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# Corporate information

## Board of Directors

Mr. Liu Xiaoming	<i>Chairman</i>
Mr. Kong Zhanpeng	<i>Executive Director</i>
Mr. Au Chun Fat	<i>Executive Director</i>
Mr. Wang Tiegung	<i>Executive Director</i>
Mr. Lee Yuen Kwong	<i>Independent Non-Executive Director</i>
Mr. Chan Man Hon, Eric	<i>Independent Non-Executive Director</i>

## Company Secretary

Mr. Ng Wai Kee *FHKSA, FCCA*

## Registered Office

Zephyr House  
Mary Street  
George Town  
Grand Cayman  
British West Indies

## Head Office and Principal Place of Business in Hong Kong

Unit 703A  
Admiralty Centre  
Tower 1  
18 Harcourt Road  
Hong Kong

## Auditors

Ernst & Young  
Certified Public Accountants  
15th Floor, Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

## Authorised Representatives

Mr. Liu Xiaoming  
Mr. Kong Zhanpeng

## Legal Advisers to the Company

Chiu & Partners  
41st Floor, Jardine House  
1 Connaught Place  
Central  
Hong Kong

## Principal Bankers

The Kwangtung Provincial Bank,  
Hong Kong Branch  
1st Floor, Euro Trade Centre  
13-14 Connaught Road, Central  
Hong Kong

The Agriculture Bank of China  
6 Beian Road, Nanguan District  
Changchun, Jilin Province  
The People's Republic of China

## Principal Share Registrar and Transfer Office

Bank of Bermuda (Cayman) Limited  
36C Bermuda House  
3rd Floor, British American Tower  
Dr. Roy's Drive  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

## Hong Kong Branch Share Registrar and Transfer Office

Tengis Limited  
4th Floor, Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

## Business website

[www.globalbiochem.com](http://www.globalbiochem.com)

## Key Dates

Closure of register of members:  
24 May 2001 to 28 May 2001  
(both days inclusive)  
Annual General Meeting:  
28 May 2001

## Stock Code: 809

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the annual general meeting of Global Bio-chem Technology Group Company Limited (the "Company") will be held at 2:30 p.m. on 28 May 2001 at JW Marriott, Aberdeen Room, Level 3, 88 Queensway, Pacific Place, Hong Kong to transact the following ordinary businesses:

1. to receive and approve the audited financial statements and the reports of the directors and the Company's auditors for the year ended 31 December 2000;
2. to re-elect Mr. Au Chun Fat as director and to authorise the board of directors of the Company (the "Board") to fix the directors' remuneration;
3. to re-appoint the Company's auditors and to authorise the Board to fix their remuneration;

and, as special businesses, to consider and, if thought fit, to pass the following resolutions as ordinary resolutions:

4. **"THAT:**

- (a) subject to paragraph (c) below, pursuant to the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with the unissued shares (each a "**Share**") of HK\$0.10 each in the capital of the Company and to make or grant offers, agreements and options, including warrants to subscribe for Shares, which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted and issued or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to options or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue; or (ii) the exercise of any options granted under the share option scheme of the Company or other options which have already been granted by the Company; or (iii) any scrip dividend or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company in force from time to

# Notice of Annual General Meeting

time; or (iv) any issue of Shares upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into Shares shall not exceed the aggregate of:

(aa) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution; and

(bb) (if the directors of the Company are so authorised by a separate ordinary resolution of the shareholders of the Company) the aggregate nominal amount of any share capital of the Company purchased by the Company subsequent to the passing of this resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution),

and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

(d) for the purposes of this resolution:

“**Relevant Period**” means the period from the date of the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, the Companies Law (2000 revision) of the Cayman Islands (the “**Companies Law**”) or any other applicable law of the Cayman Islands to be held; and

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this resolution.

“**Rights Issue**” means an offer of Shares, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by the directors of the Company to holders of Shares on the Company’s register of members on a fixed record date in proportion to their then holdings of Shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in

# Notice of Annual General Meeting

relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong).”

5. **“THAT:**

- (a) subject to paragraph (b) below, the exercise by the directors of the Company during the Relevant Period of all powers of the Company to purchase the shares (each a **“Share”**) of HK\$0.10 each in the capital of the Company on the Stock Exchange or any other stock exchange on which the Shares may be listed and recognised by the Securities and Futures Commission of Hong Kong (the **“SFC”**) and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the SFC, the Stock Exchange, the Companies Law and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;

the aggregate nominal amount of Shares which may be purchased or agreed to be purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

- (b) for the purposes of this resolution, **“Relevant Period”** means the period from the date of the passing of this resolution until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, the Companies Law (2000 revision) of the Cayman Islands (the **“Companies Law”**) or any other applicable law of the Cayman Islands to be held; and
  - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this resolution.”

6. **“THAT** conditional on the passing of resolution no.4 above, the general mandate granted to the directors of the Company pursuant to paragraph (a) of resolution no. 4 above be and is hereby extended by the addition to the aggregate nominal amount of the Shares which may be

# Notice of Annual General Meeting

allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to or in accordance with such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company purchased or agreed to be purchased by the Company pursuant to or in accordance with the authority granted under paragraph (b) of resolution no. 5 above.”

Hong Kong, 24 April 2001

By order of the Board

**Global Bio-chem Technology Group Company Limited**

**Liu Xiaoming**

*Chairman*

**Registered office:**

Zephyr House  
Mary Street  
George Town  
Grand Cayman  
British West Indies

**Head office and principal place  
of business in Hong Kong:**

Unit 703A, Admiralty Centre  
Tower 1  
18 Harcourt Road  
Hong Kong

**Notes:**

1. The register of members of the Company will be closed from 24 May 2001 to 28 May 2001 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending the annual general meeting of the Company to be held on 28 May 2001, all transfers accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited, at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong for registration not later than 4:00 p.m. on 23 May 2001.
2. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, vote in his stead. A proxy need not be a member of the Company.
3. To be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited at the office of the Company's Hong Kong branch share registrar, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 48 hours before the time of the meeting or any adjourned meeting.

## Notice of Annual General Meeting

4. In relation to proposed resolutions numbered 4 and 6 above, approval is being sought from the shareholders for the grant to the directors of the Company of a general mandate to authorise the allotment and issue of Shares under the Listing Rules. The directors have no immediate plans to issue any new Shares of the Company other than Shares which may fall to be issued under the share option scheme of the Company or other options which have already been granted by the Company or any scrip dividend scheme which may be approved by shareholders.
5. In relation to proposed resolution no. 5 above, the directors of the Company wish to state that they will exercise the powers conferred thereby to purchase Shares in circumstances which they deem appropriate for the benefit of the shareholders. An explanatory statement containing the information necessary to enable the shareholders to make an informed decision to vote on the proposed resolution as required by the Listing Rules will be set out in a separate document accompanying the annual report for the year ended 31 December 2000, of which this notice forms part.

# The Company

Global Bio-chem Technology Group Company Limited (“Global Bio-chem” or the “Company” and together with its subsidiaries, “Global Bio-chem Group” or the “Group”) was incorporated in the Cayman Islands under the Companies Law (2000 Revision) of the Cayman Islands as an exempted company on 18 May 2000.

Pursuant to a reorganisation of the Group (the “Reorganisation”) to rationalise the structure of the Group in preparation for the listing of the Company’s shares (the “Shares”) on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the companies now comprising the Group on 1 March 2001, and the Shares was listed on the Stock Exchange on 16 March 2001 (stock code: 809). Further details of the Reorganisation are set out in note 1 in the section headed “Notes to Financial Statements”.

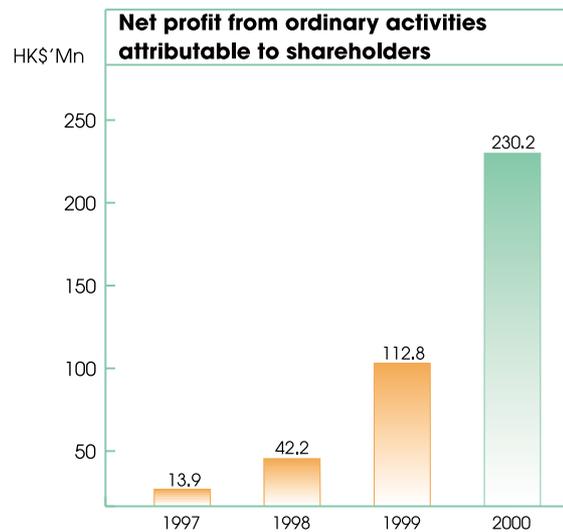
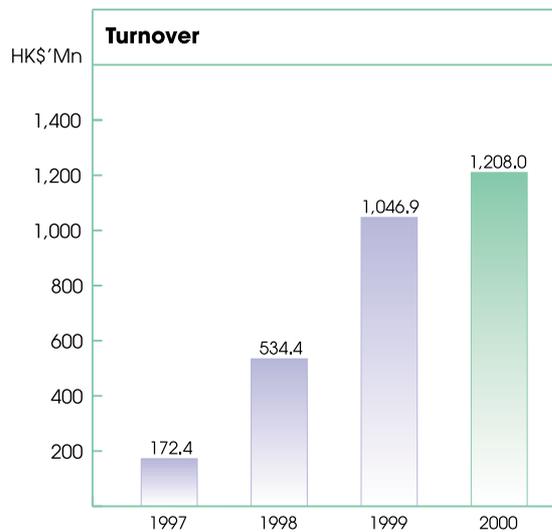
The Group is principally engaged in the manufacture of corn refined and corn based biochemical products in the People’s Republic of China (the “PRC” or “China”). The Group’s products are marketed and sold in the PRC as well as other Asian countries. The Group is also engaged in the research and development of corn based biochemical products. The Group’s corn refined products mainly comprise corn starch, corn gluten, corn oil and feed. Certain of these products are further refined or processed into a wide range of value-enhanced corn based biochemical products, such as modified starch, corn sweeteners and amino acids.

The Group was one of the top three corn refining manufacturers in the PRC in terms of corn processing capacity in 1999. The Group is also one of the few producers of lysine, which is one of the most widely-used amino acids having applications in many areas such as food, beverages, nutraceuticals, pharmaceuticals and animal feeds in the PRC. In addition, the Group is one of the few manufacturers in the PRC with vertically integrated operations from the production of corn refined products to the production of corn based biochemical products.

The Group’s headquarters are located in Hong Kong and its principal manufacturing base is located in Changchun, Jilin Province, the PRC, which is also known as the Gold Corn Belt of the PRC. The Group also has a production plant in Shanghai, which is currently used for the production of corn sweeteners. All of the Group’s products are distributed and marketed to industrial manufacturers, international trading companies and foodstuff distributors in the PRC and other Asian countries.

# Financial Highlights

	Year ended		
	31 December		
	2000	1999	Change
	HK\$'Mn	HK\$'Mn	%
Turnover	<b>1,208.0</b>	1,046.9	15.4
Net profit from ordinary activities attributable to shareholders	<b>230.2</b>	112.8	104.1
Basic earnings per share <b>(HK cents)</b>	<b>24.0</b>	11.7	105.1
Shareholders' equity	<b>367.0</b>	130.7	180.8



## Chairman's Statement

Dear shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of the Company, I take great pleasure to present, in this first annual report since the Company was listed on the Stock Exchange on 16 March 2001, the operating results of the Group for the year ended 31 December 2000.

Year 2000 marked an important milestone in corporate development for Global Bio-chem. During the year, Global Bio-chem Group worked hard to gradually expand its sale of corn based biochemical products through its extensive nationwide sales and marketing network and reported record sales of approximately HK\$1,208 million and net profit of approximately HK\$230 million for the year. With these results, the Company was successfully listed on the Stock Exchange in March 2001. It gives me great pleasure to report that the production bases and technology resources developed over the past two years have begun to generate favorable returns and benefits.

During the year under review, the Group reported an encouraging and significant growth in its results, with turnover and net profit amounting to approximately HK\$1,208 million and HK\$230 million respectively, representing increases of approximately 15.4% and 104.1%, respectively over those of the previous year. Earnings per share were HK24 cents, representing an increase of approximately 105.1% from the previous financial year. The strong performance was attributable to the increase in the sale of higher profit margin corn based biochemical products, and the increase in the gross profit margin of corn refined products resulting from the decrease in the purchase costs of corn kernels.

### *Business review*

To enhance the corporate profile of Global Bio-chem Group in the PRC and the Asia Pacific region and to strengthen its capital base and financial resources for continuous downstream expansion, the Company has opted for a listing on the Main Board of the Stock Exchange.

The Company's successful listing in March this year has also served to fuel the continued business development of the Group, as we strengthen our competitive edge and expand the ongoing growth of our production capability. Most importantly, it enabled us to leverage on our leadership position in corn refined and corn based biochemical products to become the first and the largest vertically integrated corn based biochemical manufacturer in the PRC. We are certain that all these will bring a fruitful return to the shareholders.

In light of Global Bio-chem Group's dominant market position in the PRC and its strong growth potential, both Cargill Inc. ("Cargill"), a worldwide leading agricultural and food company and Cheung Kong (Holdings) Limited ("Cheung Kong"), a conglomerate whose shares are listed on the Stock Exchange (stock code: 001) have committed to investing in the Company. Partnering with an industry leader like Cargill and a well-connected locally listed company such as Cheung Kong will ensure that the Group's expansion in capacity, its business connections and its market development are further strengthened and enhanced.

## Chairman's Statement

In 2000, the Group continued to reinforce its strategy of broadening the sale of higher profit margin biochemical products while further reducing its costs through enlarged capacity and maintaining self-sufficiency in key raw materials such as corn starch. The significant upsurge in the profitability of the Group is an evidence of the Group's success in adopting this strategy.

The Group succeeded in the trial production of lysine in 1999 and began mass production in mid 2000. This product is widely accepted and used by industrial users. Since the gross profit margin of lysine is one of the highest among the products of the Group, this marked the start of the rapid growth in earnings of the Group.

The Group launched its corn sweeteners production during the year under review. This type of corn based biochemical product is expected to become a significant profit contributor in the coming years. Global Bio-chem Group is believed to be one of the largest producers of corn sweeteners in the PRC. Its production facilities in Shanghai (the "Hao Chang Plant") has an annual capacity of 60,000 metric tonnes. Situated in Eastern China, a major food and beverage manufacturing and distribution centre, the Group's Hao Cheng Plant is well positioned to capture a significant share of the market.

The Group focuses on supplying intermediate biochemical products to industrial manufacturers, whereby its products are used by other manufacturers as raw materials for further processing into other consumer products. This approach enables the Group to maintain maximum flexibility in production efficiency, as well as cost-effectiveness in sales and marketing.

It is our objective to capitalise on our dominant market position in corn based biochemical products in the PRC in order to capture the emerging opportunities and the enormous demand for environmentally friendly products in China and other Asian countries for higher returns.

### *Prospects and Plans*

The production capacity of corn in the PRC has increased dramatically in the past 15 years, making it the world's second largest corn producing country. However, corn refined and corn based biochemical product processing in the PRC is still in their infant stage. In China, most of the corn refiners are in small-scale operations, with a capacity of less than 50,000 metric tonnes a year. The three largest corn starch producers, including Global Bio-chem Group, have an aggregate annual processing capacity of over 2,000,000 metric tonnes per annum, which represents almost 50% of the market share in the PRC.

Technology advancements in biochemistry have created new ways of converting corn starch into more valuable industrial and pharmaceutical chemicals. As China is still at its initial stage of corn utilisation, corn refiners are set for new and high growth opportunities brought by the development in biochemical technologies.

## Chairman's Statement

The demand for corn based biochemical products has increased due to the increasing awareness of the importance of health care and environmental protection. We anticipate that while the sale of corn refined products will continue to provide a healthy and strong income to the Group, the development and production of corn based biochemical products such as lysine and corn sweeteners will generate higher income growth for the Group in the coming years. In addition, as most of the lysine used in the PRC is imported, we believe that there is substantial room in the PRC domestic market for the Group to expand. Given the relatively high unit price and gross profit margin of lysine as compared to other products of the Group, we estimate that lysine will account for a high percentage of our profits in the coming years.

Looking ahead, Global Bio-chem Group will capitalise on its strengths and strive to achieve the following major objectives while maintaining a steady and healthy development of the Group in 2001.

Firstly, the Group intends to expand its existing production capacity for corn refined and corn based biochemical products by the construction of new production plants equipped with advanced equipment and facilities in Changchun in 2001.

The Group also plans to increase its modified starch production capacity from 30,000 metric tonnes per annum to 230,000 metric tonnes per annum in 2001. The Hao Chang Plant will increase its annual production capacity from 60,000 metric tonnes to 150,000 metric tonnes by the end of 2001. In view of the increasing demand from the livestock industry in China, we plan to speed up the expansion in lysine production and aim at completing the installation of production facilities by the end of 2001, thereby increasing the production capacity of lysine from 15,000 metric tonnes per annum to 40,000 metric tonnes per annum. To ensure a continuous supply of raw materials for our corn based biochemical products and maintain our market share in corn refined products, the Company will increase the existing production capacity in corn refining to 600,000 metric tonnes by early 2002. We plan to reach an annual corn processing capacity of 1,200,000 metric tonnes nine months ahead of the original plan, and become the largest corn refiner in Asia.

Secondly, to further enhance our market penetration and to fortify our position as a leading manufacturer of corn refined and corn based biochemical products, we will begin the development and expansion of our distribution network by establishing new points of sale in five major cities in China, namely Chongqing, Dalian, Qingdao, Xian and Zhengzhou. Overseas sales offices will also be established in Korea, Taiwan and the Philippines to capture business opportunities in these regions.

Thirdly, the Group will further expand into higher value downstream product operations. As such, we plan to develop a new production line for biochemical feed in 2001 with an expected annual production capacity of 50,000 metric tonnes and to commence mass production of biochemical fertiliser in 2001 with an expected annual production capacity of 200,000 metric tonnes.

## Chairman's Statement

In addition to the above, the Group's new products under development include glutamic acid, refined lysine, biochemical fertiliser, biochemical feed, methionine, high fructose syrup, biodegradable plastic, other biochemical pharmaceutical products and environmentally friendly products.

Finally, the Group will invest at least HK\$20 million of the net proceeds raised from the Share Offer (as defined in the Company's listing prospectus dated 7 March 2001) in 2001 in the research and development of value-enhanced corn based biochemical products to further improve our manufacturing technology and our research and development capabilities. This will reinforce the Company's competitive advantage, keeping us ahead of our competitors. To maintain our competitive advantage, we also aim to market at least one new type of corn based biochemical product in every two years.

Our production plants are strategically located in the Gold Corn Belt, and within the food and beverage manufacturing centre of the country. Global Bio-chem Group has a competitive edge over its competitors in the following areas: (1) economies of scale from vertically integrated production, (2) cost efficiency from mass production, (3) unique production know-how and effective research and development, (4) access to low-cost raw materials, and (5) extensive sales and marketing network. The Group is therefore a leading beneficiary of the sector's growth. We are optimistic of the enormous opportunities over the coming years and are confident of the prospects of Global Bio-chem Group. We believe that year 2001 will be another prosperous year and our shareholders will see many satisfactory returns.

At 24 April 2001, among the net proceeds from the Share Offer of approximately HK\$278 million, approximately HK\$31 million was used for the purchase and installation of production equipment and facilities at a new production plant in the PRC, and approximately HK\$22 million was used as general working capital of the Group. The net proceeds which have not yet been applied for are now placed on short term deposits with licensed banks. It will be applied for the purchase and installation of production equipment and facilities at a new production plant in the PRC, the early repayment of bank borrowings, the research and development of new products and improvement of the Group's existing production technology, production processes and product quality, and the expansion of the distribution and sales network of the Group.

I take this opportunity to thank all my fellow directors for their invaluable contribution. Let me also express my appreciation to our shareholders, customers and business partners, as well as our staff, for their continuous support and dedication. Without your partnership, Global Bio-chem Group would not be the market leader as it stands today.

**Liu Xiaoming**

Chairman

24 April 2001

# Management Discussion and Analysis

## **BUSINESS ENVIRONMENT**

To most people, corn is merely used as feed and food. In fact, corn can be found in many different products from food to industrial chemicals. Traces of corn can be found in a variety of products, including soft-drink, cosmetics, paint and varnish and pharmaceuticals. The components of corn kernels — starch, oil, protein, fibre — are high-valued products. Through fermentation, hydrolysis and other procedures, corn starch, the principal component of corn kernels, starch, can be further refined into high value-added corn based biochemical products, such as lysine, corn sweeteners and modified starch. In some developed countries such as the United States of America (the “US”), food processing and industrial users consume approximately 25% of corn today.

China is the world’s second largest corn producing country, accounting for approximately 21% of global production. In the past 15 years, China’s production of corn has increased dramatically, rising at nearly 5% compound annual growth rate. Corn is now ranked among wheat and rice as one of China’s most important grain crops. Of the huge volume of corn output in the PRC, a substantial portion of which is used for the production of animal feed, while only approximately 3% of output is processed and refined to produce higher value-added products, such as starch, as compared to approximately 25% in the US. In China, the industrial consumption of corn was only approximately 4.7 million metric tonnes, equivalent to only approximately 12% of the level in the US. This low utilisation contrasts sharply with Japan and Korea, the two countries of which are having low corn production, but are ranked among the ten largest corn processors in the world. As China is still at its initial stage of corn utilisation, corn processing can be regarded as an infant industry with substantial room for development. Currently, most of the corn producers in China are in small-scale operations, with a capacity of less than 50,000 tonnes a year.

Equipped with an annual processing capacity of 600,000 metric tonnes and downstream vertical integration, the Group is considered a leader in this industry in China. It is the Group’s intention to expand its production capacity to 1,800,000 metric tonnes before the end of 2003, in order to maintain its leading position in the industry.

In view of the improvements in living standards and the awareness of health care and environmental protection in China, the demand for corn based biochemical products such as amino acids, corn sweeteners and modified starch has been experiencing a substantial increase, and these products are becoming daily necessities. The rapid increase in demand of these corn based biochemical products has created a new era for the growth of the Group.

# Management Discussion and Analysis

## OPERATING RESULTS

The following is a summary of the pro forma combined results of the Group for each of the four years ended 31 December 2000 prepared on the basis set out in note 1 below:

	Year ended 31 December			
	2000	1999	1998	1997
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<b>1,208,026</b>	1,046,910	534,413	172,443
Profit before tax	<b>280,736</b>	147,415	53,042	13,928
Tax	<b>(14,227)</b>	(174)	(2,338)	—
Profit before minority interests	<b>266,509</b>	147,241	50,704	13,928
Minority interests	<b>(36,341)</b>	(34,483)	(8,520)	—
Net profit from ordinary activities attributable to shareholders	<b>230,168</b>	112,758	42,184	13,928

Note:

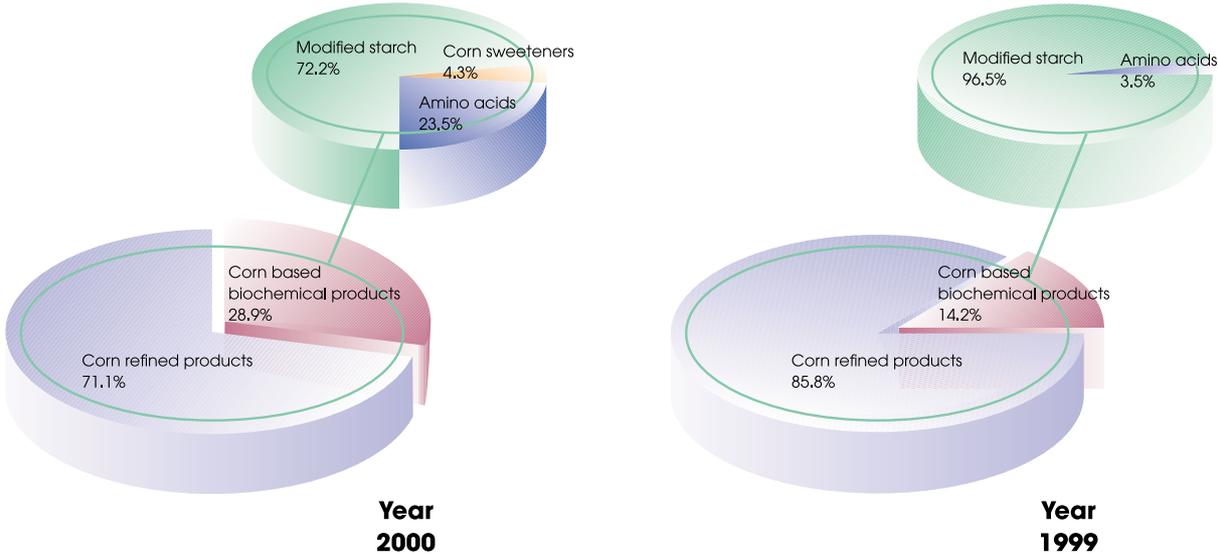
1. The summary of the pro forma combined results of the Group for each of the three years ended 31 December 1999 was extracted from the Company's prospectus dated 7 March 2001. Such summary was prepared in accordance with the audited financial statements of the companies now comprising the Group as if the current structure of the Group had been in existence throughout these financial years and prepared on the basis set out in note 1 of the "Notes to Financial Statements". The pro forma combined results of the Group for the year ended 31 December 2000 are those set out on page 35 of this annual report.

# Management Discussion and Analysis

## GROWTH OF SALES

Below is the sales analysis of the Group:

	Quantity			Sales		
	Year			Year		
	2000	1999	change	2000	1999	change
	MT	MT	%	HK\$'000	HK\$'000	%
Corn based biochemical products						
Modified starch	<b>25,537</b>	14,415	77.2	<b>252,562</b>	143,931	75.5
Amino acids	<b>5,478</b>	353	1,451.8	<b>82,201</b>	5,209	1,478.1
Corn sweeteners	<b>7,651</b>	—	N/A	<b>14,881</b>	—	N/A
	<b>38,666</b>	14,768	161.8	<b>349,644</b>	149,140	134.4
Corn refined products	<b>679,970</b>	693,041	(1.9)	<b>858,382</b>	897,770	(4.4)
<b>Total</b>	<b>718,636</b>	707,809	1.5	<b>1,208,026</b>	1,046,910	15.4



## Management Discussion and Analysis

In 2000, the volume of the Group's products sold increased by 1.5% as compared to that of the previous year. Although the demand from local and overseas markets for the Group's products increased continuously over the years, the increase in turnover was not significant. In fact, the improvement in sales volume was constrained by the corn processing capacity of the Group. In 2000, the capacity increased slightly as compared to 1999. On the other hand, turnover, same as our expectation, increased by 15.4%, which is mainly attributable to the Group's success in the sale of high value-added products, i.e. corn based biochemical products.

During the year under review, sale of corn based biochemical products increased approximately 134.4% as compared to that of 1999. The significant increase resulted not only from the substantial improvement in the sale of existing corn based biochemical product, i.e. modified starch, of which both sales volume and turnover increased over 70.0% in this year, but also from the mass production and the launch of two new biochemical products, namely, amino acids and corn sweeteners in mid 2000 respectively, which amounted to approximately 8.0% of Group's turnover.

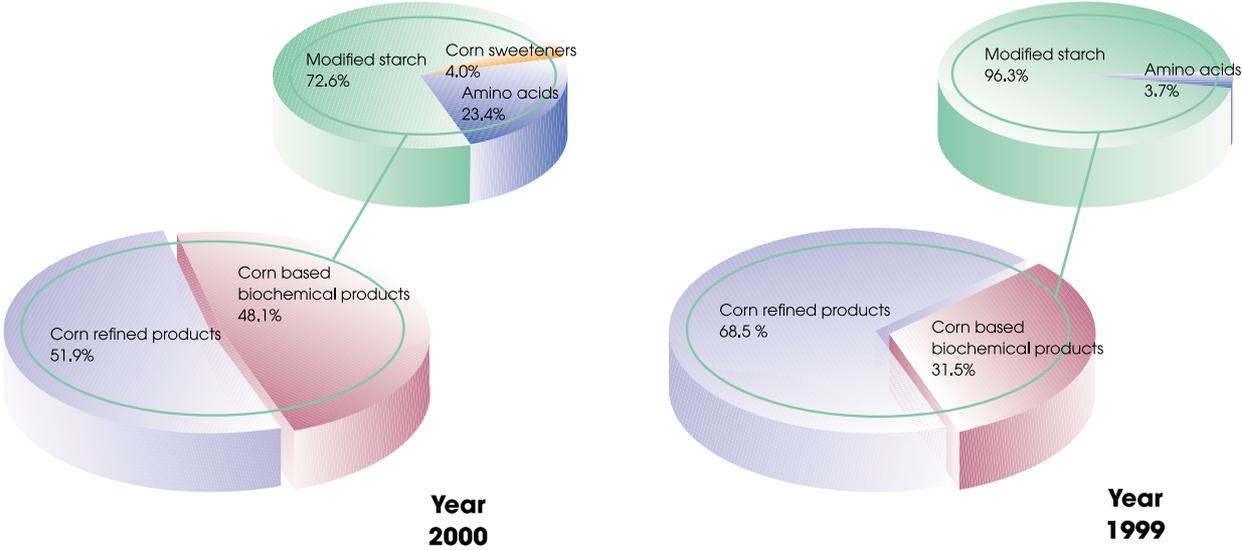
Due to the rapid expansion of those enhanced corn based biochemical products, the increased production of corn refined products, being the raw materials of those downstream products, was utilised internally. As a result, the sale of corn refined products to outsiders remained healthy and strong for the year. Furthermore, in view of the continuous decrease in the price of corn kernels, the Group adjusted its selling price of corn refined products downward to reinforce its competitiveness within the industry. As a result, the sale of corn refined products decreased slightly by 4.4%. Despite the downward price adjustment there was a favorable impact on the Group's operating results as the magnitude of downward adjustment in selling price was less than the decrease in corn kernels price.

# Management Discussion and Analysis

## IMPROVED GROSS PROFIT

Below is the gross profit analysis of the Group:

	2000		Year		change %
	HK\$'000	GP%	1999 HK\$'000	GP%	
Corn based biochemical products					
Modified starch	<b>142,587</b>	<b>56.5</b>	76,572	53.2%	86.2
Amino acids	<b>45,925</b>	<b>55.9</b>	2,967	57.0%	1,447.9
Corn sweeteners	<b>7,980</b>	<b>53.6</b>	—	—	N/A
	<b>196,492</b>	<b>56.2</b>	79,539	53.3%	147.0
Corn refined products	<b>212,136</b>	<b>24.7</b>	172,620	19.2%	22.9
<b>Total</b>	<b>408,628</b>	<b>33.8</b>	252,159	24.1%	62.1



## Management Discussion and Analysis

During the year under review, sale of corn refined products of the Group remained at a similar level as compared to that of 1999, while gross profit of the Group increased by approximately HK\$39.5 million, representing an increase of approximately 22.9% as compared to that of the previous year. Such an increase was mainly attributable to the drop in raw materials price of approximately 8.0% as compared to 1999. In order to obtain a cheaper source of raw materials, the Group adopted a new practice of purchasing corn kernels from farmer directly, who are willing to offer competitive prices to the Group in exchange for shorter payment terms. By using computer systems to assist the plant supervisors and technicians to exercise online, real time control over the production process, the Group can maintain operational consistency and assures purity of products with maximum cost efficiency and minimal materials wastage throughout the production process. The high product quality reinforces our product prices while the low production wastage lowers cost of our products. All these are important contributing factors in increasing the gross profit margin of our corn refined products.

For corn based biochemical products, the average gross profit margin remained at a level of over 50% during the year under review. The relatively high profit margin as compared to other manufacturers within the industry evidenced the Group's success in adopting downstream vertical integration. The stable supply of corn starch by our upstream production, coupled with the profits captured from internalising the supply of these intermediate raw materials, provided a wider profit margin to our corn based biochemical products. In mid 2000, two of our corn based biochemical products, amino acids and corn sweeteners, commenced its mass production and were launched to market, from which an additional gross profit of approximately HK\$50.9 million was achieved. At the same time, the production of modified starch was approaching full capacity. Leveraged on the advantage of large scale production and lower raw materials cost, the gross profit margin of these products grew by approximately 3.0%. As a whole, corn based biochemical products contributed approximately HK\$196.5 million to the Group's gross profit in 2000, representing an increase of approximately 147.0% from 1999. Inevitably, corn based biochemical products will continue to be our major sources of income in the coming years.

### OTHER REVENUE, OPERATING EXPENSES AND FINANCE COSTS

	Year		1999	change	
	2000	% to			
	HK\$'000	turnover	HK\$'000	% to turnover	%
Other revenue	<b>4,933</b>	<b>0.4</b>	1,206	0.1	309.0
Selling and distribution expenses	<b>45,967</b>	<b>3.8</b>	31,687	3.0	45.1
Administrative expenses	<b>36,006</b>	<b>3.0</b>	26,264	2.5	37.1
Other operating expenses	<b>14,905</b>	<b>1.2</b>	29,713	2.8	(49.8)
	<b>96,878</b>	<b>8.0</b>	87,664	8.3	10.5
Finance costs	<b>35,947</b>	<b>3.0</b>	23,812	2.3	51

# Management Discussion and Analysis

Other revenue of the Group in 2000 comprised the proceeds from the disposal of certain scrap materials, such as containers, which amounted to approximately HK\$2.1 million (1999: 0.1 million). The remaining balance in other revenue represented the bank interest earned.

As in 1999, the Group exercised stringent control over its selling and distribution and administrative expenses. It is the Group's practice to control these expenses in accordance with its sales performance. In view of expanded overseas sales to Asian countries, the distribution expenses increased while the administrative expenses remained at a reasonable level.

A substantial portion of other operating expenses was attributed to research and development cost. In 1999, the Group acquired the technical know-how related to the corn based biochemical processes which amounted to HK\$22.8 million as a way to strengthen its competitiveness. As the expenditure was not related to any specific product, it was directly charged to the profit and loss account. In 2000, the Group focused on its internal development of new production technology and new products, which are expected to be commercialised in the coming years.

The finance costs increased from approximately HK\$23.8 million in 1999 to approximately HK\$35.9 million in 2000 as a result of the increase in bank borrowings used for the expansion of the Group's production capacity and operations.

## **PROFIT GROWTH**

Combining the effects of changes in gross profit, operating expenses and finance costs, the Group's net profit from ordinary activities attributable to shareholders improved from approximately HK\$112.8 million in 1999 to approximately HK\$230.2 million in 2000. The net profit to turnover also increased from 10.8% to 19.1%. To summarise, the significant growth in net profit from ordinary activities attributable to shareholders was attributable to the sale of corn based biochemical products.

## **FINANCIAL POSITION**

### **Structure of Assets and Liabilities**

As at 31 December 2000, total assets of the Group increased by approximately HK\$286.3 million to approximately HK\$1,193.6 million, while the net current assets of the Group increased by approximately HK\$107.6 million to approximately HK\$141.9 million. The total liabilities increased only by approximately HK\$8.3 million. The shareholders' equity was approximately HK\$367.0 million, representing an increase of approximately HK\$236.3 million over 1999.

## Management Discussion and Analysis

In view of the expansion of the Group's production capacity in corn based biochemical products, both the production facilities and working capital requirement increased during the year, which was financed by the Group's internal resources and bank borrowings. As at 31 December 2000, the total bank borrowings of the Group amounted to approximately HK\$540.0 million. These borrowings were secured by (i) fixed charges on certain leasehold land and buildings, and plant and machinery of the Group; (ii) a corporate guarantee given by a subsidiary of the Company; (iii) fixed deposits owned by certain directors of the Company; (iv) personal guarantees given by certain directors of the Company; and (v) corporate guarantees given by independent third parties. With strong operating results and proceeds from the Share Offer, the Group's reliance on external financing is expected to be lessened.

As at the closing date of the year under review, the Group's current ratio, quick ratio, gearing ratio and debts to equity ratio of the Group were approximately 1.4 (1999: 1.1), 1.1 (1999: 0.9), 60.9% (1999: 79.3%) and 156.0% (1999: 382.1%), respectively. These changes reflected an improvement in the Group's structure of assets and liabilities.

Below is the summary of major balance sheet items:

	<b>31 December</b>		Change %
	<b>2000</b> HK\$'000	1999 HK\$'000	
Non current Assets	<b>694,295</b>	575,366	20.7
Current assets	<b>499,306</b>	331,896	50.4
<b>Total assets</b>	<b>1,193,601</b>	907,262	31.6
Current liabilities	<b>357,453</b>	297,657	20.1
Non-current liabilities	<b>296,729</b>	348,229	(14.8)
<b>Total liabilities</b>	<b>654,182</b>	645,886	1.3
Minority interests	<b>172,382</b>	130,658	31.9
Capital and reserves	<b>367,037</b>	130,718	180.8

# Biographical Details of Directors and Senior Management

## **EXECUTIVE DIRECTORS**

### **LIU Xiaoming**

Mr. Liu, aged 45, is the Chairman of the Group. Before joining the Group, Mr. Liu had been a deputy managing director of a conglomerate in Hong Kong for 12 years, responsible for business development and investment projects both in Hong Kong and the PRC. He is responsible for the Group's overall business development as well as formulation of corporate policies and strategies. He holds a bachelor's degree in chemical engineering from the Hua Nan Polytechnic University.

### **KONG Zhanpeng**

Mr. Kong, aged 37, 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. Mr. Kong has over 10 years' management experience in the textile trading and manufacturing industry. Prior to founding the Group, Mr. Kong worked as the managing director of a company which was mainly involved in trading and property investments in Hong Kong. He holds a bachelor's degree in textile engineering and a diploma in international trade from the China Textile University.

### **AU Chun Fat**

Mr. Au, aged 58, is one of the founders of the Group. He is responsible for the Group's administration. Prior to founding the Group, Mr. Au accumulated over 12 years' management experience in various companies which were engaged in the trading of machinery and equipment in Hong Kong and the PRC.

### **WANG Tieguang**

Mr. Wang, aged 36, is responsible for the Group's sales and marketing functions. He holds a bachelor's degree in economics from the University of Heilongjiang and has accumulated over 9 years' experience in sales and marketing. He joined the Group in November 1994.

## **INDEPENDENT NON-EXECUTIVE DIRECTORS**

### **LEE Yuen Kwong**

Mr. Lee, aged 40, 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 in Business Studies. He has over 14 years' experience in accounting, auditing, taxation and management consulting. Mr. Lee is currently an appointed member of the Kwai Tsing District Council. He is also a member of the Kwai Tsing District Fight Crime Committee and the Kwai Tsing West Area Committee, respectively.

## Biographical Details of Directors and Senior Management

### **CHAN Man Hon, Eric**

Mr. Chan, aged 44, is a solicitor and has been practising in Hong Kong for over 19 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.

### **COUNSELLOR**

#### **XU Zhouwen**

Mr. Xu, aged 58, is the counsellor to the Group. He is the chief executive of the Changchun Corn Industry Development Zone (the "Zone"), Changchun, Jilin Province, the PRC, responsible for the development of agricultural processing industries in the Changchun Municipal and the management, administration, engineering design and technological development in the Zone. To discharge his responsibilities, he acts as advisor to various enterprises and companies established and operated in the Zone. Currently he plays an advisory and management role in various PRC subsidiaries of the Company to assist the Group in improving its production expertise and technological knowhow, support the Group in the development of biochemical technologies, and advise the Group on product and market strategies. He graduated from Harbin Electric University in 1970 and has over 29 years' experience in manufacturing and engineering. Mr. Xu is a member of the Corn Refiners Association in the US.

### **SENIOR MANAGEMENT**

#### **NG Wai Kee**

Mr. Ng, aged 40, is the Company Secretary of the Company. He holds a diploma in accounting from the Hong Kong Shue Yan College. He is a Fellow of The Association of Chartered Certified Accountants and the Hong Kong Society of Accountants. He has over 14 years' experience in auditing, accounting, and secretarial practice. He had worked in various local reputable professional firms before joining the Group in August 2000.

#### **CHEUNG Chak Fung**

Mr. Cheung, aged 36, 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 10 years' experience in auditing, treasury, budgeting, financial and management accounting. Prior to joining the Group in September 2000, he had worked in a renowned international garment manufacturing group for 5 years and in a reputable international professional firm for 5 years, respectively.

# Biographical Details of Directors and Senior Management

## **QI Hong-bin**

Mr. Qi, aged 34, is the manager of the research and development department. He holds a master's degree from the Jilin Agricultural University, specialising in mechanical engineering. He has over 4 years' experience in process engineering and technology development. Before joining the Group in January 1996, he worked as an engineer in a PRC corn processing company.

## **WANG Hui**

Mr. Wang, aged 36, is the manager of the corn products section of the production department. He graduated from the Qiqihaer University with a bachelor's degree in chemical engineering, specialised in high polymer material engineering. He has over 10 years' working experience in corn processing and accumulated specialist expertise in synthesising and analysing biochemical products. He joined the Group in January 1996.

## **HAN Zhengjun**

Mr. Han, aged 37, is the manager of the corporate planning office. He has over 13 years of economic strategic planning and management experience. He was formerly a secretary of Planning Commission of Jilin Province and secretary of Planning and Economic Commission of Jilin Province before he joined the Group in March 1996. He holds a bachelor's degree in economics from Jilin Government University.

## **ZHENG Guichen**

Mr. Zheng, aged 39, is the assistant manager of the corn products section of the production department. Since graduation from Jilin Grain High College for Professional Training, specialising in food engineering, he has accumulated over 13 years' experience in manufacturing. He formerly worked in various PRC corn processing enterprises before joining the Group in February 1997.

## **YANG Dong**

Mr. Yong, aged 31, is the assistant manager of the corporate planning office. He graduated from Jilin Financial Trading College and has accumulated over 8 years' experience in factory management and operations. He joined the Group in March 1998.

## **WANG Guicheng**

Mr. Wang, aged 33, is the assistant manager of the biochemical products section of the production department. He graduated from Jilin Grain High College for Professional Training, specialising in storage and analysis. He was formerly a quality manager in a PRC corn processing company, with active participation in the research and development of more than 10 kinds of modified starch and dextrin products. He joined the Group in April 1997.

## Biographical Details of Directors and Senior Management

### **ZHANG Xiuzhen**

Ms. Zhang, aged 56, is the manager of the administration department. She has over 10 years' administrative experience. She worked as a personnel manager of a PRC corn processing company before joining the Group in January 1996.

### **LEE Chi Yung**

Mr. Lee, aged 26, is the finance manager of the Group. He has 4 years' comprehensive experience in auditing, taxation and financial and management accounting. 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 a member of The Association of Chartered Certified Accountants. He joined the Group in September 2000.

# Report of the Directors

The directors herein present their report and the audited financial statements of Global Bio-chem Technology Group Company Limited (“the Company”) for the period from 18 May 2000 (date of incorporation) to 31 December 2000. The audited financial statements for the year ended 31 December 2000 include supplementary pro forma combined financial statements of the Company and its subsidiaries (collectively referred to as the “Group”), which was legally formed subsequent to 31 December 2000.

## **GROUP REORGANISATION**

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 18 May 2000 under the Companies Law (2000 Revision) of the Cayman Islands. Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the companies now comprising the Group on 1 March 2001. Further details of the Group reorganisation and the subsidiaries acquired pursuant thereto are set out in notes 1, 12 and 19 to the financial statements.

Subsequent to the balance sheet date, on 16 March 2001, pursuant to the Company’s initial public offering, the shares of the Company were listed on the Stock Exchange.

In order to apprise the Company’s shareholders of the pro forma combined financial results and position of the Group, should the Group have been in existence throughout the years ended 31 December 1999 and 2000, supplementary financial information comprising supplementary pro forma combined profit and loss account, statement of recognised gains and losses, balance sheet and cash flow statement are included in this annual report. The basis of preparing the aforesaid supplementary financial information, which is detailed in note 1 to the financial statements, has also been applied for presenting the information referring to the Group in this report of the directors.

## **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 12 to the financial statements. There were no changes in the nature of the Group’s principal activities during the year.

# Report of the Directors

## SEGMENTAL INFORMATION

An analysis of the Group's pro forma combined turnover and contribution to profit from operating activities by principal activity and geographical area for the year ended 31 December 2000 is as follows:

	Turnover		Contribution to profit from operating activities	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Manufacture and sale of:				
Corn refined products	<b>858,382</b>	897,770	<b>156,225</b>	123,462
Corn based biochemical products	<b>349,644</b>	149,140	<b>160,458</b>	42,239
	<b>1,208,026</b>	1,046,910	<b>316,683</b>	165,701
By geographical area:				
The People's Republic of China (the "PRC")	<b>1,130,519</b>	1,017,679	<b>305,654</b>	162,561
Other Asian countries	<b>77,507</b>	29,231	<b>11,029</b>	3,140
	<b>1,208,026</b>	1,046,910	<b>316,683</b>	165,701

## RESULTS AND DIVIDENDS

The Group's pro forma combined profit for the year ended 31 December 2000 and its pro forma combined state of affairs as at that date, together with the state of affairs of the Company as at 31 December 2000, are set out in the financial statements on pages 34 to 60.

The directors do not recommend the payment of any dividend in respect of the period.

## FIXED ASSETS

Details of the movements in the Group's fixed assets are set out in note 11 to the financial statements.

## SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 12 to the financial statements.

# Report of the Directors

## **BORROWINGS**

Details of the Group's borrowings at the balance sheet date are set out in notes 16, 17 and 18 to the financial statements.

## **INTEREST CAPITALISED**

Interest of approximately HK\$403,000 (1999: HK\$1,650,000) was capitalised during the year in respect of the Group's construction in progress.

## **SHARE CAPITAL AND SHARE OPTIONS**

Details of the movements in the Company's share capital since 18 May 2000 (date of incorporation), together with the reasons therefor, and details of the Company's share option scheme are set out in note 19 to the financial statements.

## **RESERVES**

Details of the movements in the Group's reserves are set out in note 20 to the financial statements.

## **DISTRIBUTABLE RESERVES**

At 31 December 2000, the Company did not have any distributable reserves.

## **PRE-EMPTIVE RIGHTS**

There are no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## **MAJOR CUSTOMERS AND SUPPLIERS**

The 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 pro forma combined turnover and purchases for the year, respectively.

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

# Report of the Directors

## **DIRECTORS**

The directors of the Company since 18 May 2000 (date of incorporation) and up to the date of this report were as follows:

### *Executive directors*

Mr. Liu Xiaoming	(appointed on 18 May 2000)
Mr. Kong Zhanpeng	(appointed on 18 May 2000)
Mr. Au Chun Fat	(appointed on 22 September 2000)
Mr. Wang Tieguaang	(appointed on 22 September 2000)

### *Independent non-executive directors*

Mr. Lee Yuen Kwong	(appointed on 22 September 2000)
Mr. Chan Man Hon, Eric	(appointed on 1 November 2000)

In accordance with article 108A of the Company's articles of association, Mr. Au Chun Fat will retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

Each of the independent non-executive directors is currently appointed for a term of two years commencing from 1 March 2001.

## **BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT**

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 22 to 25 of the annual report.

## **EMOLUMENTS OF DIRECTORS AND SIX HIGHEST PAID EMPLOYEES**

Details of the emoluments of the directors of the Company and the six highest paid employees of the Group are set out in note 6 to the financial statements.

## **RETIREMENT BENEFITS SCHEME**

Details of the retirement benefits scheme of the Group and the employer's costs charged to the profit and loss account for the year are set out in notes 3 and 5 to the financial statements, respectively.

## **DIRECTORS' SERVICE CONTRACTS**

Each of the executive directors has entered into a service contract with the Company for an initial term of three years commencing from 1 March 2001, which will continue thereafter until terminated by either party giving not less than three months' notice in writing.

# Report of the Directors

## **DIRECTORS' SERVICE CONTRACTS** (continued)

Save as disclosed above, no director 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 other than the statutory compensation.

## **DIRECTORS' INTERESTS IN SHARES**

Subsequent to the balance sheet date, on 16 March 2001, the Company was listed on the Stock Exchange. Accordingly, at the date of this report, the interests of the directors in the listed share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were set out below:

<b>Name of directors</b>	<b>Notes</b>	<b>Nature of interest</b>	<b>Number of ordinary shares held</b>
Mr. Liu Xiaoming	1	Corporate	288,000,000
Mr. Au Chun Fat	2	Corporate	288,000,000
Mr. Kong Zhanpeng	2	Corporate	288,000,000
Mr. Au Chun Fat	3	Corporate	240,000,000

### *Notes:*

1. These 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. These shares are owned by Hartington Profits Limited, a company incorporated in the BVI. Mr. Au Chun Fat and Mr. Kong Zhanpeng, each beneficially owns 50% of the issued share capital of Hartington Profits Limited. Accordingly, Mr. Au Chun Fat and Mr. Kong Zhanpeng are deemed to be interested in all of the shares held by Hartington Profits Limited.
3. These shares are owned by In-depth Profits Limited, a company incorporated in the BVI. The entire issued share capital of In-depth Profits Limited is beneficially owned by Mr. Au Chun Fat.

Save as disclosed above, none of the directors, chief executives or their associates had any interest in the issued share capital of the Company or any of its associated corporations, as defined in the SDI Ordinance.

# Report of the Directors

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Under the terms of a share option scheme (the "Scheme") adopted by the Company on 1 March 2001, the directors of the Company may, at their discretion, grant options to the employees, including executive directors of the Company and their subsidiaries to subscribe for shares of the Company. Further details of the Scheme are set out in note 19 to the financial statements. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 16 March 2001. To the date of this report, no options have been granted to any director or employee under the Scheme.

Save as disclosed above, and other than in connection with the Group reorganisation in preparation for the Company's initial public offering, at no time since its incorporation was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## DIRECTORS' INTERESTS IN CONTRACTS

Other than in connection with the Group reorganisation in preparation for the Company's initial public offering, no director had a significant beneficial interest, either directly or indirectly, in any contract of significance to which the Company or any of its subsidiaries was a party during the year.

## SUBSTANTIAL SHAREHOLDERS

At the date of this report, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests in shares required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

<b>Name</b>	<b>Number of shares held</b>	<b>Percentage of holding</b>
LXM Limited	288,000,000 <sup>#</sup>	22.50%
Hartington Profits Limited	288,000,000 <sup>#</sup>	22.50%
In-depth Profits Limited	240,000,000 <sup>#</sup>	18.75%

<sup>#</sup> The shareholding is duplicated in the directors' interests in shares disclosed above.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

# Report of the Directors

## **CONNECTED TRANSACTIONS**

Details of the disclosable connected transactions for the year are set out in note 24 to the financial statements. 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").

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

The Company's shares were listed on the Main Board of the Stock Exchange on 16 March 2001. Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities since that date.

## **POST BALANCE SHEET EVENTS**

Details of the significant post balance sheet events are set out in note 25 to the financial statements.

## **AUDIT COMMITTEE**

To comply with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, the Company established an audit committee (the "Committee") on 1 March 2001, with written terms of reference for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal control systems of the Group. The Committee comprises two independent non-executive directors of the Company, namely, Mr. Lee Yuen Kwong and Mr. Chan Man Hon, Eric. The Group's supplementary pro forma combined financial statements for the year and the Company's financial statements for the period from 18 May 2000 (date of incorporation) to 31 December 2000 have been reviewed by the Committee, who was of the opinion that such statements complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

## **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**

*Chairman*

Hong Kong  
24 April 2001



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 34 to 60 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 statements and to report our opinion to you.

## **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 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 as at 31 December 2000 and of its results for the period from 18 May 2000 (date of incorporation) to 31 December 2000 and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**  
*Certified Public Accountants*

Hong Kong  
24 April 2001

# Balance Sheet

31 December 2000

	Notes	HK\$
<b>CURRENT ASSET</b>		
Cash on hand		—
<b>CAPITAL</b>		
Share capital	1,19	—

**LIU Xiaoming**

*Director*

**KONG Zhanpeng**

*Director*

# Supplementary Pro Forma Combined Profit and Loss Account

Year ended 31 December 2000

	Notes	<b>2000</b> <b>HK\$'000</b>	1999 HK\$'000
TURNOVER	4	<b>1,208,026</b>	1,046,910
Cost of sales		<b>(799,398)</b>	(794,751)
Gross profit		<b>408,628</b>	252,159
Other revenue		<b>4,933</b>	1,206
Selling and distribution expenses		<b>(45,967)</b>	(31,687)
Administrative expenses		<b>(36,006)</b>	(26,264)
Other operating expenses		<b>(14,905)</b>	(29,713)
PROFIT FROM OPERATING ACTIVITIES	5	<b>316,683</b>	165,701
Finance costs	7	<b>(35,947)</b>	(23,812)
Share of profit of an associate		—	5,526
PROFIT BEFORE TAX		<b>280,736</b>	147,415
Tax	8	<b>(14,227)</b>	(174)
PROFIT BEFORE MINORITY INTERESTS		<b>266,509</b>	147,241
Minority interests		<b>(36,341)</b>	(34,483)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<b>230,168</b>	112,758
Retained profits at beginning of year		<b>125,342</b>	42,798
Appropriations:			
Dividend	9	—	(30,000)
Statutory reserve fund		<b>(481)</b>	(214)
RETAINED PROFITS AT END OF YEAR	20	<b>355,029</b>	125,342
EARNINGS PER SHARE — Basic	10	<b>HK24.0 cents</b>	HK11.7 cents

# Supplementary Pro Forma Combined Statement of Recognised Gains and Losses

Year ended 31 December 2000

	Note	2000 HK\$'000	1999 HK\$'000
Surplus on revaluation of leasehold land and buildings	20	<b>6,151</b>	—
Gain not recognised in the profit and loss account		<b>6,151</b>	—
Net profit from ordinary activities attributable to shareholders		<b>230,168</b>	112,758
Total recognised gains and losses		<b>236,319</b>	112,758

# Supplementary Pro Forma Combined Balance Sheet

31 December 2000

	Notes	<b>2000</b> <b>HK\$'000</b>	1999 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	11	<b>694,295</b>	575,366
<b>CURRENT ASSETS</b>			
Prepayments, deposits and other receivables		<b>84,907</b>	106,804
Inventories	13	<b>90,415</b>	63,574
Trade receivables	14	<b>228,253</b>	128,814
Cash and bank balances		<b>95,731</b>	32,704
		<b>499,306</b>	331,896
<b>CURRENT LIABILITIES</b>			
Interest-bearing bank loans	17	<b>243,313</b>	76,130
Trade payables	15	<b>74,458</b>	132,248
Other payables and accruals		<b>25,455</b>	89,105
Tax payable		<b>14,227</b>	174
		<b>357,453</b>	297,657
<b>NET CURRENT ASSETS</b>		<b>141,853</b>	34,239
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>836,148</b>	609,605
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other loans	16,17	<b>296,729</b>	348,229
<b>MINORITY INTERESTS</b>	18	<b>172,382</b>	130,658
		<b>367,037</b>	130,718
<b>CAPITAL AND RESERVES</b>			
Share capital	19	<b>200</b>	200
Reserves	20	<b>366,837</b>	130,518
		<b>367,037</b>	130,718

**LIU Xiaoming**  
Director

**KONG Zhanpeng**  
Director

# Supplementary Pro Forma Combined Cash Flow Statement

Year ended 31 December 2000

	Notes	2000 HK\$'000	1999 HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	21(a)	<b>121,201</b>	272,786
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		<b>2,883</b>	1,113
Interest paid		<b>(36,350)</b>	(25,462)
Dividend paid		—	(30,000)
Dividends paid to minority shareholders		<b>(1,683)</b>	(4,953)
Net cash outflow from returns on investments and servicing of finance		<b>(35,150)</b>	(59,302)
TAX			
Overseas taxes paid		<b>(174)</b>	(2,338)
INVESTING ACTIVITIES			
Purchases of fixed assets		<b>(144,129)</b>	(338,769)
Acquisition of additional interests in a subsidiary		—	(37,229)
Proceeds from disposal of an associate		—	7,493
Net cash outflow from investing activities		<b>(144,129)</b>	(368,505)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		<b>(58,252)</b>	(157,359)
FINANCING ACTIVITIES	21(b)		
Inception of new bank loans		<b>452,852</b>	217,196
Repayment of bank loans		<b>(135,669)</b>	(156,579)
Inception of new other loans		—	77,500
Repayment of other loans		<b>(201,500)</b>	—
Increase in amounts due to minority shareholders		—	12,430
Capital contribution from a minority shareholder of a subsidiary		<b>5,596</b>	11,493
Proceeds from issue of share capital of a subsidiary		—	1
Net cash inflow from financing activities		<b>121,279</b>	162,041

## Supplementary Pro Forma Combined Cash Flow Statement (continued)

Year ended 31 December 2000

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
INCREASE IN CASH AND CASH EQUIVALENTS	<b>63,027</b>	4,682
Cash and cash equivalents at beginning of year	<b>32,704</b>	28,022
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>95,731</b>	32,704
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>95,731</b>	32,704

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 1. GROUP REORGANISATION AND BASIS OF PRESENTATION

### The Company

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 18 May 2000 under the Companies Law (2000 Revision) of the Cayman Islands. On incorporation, the Company had an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each, all of which were issued and allotted nil paid on incorporation. Apart from the foregoing, no other transactions were carried out by the Company during the period from 18 May 2000 (date of incorporation) to 31 December 2000. Accordingly, the Company has not recorded any profits or losses for the period.

Comparative amounts have not been presented for the Company's balance sheet as the Company did not exist as at 31 December 1999.

### Group reorganisation

Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 1 March 2001. This was accomplished by the Company acquiring the entire issued share capital of Global Corn Bio-chem Technology Company Limited ("Global Corn"), the then holding company of the other subsidiaries as set out in note 12 to the financial statements, in consideration and in exchange for the allotment and issue of a total of 1,000,000 shares of HK\$0.10 each in the share capital of the Company credited as fully paid, to the former shareholders of Global Corn. Further details of the Group reorganisation and the subsidiaries acquired pursuant thereto are set out in notes 12, 19 and 20 to the financial statements and in the Company's listing prospectus dated 7 March 2001.

### Basis of presentation

The Group reorganisation involved companies under common control. As the Group reorganisation took place on 1 March 2001, according to the Statement of Standard Accounting Practice No. 2.127, "Accounting for Group Reconstructions", the Company together with its subsidiaries should be regarded and accounted for as a continuing group in the preparation of the Group's financial statements commencing from the year ending 31 December 2001. Nevertheless, for the benefit of shareholders, supplementary pro forma combined financial statements for the current year and the related notes thereto have also been presented in these financial statements, prepared on the basis that the Company is treated as the holding company of its subsidiaries for the financial years presented rather than from the subsequent date of its acquisition of the subsidiaries on 1 March 2001. The pro forma combined results of the Group for the years ended 31 December 1999 and 2000 include the results of the Company and its subsidiaries with effect from 1 January 1999 or since their respective dates of incorporation/establishment, where this is a shorter period. The supplementary pro forma combined balance sheets as at 31 December 1999 and 2000 have been prepared on the basis that the current Group structure was in place at those dates.

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 1. GROUP REORGANISATION AND BASIS OF PRESENTATION (continued)

### Basis of presentation (continued)

All significant transactions and balances among the companies comprising the Group have been eliminated on combination.

Although the Group reorganisation was not completed and, accordingly, the Group did not legally exist until 1 March 2001, in the opinion of the directors of the Company, the presentation of such supplementary pro forma combined financial statements prepared on the aforesaid basis is necessary to apprise the Company's shareholders of the Group's profit and its state of affairs as a whole.

## 2. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 12 to the financial statements. There were no changes in the nature of the principal activities of the Company's subsidiaries during 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. The supplementary pro forma combined financial statements of the Group have been presented on the basis as set out in note 1 above. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets, as further explained below.

### 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) the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyers, 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged or credited to the profit and loss account on the straight-line basis over the lease terms.

### Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. The Scheme became effective from 1 December 2000. 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 Scheme. The assets of the 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 Scheme.

### 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.

### Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation. 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Fixed assets and depreciation (continued)

Changes in the values of fixed assets are dealt with as movements in the fixed asset 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 asset 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, and is stated at cost and not depreciated. Cost comprises direct costs of construction and interest charges 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.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, ie, 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. 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Interests in subsidiaries are stated at cost unless, in the opinion of the directors of the Company, there have been permanent diminutions in values, when they are written down to values determined by the directors of the Company.

### Associates

An associate is a company, not being a subsidiary or a joint venture, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the supplementary pro forma combined profit and loss account and reserves, respectively. The Group's interests in associates are stated in the supplementary pro forma combined balance sheet at the Group's share of net assets under the equity method of accounting.

### 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.

### Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

### Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange 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.

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies (continued)

On combination, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

### 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.

### Cash equivalents

For the purpose of the supplementary pro forma combined cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of the supplementary pro forma combined balance sheet, cash and bank balances represent assets 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 combination.

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 5. PROFIT FROM OPERATING ACTIVITIES

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

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Cost of inventories sold	<b>799,398</b>	794,751
Depreciation	<b>33,224</b>	24,702
Operating lease rentals:		
Leasehold land and buildings	<b>1,001</b>	411
Plant and machinery	<b>280</b>	1,542
Staff costs (excluding directors' remuneration — note 6):		
Wages and salaries	<b>13,856</b>	8,682
Retirement scheme contributions	<b>5</b>	—
Auditors' remuneration	<b>1,350</b>	1,200
Research and development costs	<b>14,905</b>	28,526
Interest income	<b>(2,883)</b>	(1,113)

## 6. EMOLUMENTS OF DIRECTORS AND SIX HIGHEST PAID EMPLOYEES

The Group did not exist as at 31 December 2000. Had the Group reorganisation been completed on 1 January 1999, the details of the remuneration of the Company's directors would have been as follows:

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Fees:		
Executive directors	—	—
Non-executive directors	—	—
Basic salaries, housing benefits, other allowances and benefits in kind:		
Executive directors	<b>3,072</b>	2,880
Non-executive directors	—	—
	<b>3,072</b>	2,880

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 6. EMOLUMENTS OF DIRECTORS AND SIX HIGHEST PAID EMPLOYEES (continued)

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

	<b>2000</b>	1999
	<b>Number of</b>	Number of
	<b>directors</b>	directors
Nil - HK\$1,000,000	<b>6</b>	6

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

The six highest paid employees during the year included four (1999: four) directors, details of their remuneration have been disclosed above. The remuneration of the remaining two (1999: two) non-director, highest paid employees are as follows:

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	<b>278</b>	90
Pension scheme contributions	<b>2</b>	—
	<b>280</b>	90

## 7. FINANCE COSTS

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Interest on bank and other loans, wholly repayable within five years	<b>36,350</b>	25,462
Less: Interest capitalised	<b>(403)</b>	(1,650)
	<b>35,947</b>	23,812

Interest capitalised during the year was calculated at a rate of approximately 6% (1999: 8%) per annum.

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 8. TAX

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Current year provision:		
Hong Kong	<b>375</b>	—
Elsewhere	<b>13,852</b>	174
	<b>14,227</b>	174

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

All of the Company's subsidiaries operating in the People's Republic of China (the "PRC") are exempted from the income tax of the PRC for two years starting from the first profitable year of their operations and are entitled to a 50% relief from the income tax of the PRC for the following three years.

Taxes on the assessable profits of three of the Company's PRC subsidiaries have been calculated at the applicable rates of tax prevailing in the PRC during the year. No provision for the income tax of the PRC has been made for other PRC subsidiaries as they did not generate any assessable profits for the year.

No provision for deferred tax has been made as the Group did not have any significant unprovided deferred tax in respect of the year (1999: Nil).

The revaluation of the Group's leasehold land and buildings does not constitute a timing difference and, consequently, there is no deferred tax arising thereon.

## 9. DIVIDEND

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Interim dividend	—	30,000

The 1999 interim dividend was paid by a subsidiary of the Company to its then shareholders prior to the Group reorganisation, as set out in note 1 to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the pro forma combined net profit from ordinary activities attributable to shareholders for the year of approximately HK\$230,168,000 (1999: HK\$112,758,000) and the pro forma weighted average of 960,000,000 (1999: 960,000,000) shares deemed to have been issued throughout the year, as set out in details in note 19 to the financial statements.

There were no potential dilutive ordinary shares in existence for the years ended 31 December 1999 and 2000, and accordingly, no pro forma diluted earnings per share have been presented.

## 11. FIXED ASSETS

### Group

	<b>Leasehold land and buildings</b>	<b>Construction in progress</b>	<b>Plant and machinery</b>	<b>Leasehold improvements, furniture, office equipment and motor vehicles</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost or valuation:</b>					
At beginning of year	126,183	181,663	297,493	12,726	618,065
Additions	94	101,908	40,101	2,429	144,532
Transfers	42,626	(149,942)	107,064	252	—
Surplus on revaluation	328	—	—	—	328
At 31 December 2000	169,231	133,629	444,658	15,407	762,925
<b>Analysis of cost or valuation:</b>					
At cost	—	133,629	444,658	15,407	593,694
At valuation	169,231	—	—	—	169,231
	169,231	133,629	444,658	15,407	762,925
<b>Accumulated depreciation:</b>					
At beginning of year	3,963	—	33,598	5,138	42,699
Provided during the year	3,330	—	27,040	2,854	33,224
Written back on revaluation	(7,293)	—	—	—	(7,293)
At 31 December 2000	—	—	60,638	7,992	68,630
<b>Net book value:</b>					
<b>At 31 December 2000</b>	<b>169,231</b>	<b>133,629</b>	<b>384,020</b>	<b>7,415</b>	<b>694,295</b>
At 31 December 1999	122,220	181,663	263,895	7,588	575,366

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 11. FIXED ASSETS (continued)

The Group's leasehold land and buildings included above are all held under medium term leases in the PRC.

At 31 December 2000, the Group's leasehold land and buildings were revalued on a depreciated replacement cost basis, by Chesterton Petty Limited, an independent firm of professional valuers, at approximately HK\$169,231,000. A surplus on revaluation of approximately HK\$7,621,000 arising from the above valuation has been credited to the fixed asset revaluation reserve (note 20).

Had the Group's leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK\$161,610,000 (1999: HK\$122,220,000).

Prior to its transfer to other categories of fixed assets, the carrying amount of construction in progress included capitalised interest of approximately HK\$543,000 (1999: HK\$1,473,000).

At 31 December 2000, certain leasehold land and buildings of the Group with a carrying value of approximately HK\$51,250,000 and certain plant and machinery of the Group with an aggregate net book value of approximately HK\$183,310,000 were pledged to secure banking facilities granted to the Group (note 17).

## 12. PARTICULARS OF SUBSIDIARIES

Particulars of the subsidiaries which were acquired pursuant to the Group reorganisation are as follows:

<b>Name</b>	<b>Place of incorporation/ establishment/ and operations</b>	<b>Paid-up share/ registered capital</b>	<b>Percentage of equity attributable to the Company</b>	<b>Principal activities</b>
<b>Directly held</b>				
Global Corn Bio-chem Technology Company Limited	British Virgin Islands ("BVI")	Ordinary US\$200	100%	Investment holding

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 12. PARTICULARS OF SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment/ and operations	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
<b>Indirectly held</b>				
Global Bio-chem Technology Limited	BVI	Ordinary US\$200	100%	Investment holding
Global Corn Investments Limited	BVI	Ordinary US\$200	100%	Investment holding
Bio-chem Technology (HK) Limited	Hong Kong	Ordinary HK\$2	100%	Trading of corn refined products and corn based biochemical products
Changchun Dacheng Bio-chem Engineering Development Co., Ltd.	PRC	RMB83,600,000	90%	Manufacture and sale of corn based biochemical products
Changchun Dacheng Corn Development Co., Ltd.	PRC	RMB99,540,000	80%	Manufacture and 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

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 12. PARTICULARS OF SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment/ and operations	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
<b>Indirectly held</b> (continued)				
Changchun Dacheng Starch Development Co., Ltd.	PRC	RMB54,400,000	90%	Manufacture and sale of corn refined products
Changchun Jiutai Corn Development Co., Ltd.	PRC	US\$560,000	100%	Manufacture and sale of livestock feeds
Shanghai Hao Cheng Food Development Co., Ltd.	PRC	US\$840,000	87%	Manufacture and sale of corn sweeteners

## 13. INVENTORIES

	Group	
	2000 HK\$'000	1999 HK\$'000
Raw materials	<b>65,682</b>	45,435
Finished goods	<b>24,733</b>	18,139
	<b>90,415</b>	63,574

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 14. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 30 to 90 days. All trade receivables as at 31 December 2000 and 1999 were aged less than 90 days from the date of recognition of the sale.

## 15. TRADE PAYABLES

All trade payables as at 31 December 2000 and 1999 were aged less than 90 days from the date of receipt of the goods purchased.

## 16. INTEREST-BEARING BANK AND OTHER LOANS

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Bank loans, secured and repayable:		
In the second year	<b>159,346</b>	—
In the third to fifth years, inclusive	<b>137,383</b>	146,729
	<b>296,729</b>	146,729
Other loans, secured and repayable:		
In the second year	—	124,000
In the third to fifth years, inclusive	—	77,500
	—	201,500
Total interest-bearing bank and other loans repayable after one year	<b>296,729</b>	348,229

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 17. BANKING FACILITIES

At 31 December 2000, the Group's banking facilities were secured by the following:

- (i) Fixed charges on certain leasehold land and buildings, and plant and machinery of the Group (note 11);
- (ii) A corporate guarantee given by a subsidiary of the Company;
- (iii) Fixed deposits owned by certain directors of the Company;
- (iv) Personal guarantees given by certain directors of the Company; and
- (v) Corporate guarantees given by independent third parties.

Subsequent to the balance sheet date, the security over the fixed deposits owned by certain directors of the Company and the personal guarantees given by certain directors of the Company were released and replaced by the security over a fixed deposit owned by the Company and the corporate guarantee from the Company.

## 18. MINORITY INTERESTS

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Minority interests	<b>99,204</b>	57,480
Due to minority shareholders	<b>73,178</b>	73,178
	<b>172,382</b>	130,658

The amounts due to minority shareholders are unsecured, interest-free and are not repayable before 31 December 2002.

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 19. SHARE CAPITAL

The following changes in the Company's authorised and issued share capital took place during the period from 18 May 2000 (date of incorporation) to the date of this report:

- (a) On incorporation, the authorised share capital of the Company was HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each, all of which were issued and allotted nil paid on 18 May 2000. At 31 December 2000, the authorised and issued share capital of the Company were HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each.
- (b) On 1 March 2001, the authorised share capital of the Company was increased from HK\$100,000 to HK\$200,000 by the creation of a further 1,000,000 shares of HK\$0.10 each, ranking pari passu with the existing share capital of the Company.
- (c) On 1 March 2001, as part of the Group reorganisation described in note 1 to the financial statements, the Company issued an aggregate of 1,000,000 shares of HK\$0.10 each credited as fully paid in consideration for the acquisition of the entire issued share capital of Global Corn.
- (d) On 1 March 2001, HK\$100,000, being part of the amount credited to the capital reserve of the Company arising from the issue by the Company of the shares as set out in (c) above, was applied to pay up in full at par the 1,000,000 shares issued and allotted nil paid on 1 March 2001.
- (e) On 1 March 2001, the authorised share capital of the Company was increased from HK\$200,000 to HK\$300,000,000 by the creation of a further 2,998,000,000 shares of HK\$0.10 each, ranking pari passu with the existing share capital of the Company.
- (f) On 1 March 2001, a total of 958,000,000 shares of HK\$0.10 each were allotted as fully paid at par to the holders of the shares on the register of members of the Company, in proportion to their respective shareholdings as at the close of business on 1 March 2001, by way of the capitalisation of the sum of HK\$95,800,000 standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of the issue of new shares to the public as detailed in (g) below.
- (g) On 15 March 2001, a total of 320,000,000 shares of HK\$0.10 each were issued to the public at HK\$1.02 each for a total cash consideration, before expenses, of HK\$326,400,000.

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 19. SHARE CAPITAL (continued)

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

	Notes	<b>Number of shares issued</b> '000	<b>Par value</b> HK\$'000
Shares allotted and issued nil paid on incorporation	(a)	1,000	—
Shares issued as consideration for the acquisition of the entire issued share capital of Global Corn	(c)	1,000	100
Application of capital reserve to pay up nil paid shares	(d)	—	100
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of new shares to the public	(f)	958,000	—
Pro forma share capital as at 31 December 1999 and 2000		960,000	200
Capitalisation of the share premium account as set out above	(f)	—	95,800
New issue on public listing	(g)	320,000	32,000
		<b>1,280,000</b>	<b>128,000</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 19. SHARE CAPITAL (continued)

### Share options

Under the terms of the Company's share option scheme adopted on 1 March 2001, the directors of the Company may, at their discretion, grant options to the employees, including executive directors of the Company and its subsidiaries to subscribe for shares of the Company. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option and will entitle the holders to subscribe for shares during such periods, in any event not later than 10 years from the date of grant of the option, as may be determined by the directors of the Company at a price not less than the higher of the nominal value of the shares and 80% of the average of the closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of the grant of the option. The maximum number of shares in respect of which options may be granted under the share option scheme shall not exceed, in nominal amount, 10% of the share capital of the Company in issue from time to time, or the maximum number of shares in respect of which options may be granted to any employee may not exceed 25% of the maximum number of shares in respect of which options may be granted under the share option scheme. Any shares allotted and issued on the exercise of options will rank *pari passu* with the other shares in issue at the date of exercise of the relevant option.

Up to the date of this report, no share options have been granted pursuant to the share option scheme.

## 20. RESERVES

	Contributed surplus	Fixed asset revaluation reserve	Statutory reserve fund	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 1999	—	—	4,961	42,798	47,759
Arising on acquisition of subsidiaries	1	—	—	—	1
Net profit for the year	—	—	—	112,758	112,758
Dividend for the year — note 9	—	—	—	(30,000)	(30,000)
Transfer from retained profits	—	—	214	(214)	—
At 31 December 1999 and 1 January 2000	1	—	5,175	125,342	130,518
Surplus on revaluation — note 11	—	7,621	—	—	7,621
Surplus on revaluation shared by minority shareholders	—	(1,470)	—	—	(1,470)
Net profit for the year	—	—	—	230,168	230,168
Transfer from retained profits	—	—	481	(481)	—
At 31 December 2000	1	6,151	5,656	355,029	366,837

In accordance with the Law of the PRC on Sole Foreign Investment Enterprises, the Company's PRC subsidiary is required to transfer an amount of not less than 10% of its profit after tax to the statutory reserve fund, which may be distributed to shareholders in the form of a bonus issue.

# NOTES TO FINANCIAL STATEMENTS

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## 21. NOTES TO THE SUPPLEMENTARY PRO FORMA COMBINED CASH FLOW STATEMENT

### (a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Profit from operating activities	<b>316,683</b>	165,701
Interest income	<b>(2,883)</b>	(1,113)
Depreciation	<b>33,224</b>	24,702
Decrease/(increase) in prepayments, deposits and other receivables	<b>21,897</b>	(16,307)
(Increase)/decrease in inventories	<b>(26,841)</b>	54,023
Increase in trade receivables	<b>(99,439)</b>	(41,627)
(Decrease)/increase in trade payables	<b>(57,790)</b>	31,216
(Decrease)/increase in other payables and accruals	<b>(63,650)</b>	56,191
Net cash inflow from operating activities	<b>121,201</b>	272,786

### (b) Analysis of changes in financing activities during the years

	<b>Bank loans, secured</b>	<b>Other loans, secured</b>	<b>Minority interests</b>	<b>Contributed surplus</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 1999	162,242	124,000	114,434	—
Cash inflow from financing activities, net	60,617	77,500	23,923	1
Share of profit	—	—	34,483	—
Dividends	—	—	(4,953)	—
Additional interests of a subsidiary acquired	—	—	(37,229)	—
Balance at 31 December 1999 and 1 January 2000	222,859	201,500	130,658	1
Cash inflow/(outflow) from financing activities, net	317,183	(201,500)	5,596	—
Share of profit	—	—	36,341	—
Share of revaluation surplus	—	—	1,470	—
Dividends	—	—	(1,683)	—
Balance at 31 December 2000	540,042	—	172,382	1

# NOTES TO FINANCIAL STATEMENTS

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## 22. CONTINGENT LIABILITIES

At the balance sheet date, neither the Group nor the Company had any significant contingent liabilities.

## 23. COMMITMENTS

At the balance sheet date, the Group had the following outstanding commitments:

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
(a) Contracted capital commitments in respect of leasehold buildings	<b>8,527</b>	17,595
(b) Future aggregate lease payments under non-cancellable operating leases in respect of:		
Leasehold land and building expiring:		
Within one year	<b>755</b>	—
In the second to fifth years, inclusive	<b>248</b>	1,322
Plant and machinery expiring:		
Within one year	<b>280</b>	280
	<b>1,283</b>	1,602

At the balance sheet date, the Company did not have any significant commitments.

## 24. RELATED PARTY TRANSACTIONS

During the year, the Group had the following material transactions with related parties:

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Sale of goods to Lucky Summit Development Limited ("Lucky Summit")	<b>22,039</b>	25,295
Purchases of raw materials from Jilin Province Jiliang Shuang Lung Cereal Warehouse ("Jilin Warehouse")	<b>6,676</b>	6,015
Purchases of machinery from Lucky Summit	<b>6,731</b>	28,676

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## **24. RELATED PARTY TRANSACTIONS** (continued)

Mr. Liu Xiaoming and Mr. Kong Zhanpeng, directors of the Company, are the directors and shareholders of Lucky Summit.

Jilin Province Jiliang Cereal Group Co. Ltd., a minority shareholder with a 15% interest in a subsidiary of the Company, is the holding company of Jilin Warehouse.

In the opinion of the directors of the Company, the sale of goods to Lucky Summit and purchases of raw materials from Jilin Warehouse were carried out in the ordinary course of business of the Group and were effected on prices and terms similar to other customers and suppliers, respectively. The purchases of machinery represented the actual costs incurred by Lucky Summit.

## **25. POST BALANCE SHEET EVENTS**

Subsequent to the balance sheet date, the following events occurred:

- (i) On 1 March 2001, the companies now comprising the Group underwent a reorganisation in preparation for the listing of the shares of the Company on the Stock Exchange and the Company became the holding company of the Group. Further details of the Group reorganisation are set out in notes 1 and 19 to the financial statements.
- (ii) On 15 March 2001, a total of 320,000,000 shares of HK\$0.10 each were issued to the public at HK\$1.02 each for a total cash consideration, before expenses, of HK\$326,400,000;
- (iii) On 16 March 2001, the shares of the Company were listed on the Stock Exchange; and
- (iv) In March 2001, bank loans of approximately HK\$176 million were granted to the Group, which are secured by a corporate guarantee from a subsidiary of the Company.

## **26. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved by the board of directors on 24 April 2001.