 2003

	Notes	**2003 HK$'000**	2002 HK$'000
Total equity at 1 January		**1,854,084**	1,424,048
Surplus on revaluation of leasehold land and buildings	*28*	**108,752**	—
Deferred tax liability arising from revaluation of leasehold land and buildings	*25*	**(16,348)**	—
Surplus on revaluation of leasehold land and buildings shared by minority shareholders	*28*	**(13,181)**	—
Net gains not recognised in the profit and loss account		**79,223**	—
Prior year final dividend paid	*11*	**(38,634)**	(30,897)
Net profit from ordinary activities attributable to shareholders		**520,772**	405,095
Interim dividend paid	*11*	**(40,510)**	(28,892)
Issue of shares, including share premium	*26*	**121,725**	84,730
Total equity at 31 December		**2,496,660**	1,854,084

Year ended 31 December 2003

	Notes	2003 HK$'000	2002 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**636,254**	495,817
Adjustments for:			
Finance costs	*8*	**23,873**	14,556
Share of losses of jointly-controlled entities		**2,244**	1,691
Gain on disposal of fixed assets	*6*	**(424)**	—
Depreciation	*6*	**88,767**	63,487
Goodwill amortisation	*6*	**338**	—
Provision for bad and doubtful debts	*6*	**—**	3,210
Interest income	*6*	**(1,720)**	(4,049)
Operating profit before working capital changes		**749,332**	574,712
Increase in inventories		**(108,478)**	(115,066)
Increase in trade receivables		**(77,800)**	(128,053)
(Increase)/decrease in prepayments, deposits and other receivables		**(30,200)**	11,705
Increase in trade payables		**32,245**	14,209
Increase in other payables and accruals		**30,590**	27,590
Cash generated from operations		**595,689**	385,097
Interest received		**1,720**	4,049
Hong Kong profits tax paid		**(35)**	—
Overseas taxes paid		**(60,638)**	(39,602)
Net cash inflow from operating activities		**536,736**	349,544
CASH FLOWS FROM INVESTING ACTIVITIES			
Deposits paid for acquisition of fixed assets		**(10,742)**	(31,761)
Purchases of fixed assets		**(671,142)**	(478,547)
Proceeds from disposal of fixed assets		**7,784**	—
Refund on costs of fixed assets		**—**	2,984
Acquisition of a subsidiary	*29(a)*	**(46,506)**	—
Advances to jointly-controlled entities		**(5,971)**	(1,370)
Net cash outflow from investing activities		**(726,577)**	(508,694)

Year ended 31 December 2003

	Notes	2003 HK$'000	2002 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Related fees paid for the banking facilities granted	*17*	**(10,850)**	—
Inception of new bank loans		**1,022,980**	554,635
Repayment of bank loans		**(456,015)**	(326,093)
Repayment of other loans		**(31,403)**	—
Repayment to a minority shareholder		**(6,537)**	(36,235)
Capital contribution from minority shareholders of subsidiaries		**33,347**	—
Proceeds from exercise of share options	*26*	**88,158**	84,730
Interest paid	*8*	**(35,161)**	(25,787)
Dividends paid		**(79,144)**	(59,789)
Dividends paid to minority shareholders		**(32,430)**	(10,739)
Net cash inflow from financing activities		**492,945**	180,722
NET INCREASE IN CASH AND CASH EQUIVALENTS		**303,104**	21,572
Cash and cash equivalents at beginning of year		**432,967**	411,395
CASH AND CASH EQUIVALENTS AT END OF YEAR		**736,071**	432,967
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*20*	**658,481**	242,090
Non-pledged time deposits with original maturity of less than three months when acquired	*20*	**77,590**	190,877
		736,071	432,967

31 December 2003

	Notes	2003 HK$'000	2002 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	*16*	**287,937**	287,937
Long term prepayment	*17*	**9,645**	—
		297,582	287,937
CURRENT ASSETS			
Prepayments, deposits and other receivables		**—**	30
Due from subsidiaries	*16*	**1,358,663**	830,536
Cash and cash equivalents	*20*	**99,131**	71,638
		1,457,794	902,204
CURRENT LIABILITIES			
Other payables and accruals		**14,742**	6,062
NET CURRENT ASSETS		**1,443,052**	896,142
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,740,634**	1,184,079
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	*22, 23*	**387,500**	—
		1,353,134	1,184,079
CAPITAL AND RESERVES			
Issued capital	*26*	**201,019**	193,171
Reserves	*28*	**1,101,860**	952,274
Proposed final dividend	*11*	**50,255**	38,634
		1,353,134	1,184,079

Liu Xiaoming
Director

Xu Zhouwen
Director

1. CORPORATE INFORMATION

The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, George Town, Grand Cayman, Cayman Islands, British West Indies. The principal place of business of the Company is located at Unit 1104, Admiralty Centre, Tower 1, 18 Harcourt Road, Hong Kong.

The principal activity of the Company is investment holding. The Group is involved in the manufacture and sale of corn refined products and corn based biochemical products. There were no changes in the nature of the Group's principal activities during the year.

2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

The following revised SSAP is effective for the first time for the current year's financial statements:

- SSAP 12 (Revised): Income taxes

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP is that a deferred tax liability has been recognised on the revaluation of the Group's leasehold land and buildings which is detailed in note 25 to the financial statements. Moreover, the related note disclosures are now more extensive than previously required. These disclosures are presented in note 9 to the financial statements and include a reconciliation between the accounting profit/loss and the tax expense for the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Employee benefits

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in the People's Republic of China (the "PRC") are required to participate in the retirement benefits schemes (the "PRC RB Schemes") operated by the respective local municipal government in provinces of the PRC that the group companies operate. These subsidiaries are required to contribute a certain percentage of their payroll costs to the PRC RB Schemes to fund the benefits. The only obligation of the Group with respect to the PRC RB Schemes is to pay the ongoing required contributions under the PRC RB Schemes. Contributions under the PRC RB Schemes are charged to the profit and loss account as they become payable in accordance with the rules of the PRC RB Schemes.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share option scheme

The Company operates a share option scheme (the "SO Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the SO Scheme is not recorded in the Company's or the Group's balance sheet until such time as the share options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options and have no impact on the profit and loss account or balance sheet.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Dividends

Final dividends proposed by the directors of the Company are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders of the Company in a general meeting. When these dividends have been approved by the shareholders of the Company and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors of the Company the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets are dealt with as movements in the fixed assets revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the fixed assets revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset, less any estimated residual value, over the following estimated useful lives:

Leasehold land and buildings	The shorter of the lease terms and 50 years
Plant and machinery	15 years
Leasehold improvements, furniture, office equipment and motor vehicles	5 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents leasehold buildings, plant and leasehold improvements under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. The capitalisation rate is based on the actual cost of the related borrowings. All other borrowing costs are recognised as expenses in the period in which they are incurred.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Inventories

Inventories are stated at the lower of cost and net realisable value after allowances for obsolete or slow-moving items. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads based on a normal level of operating activities. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences on borrowings relating to the development of qualifying assets are capitalised during the development period. All other exchange differences are dealt with in the profit and loss account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

On consolidation, the financial statements of overseas subsidiaries and jointly-controlled entities are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and jointly-controlled entities are translated into Hong Kong dollars at the weighted average rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

4. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the corn refined products segment comprises the manufacture and sale of corn starch, corn gluten, corn oil and feed; and

(b) the corn based biochemical products segment comprises the manufacture and sale of modified starch, corn sweeteners and amino acids.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. However, as over 90% of the Group's revenue is derived from customers based in the PRC, and over 90% of the Group's assets are located in the PRC, no detailed analysis on the Group's geographical segment information is presented.

Intersegment sales and transfers are transacted with reference to either the selling prices used for sales made to third parties at the then prevailing market prices or at cost plus mark-up basis which is determined by the management.

5. SEGMENT INFORMATION (continued)

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2003 and 2002.

Group

	Corn refined products		Corn based biochemical products		Eliminations		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:								
Sales to external customers	**1,330,771**	818,135	**999,048**	839,177	**—**	—	**2,329,819**	1,657,312
Intersegment sales	**369,479**	275,537	**63,088**	3,374	**(432,567)**	(278,911)	**—**	—
Total revenue	**1,700,250**	1,093,672	**1,062,136**	842,551	**(432,567)**	(278,911)	**2,329,819**	1,657,312
Segment results	**302,338**	187,079	**350,570**	333,487	**—**	—	**652,908**	520,566
Unallocated revenue							**15,809**	8,343
Unallocated expenses							**(6,346)**	(16,845)
Profit from operating activities							**662,371**	512,064
Finance costs							**(23,873)**	(14,556)
Share of losses of jointly-controlled entities							**(2,244)**	(1,691)
Profit before tax							**636,254**	495,817
Tax							**(42,914)**	(35,615)
Profit before minority interests							**593,340**	460,202
Minority interests							**(72,568)**	(55,107)
Net profit from ordinary activities attributable to shareholders							**520,772**	405,095
Segment assets	**2,338,274**	1,661,406	**1,723,430**	954,756	**—**	—	**4,061,704**	2,616,162
Interests in jointly-controlled entities							**46,312**	42,585
Unallocated assets							**120,427**	74,351
Total assets							**4,228,443**	2,733,098
Segment liabilities	**158,975**	127,365	**93,998**	38,385	**—**	—	**252,973**	165,750
Unallocated liabilities							**1,161,981**	512,561
Total liabilities							**1,414,954**	678,311
Other segment information:								
Capital expenditure	**174,927**	203,050	**540,469**	286,728	**—**	—	**715,396**	489,778
Depreciation	**54,013**	38,925	**34,754**	24,562	**—**	—	**88,767**	63,487
Amortisation of goodwill	**338**	—	**—**	—	**—**	—	**338**	—

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2003 HK$'000	2002 HK$'000
Cost of inventories sold	**1,425,671**	1,083,119
Depreciation *(note 13)*	**88,767**	63,487
Amortisation of goodwill *(note 14)**	**338**	—
Amortisation of fees incurred for the granting of banking facilities *(note 17)***	**1,205**	—
Staff costs (excluding directors' remuneration — *note 7*):		
Wages and salaries	**43,164**	29,738
Performance related bonuses	**6,750**	—
Retirement benefits scheme contributions	**246**	112
Auditors' remuneration	**2,150**	1,650
Research and development costs	**20,408**	22,792
Provision for bad and doubtful debts	**—**	3,210
Gain on disposal of fixed assets	**(424)**	—
Interest income	**(1,720)**	(4,049)

* The amortisation of goodwill for the year is included in "Other operating expenses" on the face of the consolidated profit and loss account.

** The amortisation of fees incurred for the granting of banking facilities for the year is included in "Finance costs" on the face of the consolidated profit and loss account.

7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration of the directors of the Company for the year, disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Group	
	2003 HK$'000	2002 HK$'000
Fees	**600**	600
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	**11,097**	11,497
Performance related bonuses	**10,600**	8,000
Retirement benefits scheme contributions	**48**	40
	21,745	19,537
	22,345	20,137

7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

Fees of HK$600,000 (2002: HK$600,000) were payable to the independent non-executive directors of the Company. There were no other emoluments payable to the independent non-executive directors of the Company during the year (2002: Nil).

According to the directors' service contracts, each of the executive directors, on completion of every 12 months of service, is entitled to a management bonus. The aggregate amount of the bonuses payable to all the executive directors for any financial year may not exceed 5% of the consolidated net profit from ordinary activities attributable to shareholders in respect of that financial year. For the year ended 31 December 2003, the aggregate amount of the bonuses payable to the executive directors is equivalent to 2.0% (2002: 2.0%) of the net profit from ordinary activities attributable to shareholders.

The number of directors whose remuneration fell within the following bands is as follows:

	2003 Number of directors	2002 Number of directors
Nil–HK$1,000,000	**4**	5
HK$4,500,001–HK$5,000,000	**—**	1
HK$5,000,001–HK$5,500,000	**2**	3
HK$5,500,001–HK$6,000,000	**2**	—
	8	9

There was no arrangement under which a director of the Company waived or agreed to waive any remuneration during the year.

During the year, no emoluments were paid by the Group to the directors of the Company as an inducement to join, or upon joining the Group, or as compensation for loss of office.

Details of the share options exercised by the directors and employees are disclosed in note 27 to the financial statements.

The five highest paid employees during the year include four (2002: four) directors, details of whose remuneration are disclosed above. Details of the remuneration of the remaining one (2002: one) non-director, highest paid employee for the year, are as follows:

	Group	
	2003 HK$'000	2002 HK$'000
Basic salary, housing benefits, other allowances and benefits in kind	**884**	1,200
Performance related bonuses	**1,350**	—
Retirement benefits scheme contributions	**12**	12
	2,246	1,212

8. FINANCE COSTS

	Group	
	2003	2002
	HK$'000	HK$'000
Interest on bank loans:		
Wholly repayable within five years	**34,798**	25,293
Repayable beyond five years	**358**	491
Interest on trust receipt loans, secured	**5**	3
	35,161	25,787
Amortisation of fees incurred for the granting of banking facilities	**1,205**	—
	36,366	25,787
Less: Interest capitalised	**(12,493)**	(11,231)
	23,873	14,556

The interest capitalised during the year was calculated at a rate of approximately 4% (2002: 5%) per annum.

9. TAX

	Group	
	2003	2002
	HK$'000	HK$'000
Current year provision:		
Hong Kong	**—**	—
Elsewhere	**42,879**	35,615
Under-provision in the prior year:		
Hong Kong	**35**	—
Tax charge for the year	**42,914**	35,615

During the year, the increase in Hong Kong profits tax rate from 16% to 17.5% became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. However, no provision for Hong Kong profits tax has been made during the year as the Group did not generate any assessable profits arising in Hong Kong. In the prior year, no provision for Hong Kong profits tax had been made as the assessable profits arising in Hong Kong, after offsetting the available tax losses brought forward, were not significant. The under-provision in the prior year was charged as a tax expense in the current year's profit and loss account.

Taxes on profits assessable elsewhere are calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

9. TAX (continued)

All of the Group's subsidiaries operating in the PRC are exempt from PRC income tax for two years starting from the first profitable year of their operations and are entitled to a 50% relief from the PRC income tax for the following three years. Under certain circumstances, with the approval from the respective tax authority in the PRC, the 50% relief is granted to the Group's subsidiaries for an additional year.

During the year, two of the Group's PRC subsidiaries were granted an extension of the 50% relief from income tax for one more year up to 31 December 2003. Accordingly, taxes on the assessable profits of these two PRC subsidiaries had been calculated at 50% of the applicable rates of tax prevailing in the PRC during the year.

Taxes on the assessable profits of another three of the Group's PRC subsidiaries had been calculated at 50% of the applicable rates of tax prevailing in the PRC during the year, as their periods of exemption from income tax have not yet expired.

No provision for income tax has been made for one of the Group's PRC subsidiaries as it remains exempt from income tax for the second profitable year of its operations.

The remaining five PRC subsidiaries of the Group have not made any provision for income tax as they did not generate any assessable profits for the year.

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and its subsidiaries and jointly-controlled entities are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group — 2003

	Hong Kong #		**The PRC**		**Total**	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(56,507)		692,761		636,254	
Tax at the statutory tax rate	(9,888)	17.5	228,611	33.0	218,723	34.4
Preferential statutory tax rate offered*	—	—	(121,262)	(17.5)	(121,262)	(19.1)
Lower tax rate for tax relief granted	—	—	(61,554)	(8.9)	(61,554)	(9.7)
Income not subject to tax	(136)	0.2	(4,123)	(0.6)	(4,259)	(0.7)
Expenses not deductible for tax	9,546	(16.9)	1,320	0.2	10,866	1.7
Under-provision in the prior year	35	(0.1)	—	—	35	—
Increase in tax losses carried forward	322	(0.5)	—	—	322	0.1
Others	156	(0.3)	(113)	—	43	—
Tax charge at the Group's effective rate	35	(0.1)	42,879	6.2	42,914	6.7

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9. TAX (continued)

Group — 2002

	Hong Kong #		The PRC		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(32,468)		528,285		495,817	
Tax at the statutory tax rate	(5,195)	16.0	174,334	33.0	169,139	34.1
Preferential statutory tax rate offered*	—	—	(91,642)	(17.3)	(91,642)	(18.5)
Lower tax rate for tax relief granted	—	—	(47,265)	(9.0)	(47,265)	(9.5)
Income not subject to tax	(82)	0.2	—	—	(82)	—
Expenses not deductible for tax	5,233	(16.1)	—	—	5,233	1.1
Others	44	(0.1)	188	—	232	—
Tax charge at the Group's effective rate	—	—	35,615	6.7	35,615	7.2

No provision for Hong Kong profits tax is made as the operation in Hong Kong did not generate assessable taxable income for the year.

* Under the PRC income tax law, enterprises are subject to corporate income tax ("CIT") at a rate of 33%. However, certain of the Group's PRC subsidiaries are operating in specific development zones of the PRC, and the relevant tax authorities have granted the enterprises a preferential CIT rate of 15%. CIT is payable based on the taxable income as reported in the statutory accounts which are prepared in accordance with PRC accounting regulations.

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company, was approximately HK$126,474,000 (2002: HK$84,884,000) (note 28).

11. DIVIDENDS

	2003	2002
	HK$'000	HK$'000
Interim — HK2.0 cents (2002: HK1.5 cents) per ordinary share	**40,510**	28,892
Proposed final — HK2.5 cents (2002: HK2.0 cents) per ordinary share	**50,255**	38,634
	90,765	67,526

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting and is calculated based on the number of shares issued by the Company at the balance sheet date. The subsequent issuance of shares by the Company up to the close of the registered date for the entitlement of final dividend, if any, has therefore not been taken into account for the above appropriation of final dividend.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated net profit from ordinary activities attributable to shareholders for the year of approximately HK$520,772,000 (2002: HK$405,095,000), and the weighted average number of 1,963,138,555 (2002: 1,904,442,862) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the consolidated net profit from ordinary activities attributable to shareholders for the year of approximately HK$520,772,000 (2002: HK$405,095,000) and on 2,038,370,758 (2002: 1,994,570,304) ordinary shares, being the weighted average number of 1,963,138,555 (2002: 1,904,442,862) ordinary shares in issue during the year, as used in the basic earnings per share calculation, plus the weighted average of 75,232,203 (2002: 90,127,442) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

13. FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Construction in progress HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture, office equipment and motor vehicles HK$'000	Total HK$'000
Cost or valuation:					
At 1 January 2003	421,095	247,191	1,007,550	25,731	1,701,567
Additions	3,715	576,319	121,037	14,325	715,396
Acquisition of a subsidiary *(note 29(a))*	44,238	98,554	—	—	142,792
Disposals	(2,944)	(4,343)	—	(839)	(8,126)
Surplus on revaluation	91,426	—	—	—	91,426
Transfers	91,570	(172,058)	80,484	4	—
At 31 December 2003	649,100	745,663	1,209,071	39,221	2,643,055
Analysis of cost or valuation:					
At cost	—	745,663	1,209,071	39,221	1,993,955
At 2003 valuation	649,100	—	—	—	649,100
	649,100	745,663	1,209,071	39,221	2,643,055
Accumulated depreciation:					
At 1 January 2003	6,528	—	147,696	16,889	171,113
Provided during the year	10,798	—	72,237	5,732	88,767
Written back on revaluation	(17,326)	—	—	—	(17,326)
Disposals	—	—	—	(766)	(766)
At 31 December 2003	—	—	219,933	21,855	241,788
Net book value:					
At 31 December 2003	649,100	745,663	989,138	17,366	2,401,267
At 31 December 2002	414,567	247,191	859,854	8,842	1,530,454

13. FIXED ASSETS (continued)

The Group's leasehold land and buildings included above are held under the following lease terms:

	Group	
	2003	2002
	HK$'000	HK$'000
At cost or valuation:		
Medium term leases in Hong Kong	**25,000**	24,500
Medium term leases outside Hong Kong	**624,100**	396,595
	649,100	421,095

At 31 December 2003, the Group's leasehold land and buildings in Hong Kong were revalued on an open market basis by Chesterton Petty Limited, an independent firm of professionally qualified valuers, at approximately HK$25,000,000. A surplus on revaluation of approximately HK$1,480,000 (2002: Nil) arising from the above valuation has been credited to the fixed assets revaluation reserve (note 28).

At 31 December 2003, the Group's leasehold land and buildings outside Hong Kong were revalued on a depreciated replacement cost basis, by Chesterton Petty Limited, at approximately HK$624,100,000. A surplus on revaluation of approximately HK$107,272,000 (2002: Nil) arising from the above valuation has been credited to the fixed assets revaluation reserve (note 28).

Had the Group's leasehold land and buildings held in Hong Kong been carried at historical cost less accumulated depreciation, their carrying amount would have been approximately HK$23,371,000 (2002: HK$23,869,000).

Had the Group's leasehold land and buildings held outside Hong Kong been carried at historical cost less accumulated depreciation, their carrying amount would have been approximately HK$507,023,000 (2002: HK$377,189,000).

Prior to its transfer to other categories of fixed assets, the carrying amount of construction in progress included capitalised interest of approximately HK$12,493,000 (2002: HK$11,231,000).

At 31 December 2003, certain leasehold land and buildings of the Group with a carrying value of approximately HK$141,971,000 (2002: HK$72,789,000) and certain plant and machinery of the Group with an aggregate net book value of approximately HK$138,190,000 (2002: HK$153,230,000) were pledged to secure banking facilities granted to the Group (note 23).

14. GOODWILL

The amounts of the goodwill capitalised as an asset arising from the acquisition of a subsidiary, are as follows:

	Group HK$'000
Cost:	
At 1 January 2003	—
Acquisition of a subsidiary *(note 29(a))*	13,538
At 31 December 2003	13,538
Accumulated amortisation:	
At 1 January 2003	—
Provided during the year	338
At 31 December 2003	338
Net book value:	
At 31 December 2003	13,200
At 31 December 2002	—

Pursuant to the sale and purchase agreement dated 21 May 2003, the Group acquired 70% equity interest in Jinzhou Yuancheng Bio-chem Technology Co., Ltd. ("Jinzhou Yuancheng") for a consideration of approximately HK$74,949,000, which was satisfied by a cash payment of HK$48,710,000 and the issue and allotment of 13,294,000 new shares in the Company at an issue price of HK$1.973 per share at that date. By reference to the prevailing market prices of the Company's shares on the date of completion when the Group obtain control over this subsidiary, in June 2003, the cost of acquisition was adjusted to approximately HK$82,277,000, being a cash payment of HK$48,710,000 and issue of shares at fair value of HK$33,567,000. The adjustment to the purchase consideration is in accordance with the requirements under SSAP 30 "Business combinations". Further details of the acquisition are set out in notes 16, 29(a) and 33(d) to the financial statements.

15. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2003	2002
	HK$'000	HK$'000
Share of net assets/(liabilities)	**(2,100)**	144
Long term loan advanced to jointly-controlled entities	**40,000**	40,000
	37,900	40,144
Amounts due from jointly-controlled entities	**8,412**	2,441
	46,312	42,585

The long term loan of HK$40 million advanced to the jointly-controlled entities is equity in nature and is regarded as an investment made thereto. This long term loan was unsecured, interest-free and will be repayable in 2101 or upon the liquidation, winding-up or dissolution of the jointly-controlled entities, whenever is earlier.

The amounts due from the jointly-controlled entities are unsecured, interest-free and are not repayable before 31 December 2004.

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation/ establishment and operations	Nominal value of paid-up share/registered capital	Percentage of Ownership interest	Percentage of Voting power	Principal activities
Global Bio-chem-Cargill (Holdings) Limited	Corporate	Hong Kong	HK$1,000	50%	50%	Investment holding
GBT-Cargill High Fructose (Shanghai) Co., Ltd.	Corporate	PRC	US$3,000,000	50%	50%	Manufacture and sale of high fructose corn syrup

All of the above investments in jointly-controlled entities are indirectly held by the Company.

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16. INVESTMENTS IN SUBSIDIARIES

	Company 2003 HK$'000	2002 HK$'000
Unlisted shares, at cost	**287,937**	287,937

The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ establishment and operations	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Bio-chem Technology (HK) Limited	Hong Kong	Ordinary HK$2	100%	Trading of corn refined products and corn based biochemical products
Datex Investment Limited	Hong Kong	Ordinary HK$2	100%	Investment holding
Global Polyol Investments Limited @	Hong Kong	Ordinary HK$1,000	75%	Investment holding
Changchun Baocheng Bio-chem Development Co., Ltd.*/#/@	PRC	US$12,000,000	73%	Manufacture and sale of corn based biochemical products
Changchun Dacheng Bio-chem Engineering Development Co., Ltd.*/#	PRC	RMB154,645,600	90%	Manufacture and sale of corn based biochemical products
Changchun Decheng Bio-chemical Feed Development Co., Ltd.**/#	PRC	US$846,400	100%	Manufacture and sale of corn based biochemical products
Changchun Dacheng Corn Development Co., Ltd.*/#	PRC	RMB153,940,000	80%	Manufacture sale of corn refined products
Changchun Dacheng Special Corn & Modified Starch Development Co., Ltd.*/#	PRC	RMB99,250,000	90%	Manufacture and sale of corn based biochemical products
Changchun Dacheng Starch Development Co., Ltd.*/#	PRC	RMB54,400,000	90%	Manufacture and sale of corn refined products
Changchun Dahe Bio Technology Development Co., Ltd.*/#/@ *(Note (a))*	PRC	US$11,672,000	100%	Manufacture and sale of corn based biochemical products
Changchun Jincheng Corn Development Co., Ltd.*/#	PRC	RMB98,700,000	90%	Manufacture and sale of corn refined products

16. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment and operations	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Dacheng Glutamic Acid (Jinzhou) Development Co., Ltd.**/#/@	PRC	US$12,000,000	100%	Manufacture and sale of corn based biochemical products
Jinzhou Yuancheng Bio-chem Technology Co., Ltd.*/#/@ *(Note (b))*	PRC	US$12,659,400	70%	Manufacture and sale of corn refined products
Shanghai Hao Cheng Food Development Co., Ltd.**/#	PRC	US$2,668,000	100%	Manufacture and sale of corn sweeteners

All of the above investments in subsidiaries are indirectly held by the Company.

* Registered as cooperative joint venture enterprises under the PRC laws.

** Registered as wholly foreign owned enterprises under the PRC laws.

\# Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

@ Acquired/incorporated/established during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes:

(a) The 100% interest in Changchun Dahe Bio Technology Development Co., Ltd. was held by one British Virgin Islands joint venture partner (75%) and one PRC joint venture partner (25%) on trust for the Group pursuant to the trust agreements dated 12 September 2003 entered into between the Group and the two joint venture partners. As advised by the PRC legal advisers to the Group, the above trust agreements did not contravene any PRC laws and were enforceable by the relevant parties to the agreements. In order to formalise and rationalise the shareholding structure of Changchun Dahe Bio Technology Development Co., Ltd., subsequent to the balance sheet date on 1 February 2004, the Group entered into agreements with the two joint venture partners for the transfer of their 100% interests in Changchun Dahe Bio Technology Development Co., Ltd. back to the Group.

(b) As detailed in note 14 to the financial statements, on 21 May 2003, the Group entered into an agreement to acquire 70% equity interest in Jinzhou Yuancheng. Jinzhou Yuancheng is a cooperative joint ventures established in the PRC, which is principally engaged in the manufacture and sale of corn refined products.

Further details of the above are set out in a circular of the Company dated 9 June 2003.

17. LONG TERM PREPAYMENT

The balance represented related fees paid in advance in respect of the syndicated loan (see note 22) granted to the Group and the Company. Amortisation of these payments in advance is provided on a straight-line basis over the remaining term of the syndicated loan.

	Group and Company HK$'000
Cost:	
At 1 January 2003	—
Additions during the year	10,850
At 31 December 2003	10,850
Accumulated amortisation:	
At 1 January 2003	—
Provided during the year	1,205
At 31 December 2003	1,205
Net book value:	
At 31 December 2003	9,645
At 31 December 2002	—

18. INVENTORIES

	Group	
	2003	2002
	HK$'000	HK$'000
Raw materials	**343,819**	213,675
Finished goods	**23,062**	44,728
	366,881	258,403

19. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 30 to 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

An aged analysis of the trade receivables as at the balance sheet date, based on the date of recognition of the sale, is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
1–30 days	**246,978**	155,596
31–60 days	**62,701**	56,756
61–90 days	**45,072**	31,248
Over 90 days	**106,335**	139,686
	461,086	383,286

20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**658,481**	242,090	**99,131**	1,332
Time deposits	**77,590**	190,877	**—**	70,306
Cash and cash equivalents	**736,071**	432,967	**99,131**	71,638

At the balance sheet date, a significant amount of cash and bank balances of the Group was denominated in Renminbi ("RMB"). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

21. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 90 days from its suppliers, except for the purchase of corn kernels from farmers, which are normally settled on cash basis.

An aged analysis of the trade payables as at the balance sheet date, based on the receipt of goods purchased, is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
1–30 days	**67,862**	24,308
31–60 days	**4,284**	5,464
61–90 days	**2,574**	5,002
Over 90 days	**17,674**	25,375
	92,394	60,149

22. INTEREST-BEARING BANK AND OTHER LOANS

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trust receipt loans, secured	**264**	3,053	**—**	—
Bank loans, secured and repayable:				
Within one year	**489,698**	341,731	**—**	—
In the second year	**227,355**	69,475	**193,750**	—
In the third to fifth years, inclusive	**375,896**	54,803	**193,750**	—
Beyond five years	**15,046**	6,611	**—**	—
	1,107,995	472,620	**387,500**	—
Other loans, unsecured and repayable within one year	**24,587**	—	**—**	—
	1,132,846	475,673	**387,500**	—
Portion classified as current liabilities	**(514,549)**	(344,784)	**—**	—
Long term portion	**618,297**	130,889	**387,500**	—

22. INTEREST-BEARING BANK AND OTHER LOANS (continued)

On 22 September 2003, the Company accepted an offer under the loan facilities offered by a syndicate of banks and financial institutions for a term loan facility of the sum of US$80,000,000 and a revolving loan facility up to the aggregate principal amount of US$20,000,000 for a term of 36 and 35 months, respectively, both with interest rate of London Interbank Offered Rate plus 1.5% per annum. As at 31 December 2003, US$50,000,000 (equivalent to HK$387,500,000) of the syndicated loan has been utilised. A termination event would occur if Mr. Au Chun Fat, one of the founders and is currently a senior counsellor of the Group, and certain existing executive directors of the Company, cease to own beneficially, directly or indirectly, at least 40% of the shares in the Company's issued share capital. The whole amount of the loan balance was classified as non-current liabilities as the first instalment of the syndicated loan will be due in 30 March 2005.

The Group's other loans are advanced by two former shareholders of Jinzhou Yuancheng (see note 16(b)) which are unsecured, interest-free and are repayable on demand.

23. BANKING FACILITIES

At 31 December 2003, the Group's banking facilities, including term loans, mortgage loan and other general facilities, were secured by the following:

(i) fixed charges on certain leasehold land and buildings amounted to approximately HK$141,971,000 (2002: HK$72,789,000), and plant and machinery of the Group amounted to approximately HK$138,190,000 (2002: 153,230,000) (note 13);

(ii) corporate guarantees of approximately HK$1,375,772,000 (2002: HK$386,186,000) and approximately HK$199,066,000 (2002: HK$82,751,000) given by the Company and the subsidiaries of the Company, respectively; and

(iii) a corporate guarantee of approximately HK$46,729,000 (2002: Nil) given by a third party.

24. MINORITY INTERESTS

	Group	
	2003	2002
	HK$'000	HK$'000
Minority interests	**316,829**	200,703
Due to a minority shareholder	**8,395**	9,770

The balance due to a minority shareholder as at 31 December 2003 is unsecured, interest-free and has no fixed terms of repayment.

25. DEFERRED TAX

At the balance sheet date, the Group has provided for deferred tax liabilities of approximately HK$16,348,000 (2002: Nil). As the deferred tax arose from the revaluation of the Group's leasehold land and buildings (see note 13), the deferred tax liability has been debited directly to the Group's revaluation reserve (see note 28). SSAP 12 (Revised) was adopted during the year, as further explained in note 2 to the financial statements, and the change of accounting policy has no significant impact on the opening balances. Accordingly, no prior year adjustment has been made.

The movement in deferred tax liability during the year is as follows:

	Group HK$'000
Deferred tax liability arising from revaluation of assets:	
At 1 January 2003	—
Provided during the year — *note 28*	16,348
At 31 December 2003	16,348

The Group has tax losses arising in Hong Kong of approximately HK$1,840,000 (2002: Nil) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2003, there is no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or joint ventures as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

26. SHARE CAPITAL

Shares

	Group and Company	
	2003 **HK$'000**	2002 HK$'000
Authorised:		
10,000,000,000 ordinary shares of HK$0.10 each (2002: 10,000,000,000 ordinary shares of HK$0.10 each)	**1,000,000**	1,000,000
Issued and fully paid:		
2,010,185,200 ordinary shares of HK$0.10 each (2002: 1,931,705,600 ordinary shares of HK$0.10 each)	**201,019**	193,171

26. SHARE CAPITAL (continued)

Shares (continued)

During the year, the movements in share capital were as follows:

(a) On 3 September 2003, 13,294,000 ordinary shares of HK$0.10 each were issued to a third party as part of the consideration for the acquisition of a subsidiary, as further detailed in notes 16, 29(a) and 33(d) to the financial statements.

(b) The subscription rights attaching to 8,294,400, 33,091,200 and 23,800,000 share options were exercised at the subscription prices of HK$0.816, HK$1.316 and HK$1.590 per share, respectively, resulting in the issue of 65,185,600 ordinary shares of HK$0.10 each for a total cash consideration, before expenses, of approximately HK$88,158,000.

A summary of the above movements in the issued ordinary share capital of the Company is as follows:

	Notes	**Number of shares in issue** '000	**Issued share capital** HK$'000	**Share premium account** HK$'000	**Total** HK$'000
Issued share capital as at 1 January 2002		1,543,296	154,330	878,685	1,033,015
Bonus issue of shares		316,486	31,649	(31,649)	—
Shares issued on exercise of share options		71,923	7,192	77,538	84,730
Issued share capital as at 31 December 2002 and 1 January 2003		1,931,705	193,171	924,574	1,117,745
Shares issued for acquisition of a subsidiary	*(a)*	13,294	1,329	32,238	33,567
Shares issued on exercise of share options	*(b)*	65,186	6,519	81,639	88,158
Issued share capital as at 31 December 2003		2,010,185	201,019	1,038,451	1,239,470

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 27 to the financial statements.

26. SHARE CAPITAL (continued)

Warrants

Subsequent to the balance sheet date, on 30 March 2004, the Company proposed to grant one bonus warrant for every eight ordinary shares of HK$0.10 each in the share capital of the Company, to the shareholders whose names appear on the register of members of the Company on 4 May 2004. Based on the issued share capital of the Company as at the date of this report, 251,273,150 bonus warrants will be issued.

Each of the bonus warrants will entitle the holder thereof to subscribe for one ordinary share of the Company at an initial subscription price of HK$9.80 per share, subject to adjustment, from 28 May 2004 up to and until 4:00 p.m. on 31 May 2007 (both dates inclusive). Any ordinary shares falling to be issued upon the exercise of the subscription rights attaching to the bonus warrants will rank pari passu in all respects with the existing fully-paid ordinary shares in issue of the Company on the relevant subscription date.

The exercise in full of the subscription rights attaching to the bonus warrants at the subscription price of HK$9.80 per share would, based on the present capital structure of the Company, result in the issue of 251,273,150 additional ordinary shares and the receipt by the Company of approximately HK$2,462,477,000 before any related issue expenses.

The issue of the bonus warrants is conditional upon: (i) the approval by the shareholders for the creation and issue of bonus warrants and the allotment and issue of the corresponding new shares falling to be issued upon the exercise of the subscription rights attaching to the warrants; and (ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the bonus warrants and the corresponding new shares falling to be issued upon the exercise of the subscription rights attaching to the warrants. Application will be made to the Listing Committee of the Stock Exchange in respect of such listing.

27. SHARE OPTION SCHEME

The Company operates the share option scheme (the "SO Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the SO Scheme include any full-time employee of the Company and its subsidiaries, including any executive director of its subsidiaries, but not any non-executive director. The SO Scheme became effective on 12 March 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the SO Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the SO Scheme within any 12-month period, is limited to 2.5% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

27. SHARE OPTION SCHEME (continued)

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the SO Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) 80% of the average closing price of the ordinary shares on the Stock Exchange for the five trading days immediately preceding the offer date; and (ii) the nominal value of the ordinary shares.

In the opinion of the directors, after seeking relevant advice, the existing SO Scheme does not fully comply with the new requirements as set out in Chapter 17 of the Listing Rules on 23 August 2001, and therefore further new options may not be issued under the existing SO Scheme. However, the share options already granted by the Company to the grantees under the existing SO Scheme are not affected by the Listing Rules changes.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

During the year, no additional share options were granted.

The following share options were outstanding under the SO Scheme during the year:

	Number of share options						Price of Company's shares****	
Category or name of participant	At 1 January 2003*	Exercised during the year	At 31 December 2003	Date of grant of share options**	Exercise period of share options	Exercise price of share options*** HK$	At grant date of options HK$	At exercise date of options HK$
Directors								
Mr. Liu Xiaoming	14,745,600	—	14,745,600	21 August 2001	21 August 2001 to 20 August 2011	1.316	1.66	—
Mr. Xu Zhouwen	23,040,000	—	23,040,000	21 August 2001	21 August 2001 to 20 August 2011	1.316	1.66	—
Mr. Kong Zhanpeng	14,745,600	—	14,745,600	21 August 2001	21 August 2001 to 20 August 2011	1.316	1.66	—
Mr. Wang Tieguang	14,745,600	—	14,745,600	21 August 2001	21 August 2001 to 20 August 2011	1.316	1.66	—
	67,276,800	—	67,276,800					

27. SHARE OPTION SCHEME (continued)

Category or name of participant	Number of share options: At 1 January 2003*	Exercised during the year	At 31 December 2003	Date of grant of share options**	Exercise period of share options	Exercise price of share options*** HK$	Price of Company's shares****: At grant date of options HK$	At exercise date of options HK$
Other employees								
In aggregate	8,294,400	(8,294,400)	—	14 May 2001	14 May 2001 to 13 May 2011	0.816	1.00	2.725
	40,243,200	(33,091,200)	7,152,000	21 August 2001	21 August 2001 to 20 August 2011	1.316	1.66	2.81
	48,537,600	(41,385,600)	7,152,000					
	115,814,400	(41,385,600)	74,428,800					

* The aggregate number of shares to be subscribed for was adjusted for the bonus issue made by the Company on 23 April 2002.

** The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

*** The exercise price of the share options was adjusted for the bonus issue made on 23 April 2002 from HK$0.98 and HK$1.58 to HK$0.816 and HK$1.316, respectively.

**** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options and was adjusted for the bonus issue made on 23 April 2002 from HK$1.20 and HK$2.00 to HK$1.00 and HK$1.66, respectively. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of share options within the disclosure line.

The 41,385,600 share options exercised during the year resulted in the issue of 41,385,600 ordinary shares of the Company and new share capital of HK$4,138,560 and share premium of approximately HK$46,178,000 (before issue expenses), as detailed in note 26 to the financial statements.

The movements in the number of share options to subscribe for ordinary shares in the Company during the year were as follows:

	Number of share options to subscribe for ordinary shares at an exercise price per share of HK$0.816# '000	HK$1.316# '000	Total '000
At beginning of year	8,294	107,520	115,814
Exercised during the year	(8,294)	(33,091)	(41,385)
At the end of year	—	74,429	74,429

\# Adjusted to take into account the one for five bonus issue of the issued share capital of the Company on 23 April 2002.

27. SHARE OPTION SCHEME (continued)

At the balance sheet date, the Company had 74,428,800 share options outstanding under the SO Scheme which were exercisable at a subscription price of HK$1.316, after the adjustment for the one for five bonus issue during the year ended 31 December 2002, and will expire on 20 August 2011. The outstanding share options represented approximately 3.7% of the Company's shares in issue as at the balance sheet date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 74,428,800 additional ordinary shares and cash proceeds to the Company of approximately HK$97,948,000 before the related share issue expenses.

Other than the SO Scheme disclosed above, the Company has also granted share options to Cargill International Trading Pte Ltd. ("Cargill International") as follows:

On 25 September 2001, the Company granted 23,800,000, 36,800,000 and 47,420,000 share options to Cargill International, which entitled Cargill International to subscribe for the Company's ordinary shares of HK$0.10 each at exercise prices of HK$1.91, HK$2.19 and HK$2.65 per share, respectively. After the adjustment for the one for five bonus issue during the year ended 31 December 2002, the exercise price for the three lots of share options became HK$1.59, HK$1.83 and HK$2.21, respectively. The three lots of share options are exercisable during the periods from 25 March 2003 to 23 April 2003, from 25 March 2004 to 23 April 2004, and from 25 March 2005 to 25 April 2005, both dates inclusive, respectively. The price of the Company's shares as at the date of the grant of the share options was HK$1.65, which was the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options and was adjusted for the bonus issue made on 23 April 2002 from HK$1.98.

During the year, 23,800,000 share options were exercised at a subscription prices of HK$1.59 per share, resulting in the issue of 23,800,000 new ordinary shares in the Company at a total consideration of HK$37,842,000. The price of the Company's shares as at the preceding date of the exercise of the share options was HK$1.92.

The remaining 84,220,000 share options remained outstanding as at 31 December 2003 and at date of this report. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 84,220,000 additional ordinary shares and cash proceeds to the Company of approximately HK$172,142,000 before the related share issue expenses.

28. RESERVES

Group

	Share premium account HK$'000	Fixed assets revaluation reserve HK$'000	Statutory reserve fund HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2002	590,950	7,204	5,656	635,011	1,238,821
Issue of shares — *note 26*	77,538	—	—	—	77,538
Bonus issue of shares — *note 26*	(31,649)	—	—	—	(31,649)
Net profit for the year	—	—	—	405,095	405,095
Interim dividend paid — *note 11*	—	—	—	(28,892)	(28,892)
Proposed final dividend — *note 11*	—	—	—	(38,634)	(38,634)
Transfer to retained profits upon winding-up of a subsidiary	—	—	(5,656)	5,656	—
At 31 December 2002 and 1 January 2003	636,839	7,204	—	978,236	1,622,279
Issue of shares — *note 26*	113,877	—	—	—	113,877
Net profit for the year	—	—	—	520,772	520,772
Interim dividend paid — *note 11*	—	—	—	(40,510)	(40,510)
Proposed final dividend — *note 11*	—	—	—	(50,255)	(50,255)
Transfer from retained profits	—	—	2,369	(2,369)	—
Surplus on revaluation — *note 13*	—	108,752	—	—	108,752
Surplus on revaluation shared by minority shareholders	—	(13,181)	—	—	(13,181)
Deferred tax liability — *note 25*	—	(16,348)	—	—	(16,348)
At 31 December 2003	750,716	86,427	2,369	1,405,874	2,245,386
Reserves retained by:					
Company and subsidiaries	750,716	86,427	2,369	1,410,315	2,249,827
Jointly-controlled entities	—	—	—	(4,441)	(4,441)
31 December 2003	750,716	86,427	2,369	1,405,874	2,245,386
Company and subsidiaries	636,839	7,204	—	980,433	1,624,476
Jointly-controlled entities	—	—	—	(2,197)	(2,197)
31 December 2002	636,839	7,204	—	978,236	1,622,279

28. RESERVES (continued)

Company

	Share premium account HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2002	878,685	10,342	889,027
Issue of shares — *note 26*	77,538	—	77,538
Bonus issue of shares — *note 26*	(31,649)	—	(31,649)
Net profit for the year — *note 10*	—	84,884	84,884
Interim dividend — *note 11*	—	(28,892)	(28,892)
Proposed final dividend — *note 11*	—	(38,634)	(38,634)
At 31 December 2002 and 1 January 2003	924,574	27,700	952,274
Issue of shares — *note 26*	113,877	—	113,877
Net profit for the year — *note 10*	—	126,474	126,474
Interim dividend — *note 11*	—	(40,510)	(40,510)
Proposed final dividend — *note 11*	—	(50,255)	(50,255)
At 31 December 2003	1,038,451	63,409	1,101,860

The share premium account of the Group includes: (i) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation for the public listing of the Company's shares on the Main Board of the Stock Exchange in prior years, over the nominal value of the shares of the Company issued in exchange therefor; (ii) the premium arising from the new issue during the year; (iii) the premium arising from the capitalisation issue in prior years; and (iv) the premium arising from the placing and subscriptions of new ordinary shares in prior years.

The share premium account of the Company includes: (i) the difference between the then combined net assets value of the subsidiaries acquired pursuant to the Group reorganisation for the public listing of the Company's shares on the Main Board of the Stock Exchange in prior years, over the nominal value of the shares of the Company issued in exchange therefor; (ii) the premium arising from the new issue during the year; (iii) the premium arising from the capitalisation issue in prior years; and (iv) the premium arising from the placing and subscriptions of new ordinary shares in prior years.

In accordance with the Companies Law (Revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

28. RESERVES (continued)

Certain subsidiaries which are established in the PRC are required to transfer 10% of their profits after tax calculated in accordance with the PRC accounting regulations to the statutory reserve fund until the reserve reaches 50% of their respective registered capital, upon which any further appropriation is at the directors' recommendation. Such reserve may be used to reduce any losses incurred by the subsidiaries or may be capitalised as paid-up capital of the subsidiaries.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of a subsidiary

	Notes	**2003 HK$'000**	2002 HK$'000
Net assets acquired:			
Fixed assets	*13*	**142,792**	—
Deposits paid for acquisition of fixed assets		**91,119**	—
Prepayments, deposits and other receivables		**2,432**	—
Cash and bank balances		**2,204**	—
Other payables and accruals		**(13,575)**	—
Interest-bearing bank loans		**(65,621)**	—
Other loans		**(55,990)**	—
Due to a minority shareholder		**(5,162)**	—
Minority interests		**(29,460)**	—
		68,739	—
Goodwill on acquisition	*14*	**13,538**	—
		82,277	—
Satisfied by:			
Cash		**48,710**	—
Issue of shares	*26*	**33,567**	—
		82,277	—

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(a) Acquisition of a subsidiary (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2003	2002
	HK$'000	HK$'000
Cash consideration	**(48,710)**	—
Cash and bank balances acquired	**2,204**	—
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	**(46,506)**	—

During the year, the Group acquired 70% equity interest in Jinzhou Yuancheng (as detailed in notes 16 and 33(d) to the financial statements). The purchase consideration of approximately HK$82,277,000 was satisfied by a cash payment of HK$48,710,000 and the issue and allotment of 13,294,000 new shares in the Company at an issue price of HK$2.525 per share, by reference to the prevailing market prices of the Company's shares on the date of completion of the acquisition.

As Jinzhou Yuancheng has not yet commenced its operation, this newly acquired subsidiary did not have any contribution to the Group's turnover and contributed a loss of approximately HK$3,837,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2003.

(b) Major non-cash transaction

During the year, 13,294,000 ordinary shares at an issue price of HK$2.525 per share were issued to a third party as part of the consideration for the acquisition of a subsidiary, Jinzhou Yuancheng, as further detailed in notes 16, 29(a) and 33(d) to the financial statements.

30. LITIGATION

A subsidiary of the Group is currently a defendant in a lawsuit brought by an existing customer for an alleged breach of certain sales contracts. The directors of the Company, based on the advice from the Group's legal counsel, consider that adequate provisions have been made in the financial statements for the potential liabilities including the related legal and other costs arising from the litigation.

31. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date.

At 31 December 2003, the banking facilities granted to the Company's subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$343,800,000 (2002: HK$214,550,000).

32. COMMITMENTS

At 31 December 2003, the Group had capital commitments as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
Contracted, but not provided for:		
Leasehold land and buildings	**354,673**	158,825
Plant and machinery	**23,121**	—
	377,794	158,825
Authorised, but not contracted for:		
Capital contributions payable to subsidiaries	**162,429**	—
	540,223	158,825

The Company did not have any significant commitments as at 31 December 2003.

33. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

(a) During the year, the Group disposed of a parcel of land to a jointly-controlled entity at a consideration of approximately HK$7,287,000, which approximated to its open market value as estimated by directors. No gain or loss arose from such disposal.

(b) During the year, the Group sold goods and charged utility costs to a jointly-controlled entity amounting to approximately HK$18,526,000 (2002: HK$980,000) and HK$3,365,000 (2002: HK$213,000), respectively. The sales were made at prices which are comparable to the prices offered to other customers of the Group. The utility costs were charged based on the actual costs incurred.

(c) At 31 December 2003, the Company has issued guarantee to secure certain of the jointly-controlled entity's bank loans aggregating HK$15,113,000 (2002: Nil). At the balance sheet date, no bank loans were utilised by this jointly-controlled entity (2002: Nil).

33. RELATED PARTY TRANSACTIONS (continued)

(d) As further detailed in notes 14, 16 and 29(a) to the financial statements, on 21 May 2003, the Group acquired 21% equity interest in Jinzhou Yuancheng from Changchun Dacheng Industrial Group Co., Ltd. ("Dacheng Industrial"), the minority shareholder of certain subsidiaries of the Group, for a cash consideration of approximately HK$22,482,000.

This transaction constituted a connected transaction as defined under the Listing Rules and a resolution was passed by the independent shareholders at the extraordinary general meeting held on 28 June 2003 to approve this transaction. Further details of the above transaction have been set out in the circular of the Company dated 9 June 2003.

(e) Pursuant to an agreement entered into by the Group and Dacheng Industrial on 17 July 2003, Changchun Baocheng Bio-chem Development Co., Ltd., a joint venture company in which the Group effectively owns 73% equity interest was established to be engaged in the production of certain new corn based biochemical products. The total investment cost and registered capital of the joint venture company amounted to US$29.90 million and US$12 million, respectively.

This transaction also constituted a connected transaction as defined under the Listing Rules and a resolution was passed by the independent shareholders at the extraordinary general meeting held on 19 August 2003 to approve this transaction. Further details of the above transaction have been set out in the circular of the Company dated 31 July 2003.

34. POST BALANCE SHEET EVENTS

(a) On 9 February 2004, the Group entered into agreements with Mitsui & Co., Ltd., Mitsui & Co., (H.K.) Ltd. and Nikken Fine Chemicals Co., Ltd. to establish certain joint venture companies in which the Group held 51% equity interest. The total investment cost for these joint venture companies amounted to US$15 million. The investment cost of these joint venture companies will be injected by the joint venture partners in cash according to their respective equity interest holding percentage. These joint venture companies will be engaged in the production of sorbitol products, certain new corn based biochemical products. These joint venture companies agreed to purchase a piece of land from Dacheng Industrial at a consideration of approximately HK$13,745,000 for the construction of the sorbitol plant.

(b) On 30 March 2004, the Company proposed to declare a final dividend of HK2.5 cents per ordinary share in respect of the year, to shareholders whose names appear on the register of members on 4 May 2004, as detailed in note 11 to the financial statements.

(c) On 30 March 2004, the Company proposed grant of one bonus warrant for every eight ordinary shares held, to shareholders whose names appear on the register of members on 4 May 2004.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2004.

Board of Directors

Liu Xiaoming, *Co-Chairman*
Xu Zhouwen, *Co-Chairman*
Kong Zhanpeng, *Executive Director*
Wang Tieguang, *Executive Director*
Patrick E Bowe, *Non-Executive Director*
Steven C Wellington,
Alternate Director to Patrick E Bowe
Lee Yuen Kwong,*
Independent Non-Executive Director
Chan Man Hon, Eric*
Independent Non-Executive Director

* Audit Committee Members

Company Secretary

Ng Wai Kee FHKSA, FCCA

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Legal Advisers

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Hong Kong

Principal Bankers

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Hong Kong

Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

The Agriculture Bank of China
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Changchun, Jilin Province
The People's Republic of China

Principal Share Registrar and Transfer Office

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British West Indies

Hong Kong Branch Share Registrar and Transfer Office

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Website

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Stock Code: 809

Key Dates

Closure of register of members:
2 May 2004 to 4 May 2004
(both days inclusive)
Annual general meeting:
4 May 2004
Date of payment of final dividend:
28 May 2004
Date of issue of bonus warrant:
28 May 2004