Global Bio-chem Technology Group Company Limited

大成生化科技集團有限公司*

Stock Code: 0809

RESOURCES
Integration

Innovative
THINKING

SCIENTIFIC
Development

2006
Annual Report

* For identification purpose only

CHANGCHUN & DEHUI

Annual Production Capacity:

• Amino Acids	- Lysine 140,000 mt
	- Protein Lysine 220,000 mt
	- Glutamic Acid 100,000 mt
	- Threonine 10,000 mt
• Corn Sweeteners	- Glucose & Maltose 1,060,000 mt
	- Sorbitol 60,000 mt
	- Crystallised Glucose 200,000 mt
	- Dextrin 20,000 mt
• Modified Starch	- 80,000 mt
• Chemicals	- Polyol 10,000 mt
	- Polyol 200,000 mt*
• Corn Refinery	- 1.2 million mt
	- 600,000 mt*

Site Area: Over 2.3 million m^2
Location: Situated within Golden Corn Belt

JINZHOU

Annual Production Capacity:

• Corn Refinery	- 600,000 mt

Site Area: Approximately 370,000 m^2
Location: Situated within Golden Corn Belt and at transportation hub

SHANGHAI

Annual Production Capacity:

• Corn Sweeteners	- Glucose & Maltose 80,000 mt
	- HFCS 100,000 mt

Site Area: Approximately 30,000 m^2
Location: Situated in close proximity to food & beverage manufacturer

HONG KONG

Headquarters

CHANGCHUN

DEHUI

Note: *In progress

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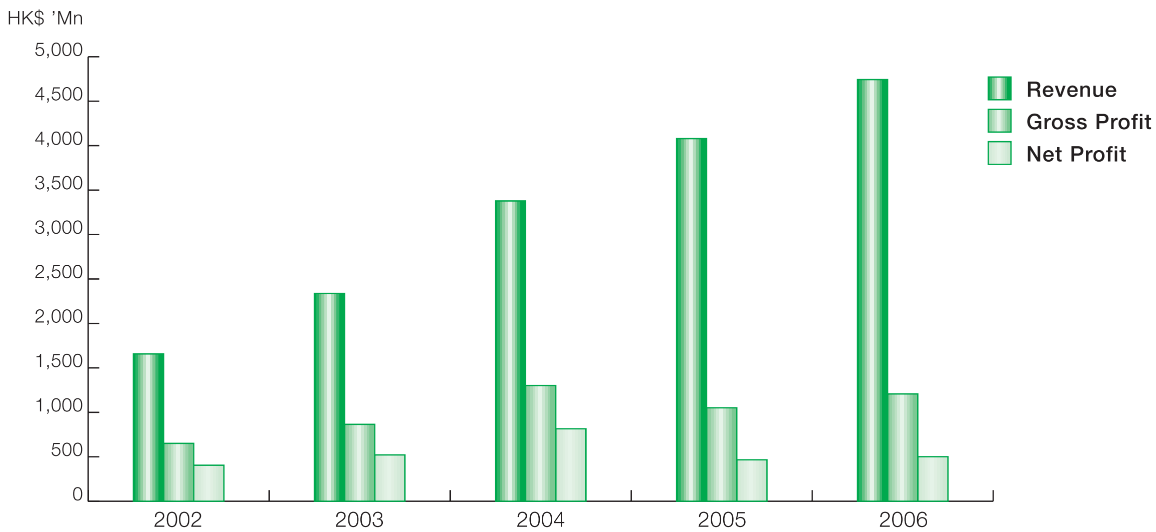
JINZHOU

SHANGHAI

Financial Highlights



	2006	2005	Change %
Revenue (HK$'Mn)	**4,743**	4,079	16
Profit before tax (HK$'Mn)	**557**	580	(4)
Net profit from ordinary activities attributable to shareholders (HK$'Mn)	**501**	466	8
Basic earnings per share (HK cents)	**21.6**	20.4	6
Dividend per share			
— Interim (HK cents)	**1.0**	2.0	(50)
— Proposed final (HK cents)	**2.0**	1.5	33

Dear shareholders,

The Group continued its strategy of achieving technology-driven product diversification in 2006, with capacity of its existing product expanded, and the production of certain new products commenced during the year. Such moves constitute a formidable platform for the Group's long-term sustainable development.

During the year under review, the Group encountered a substantial upsurge in prices of corn, a major production raw material, and energy costs including coal and power while at the same time faced severe fluctuation in lysine prices. In light of the adversity, the Group emphasised on maintaining its market share and leading position and achieved an outstanding sales performance in both local and overseas markets. Turnover for the year amounted to HK$4.7 billion, representing an increase of 16 per cent as compared to that of the previous year. Net profit for the year amounted to HK$501 million, which was a reasonable growth after a year of correction compared to that of the previous year.

Confronted by severe market conditions, the Group, on one hand, strengthened its operation efficiency by capitalising on its fully vertical integrated production facilities and economies of scale to effectively control production cost. On the other hand, the Group had lifted the sales of corn sweetener, in particular the HFCS, which offered a higher profit margin. Lysine price became stabilised, which led to an improvement in the Group's overall gross profit in the second half of the year. This resulted in a significant enhancement in overall performance of the second half of the year when compared to that of the first half of the year.

The sales of lysine in 2006 had been satisfactory, with sales volume further enlarged to 331,000 metric tonnes, of which export volume further increased doubly to 103,000 metric tonnes, admist a weak market sentiment during the year. The Group sustained its domestic market share of 60 per cent and further consolidated its position as the country's largest lysine supplier, leveraging opportunities arisen from a lysine market slump.

During the year under review, sales of corn sweeteners recorded a respectable growth. Corn sweeteners including HFCS, glucose and maltose, sold during the year, amounted to an aggregate of 365,000 metric tonnes, representing an increase of 35 per cent when compared to that of the previous year. These product series contributed a sales revenue of HK$671 million during the Year, accounting for 14 per cent of the Group's total sales revenue.

To satisfy strong market demand for corn sweeteners, the Group has increased its corn sweetener production capacity to 1,140,000 metric tonnes and expanded its product portfolio, including the introduction of crystallised glucose with an annual production capacity of 200,000 metric tonnes.

Other products of the Group also recorded satisfactory sales, of which threonine, with its production commenced in the second half of 2005, recorded favourable growth in both sales volume and revenue during the year under review, reflecting favourable market acceptance of the product.

The Group's glutamic acid plant is moving toward its designed efficiency after a period of tuning and adjusting of its facilities and the upgrading of its output quality. Located in Dehui, Jilin Province and with an annual capacity of 100,000 metric tonnes, the plant commenced its commercial production in the second half of 2006.

The Group originally established two joint venture companies with IPP for production of polyol using corn as raw material. The Group acquired the minority interests held by IPP in the two joint venture companies in July 2006 and they became wholly-owned subsidiaries of the Group. After the acquisition, the Group has been studying the application on a self-developed catalyst and self-initiated technology to produce polyol and has been proven success in applying them in polyol production. The original polyol trial plant has undergone an overhaul during the year. Currently, the Group is modifying the facilities in the larger plant with annual production capacity of 200,000 metric tonnes. Commercial production is expected to commence in the second half of 2007.

The Company is the first enterprise in the world to commercialise production of polyol chemical using corn as raw materials. During the research and development process, the Group has strengthened its technology in chemical industry. The Group's R&D team is currently working on the development of the various polyol applications in different industries.

The Company and certain of its subsidiaries are currently proposed respondents in an investigation under 337 of the Tariff Act of 1930, as amended, in the United States. Based on the advice from the Group's legal counsel, it is considered that the Group has sufficient grounds to defend the case.

In the past few years, the Group gradually expanded its upstream processing and warehousing capacities. This measure not only serves to satisfy the demand derived from various midstream and downstream product expansion, but also offers flexibility to the Group in responding to fluctuation in corn prices. As a result, the Group was able to further stablise its average raw material cost through the expansion of its raw material stock, in light of the corn price upsurge in the past year.

Prospects

We have emphasised in the past two years' annual reports that the Group need to continue its product diversification, to develop new categories of product and to establish them as new profit centre, in order to maintain its growth momentum. This would be achieved by leveraging the Group's technological strength. The Group successfully expanded its production capacity in downstream products through the enhancement in its research and development and support of upstream refining capabilities. These measures served to lay a strong foundation for its product range expansion.

Given the alleviation of the problem of excess supply of lysine in the domestic and global markets, the increase in demand for lysine and the improvement in operating environment, the price of lysine has returned to a rational level.

Lysine prices in the first quarter of 2007 were relatively higher than that of the same period last year. It is anticipated that the price will remain stable with modest increment when entering the product's peak season in the middle of this year. In the long-run, lysine prices are expected to remain at the level of above RMB12,000 per tonne. We believe this price level will facilitate the consolidation of low efficient excess capacity, and will enable the market to return to a healthy and rational development.

The Group is one of the world's largest lysine suppliers, with its lysine annual capacity reaching 280,000 metric tonnes. We will maintain our capacity at the current level in the coming two years. Our emphasis in lysine will focus on product quality enhancement and the broadening of the product's industrial application.

Threonine, one of the amino acids, will maintain its steady profit contribution to the Group. The production facility of threonine is currently running close to full capacity.

Corn prices are expected to gradually decline in the second half of the year, with the recent increase in corn output from domestic and global markets, leading to an abundant corn stock for 2007. The Group has the largest corn processing capacity in the PRC, which amounted to 2.4 million metric tonnes. It is sufficient to meet the Group's expansion requirement in the coming two years, enabling the Group to substantially uplift its modified starch output, and to realise its objective of expanding corn sweetener capacity.

We believe that the market demand for corn sweetener will remain robust as long as petroleum price maintains at a relatively high level. According to previous statistics, the price movements of petroleum and sweetener reflected a positive co-relation.

Despite the retreat in domestic price of cane sugar at the beginning of this year, the Group's domestic sales of corn sweeteners at the current price level continued to offer satisfactory gross profit margin. With the improvement in the PRC's consumption power and development in food and beverage processing industries, growth in domestic demand for corn sweeteners is expected to sustain.

The Group has a corn sweetener production capacity of 1,140,000 metric tonnes, making it one of the top three corn sweetener manufacturers in the PRC. The Group's strategy in sweetener business continues to strengthen its sales and marketing and to broaden the product's market coverage. As the new crystallised glucose plant is to be fully utilised in 2007, the Group will further develop and expand the production capacity of glucose, dextrin, and crystallised glucose at a tactical timetable.

It is anticipated that the proportion of sales of the Group's corn sweetener products will continue to enlarge, enabling the Group to achieve a more balanced product sales mix.

Having acquired the minority interests in the polyol projects last year, the Group had an overhaul of the pilot plant, and introduced a range of new equipment to the plant. It had completed the testing of self-developed catalyst. Following a series of testing, the pilot plant proved that the Group's self-developed polyol production technology had become mature, and the outcome of its pilot production in the first quarter of 2007 had been satisfactory. The Group's 200,000 metric tonne polyol plant in Changchun has been completed and is currently in the final stage of installation and the feeding of raw material. It is expected that the plant will commence trial production in the second quarter, with full operation scheduled in the third quarter of 2007. Polyol output from the plant is estimated to be 50,000 to 80,000 metric tonnes in 2007. We plan to expand the production capacity of polyol in Changchun by stages. We also seek to invest in polyol production facility development outside Changchun.

We will explore various ways of collaboration with different organisations, with an aim to rapidly expand the production scale of polyol. Collaboration models under consideration include injection of the Group's self-researched and developed technology, as assets into joint venture projects or direct equity investment. Our objective is to enhance the Group's polyol production capacity to one million metric tonnes within five years.

The production capacity and profit contribution of each of the Group's various products has established a leading position and possesses a respectable market share in its respective market. The Group is currently reviewing its existing business portfolio and structure from a long-term development perspective, and is considering ways to expedite independent development of the products and to strengthen the Group's capital base by effective utilisation of the capital market.

The Group has established itself as a leading biochemical product enterprise with massive processing and refining capacities and a diversified product range. The Group's strong production capacity of its various products has listed it among the top suppliers in China and even in the world market. While driving our business expansion, we have also paid attention to solidify the fundamentals for our success, through continued introduction of advanced management systems and professional talents. These moves are aimed to enhance our management efficiency and strengthen risk management consciousness. We have also strengthened the Group's financial position. With respect to corporate governance, the Group not only endeavours to strictly comply with the relevant rules and regulations, but also works closely with the independent committees of the Board, to enable them to effectively monitor the Group's operations, and safeguard the interests of all shareholders.

Liu Xiaoming
Co-Chairman

Xu Zhouwen
Co-Chairman

23 April 2007

April 2007

Submission of the proposed spin-off of the sweetener business to The Stock Exchange of Hong Kong Limited.

December 2006

The new crystallised glucose plant in Changchun, PRC with annual production capacity of 200,000 mt commenced commercial production

September 2006

The new glutamic acid plant with annual production capacity of 100,000 mt commenced commercial production

July 2006

Acquisition of minority interests in the polyol project from the joint venture partners. The polyol plants became wholly-owned entities of the Group as a result

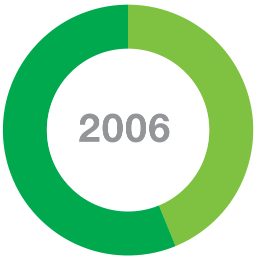
mt: metric tonnes

Revenue and Gross Profit Analysis

Sales Volume (mt)

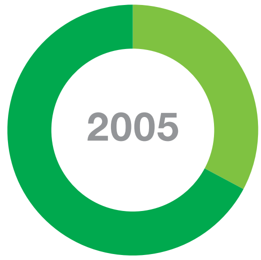
798,944 (44%)
Amino acids *349,870*
Modified Starch *74,285*
Sweeteners *365,114*
Others *9,675*

1,024,604 (56%)



590,828 (33%)
Amino acids *244,446*
Modified Starch *73,708*
Sweeteners *270,549*
Others *2,125*

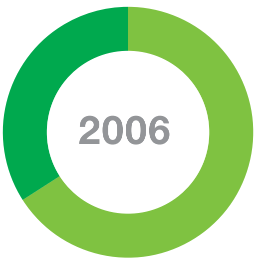
1,210,634 (67%)



Revenue (HK$'000)

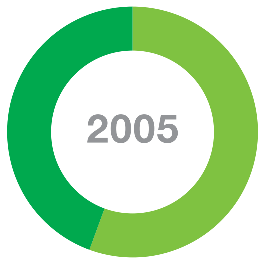
3,126,934 (66%)
Amino acids *2,212,277*
Modified Starch *216,903*
Sweeteners *671,485*
Others *26,269*

1,616,007 (34%)



2,267,417 (56%)
Amino acids *1,581,830*
Modified Starch *230,755*
Sweeteners *441,401*
Others *13,431*

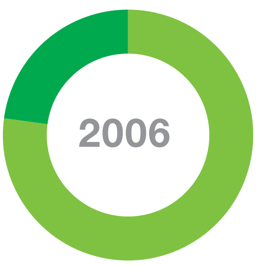
1,811,472 (44%)



Gross Profit (HK$'000)

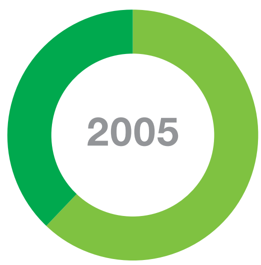
930,863 (77%)
Amino acids *656,081*
Modified Starch *75,673*
Sweeteners *202,882*
Others *-3,773*

275,913 (23%)



653,015 (62%)
Amino acids *404,677*
Modified Starch *107,951*
Sweeteners *140,637*
Others *-250*

398,342(38%)



Downstream products **Upstream products**

mtpa: metric tonnes
%: percentage to the Group's total

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

BUSINESS ENVIRONMENT

During the year under review (the "Year"), the prices of oil-related materials for production and transportation remained high. In addition, as corn kernels were one of the key raw materials for the production of ethanol, the supply became tense throughout the Year. As a result, corn kernel price rose substantially as compared to previous year. These pushed up the production and operating costs of the Group.

Global market of lysine became stable and lysine price rebounded from the bottom substantially since the second half of the Year. However, the increasing interest margin of the United States (the "US") and the People's Republic of China ("China" or the "PRC") imposed additional pressure on the finance costs of the Group.

To effect a strategic allocation of client base and in view of keen demand from overseas markets, the Group further extended its sales to other regions other than the PRC. During the Year, such sales accounted for approximately 24% (2005: 19%) of the Group's turnover.

FINANCIAL PERFORMANCE

During the Year, the net profit attributable to shareholders increased by approximately 8% to approximately HK$501 million which was mainly attributable to the additional output of downstream products and rebound of lysine prices.

Upstream Products Segment

(Revenue: HK$1,616 million (2005: HK$1,811 million))
(Gross profit: HK$276 million (2005: HK$398 million))

During the Year, the average selling prices of upstream products increased by approximately 5% which compensated the increase in material cost. At the same time, the volume of upstream products sold to external customers dropped by approximately 15% because of the increased consumption of upstream products by the Group as a result of its continual development of downstream products. Turnover of upstream products segment thus decreased by approximately 11%.

Due to the use of corn kernels to produce ethanol in the PRC, corn kernel supply became tense and price rose substantially. As a result, the production cost comprised mainly material cost increased substantially by approximately 15%. Although the impact was partially shifted to customers, the gross profit percentage of upstream products dropped from approximately 22% in 2005 to 17% in 2006.

In view of governmental influence to avoid excessive consumption of agricultural products for bio-fuel production, stable corn kernel price and stable gross profit margin at current level for coming years is expected by the management.

Downstream Products Segment

(Revenue: HK$3,127 million (2005: HK$2,267 million))
(Gross profit: HK$931 million (2005: HK$653 million)

During the Year, glutamic acid, a type of amino acids, was launched while the production scales of both amino acids and corn sweeteners expanded as compared to last year. Turnover of downstream products, thus, increased by approximately 38%.

The improving operation effectiveness and efficiency were reflected from the increase in sales volume of amino acids by approximately 45%. In addition, the prices of lysine products had rebounded from the bottom since the second half of 2006. Turnover and gross profit of lysine amounting to approximately HK$2,075 million (2005: HK$1,559 million) and HK$637 million (2005: HK$402 million) respectively improved substantially while gross profit percentage increased by approximately 5%.

At the same time, the volume sold and turnover of corn sweeteners including high fructose corn syrup ("HFCS") and sorbitol increased by approximately 35% and 52% to approximately 365,114 metric tonnes (2005: 270,549 metric tonnes) and approximately HK$671 million (2005: HK$441 million) respectively, which contributed to the Group additional gross profit of approximately HK$63 million aggregately.

On the other hand, due to the decrease in selling price and increase in production cost, the gross profit of modified starch dropped by approximately HK$32 million.

In view of the above, the overall gross profit from downstream products segment increased substantially by approximately 43% with a slight increase in gross profit percentage.

Overall Gross Profit % and Product Segments

The improved performance of downstream products segment was insufficient to make up for the drop of the gross profit of upstream products caused by the increase in material cost. As a result, the overall gross profit percentage dropped slightly from approximately 26% in 2005 to approximately 25% in 2006. In line with the Group's strategy to expand the portfolio of downstream products, upstream products available for sales were reducing. During the Year, the turnover and gross profit of upstream products accounted for approximately 34% (2005: 44%) and 23% (2005: 38%) of the Group's total respectively, which were approximately 10% and 15% less than the preceding year respectively.

Operating Expenses, Tax and Profit Shared by Minority Shareholder

Despite the inflation and the additional legal cost in relation to the infringement litigation, operating expenses to turnover percentage of approximately 10% remained at similar level. Such performance mainly resulted from the continuous and stringent control over operating expenses, enhancement in operating efficiency arising from expansion.

The finance costs (after netting-off the amount capitalised as construction in progress of approximately HK$34 million (2005: HK$37 million)) represented approximately 4% (2005: 2%) of turnover. The increase was mainly attributable to the enlarged borrowing size and the increase in interest margin.

With the prevailing income tax laws and regulations, most of the subsidiaries established in the PRC still enjoy income tax relief. Due to the decrease in the profit from low tax rate companies and the expiry of income tax relief of certain subsidiaries, the overall effective tax rate of the Group increased to approximately 10% (2005: 7%).

In 2005, the Group acquired the entire equity interest of the Group's former minority shareholder. Therefore, minority shareholder's share of profit was then no longer necessary (2005: HK$74 million).

Performance of Joint Ventures

The Group has two joint venture projects with Cargill Inc. ("Cargill") and Mitsui Group to engage in the manufacture and sales of HFCS and sorbitol products respectively. During the Year, these joint ventures recorded an operating gain and an operating loss of approximately HK$59 million (2005: HK$8 million) and HK$20 million (2005: HK$7 million) respectively. In view of technological improvement in operating efficiency of sorbitol operation, better return from this joint venture is expected.

Increase in Net Profit Attributable to Shareholders

In view of the rebound of lysine price, capacity expansion of various products and stringent control over operating expenses, the net profit attributable to shareholders increased slightly by approximately 8% to approximately HK$501 million (2005: HK$466 million).

IMPORTANT TRANSACTION

Acquisition of Minority Interests in Joint Ventures for the Production of Polyol Chemical Products

During the Year, the Group entered into the sale and purchase agreement to acquire from the joint venture partners, their respective entire interests in those joint ventures for the production of polyol chemical products at an aggregate consideration of US$500,000. As a result of the acquisition, those joint ventures became wholly-owned subsidiaries of the Group.

The directors of the Company (the "Directors") believe that the acquisition will enhance the efficiency of the Group's administration and control of these companies and their respective research and production facilities. The Directors also believe that, by sharing the Group's research, production and administrative resources and facilities of the joint ventures in the future, the Group's resources can be utilised in a more efficient manner and its operational expenses can be reduced. The Group can then focus its resources on its future research and development of the polyol technology and other different technologies for the production of polyol chemicals.

FINANCIAL RESOURCES AND LIQUIDITY

Net Borrowing Position

To support (i) additional working capital requirement (ii) the huge capital expenditure on projects including the construction of facilities and/or expansion projects in relation to lysine series, glutamic acid, corn sweeteners, polyol chemical products and a new corn refinery of approximately HK$13 million, HK$44 million, HK$79 million, HK$785 million and HK$114 million respectively, the net borrowing as at 31 December 2006 increased to approximately HK$2.3 billion (31 December 2005: HK$996 million).

Structure of Interest Bearing Borrowings

As at 31 December 2006, the Group's bank and others borrowings amounted to approximately HK$4.0 billion (31 December 2005: HK$3.1 billion), of which approximately 30% (31 December 2005: 48%) was denominated in HK$ or US dollars while the remainder was denominated in Renminbi ("RMB"). The average interest rate paid during the Year was approximately 6% (2005: 4%).

Due to the breach of certain financial covenants of the syndicated facilities, the whole balance of loans from syndicated facilities as at 31 December 2006 amounting to approximately HK$1,163 million was classified as current liabilities. Accordingly, the percentage of interest bearing borrowings wholly repayable within one year and in the second to the fifth years were approximately 81% (31 December 2005: 89%) and 19% (31 December 2005: 11%) respectively. As at 31 December 2006, certain borrowings were secured by the Group's fixed assets with a carrying value/aggregate net book value of approximately HK$62 million (2005: HK$260 million).

Turnover Days, Liquidity Ratios and Gearing Ratios

Without any substantial change in policies of trade receivables and inventories, trade receivables turnover days and inventory turnover days remained at similar level of approximately 29 days and 62 days respectively (2005: 28 days and 63 days). In 2005, in order to ensure the compliance of certain financial covenants of syndicated facilities, payment to trade payable in last quarter 2005 was slowed down. As a result, trade creditors turnover days was relatively high. In 2006, the creditors' settlement was back to its normal pattern. So trade creditors turnover days reduced from approximately 38 days in 2005 to approximately 25 days in 2006.

As at 31 December 2006, the current ratio and the quick ratio as at 31 December 2006 dropped to approximately 0.66 (31 December 2005: 0.72) and 0.53 (31 December 2005: 0.60) respectively. In spite of the unfavourable ratios, risk of insolvency is considered minimal because sufficient and additional financial support had been sought subsequent to 31 December 2006.

Meanwhile, gearing ratios in terms of (i) bank borrowings to total assets, (ii) bank borrowings to equity and (iii) net debts (i.e. net balance between bank borrowings and cash and cash equivalent) to equity were pushed up to approximately 37% (31 December 2005: 33%), 75% (31 December 2005: 65%) and 44% (31 December 2005: 21%), respectively. Drop in interest coverage (i.e. EBIDTA over finance costs) to approximately 5 times (2005: 10 times) mainly resulted from the increase in both bank borrowings size and interest margin.

Foreign Exchange Exposure

Although most of the operations were carried out in the PRC in which transactions are denominated in RMB, the Directors consider that there is no unfavourable exposure to foreign exchange fluctuation and that there will be sufficient cash resources denominated in HK$ for the repayment of borrowings and future dividends. During the Year, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 31 December 2006.

STATUS OF INFRINGEMENT LITIGATION

The Company and certain of its subsidiaries are currently proposed respondents in an investigation under Section 337 of the Tariff Act of 1930, as amended, in the US. Monetary remedies are not available and the complainant has requested a permanent exclusion order and a cease and desist order against certain of the Group's products in the US. The Directors, based on the advice from the Group's legal counsel, consider that the Group has sufficient grounds to defend the case. All estimated related legal costs arising therefrom have been properly accrued and accounted for in the consolidated financial statements of the Company for the Year.

PROSPECT

It is the Group's mission to become one of the leading vertically integrated corn-based biochemical product manufacturers in the Asia-Pacific Region and then a major player in the global market. To realise this objective, the Group will strive to enlarge its market share and diversify its product mix, as well as enhance its capability in developing high value-added downstream products through research and development and through strategic business alliances with prominent international market leaders.

Amino Acids

Currently, the Group's designed lysine annual production capacity includes 140,000 metric tonnes of lysine and 220,000 metric tonnes of protein lysine while the current annual consumption of lysine in the PRC had been over 200,000 metric tonnes, which is equivalent to approximately 300,000 metric tonnes of protein lysine. Although the price of lysine remained weak during the first half of the Year due to the excess supply in domestic market, the prices have rebounded from the bottom since the second half of the Year.

In addition, in order to stabilise the selling price during the transitional period for the change in the feed formula, to mitigate the risk of over-concentration in a single market and to attain worldwide recognition of the Group's products, the Group enlarged the share of overseas market. During the Year, lysine (including protein lysine) of approximately 103,000 metric tonnes (2005: 50,000 metric tonnes) was exported to regions other than the PRC, which accounted for approximately 31% (2005: 21%) of the Group's production capacity. The Group intends to further increase its export volume of lysine to markets in the US, Europe and Africa.

In addition to the lysine facilities, the construction of the glutamic acid plant in Dehui had been completed and the commercial production commenced in June 2006. The designed production capacity of this glutamic acid plant is 100,000 metric tonnes per annum.

The Group is also dedicated to the research and development of many other high value-added amino acids, including arginine, threonine and valine to fuel our growth momentum.

Upstream Refinery in Dehui

To facilitate the production of amino acids and benefit from cost saving from vertical integration and economies of scale, construction of a corn refinery with corn processing capacity of 600,000 mtpa with sweeteners production capability in Dehui is nearly completed and trial run of part of the facilities in place has begun before the end of the Year.

Polyol Project

Polyol chemical products include ethylene glycol, propylene glycol, glycerin, butanediols and can be used in textile, plastic, construction material, medical, chemical and cosmetic industries. The end products from polyol include polyester fibre, polymer resin and anti-freezer, chemicals applied in the production of coatings, PVC stabilisers, detergents, paint driers, etc. Usually, polyol chemicals are refined from petroleum.

In view of the expected insufficient and expensive supply of petroleum in the foreseeable future, the use of agricultural products as raw material of polyol becomes a feasible remedy to this issue.

The board of Directors (the "Board") is of the opinion that the PRC and other regions in Asia are markets with enormous potential for the polyol chemical products. To capture such potential huge market, the construction work of a new plant in Changchun with an initial annual production capacity of 200,000 metric tonnes of the polyol chemical products has been completed and trial run is scheduled in the second quarter of 2007. Definitely, the success in the polyol project will generate huge contribution to the Group in the coming future.

HFCS Project

In addition to the HFCS refinery in Shanghai, the Group, together with Cargill, is considering having new HFCS refineries situated close to the users. These new refineries will relieve the heavy transportation cost because it will mainly serve the nearby customers. In the case that any new refinery to be built adjacent to our existing corn refinery, it can save production cost through vertical integration where starch slurry, instead of powder form adopted by the HFCS refinery in Shanghai is used as raw material.

Proposed Spin-off

On 3 April 2007, the Company made an application to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the approval of the proposed separate listing of the shares of Global Sweeteners Holdings Limited ("Global Sweeteners") in Hong Kong. The Global Sweeteners and its subsidiaries are principally engaged in the manufacture and sale of corn sweeteners, mainly including glucose, maltose, sorbitol, crystallised glucose, HFCS and other corn sweeteners products. The Board believes that the separate listing of Global Sweeteners will be beneficial to both the Company and the Global Sweeteners.

NUMBER AND REMUNERATION OF EMPLOYEES

As at 31 December 2006, the Group had approximately 4,800 full time employees in Hong Kong and the PRC. The Group recognises the importance of human resources to its success, therefore qualified and experienced personnel are recruited in the production capability and the development of new biochemical products. Remuneration is maintained at competitive levels with discretionary bonuses payable on a merit basis and in line with industrial practice. Other staff benefits provided by the Group include mandatory provident fund, insurance schemes and performance related commission.

EXECUTIVE DIRECTORS

LIU Xiaoming aged 51, is the Co-Chairman of the Group. He is responsible for the Group's overall business development, as well as the formulation of corporate direction and strategies. He holds a bachelor's degree in chemical engineering from the Hua Nan Polytechnic University.

XU Zhouwen aged 64, is the Co-Chairman of the Group. He is responsible for formulating and implementing the Group's product diversification strategies, managing the Group's product development and technology research, as well as supervising the Group's overall production and operations. He graduated from the Harbin Electric University in 1970.

KONG Zhanpeng aged 43, is one of the founders of the Group. He is in charge of the Group's corporate management, finance and accounting, as well as information technology. He holds a bachelor's degree in textile engineering and a diploma in international trade from the China Textile University.

WANG Tieguang aged 42, is responsible for the Group's sales and marketing functions. He holds a bachelor's degree in economics from the University of Heilongjiang.

NON-EXECUTIVE DIRECTORS

Patrick E BOWE aged 48, is the President of Cargill Sweeteners North America and is responsible for all aspects of Cargill's sweeteners business. He holds a master's degree in economics from Standford University, the United States and has over 21 years of experience in corn milling and sweetener operations.

Steven C WELLINGTON (alternate director to Patrick E BOWE) aged 53, is the PRC Business Development Manager of Cargill Sweeteners North America and is responsible for the development of corn milling exports and investment opportunities in the PRC. He is the director of Global Bio-chem-Cargill (Holdings) Limited, a jointly-controlled entity established by the Group and Cargill.

INDEPENDENT NON-EXECUTIVE DIRECTORS

LEE Yuen Kwong aged 46, is a Certified Public Accountant and has been practising since 1990. Graduated from the University of Sunderland, the United Kingdom, he holds a Bachelor of Arts Degree in Business Studies. He has over 20 years' experience in accounting, auditing, taxation and management consulting. Mr. Lee is currently a member of the Advisory Committee on Travel Agents and board member of the Ocean Park Corporation.

CHAN Man Hon, Eric aged 50, is a solicitor and has been practising in Hong Kong for over 25 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.

LI Defa aged 52, is the Dean of the College of Animal Science and Technology, China Agricultural University. He has a Ph.D. in animal science from Kansas State University, the United States of America as well as a master's degree in animal science from Beijing Agricultural University. Before becoming the Dean of the College of Animal Science and Technology, China Agricultural University, Mr. Li had been a director of National Feed Engineering Technology Research Centre and Ministry of Agriculture Feed Industry Centre.

SENIOR MANAGEMENT

CHEUNG Chak Fung aged 42, is the financial controller of the Group and the company secretary of the Company. 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 17 years' experience in auditing, financial and management accounting, budgeting, treasury and secretarial practice.

LI Weigang aged 48, has a master's degree in banking and finance from the University of Wales, the United Kingdom, as well as a master's degree in economics from The Graduate School of Chinese Academy of Social Sciences. Prior to joining the Group as assistant general manager in May 2001, Mr. Li has held senior positions in various financial institutions in the PRC, with responsibility in corporate finance and general management.

QI Hongbin aged 40, is the dean of design and research institute and director of development centre of the Group. He holds a master's degree from the Jilin Agricultural University, specialising in mechanical engineering. He has over 10 years' experience in process engineering and technology development.

WANG Hui aged 41, is the director of modified starch enterprise of the Group. He graduated from the Qiqihaer University with a bachelor's degree in chemical engineering specialising in high polymer material engineering.

CHU Lalin aged 44, is the chief engineer of the Group. He holds a bachelor's degree from the Shijiazhuang Railroad Engineering Academy and has more than 21 years of experience in mechanical and food engineering.

WANG Dehui aged 38, is the chief engineer of the Group. He holds a master's degree in science from the Jilin Agricultural University and has extensive of experience in food engineering and organic engineering.

ZHANG Xiuzhen aged 62, is the manager of the administration department. She is responsible for human resources management of the Group in the PRC.

LEE Chi Yung aged 32, is the finance manager of the Group. He holds a bachelor's degree in business administration from the City University of Hong Kong. He is an associate member of the Hong Kong Institute of Certified Public Accountants and also of The Association of Chartered Certified Accountants.

The Company is committed to maintaining high standards of corporate governance at all times and in all areas of its operations. The Board believes that good corporate governance is an essential element in enhancing the confidence of current and potential shareholders, investors, employees, business partners and the community as a whole.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board regularly reviews the Group's corporate governance guidelines and developments. It is our belief that, during the year ended 31 December 2006, the Group has endeavored to comply with the relevant recommendations as laid down in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Corporate Governance Report as set out in Appendix 23 to the Listing Rules. The Board has also reviewed the Group's corporate governance practices and is satisfied that the Group has been in full compliance with all the code provisions of the Code.

THE BOARD

Member Attendance of Board and Committee Meetings for the year 2006

	Meetings Attended and Held		
	Board Meeting	Audit Committee	Remuneration Committee
Executive Directors			
Liu Xiaoming	7/7		
Xu Zhouwen	3/7		
Kong Zhanpeng	7/7		1/1
Wang Tieguang	5/7		
Non-Executive Directors			
Patrick E Bowe	0/7		
Steven C Wellington, (alternate director to Patrick E Bowe)	0/7		
Independent Non-Executive Directors			
Lee Yuen Kwong	5/7	2/2	1/1
Chan Man Hon, Eric	5/7	2/2	1/1
Li Defa	3/7	1/2	

As of the date of this report, the Board comprised eight Directors, being four executive Directors, one non-executive Director and three independent non-executive Directors. There is no family relationship between any of the Directors. Detailed biographies outlining each individual Directors' range of specialist experience and suitability for the successful long-term running of the Group can be found on page 15.

The Group believes that its non-executive and independent non-executive Directors comprise a good mix of local and overseas experts, financial consultants and industry experts. The Board believes that such a group is ideally qualified to advise the management team on future strategy development, finance and other statutory requirements, and to act as guardians of shareholders' interests. The Board evaluates the independence of all independent non-executive Directors on an annual basis and has received written confirmation from each independent non-executive Director regarding his independence. As on the date of this report, the Board considers that all such independent non-executive Directors are in full compliance with the independence guidelines as laid down in the Listing Rules.

The Board meets at least four times each year at approximately quarterly intervals to discuss the Group's overall strategy, operation and financial performance. The Board also ensures that it is supplied in a timely manner with all necessary information in a form and of a quality appropriate to enable it to discharge its duties. All Board meetings adhere to a formal agenda in which a schedule of matters is specifically addressed to the Board for its decision. Specific topics discussed at these quarterly Board meetings include: overall strategy; major acquisitions and disposals; annual budgets; interim and annual results; recommendations on Directors' appointment(s) or reappointment(s); matters relating to share capital; approval of major capital projects; dividend policies; and other significant operational and financial matters. All businesses transacted at individual Board meetings are documented in the minutes of each meeting. Some Board decisions are made via written resolutions authorised by all Directors. All Board members have access to the advice and services of the Company Secretary. If necessary, Directors also have recourse to external professional advice at the Group's expense. During the intervals between Board meetings, individual Directors are provided with appraisals of all major changes that may affect the Group's businesses.

The Board decides on corporate strategies, approves overall business plans and supervises the Group's financial performance, management and organisation on behalf of the shareholders. Specific tasks that the Board delegates to the Group's management include the preparation of annual and interim accounts for the Board's approval before public reporting; implementation of strategies approved by the Board; monitoring of operating budgets; the implementation of internal controls procedures; and the ensuring of compliance with relevant statutory requirements and other rules and regulations.

All new non-executive Directors, if any, will be briefed by the Company's lawyers about the duties, responsibilities and obligations as a director of a listed company. Newly-appointed non-executive Directors are also encouraged to discuss with the Chairman any additional information or training they feel they may require, to more effectively discharge their duties.

Every member of the Board has or will retire by rotation at the annual general meeting of the Company at least once every three years. Directors who stand down may, if eligible, be subject to re-election at the same annual general meeting.

The Board considers that the Group has sufficient and appropriate liability insurance to cover its Directors and senior management team against any legal liability arising from their performance of their duties.

In compliance with the Code, the Company has set up an audit committee (the "Audit Committee") and a remuneration committee (the "Remuneration Committee"). The Board considers the determination of the appointment and removal of Directors to be the Board's collective decision and thus does not intend to adopt the recommended best practices of the Code to set up a nomination committee.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the Year, the Company did not have any officer with the title "chief executive officer". The duties of a chief executive officer are substantially undertaken by the co-chairmen of the Company. Mr. Xu is mainly responsible for overseeing the operations of the Group in Mainland China while Mr. Liu is mainly responsible for providing leadership to the Board.

Term of Appointment of Non-executive Directors

Two of the independent non-executive directors, Mr. Lee Yuen Kwong and Mr. Chan Man Hon, Eric, are appointed for a term of two years commencing on 1 March 2005. One of the independent non-executive directors, Mr. Li Defa, is appointed for a term of two years commencing on 15 September 2006. The non-executive Director, Mr. Patrick E Bowe, is appointed for a term of two years commencing on 6 April 2006.

DIRECTORS' REMUNERATION

During the Year under review, Directors' remuneration is disclosed as follows:

	2006 HK$'000	2005 HK$'000
Fees	840	870
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	10,320	10,320
Performance related bonuses	10,000	10,000
Pension scheme contributions	48	48
	20,368	20,368
	21,208	21,238

According to the Directors' service contracts, each of the executive Directors, upon completion of every 12 months of service, is entitled to a management bonus. The aggregate amount of the bonuses payable to all the executive Directors for any financial year may not exceed 5% of the consolidated net profit from ordinary activities attributable to shareholders in respect of that financial year. For the year ended 31 December 2006, the aggregate amount of the bonuses payable to the executive Directors was equivalent to 2% (2005: 2%) of the net profit from ordinary activities attributable to shareholders.

(a) Independent Non-executive Directors

The fees paid to independent non-executive Directors during the Year were as follows:

	2006 HK$'000	2005 HK$'000
Chan Man Hon, Eric	360	345
Lee Yuen Kwong	360	345
Li Defa	120	180
	840	870

There were no other emoluments payable to the independent non-executive Directors during the Year (2005: Nil).

(b) Executive Directors

	Basic salaries, housing benefits, other allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2006				
Executive Directors:				
Liu Xiaoming	3,000	3,000	12	6,012
Kong Zhanpeng	2,160	2,000	12	4,172
Wang Tieguang	2,160	2,000	12	4,172
Xu Zhouwen	3,000	3,000	12	6,012
	10,320	10,000	48	20,368
2005				
Executive Directors:				
Liu Xiaoming	3,000	3,000	12	6,012
Kong Zhanpeng	2,160	2,000	12	4,172
Wang Tieguang	2,160	2,000	12	4,172
Xu Zhouwen	3,000	3,000	12	6,012
	10,320	10,000	48	20,368

The Board will meet at least once each year to review the nomination procedures and the process and criteria adopted by the Board to select and recommend candidates for directorship.

During the meeting, the Board will review the structure, size and composition (including the skills, knowledge and experience) of the Board, identify individuals suitably qualified to become Board members, assess the continual independence of independent non-executive Directors, having regard to the requirements under the applicable laws, rules and regulations and consider and recommend the re-election of the retiring Directors.

In selecting a suitable candidate to become a member of the Board, the Board will consider various criteria such as education, qualification, experience and reputation of such candidate.

Code provision A.4.2 requires that every director should be subject to retirement by rotation at least once every three years and all directors appointed to fill a casual vacancy should be subject to election at the first general meeting after his appointment.

Article 112 of the Company's Articles of Association provides that any Director appointed as an addition to the Board shall hold office only until the next following annual general meeting of the Company and any Director appointed to fill a causal vacancy shall be subject to election by shareholders of the Company at the first general meeting after his appointment, who shall be eligible for re-election (but shall not be taken into account in determining the directors or the number of directors who are to retire by rotation at such meeting).

Pursuant to Article 108(A) of Company's Articles of Association, at each annual general meeting of the Company, at least one-third of the Directors for the time being (excluding those appointed under Article 112 of the Company's Articles of Association and subject to re-election at such annual general meeting) shall retire from office.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, namely, Mr. Lee Yuen Kwong, Mr. Chan Man Hon, Eric and Mr. Li Defa. Mr. Lee is the chairman of the Audit Committee. The Committee assists the Board in, among other matters, providing an independent and objective review of the effectiveness of the financial reporting process, internal control and risk management system as well as internal audit function of the Group. It primarily aims to increase the Board's accountability, transparency and objectivity.

The Audit Committee has reviewed with the management and the Company's auditors (i) the accounting principles and practices adopted by the Group and (ii) reviewed and discussed auditing, internal control and financial reporting matters including the interim results and the financial statements for the Year.

The Audit Committee met twice in 2006.

INTERNAL CONTROL

The Board is entrusted with the overall responsibility for establishing and maintaining the Group's internal control systems and reviewing their effectiveness. The role of the Group's management is to implement all Board policies on risk and control.

The Group's internal control systems are designed to provide reasonable protection of the Group's assets, and to safeguard these assets against unauthorised use or disposition by ensuring that all such transactions are executed in accordance with management's authorisation. The systems also ensure that accounting records are sufficiently accurate for the preparation of financial information used for operation and for reporting purposes. The Group has adopted proper procedures with duly assigned levels of authority in areas of financial, operational and compliance controls and risk management to ensure that its assets and resources remain secure at all times.

The role of the Audit Committee is, through discussion with management and use of other consultants, to review the effectiveness of internal control systems, including financial, operational and compliance controls and risk management functions, and to report to the Board any and significant risk issues.

In January 2006, the Board has engaged Moores Rowland Mazars Certified Public Accountants to conduct a review of the effectiveness of the system of internal control of the Group and report any weaknesses identified and recommending means for improvement to the Audit Committee.

REMUNERATION COMMITTEE

The members of the Remuneration Committee comprise two independent non-executive Directors, namely, Mr. Lee Yuen Kwong and Mr. Chan Man Hon, Eric and one executive Director, Mr. Kong Zhanpeng. Mr. Chan is the chairman of the Remuneration Committee. The duties of the Remuneration Committee are, among others, to make recommendations to the Board on the Group's policy and structure for the remuneration of Directors and senior management and to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

In 2006, the Remuneration Committee held one meeting to review and approve the Directors' and senior management's remuneration packages.

REMUNERATION POLICY

The primary objective of the Group's remuneration policy is to retain and motivate executive Directors by linking their compensation with the Group's performance and to evaluate their compensation against corporate goals, so that the interests of the executive Directors are aligned with those of shareholders. No Director can, however, approve his or her own remuneration.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

ACCOUNTABILITY AND AUDIT

The Directors are responsible for overseeing the preparation of accounts of each financial year, which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that year. In preparing the accounts for the year ended 31 December 2006, the Directors have selected suitable accounting policy and applied them consistently, approved adoption of all Hong Kong Financial Reporting Standards, made judgements and estimates that are appropriate, and prepared the accounts on the going concern basis.

The Group has announced its annual and interim results in a timely manner within the limits of 4 months and 3 months respectively after the end of the relevant period, as laid down in the Listing Rules.

AUDITORS' REMUNERATION

For the year ended 31 December 2006, HK$7,550,000 was paid as remuneration to Ernst & Young for the provision of audit services and audit related remuneration of HK$1,619,217 was paid to other certified public accountant firms for the provision of audit services of the subsidiaries of the Group located in Mainland China. During the Year, the following amounts were paid as remuneration to Ernst & Young and other certified public accountant firms for the provision of non-audit related services to the Group.

	HK$'000
Taxation compliance	42
Others	517
Total	559

COMMUNICATION WITH SHAREHOLDERS

The Group establishes and maintains different communication channels with its shareholders through the publication of annual and interim reports, information on the Stock Exchange, a corporate website, and general and investor meetings held either face-to-face or via telephone conference calls. The Group reports to its shareholders twice a year and maintains a regular dialogue with investors.

The annual general meeting provides a useful forum for shareholders to exchange views with the Board. Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of Directors.

Details of the poll voting procedures and the rights of shareholders to demand a poll were included in the circular to shareholders dispatched together with the annual report. The circular also included relevant details of proposed resolutions.

Based on the information that is publicly available to the Group and within the knowledge of the Directors, the Group has maintained the prescribed amount of public float during the year 2006 and up to the date of this annual report as required by the Listing Rules.

DIRECTORS' AND AUDITORS' ACKNOWLEDGEMENT

All Directors acknowledge their responsibility for preparing the accounts for the year ended 31 December 2006.

The auditors of the Company acknowledge their reporting responsibilities in the auditors' report on the financial statements for the year ended 31 December 2006.

23 April 2007

The directors present their report and the audited financial statements of Global Bio-chem Technology Group Company Limited (the "Company"), its subsidiaries (collectively referred to as the "Group") and its share of each jointly-controlled entity for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is involved in the manufacture and sale of corn-refined products and corn based biochemical products. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 35 to 92.

An interim dividend of HK1 cent per ordinary share was paid on 10 November 2006. The directors recommend the payment of a final dividend of HK2 cents per ordinary share in respect of the year to shareholders on the register of members on 28 May 2007. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 93. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements, respectively.

SHARE CAPITAL AND WARRANTS

Details of movements in the Company's share capital and warrants during the year are set out in note 28 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company had reserves available for distribution, calculated in accordance with the provisions of the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) ("Companies Law") of the Cayman Islands, amounted to approximately HK$2,667,305,000, of which approximately HK$46,377,000 had been proposed as a final dividend for the year. Under the Companies Law of the Cayman Islands, the share premium account of the Company of approximately HK$2,107,934,000 as at 31 December 2006 is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The Company's share premium account may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 16% of the total sales for the year and sales to the largest customer included therein accounted for 5% of the total sales of the year. Purchases from the Group's five largest suppliers accounted for 15% of the total purchases for the year.

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

DIRECTORS

The directors of the Company during the year were:

Executive directors:
Liu Xiaoming
Xu Zhouwen
Kong Zhanpeng
Wang Tieguang

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

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

DIRECTORS (continued)

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

Two of the independent non-executive directors, Mr. Lee Yuen Kwong and Mr. Chan Man Hon, Eric, are appointed for a term of two years commencing on 1 March 2005. One of the independent non-executive directors, Mr. Li Defa, is appointed for a term of two years commencing on 15 September 2006. The non-executive Director, Mr. Patrick E Bowe, is appointed for a term of two years commencing on 6 April 2006.

The Company has received annual confirmations of independence from Mr. Lee Yuen Kwong, Mr. Chan Man Hon, Eric and Mr. Li Defa pursuant to Rule 3.13 of the Listing Rules. The Company considers that these independent non-executive directors to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 15 to 16 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Liu Xiaoming, Mr. Kong Zhanpeng, Mr. Wang Tieguang and Mr. Xu Zhouwen have renewed the service contracts with the Company for a term of three years commencing on 1 March 2004 and expiring on 28 February 2007 renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term of the executive's appointment and subject to termination by either party giving not less than three months' notice in writing.

Apart from the foregoing, 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 of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2006, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in ordinary shares of the Company:

		Number of shares held, capacity and nature of interest			
Name of director	Notes	Directly beneficially owned	Through controlled corporation	Total	Percentage of the Company's issued share capital
Liu Xiaoming	1	13,636,000	345,600,000	359,236,000	15.5
Xu Zhouwen	2	14,040,000	211,040,000	225,080,000	9.7
Kong Zhanpeng	3	13,040,000	172,800,000	185,840,000	8.0
Wang Tieguang	4	8,892,800	172,800,000	181,692,800	7.8
		49,608,800	902,240,000	951,848,800	41.0

Long positions in warrants of the Company:

		Number of shares held, capacity and nature of interest			
Name of director	Notes	Directly beneficially owned	Through controlled corporation	Total	Percentage of the Company's issued share capital
Liu Xiaoming	1	2,361,300	43,200,000	45,561,300	2.0
Xu Zhouwen	2	1,250,000	26,380,000	27,630,000	1.2
Kong Zhanpeng	3	2,286,800	21,600,000	23,886,800	1.1
Wang Tieguang	4	1,768,400	21,600,000	23,368,400	1.1
		7,666,500	112,780,000	120,446,500	5.4

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

Long positions in warrants of the Company: (continued)

Notes:

1. 345,600,000 shares are owned by and 43,200,000 warrants were issued to LXM Limited, a company incorporated in the British Virgin Islands (the "BVI"). The entire issued share capital of LXM Limited is beneficially owned by Mr. Liu Xiaoming.

2. 211,040,000 shares are owned by and 26,380,000 warrants were issued to Crown Asia Profits Limited, a company incorporated in the BVI. The entire issued share capital of Crown Asia Profits Limited is beneficially owned by Mr. Xu Zhouwen.

3. 172,800,000 shares are owned by and 21,600,000 warrants were issued to Hartington Profits Limited, a company incorporated in the BVI. The entire issued share capital of Hartington Profits Limited is beneficially owned by Mr. Kong Zhanpeng.

4. 172,800,000 shares are owned by and 21,600,000 warrants were issued to Rich Mark Profits Limited, a company incorporated in the BVI. The entire issued share capital of Rich Mark Profits Limited is beneficially owned by Mr. Wang Tieguang.

Save as disclosed above, as at 31 December 2006, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares", at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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

At 31 December 2006, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Notes	Number of ordinary shares held	Percentage of the Company's issued share capital
LXM Limited	1	345,600,000	14.9
FMR Corporation		302,687,600	13.1
Fidelity Management & Research Company		302,575,600	13.1
Crown Asia Profits Limited	2	211,040,000	9.1
Hartington Profits Limited	3	172,800,000	7.5
Rich Mark Profits Limited	4	172,800,000	7.5
Morgan Stanley		152,576,613	6.6
Morgan Stanley Capital Management L.L.C.		146,347,386	6.3
Morgan Stanley Domestic Capital Inc.		146,347,386	6.3
Morgan Stanley International Incorporated		146,347,386	6.3
Morgan Stanley Asia Pacific (Holdings) Limited		140,987,544	6.1
Morgan Stanley International Holding Inc.		140,987,544	6.1
Morgan Stanley Asia Regional (Holdings) III LLC		140,973,977	6.1
Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd.		140,973,977	6.1
Morgan Stanley Investment Management Limited		140,973,977	6.1

Notes:

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

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

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

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

There is a duplication of interests of 302,575,600 in the Company between FMR Corporation and Fidelity Management & Research Company and a duplication of interests of 1,143,939,177 among Morgan Stanley and its subsidiaries.

Save as disclosed above, as at 31 December 2006, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONTINUING CONNECTED TRANSACTION AND CONNECTED TRANSACTION

During the year, the Group had continuing connected transactions and a connected transaction that needed to be disclosed in compliance with the requirements under Chapter 14A of the Listing Rules.

The independent non-executive directors of the Company have reviewed and confirmed that such continuing connected transactions have been entered into (i) in the ordinary and usual course of the Group's business; (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (iii) on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole; and (iv) (where applicable) the aggregate consideration charged by the Group in respect of such continuing connected transactions during the year had not exceed the cap amount of the higher of either HK$10 million or 3% of the latest consolidated audited net tangible assets of the Group as at 31 December 2006. The auditors of the Company have confirmed that such continuing connected transactions have complied with the matters as set out in Rule 14A.38 of the Listing Rules.

Continuing connected transactions

Sales to the Mitsui Group

Mitsui & Co. Ltd. and its subsidiaries (collectively the "Mitsui Group") is one of the Group's customers and the Group has been selling its products to the Mitsui Group since 2000. During the year, the Group had sold some of its products to the Mitsui Group in its ordinary and usual course of business for an aggregate sum of approximately HK$2.2 million. The Mitsui Group holds in aggregate 49% interest in the share capital of one of the subsidiaries of the Company and is a substantial shareholder of one of the subsidiaries of the Company. The above sale transactions constituted continuing connected transactions under Chapter 14A of the Listing Rules.

Sales to CDNP

Pursuant to the joint venture agreement for the establishment of Global-Nikken (H.K.) Company Limited ("Global-Nikken (Hong Kong)"), an indirectly jointly-controlled entity of the Company, which is owned as to 51% by the Company and 49% by the Mitsui Group, the Group agreed to procure relevant company(ies) in the Group or, a third party supplier, to supply glucose to Changchun Dacheng Nikken Polyols Co., Ltd. ("CDNP"), a company wholly-owned by Global-Nikken (Hong Kong) for the production of its sorbitol products. Glucose, maltose and other corn sweetener products are the principal production materials for production of sorbitol products. Accordingly, CDNP has been sourcing glucose and other corn sweeteners from the Group ("CDNP Transactions") for its production since its commencement of production in November 2005. The above transactions constituted continuing connected transactions under Chapter 14A of the Listing Rules.

Other than the CDNP Transactions, the related party transactions disclosed in note 33 to the financial statements are either exempt connected transactions or connected continuing transactions, or non-exempt connected transactions or non-exempt continuing connected transaction that have complied with the requirements of Chapter 14A of the Listing Rules.

Connected transaction

Acquisition of Global Polyol Investments Limited and Global Corn Chemical Investment Limited

On 24 July 2006, Global Corn Bio-chem Technology Company Limited ("GBTL"), a wholly-owned subsidiary of the Company, as purchaser, entered into an agreement with Icelandic Green Polyols Ehf. ("IGP") and International Polyol Chemicals, Inc ("IPCI") as vendors for the purchase of the equity interest in Global Polyol Investments Limited ("GPI") as to 12.5% from IGP and 12.5% from IPCI for an aggregate cash consideration of HK$3,875,000, payable upon completion of the acquisition.

On 24 July 2006, GBTL as purchaser, entered into an agreement with IGP and IPCI as vendors for the purchase of the equity interest in Global Corn Chemical Investment Limited ("GCCI") as to 12.48% from IGP and 6.27% from IPCI for an aggregate cash consideration of HK$7.8, payable upon completion of the acquisition.

Since immediately prior to the acquisition, IGP and IPCI are minority shareholders of GPI and joint venture partners of GCCI holding in aggregate 25% and 18.75% of their issued share capital, respectively, they are connected persons of the Company and therefore the agreement and their transactions constituted connected transactions for the Company under Chapter 14A of the Listing Rules.

Save as disclosed herein, there were no other transactions needed to be disclosed as connected transactions or continuing connected transactions in accordance with the requirements under Chapter 14A of the Listing Rules.

DISCLOSURES PURSUANT TO RULE 13.21 OF THE LISTING RULES

In accordance with the disclosure requirements of Rule 13.21 of the Listing Rules, the following disclosures are included in respect of one of the Company's loan agreements, which contains covenants requiring performance obligations of the controlling shareholder of the Company.

Pursuant to a syndicated loan facility agreement dated 2 September 2005 entered into between the Company and a syndicate of banks and financial institutions, relating to a 36-month term loan facility of US$120,000,000 and a 35-month revolving loan facility of US$60,000,000. a termination event would arise if (i) certain existing executive directors of the Company and Mr. Au Chun Fat, one of the founders who is also an ex-director of the Company, cease to own beneficially, directly or indirectly, at least 30% of the shares in the Company's issued share capital; and (ii) the Group cannot meet the financial covenants as set out in the banking facility agreement.

At the balance sheet date, the Group breached certain financial covenants with respect to (ii) above. The directors have taken action to rectify the iteration, details of which have been disclosed in note 2.1 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 35 to the financial statements.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the "Model Code") as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the Model Code, throughout the accounting period covered by the annual report.

AUDITORS

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

ON BEHALF OF THE BOARD

Liu Xiaoming
Co-Chairman

Xu Zhouwen
Co-Chairman

Hong Kong
23 April 2007

ERNST & YOUNG
安永會計師事務所

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

We have audited the financial statements of Global Bio-chem Technology Group Company Limited set out on pages 35 to 92, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
23 April 2007

	Notes	2006 HK$'000	2005 HK$'000
REVENUE	5	4,742,942	4,078,890
Cost of sales		(3,536,166)	(3,027,532)
Gross profit		1,206,776	1,051,358
Other income and gains	5	48,630	28,949
Selling and distribution costs		(293,082)	(277,451)
Administrative expenses		(152,893)	(118,056)
Other expenses		(45,451)	(15,460)
Finance costs	7	(207,022)	(89,106)
PROFIT BEFORE TAX	6	556,958	580,234
Tax	10	(55,730)	(39,895)
PROFIT FOR THE YEAR		501,228	540,339
Attributable to:			
Equity holders of the Company	11	501,228	466,484
Minority interests		—	73,855
		501,228	540,339
DIVIDENDS	12		
Interim		23,188	46,377
Proposed final		46,377	34,783
		69,565	81,160
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic		HK$0.216	HK$0.204
Diluted		HK$0.216	HK$0.202

Consolidated Balance Sheet

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	6,376,507	5,338,090
Prepaid land premiums	15	495,319	498,550
Deposits paid for acquisition of property, plant and equipment and land premiums		307,042	74,217
Goodwill	16	360,889	357,014
Long term loan to a jointly-controlled entity	18	40,000	40,000
Total non-current assets		7,579,757	6,307,871
CURRENT ASSETS			
Inventories	19	603,669	522,230
Trade receivables	20	375,183	310,534
Prepayments, deposits and other receivables		356,169	173,184
Due from jointly-controlled entities	18	23,539	9,113
Tax recoverable		5,842	13,629
Cash and cash equivalents	21	1,630,041	2,066,424
Total current assets		2,994,443	3,095,114
CURRENT LIABILITIES			
Trade payables	22	240,786	317,132
Other payables and accruals	23	1,019,929	1,245,060
Interest-bearing bank and other borrowings	24	3,208,809	2,733,161
Due to a venturer of a jointly-controlled entity	18	20,000	20,000
Tax payable		19,170	4,728
Total current liabilities		4,508,694	4,320,081
NET CURRENT LIABILITIES		(1,514,251)	(1,224,967)
TOTAL ASSETS LESS CURRENT LIABILITIES		6,065,506	5,082,904

Continued/....

	Notes	2006 HK$'000	2005 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		6,065,506	5,082,904
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	24	741,696	329,482
Deferred income	25	26,451	—
Deferred tax liabilities	27	17,975	14,850
Total non-current liabilities		786,122	344,332
Net assets		5,279,384	4,738,572
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	28	231,885	231,884
Reserves	29(a)	5,001,122	4,471,905
Proposed final dividend	12	46,377	34,783
Total equity		5,279,384	4,738,572

Liu Xiaoming
Director

Xu Zhouwen
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2006

	Notes	Issued share capital HK$'000	Share premium account HK$'000	Asset revaluation reserve HK$'000	Statutory reserve fund HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total equity HK$'000
At 1 January 2006		231,884	1,820,070	80,718	4,094	130,662	2,436,361	34,783	4,738,572
Exchange realignment		—	—	—	—	97,425	—	—	97,425
Total income directly recognised in equity		—	—	—	—	97,425	—	—	97,425
Profit for the year		—	—	—	—	—	501,228	—	501,228
Final 2005 dividend paid		—	—	—	—	—	—	(34,783)	(34,783)
Share subscription and placement	28	1	129	—	—	—	—	—	130
Interim 2006 dividend	12	—	—	—	—	—	(23,188)	—	(23,188)
Proposed final 2006 dividend	12	—	—	—	—	—	(46,377)	46,377	—
Transfer from retained profits		—	—	—	72,401	—	(72,401)	—	—
At 31 December 2006		231,885	1,820,199*	80,718*	76,495*	228,087*	2,795,623*	46,377	5,279,384

* These reserves accounts comprise the consolidated reserves of the Group of HK$5,001,122,000 on the consolidated balance sheet at 31 December 2006.

	Notes	Issued share capital HK$'000	Share premium account HK$'000	Asset revaluation reserve HK$'000	Statutory reserve fund HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2005		223,899	1,680,278	60,638	3,334	—	2,054,267	111,949	4,134,365	456,862	4,591,227
Surplus on revaluation, net of deferred tax charge of HK$4,259,000		—	—	20,080	—	—	—	—	20,080	—	20,080
Exchange realignment		—	—	—	—	130,662	—	—	130,662	—	130,662
Total income recognised directly in equity		—	—	20,080	—	130,662	—	—	150,742	—	150,742
Profit for the year		—	—	—	—	—	466,484	—	466,484	73,855	540,339
Acquisition of a minority shareholder	30	—	—	—	—	—	—	—	—	(530,717)	(530,717)
Final 2004 dividend paid		—	—	—	—	—	(2,470)	(111,949)	(114,419)	—	(114,419)
Share subscription and placement		7,985	139,792	—	—	—	—	—	147,777	—	147,777
Interim 2005 dividend	12	—	—	—	—	—	(46,377)	—	(46,377)	—	(46,377)
Proposed final 2005 dividend	12	—	—	—	—	—	(34,783)	34,783	—	—	—
Transfer from retained profits		—	—	—	760	—	(760)	—	—	—	—
At 31 December 2005		231,884	1,820,070*	80,718*	4,094*	130,662*	2,436,361*	34,783	4,738,572	—	4,738,572

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

* These reserves accounts comprise the consolidated reserves of the Group of HK$4,471,905,000 on the consolidated balance sheet at 31 December 2005.

	Notes	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		556,958	580,234
Adjustments for:			
Finance costs	7	191,522	87,168
Write-off/amortisation of the arrangement fee	7	15,500	1,938
Interest income	5	(10,586)	(12,421)
(Gain)/loss on disposal of items of property, plant and equipment	5&6	775	(73)
Depreciation	6	282,030	221,773
Amortisation of prepaid land premiums	6	13,444	12,014
Impairment of property, plant and equipment		—	244
Impairment of prepaid land premiums		—	5,886
Impairment of trade receivables	6	7,945	—
Write down of inventories to net realisable value	6	14,153	—
		1,071,741	896,763
Decrease/(Increase) in inventories		(95,593)	137,100
Decrease/(Increase) in trade receivables		(71,301)	492,065
Increase in prepayments, deposits and other receivables		(160,796)	(3,503)
Increase/(Decrease) in trade payables		(82,689)	166,026
Increase/(Decrease) in other payables and accruals		7,934	204,471
Repayments from/(advances to) jointly-controlled entities		(66,952)	(1,985)
Repayments to minority interest		—	(278,461)
Cash generated from operations		602,344	1,612,476
Interest received		10,586	12,421
Hong Kong profits taxes paid		(5,164)	—
Overseas taxes paid		(25,212)	(58,441)
Net cash inflow from operating activities		582,554	1,566,456

Continued/....

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Net cash inflow from operating activities		582,554	1,566,456
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(1,374,160)	(1,811,256)
Proceeds from disposal of items of property, plant and equipment		332	3,689
Payment of land premiums	15	(1,474)	(88,265)
Acquisition of minority interest	30	(262,353)	(181,790)
Acquisition of a subsidiary	30	(3,875)	—
Receipt of government grants	25	26,451	—
Net cash outflow from investing activities		(1,615,079)	(2,077,622)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	28	130	147,777
New bank loans		2,873,920	2,784,848
New other loans		24,866	—
Repayment of bank loans		(2,065,586)	(1,393,409)
Repayment of other loans		—	(11,538)
Related fees paid for the banking facilities granted		—	(17,438)
Interest paid		(241,849)	(104,295)
Dividends paid		(57,971)	(160,796)
Net cash inflow from financing activities		533,510	1,245,149
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(499,015)	733,983
Cash and cash equivalents at beginning of year		2,066,424	1,307,175
Effect of foreign exchange rate changes, net		62,632	25,266
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,630,041	2,066,424
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	21		
Cash and bank balances		1,630,041	2,016,135
Non-pledged time deposits with original maturity of less than three months when acquired		—	50,289
		1,630,041	2,066,424

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
NON-CURRENT ASSETS			
Investments in subsidiaries	17	305,585	295,422
Total non-current assets		305,585	295,422
CURRENT ASSETS			
Due from subsidiaries		2,940,595	2,770,540
Due from jointly-controlled entities	18	—	79
Prepayments, deposits and other receivables		—	59
Cash and cash equivalents	21	841,146	740,525
Total current assets		3,781,741	3,511,203
CURRENT LIABILITIES			
Other payables and accruals	23	18,309	21,786
Interest-bearing bank and other borrowings	24	1,162,500	1,379,500
Total current liabilities		1,180,809	1,401,286
NET CURRENT ASSETS		2,600,932	2,109,917
TOTAL ASSETS LESS CURRENT LIABILITIES		2,906,517	2,405,339
NON-CURRENT LIABILITIES			
Financial guarantee contracts	2.2(b)	7,327	3,884
Net assets		2,899,190	2,401,455
EQUITY			
Issued capital	28	231,885	231,884
Reserves	29(b)	2,620,928	2,134,788
Proposed final dividend	12	46,377	34,783
Total equity		2,899,190	2,401,455

Liu Xiaoming
Director

Xu Zhouwen
Director

1. CORPORATE INFORMATION

Global Bio-chem Technology Group Company Limited is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, British West Indies. The principal place of business of the Company is located at Unit 1104, Admiralty Centre, Tower 1, 18 Harcourt Road, Hong Kong.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain property, plant and equipment at fair value as further explained below. These financial statements are presented in Hong Kong dollars ("HK$").

During the prior year, the Group was granted loan facilities of US$180 million by a syndicate of banks ("Syndicated Loan") for a term of 36 months and repayable by four equal instalments. As at 31 December 2006, the outstanding balance of the Syndicated Loan was US$150 million (equivalent to HK$1,163 million). The first repayment instalment of US$37.5 million (equivalent to HK$296 million) was due on 2 March 2007 and the remaining balance is repayable by three equal instalments which are due on 2 September 2007, 2 March 2008, 2 September 2008, respectively. Pursuant to the loan facility agreement, a termination event would arise if the Group could not meet the financial covenants as set out in the agreement. During the year, a revision of the terms of the loan agreement for the relaxation of the financial covenants was made.

At the balance sheet date, the Group was unable to comply with two of the revised financial covenants. Accordingly, the whole balance of the Syndicated Loan amounting to approximately HK$1,163 million has been classified as a current liability as at 31 December 2006.

The directors have been taking action to rectify the non-compliance. On 2 April 2007, the Group repaid the entire amount of the Syndicated Loan partially financed by internal resources and partially financed by a new 18-month loan of US$37.5 million (equivalent to HK$296 million) granted by a banker on 31 March 2007. In addition, the directors have arranged to convert the Group's short term loans amounting to approximately HK$637 million to long term loans subsequent to the balance sheet date in order to improve the Group's liquidity position.

2.1 BASIS OF PREPARATION (continued)

The directors consider that the Group will have adequate working capital to finance its operation and will not result in any liquidity issue. Accordingly, these financial statements are prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and its share of each jointly-controlled entity for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.:

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(b) HKAS 39 *Financial Instruments: Recognition and Measurement*

(i) *Amendment for financial guarantee contracts*

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue. During the current and prior years, the Company provided guarantees to banks in connection with bank loans and other banking facilities granted to its subsidiaries. Upon the adoption of this amendment, the Company is required to recognise these financial guarantee contracts as financial liabilities. The change in accounting policy has been recognised since 1 January 2005 when HKAS 39 was initially adopted by the Group/ Company and the comparative amounts for the year ended 31 December 2005 have been restated. The effects of the above change are summarised below.

	2006 HK$'000	2005 HK$'000
Company balance sheet at 1 January		
Increase in investments in subsidiaries	7,485	3,262
Increase in financial guarantee liabilities	(3,884)	(2,470)
	3,601	792
Company balance sheet at 31 December		
Increase in investments in subsidiaries	17,648	7,485
Increase in financial guarantee liabilities	(7,327)	(3,884)
	10,321	3,601

(ii) *Amendment for the fair value option*

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(b) HKAS 39 Financial Instruments: *Recognition and Measurement* (continued)

(iii) *Amendment for cash flow hedge accounting of forecast intragroup transactions*

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(c) HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HKFRS 8 shall be applied for accounting period beginning on or after 1 January 2009. The standard requires disclosures that enable users of the financial statements to evaluate the nature and financial effects of the business activities in which the Group engages and the economic environment in which the Group operates.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

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

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

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

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities

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

The Group's interests in its jointly-controlled entities are accounted for by proportionate consolidation, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis.

Goodwill

Goodwill arising on the acquisition of subsidiaries and jointly-controlled entities represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

Goodwill previously eliminated against the consolidated retained profits

Prior to the adoption of the HKICPA's Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated retained profits and is not recognised in the consolidated income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the consolidated income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property are dealt with as movements in the 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 consolidated income statement. Any subsequent revaluation surplus is credited to the consolidated income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold buildings	2%
Plant and machinery	6.7%
Leasehold improvements, furniture, office equipment and motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

Intangible assets (other than goodwill)

Research and development costs

All research costs are charged to the consolidated income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the consolidated income statement on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Prepaid land premiums/land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Financial assets

Financial assets in the scope of HKAS 39 are classified as loans and receivables. When financial assets are recognised initially, they are measured at fair value. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the consolidated income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated income statement.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provision, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

Inventories

Inventories are stated at the lower of cost and net realisable value. 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. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Pension schemes and other retirement benefits

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

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

Borrowing costs

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

Dividends

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and jointly-controlled entities are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

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

3. SIGNIFICANT ACCOUNTING ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Depreciation and amortisation

The Group's net book value of property, plant and equipment at 31 December 2006 was HK$6,376,507,000. The Group depreciates the assets on the straight-line basis over their estimated useful lives, and after taking into account of their estimated residual values, at rates ranging from 2% to 20% per annum, commencing from the date the equipment is placed into productive use. The estimated useful lives and dates that the Group places the equipment into productive use reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Judgements (continued)

Impairment of trade receivables

The policy for provision for impairment loss of the Group is based on the evaluation of collectability, the aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Allowances for inventories

The management of the Group reviews an aging analysis of its inventories at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. Management estimates the net realisable value for such finished goods and work in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowances for obsolete items.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was HK$360,889,000 (2005: HK$357,014,000). More details are given in note 16 to the financial statements.

4. SEGMENT INFORMATION

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

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

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

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

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers. Summary details of the geographical segments for revenues are as disclosed below.

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

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

Group	Corn refined products		Corn based biochemical products		Eliminations		Consolidated	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Segment revenue:								
Sales to external customers	1,616,007	1,811,472	3,126,935	2,267,418	—	—	4,742,942	4,078,890
Intersegment sales	1,339,589	906,869	—	—	(1,339,589)	(906,869)	—	—
Total	2,955,596	2,718,341	3,126,935	2,267,418	(1,339,589)	(906,869)	4,742,942	4,078,890
Segment results	315,543	356,224	482,315	322,824	—	—	797,858	679,048
Unallocated revenue							16,156	6,998
Unallocated expenses							(50,034)	(16,706)
Profit from operating activities							763,980	669,340
Finance costs							(207,022)	(89,106)
Profit before tax							556,958	580,234
Tax							(55,730)	(39,895)
Profit for the year							501,228	540,339
Attributable to:								
Equity holders of the Company							501,228	466,484
Minority interests							—	73,855
							501,228	540,339
Assets and liabilities								
Segment assets	2,589,679	2,642,996	6,297,431	5,646,477	—	—	8,887,110	8,289,473
Due from jointly-controlled entities							63,539	29,113
Unallocated assets							1,623,551	1,084,399
Total assets							10,574,200	9,402,985
Segment liabilities	1,603,361	1,073,036	2,092,896	1,524,450	—	—	3,696,257	2,597,486
Unallocated liabilities							1,598,559	2,066,927
Total liabilities							5,294,816	4,664,413
Other segment information:								
Capital expenditure, including payment of land premiums	32,878	104,876	1,272,142	2,060,094	—	—	1,305,020	2,164,970
Depreciation	85,581	80,452	196,449	141,321	—	—	282,030	221,773
Impairment of property, plant and equipment	—	—	—	244	—	—	—	244
Amortisation of prepaid land premiums	3,815	3,785	9,629	8,229	—	—	13,444	12,014
Impairment of prepaid land premiums	—	—	—	5,886	—	—	—	5,886
Impairment for trade receivables	—	—	7,945	—	—	—	7,945	—
Write down of inventories to net realisable value	665	—	13,488	3,365	—	—	14,153	3,365

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

Group	Mainland China		Countries other than Mainland China		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:								
Sales to external customers	3,603,104	3,322,802	1,139,838	756,088	—	—	4,742,942	4,078,890
Other segment information:								
Capital expenditure, including payments of land premiums	1,305,020	2,164,970	—	—	—	—	1,305,020	2,164,970
Depreciation	282,030	221,773	—	—	—	—	282,030	221,773
Impairment of property, plant and equipment	—	244	—	—	—	—	—	244
Amortisation of prepaid land premiums	13,444	12,014	—	—	—	—	13,444	12,014
Impairment of prepaid land premiums	—	5,886	—	—	—	—	—	5,886
Impairment for trade receivables	7,945	—	—	—	—	—	7,945	—
Write down of inventories to net realisable value	14,153	3,365	—	—	—	—	14,153	3,365

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue, other income and gains is as follows:

		Group	
		2006	2005
	Note	HK$'000	HK$'000
Revenue			
Sale of goods		4,742,942	4,078,890
Other income			
Bank interest income		10,586	12,421
Net profit arising from sale of packing materials and by-products		12,628	7,284
Government grants		7,230	—
Excess over the cost of a business combination	30	215	—
Sale of utilities		1,035	3,417
Others		3,046	2,461
		34,740	25,583
Gains			
Exchange differences		13,890	3,293
Gain on disposal of items of property, plant and equipment		—	73
		48,630	28,949

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

		Group	
		2006	2005
	Notes	HK$'000	HK$'000
Cost of inventories sold		2,508,227	2,163,786
Depreciation	14	282,030	221,773
Impairment of property, plant and equipment	14	—	244
Impairment of prepaid land premiums	15	—	5,886
Amortisation of prepaid land premiums	15	13,444	12,014
Research and development costs		10,207	5,965
Auditors' remuneration		6,728	4,450
Employee's benefits expenses (excluding directors' remuneration (note 8)):			
Wages and salaries		104,539	75,109
Pension scheme contributions		225	1,101
		104,764	76,210
Impairment of accounts receivable		7,945	—
Write-down of inventories to net realisable value		14,153	3,365
Loss on disposal of items of property, plant and equipment		775	—

7. FINANCE COSTS

		Group 2006 HK$'000	Group 2005 HK$'000
Write-off/amortisation of the arrangement fee	(Note)	15,500	1,938
Interest on bank loans:			
Wholly repayable within five years		223,587	119,471
Repayable beyond five years		—	429
Total interest		223,587	119,900
Finance costs for discounting notes receivable		2,321	4,136
		241,408	125,974
Less: Interest capitalised		(34,386)	(36,868)
		207,022	89,106

Note: The unamortised arrangement fee of the Syndicated Loan of HK$15,500,000 was written off to the consolidated income statement for the year ended 31 December 2006.

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Notes	Group 2006 HK$'000	Group 2005 HK$'000
Fees	(a)	840	870
Other emoluments:	(b)		
Basic salaries, housing benefits, other allowances and benefits in kind		10,320	10,320
Performance related bonuses		10,000	10,000
Pension scheme contributions		48	48
		20,368	20,368
		21,208	21,238

8. DIRECTORS' REMUNERATION (continued)

According to the directors' service contracts, each of the executive directors, upon completion of every 12 months of service, is entitled to a management bonus. The aggregate amount of the bonuses payable to all the executive directors for any financial year may not exceed 5% of the consolidated net profit from ordinary activities attributable to shareholders in respect of that financial year. For the year ended 31 December 2006, the aggregate amount of the bonuses payable to the executive directors was equivalent to approximately 2% (2005: 2%) of the net profit from ordinary activities attributable to shareholders.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Mr. Chan Man Hon, Eric	360	345
Mr. Lee Yuen Kwong	360	345
Mr. Li Defa	120	180
	840	870

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors

	Basic salaries, housing benefits, other allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2006				
Executive directors:				
Mr. Liu Xiaoming	3,000	3,000	12	6,012
Mr. Kong Zhanpeng	2,160	2,000	12	4,172
Mr. Wang Tieguang	2,160	2,000	12	4,172
Mr. Xu Zhouwen	3,000	3,000	12	6,012
	10,320	10,000	48	20,368
2005				
Executive directors:				
Mr. Liu Xiaoming	3,000	3,000	12	6,012
Mr. Kong Zhanpeng	2,160	2,000	12	4,172
Mr. Wang Tieguang	2,160	2,000	12	4,172
Mr. Xu Zhouwen	3,000	3,000	12	6,012
	10,320	10,000	48	20,368

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2005: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2005: one) non-director, highest paid employee for the year are as follows:

	Group 2006 HK$'000	2005 HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	1,430	1,530
Pension scheme contributions	12	12
	1,442	1,542

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) 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 locations in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2006	2005
	HK$'000	HK$'000
Current — Hong Kong	6,511	2,445
Current — Elsewhere	46,094	33,191
Deferred (note 27)	3,125	4,259
Total tax charge for the year	55,730	39,895

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the locations in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group — 2006	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(77,008)		633,966		556,958	
Tax at the statutory rate	(13,476)	17.5	209,209	33.0	195,733	35.1
Preferential tax rate offered	—	—	(101,185)	(16.0)	(101,185)	(18.2)
Lower tax rate for tax relief granted	—	—	(81,790)	(12.9)	(81,790)	(14.7)
Income not subject to tax	(1,944)	2.5	(4,765)	(0.8)	(6,709)	(1.2)
Tax losses not recognised	188	(0.2)	25,811	4.1	25,999	4.7
Expenses not deductible for tax	21,743	(28.3)	2,052	0.3	23,795	4.3
Tax losses utilised from previous periods	—	—	(113)	—	(113)	—
Tax charge at the Group's effective rate	6,511	(8.5)	49,219	7.8	55,730	10.0

10. TAX (continued)

Group — 2005	Hong Kong HK$'000	%	Mainland China HK$'000	%	Total HK$'000	%
Profit/(loss) before tax	(37,443)		617,677		580,234	
Tax at the statutory rate	(6,553)	17.5	203,833	33	197,280	34.0
Preferential tax rate offered	—	—	(111,182)	(18)	(111,182)	(19.2)
Lower tax rate for tax relief granted	—	—	(64,238)	(10.4)	(64,238)	(11.1)
Income not subject to tax	(2,191)	5.9	—	—	(2,191)	(0.3)
Tax losses not recognised	8,174	(21.8)	—	—	8,174	1.4
Expenses not deductible for tax	3,574	(9.6)	9,037	1.5	12,611	2.2
Tax losses utilised from previous periods	(559)	1.5	—	—	(559)	(0.1)
Tax charge at the Group's effective rate	2,445	(6.5)	37,450	6.1	39,895	6.9

All of the Group's subsidiaries operating in the PRC are exempt from PRC corporate income tax for two years starting from the first profitable year of their operations and are entitled to a 50% relief from the PRC income tax for the following three years.

Tax recoverable represents excess of tax payment over estimated tax liabilities or receivables on last year's rebate entitled by certain group companies.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2006 includes profit of HK$512,994,000 (2005: HK$102,124,000) has been dealt with in the financial statements of the Company (note 29(b)).

12. DIVIDENDS

	2006 HK$'000	2005 HK$'000
Interim — HK1 cent (2005: HK2 cents) per ordinary share	**23,188**	46,377
Proposed final — HK2 cents (2005: HK1.5 cents) per ordinary share	**46,377**	34,783
	69,565	81,160

12. DIVIDENDS (continued)

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

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share and diluted earnings per share are based on the consolidated profit for the year attributable to ordinary equity holders of the Company of approximately HK$501,228,000 (2005: HK$466,484,000), and the weighted average number of 2,318,848,802 (2005: 2,282,302,102) ordinary shares in issue during the year. As the exercise price of the warrants was higher than the average market price of the Company's ordinary shares during the year, no shares were assumed to have been issued on the deemed exercise of the Company's warrants during the year.

The calculation of diluted earnings per share for the year ended 31 December 2005 was based on the consolidated net profit from ordinary activities attributable to shareholders for the year of approximately HK$466,484,000 and on 2,303,785,758 ordinary shares, being the weighted average number of 2,282,302,102 ordinary shares in issue during the year, as used in the basic earnings per share calculation, plus the weighted average of 21,483,656 ordinary shares deemed to be issued at no consideration up to the date of the exercise of the share options during the year. In addition, as the exercise price of the warrants was higher than the average market price of the Company's ordinary shares during the year ended 31 December 2005, no shares were assumed to have been issued on the deemed exercise of the Company's warrants for the year ended 31 December 2005.

14. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture, office equipment and motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2006					
At 31 December 2005 and at 1 January 2006:					
Cost or valuation	1,606,955	2,694,546	83,777	1,547,733	5,933,011
Accumulated depreciation	(47,284)	(510,181)	(37,456)	—	(594,921)
Net carrying amount	1,559,671	2,184,365	46,321	1,547,733	5,338,090
At 1 January 2006, net of accumulated depreciation	1,559,671	2,184,365	46,321	1,547,733	5,338,090
Additions	220	33,691	13,965	1,132,501	1,180,377
Acquisition of a subsidiary (note 30)	—	—	—	38,188	38,188
Disposals	—	—	(1,107)	—	(1,107)
Depreciation provided during the year	(51,951)	(212,740)	(17,339)	—	(282,030)
Transfers	633,092	608,830	6,974	(1,248,896)	—
Exchange realignment	28,709	44,313	906	29,061	102,989
At 31 December 2006, net of accumulated depreciation	2,169,741	2,658,459	49,720	1,498,587	6,376,507
At 31 December 2006:					
Cost or valuation	2,270,236	3,383,975	104,226	1,503,375	7,261,812
Accumulated depreciation and impairment	(100,495)	(730,304)	(54,506)	—	(885,305)
Net carrying amount	2,169,741	2,653,671	49,720	1,503,375	6,376,507
Analysis of cost or valuation:					
At cost	663,281	3,383,975	104,226	1,503,375	5,654,857
At 31 December 2005 valuation	1,606,955	—	—	—	1,606,955
	2,270,236	3,383,975	104,226	1,503,375	7,261,812

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group	Leasehold buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture, office equipment and motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2005					
At 31 December 2004 and at 1 January 2005:					
Cost or valuation	982,993	1,878,449	42,916	1,023,895	3,928,253
Accumulated depreciation	(12,260)	(327,981)	(21,548)	—	(361,789)
Net carrying amount	970,733	1,550,468	21,368	1,023,895	3,566,464
At 1 January 2005, net of accumulated depreciation	970,733	1,550,468	21,368	1,023,895	3,566,464
Additions	46,868	367,263	38,814	1,418,150	1,871,095
Acquisition of a minority shareholder (note 30)	—	—	713	—	713
Disposals	—	(889)	(70)	(2,657)	(3,616)
Surplus on revaluation	24,339	—	—	—	24,339
Impairment	(244)	—	—	—	(244)
Depreciation provided during the year	(33,929)	(172,745)	(15,099)	—	(221,773)
Transfers	525,964	394,459	—	(920,423)	—
Exchange realignment	25,940	45,809	595	28,768	101,112
At 31 December 2005, net of accumulated depreciation	1,559,671	2,184,365	46,321	1,547,733	5,338,090
At 31 December 2005:					
Cost or valuation	1,606,955	2,694,546	83,777	1,547,733	5,933,011
Accumulated depreciation and impairment	(47,284)	(510,181)	(37,456)	—	(594,921)
Net carrying amount	1,559,671	2,184,365	46,321	1,547,733	5,338,090
Analysis of cost or valuation:					
At cost	—	2,694,546	83,777	1,547,733	4,326,056
At 31 December 2005 valuation	1,606,955	—	—	—	1,606,955
	1,606,955	2,694,546	83,777	1,547,733	5,933,011

Prior to its transfer to other categories of property, plant and equipment, the carrying amount of construction in progress included capitalised interest of approximately HK$34,386,000 (2005: HK$36,868,000).

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Had the Group's leasehold buildings been carried at historical cost less accumulated depreciation, their carrying amount would have been approximately HK$2,095,429,000 (2005: HK$1,480,453,000).

At 31 December 2006, certain prepaid land premium of the Group with a carrying value of approximately HK$61,939,000 (2005: HK$150,111,000 of leasehold building and HK$109,930,000 of plant and machinery) were pledged to secure banking facilities granted to the Group (note 26).

At 31 December 2006, the applications of building certificates for certain leasehold buildings of the Group with a total carrying amount of HK$1,264,239,000 were still in progress.

15. PREPAID LAND PREMIUMS

	Group	
	2006 HK$'000	2005 HK$'000
Carrying amount at 1 January	512,406	173,021
Additions	1,474	88,265
Acquisition of a minority shareholder (note 30)	—	264,736
Impairment	—	(5,886)
Amortised during the year	(13,444)	(12,014)
Exchange realignment	8,327	4,284
Carrying amount at 31 December	508,763	512,406
Current portion included in prepayments, deposits and other receivables	(13,444)	(13,856)
Non-current portion	495,319	498,550

16. GOODWILL

	Group	
	2006 HK$'000	2005 HK$'000
At 1 January		
Cost	357,014	45,362
Accumulated impairment	—	—
Carrying amount	357,014	45,362
Acquisition of minority interests (note 30)	—	6,066
Acquisition of a subsidiary (note 30)	3,875	305,586
At 31 December	360,889	357,014

16. GOODWILL (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations or acquisition of a minority shareholder have been allocated to the following cash-generating units, which are reportable segments, for impairment testing:

	Goodwill HK$'000
Corn refinery plants	162,640
Lysine plants	25,927
Changchun Dihao Foodstuff Development Co., Ltd.	155,986
Changchun Dacheng Special Corn and Modified Starch Development Co., Ltd.	12,461
Global Polyol Investments Limited	3,875
	360,889

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The discount rates applied to cash flow projections are 7% (2005: 7%). No growth has been projected beyond the five-year period.

Key assumptions were used in the value in use calculation of the corn refined products and corn based bio-chemical products cash-generating units for 31 December 2006. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year, increased for expected efficiency improvements, and expected market development.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant units.

Raw materials price inflation — The basis used to determine the value assigned to raw materials price inflation is the forecast price indices during the budget year for local market from where raw materials are sourced. The values assigned to key assumptions are consistent with external information sources.

17. INVESTMENTS IN SUBSIDIARIES

	Company 2006 HK$'000	Company 2005 HK$'000 (Restated)
Unlisted shares, at cost	**305,585**	295,422

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

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

Name	Place of incorporation/ establishment and operations	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held				
Bio-chem Technology (HK) Limited	Hong Kong	Ordinary HK$2	100	Trading of corn refined products and corn based biochemical products
Datex Investment Limited	Hong Kong	Ordinary HK$2	100	Investment holding
Global Polyol Investments Limited	Hong Kong	Ordinary HK$1,000	100	Investment holding
Global Corn Chemical Investment Limited	Hong Kong	Ordinary HK$10,000	100	Investment holding
Global Sweeteners Holdings Limited[@]	Cayman Islands	Nil	100	Investment holding
Changchun Baocheng Bio-chem Development Co., Ltd.*	PRC/Mainland China	US$12,000,000	100	Manufacture and sale of corn based biochemical products
Changchun Dacheng Bio-chem Engineering Development Co., Ltd.*	PRC/Mainland China	RMB154,645,600	100	Manufacture and sale of corn based biochemical products
Changchun Dacheng Corn Development Co., Ltd. *	PRC/Mainland China	RMB153,940,000	100	Manufacture and sale of corn refined products

17. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment and operations	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)				
Changchun Dacheng Fermentation Technology Development Co., Ltd.**	PRC/Mainland China	US$2,000,000	100	Manufacture and sale of corn based biochemical products
Changchun Dacheng New Polyol Development Co., Ltd. **	PRC/Mainland China	US$2,000,000	100	Manufacture and sale of corn based biochemical products
Changchun Dacheng Starch Development Co., Ltd. *	PRC/Mainland China	RMB54,400,000	100	Manufacture and sale of corn refined products
Changchun Dahe Bio Technology Development Co., Ltd.**	PRC/Mainland China	US$11,672,000	100	Manufacture and sale of corn based biochemical products
Changchun Dacheng Special Corn and Modified Starch Development Co., Ltd.*	PRC/Mainland China	RMB99,250,000	100	Manufacture and sale of corn based biochemical products
Changchun Dihao Foodstuff Development Co., Ltd.*	PRC/Mainland China	RMB81,000,000	100	Manufacture and sale of corn based biochemical products
Changchun Jincheng Corn Development Co., Ltd. *	PRC/Mainland China	RMB98,700,000	100	Manufacture and sale of corn refined products
Changchun Yucheng Sweeteners Co., Ltd.**	PRC/Mainland China	US$6,000,000	100	Manufacture and sale of corn based biochemical products
Jinzhou Yuancheng Bio-chem Technology Co., Ltd.**	PRC/Mainland China	US$12,659,400	100	Manufacture and sale of corn refined products
Shanghai Hao Cheng Food Development Co., Ltd.**	PRC/Mainland China	US$2,668,000	100	Manufacture and sale of corn sweeteners
Changchun GBT Bio-Chemical Co., Ltd.	PRC/Mainland China	US$32,000,000	100	Manufacture and sale of corn based biochemical products

17. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment and operations	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)				
Changchun Dacheng Industrial Group Co., Ltd. ("Dacheng Industrial")**	PRC/Mainland China	RMB193,000,000	100	Investment holding
Dacheng Bio-chem Technology (Songyuan) Co., Ltd.**	PRC/Mainland China	HK$18,000,000	100	Manufacture and sale of corn based biochemical products
Changchun Dacheng Bio-chemical Development Co., Ltd.**	PRC/Mainland China	US$11,000,000	100	Manufacture and sale of corn based biochemical products
Changchun Dihao Crystal Sugar Industry Development Co., Ltd.*/@	PRC/Mainland China	US$3,200,000	100	Manufacture and sale of corn based biochemical products

* Registered as Sino-foreign equity joint ventures under the PRC laws.

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

@ Incorporated/established during the year.

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

18. DUE FROM JOINTLY-CONTROLLED ENTITIES/DUE TO A VENTURER OF A JOINTLY-CONTROLLED ENTITY

	Group		Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Long term loan advanced to a jointly-controlled entity	40,000	40,000	—	—
Short term balance due from jointly-controlled entities	23,539	9,113	—	79
Due to a venturer of a jointly-controlled entity	20,000	20,000	—	—

The long term loan was unsecured, interest-free and will be repayable in 2101 or upon the liquidation, winding-up or dissolution of the jointly-controlled entities, whenever is earlier.

The short term balance due from jointly-controlled entities is unsecured, interest-free and is repayable within one year.

Since the Group has no legal right to offset the long term loan advanced to a jointly-controlled entity against the venturer's share of liability of that jointly-controlled entity, the balance was not eliminated.

Particulars of the jointly-controlled entities are as follows:

		Percentage of		
Name	Place of incorporation/ registration	Ownership interest	Voting power and profit sharing	Principal activities
Global Bio-chem-Cargill (Holdings) Limited	Hong Kong	50	50	Investment holding
GBT-Cargill High Fructose (Shanghai) Co., Ltd.	Mainland China	50	50	Manufacture and sale of high fructose corn syrup
Global-Nikken (H.K.) Company Limited	Hong Kong	51	50	Investment holding
Changchun Dacheng Nikken Polyols Co., Ltd.	Mainland China	51	50	Manufacture and sale of sorbitol products

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

18. DUE FROM JOINTLY-CONTROLLED ENTITIES/DUE TO A VENTURER OF A JOINTLY-CONTROLLED ENTITY (continued)

The following table illustrates the summarised financial information of the Group's jointly-controlled entities, which have been proportionately consolidated:

	Group	
	2006	2005
	HK$'000	HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	65,895	37,074
Non-current assets	68,897	68,776
Current liabilities	(60,099)	(50,749)
Non-current liabilities	(6,941)	(1,286)
Net assets	67,752	53,815
Share of the jointly-controlled entities' results:		
Turnover	142,883	50,244
Other revenue	1,696	671
Total revenue	144,579	50,915
Total expenses	(125,877)	(50,250)
Tax	—	—
Profit after tax	18,702	665

19. INVENTORIES

	Group	
	2006	2005
	HK$'000	HK$'000
Raw materials	462,131	359,863
Finished goods	141,538	162,367
	603,669	522,230

20. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 30 to 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	Group	
	2006 HK$'000	2005 HK$'000
Within 1 month	233,791	198,744
1 to 2 months	57,666	58,039
2 to 3 months	36,289	21,625
Over 3 months	47,437	32,126
	375,183	310,534

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Cash and bank balances	1,630,041	2,016,135	841,146	740,525
Time deposits	—	50,289	—	—
Cash and cash equivalents	1,630,041	2,066,424	841,146	740,525

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$657,502,037 (2005: HK$917,445,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

22. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 90 days from its suppliers.

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

	Group	
	2006 HK$'000	2005 HK$'000
Within 1 month	145,426	185,521
1 to 2 months	19,747	31,981
2 to 3 months	12,677	23,279
Over 3 months	62,936	76,351
	240,786	317,132

23. OTHER PAYABLES

		Group		Company	
		2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Payables for purchases of machinery		268,968	164,649	—	—
Customer deposits/receipts in advance		237,160	280,582	—	—
Consideration payable for acquisition of Dacheng Industrial	(Note)	366,433	630,000	—	—
Accrued interests		14,863	13,713	14,863	13,713
Others		132,505	156,116	3,446	8,073
		1,019,929	1,245,060	18,309	21,786

Note: It represented the unpaid consideration for the acquisition of Dacheng Industrial in 2005. The amount is unsecured, interest-free and has no fixed terms of repayment.

Save the disclosed above, other payables are non-interest-bearing and have an average repayment term of three months.

24. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%) per annum	Maturity	Group 2006 HK$'000	Group 2005 HK$'000	Company 2006 HK$'000	Company 2005 HK$'000
Current						
Bank loans — secured	5.115–6.732	2007	2,016,978	1,349,196	—	—
Bank loans — unsecured	5.381	2007	1,162,500	1,379,500	1,162,500	1,379,500
Other loans — unsecured	—	2007	29,331	4,465	—	—
			3,208,809	2,733,161	1,162,500	1,379,500
Non-current						
Bank loans — secured	5.58–6.30	2008–2009	741,696	329,482	—	—
			3,950,505	3,062,643	1,162,500	1,379,500

	Group 2006 HK$'000	Group 2005 HK$'000	Company 2006 HK$'000	Company 2005 HK$'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	3,179,478	2,728,696	1,162,500	1,379,500
In the second year	536,314	170,857	—	—
In the third to fifth years, inclusive	205,382	158,625	—	—
	3,921,174	3,058,178	1,162,500	1,379,500
Other borrowings repayable:				
Within one year or on demand	29,331	4,465	—	—
	3,950,505	3,062,643	1,162,500	1,379,500

During the prior year, the Group was granted loan facilities of US$180 million by a syndicate of banks ("Syndicated Loan") for a term of 36 months and repayable by four equal instalments. As at the balance sheet date, the outstanding balance of the Syndicated Loan was US$150 million, equivalent to HK$1,163 million (2005: US$180 million, equivalent to HK$1,395 million). The first repayment instalment of US$37.5 million was due on 2 March 2007. A termination event would arise if the Group could not meet the financial covenants as set out in the loan agreement. During the year, a revision of the terms of the loan agreement for the relaxation of the financial covenants was made. At the balance sheet date, the Group was unable to comply with two of the revised financial covenants. Accordingly, the whole balance of the Syndicated Loan amounting to approximately HK$1,163 million has been classified as a current liability as at 31 December 2006. On 2 April 2007, the Group repaid the entire amount of the Syndicated Loan. The details are set out in note 2.1 to the financial statements.

25. DEFERRED INCOME

The balance represented the receipt of a government grant of HK$26,451,000 for the construction of certain of the Group's production plants, which has been credited as a non-current liability on the consolidated balance sheet. Such deferred income is amortised on a straight line basis to the consolidated income statement over the expected useful lives of the relevant assets acquired.

26. BANKING FACILITIES

At 31 December 2006, the Group's banking facilities, including term loans, mortgage loan and other general facilities, were secured by the following:

(i) fixed charges on certain prepaid land premiums and leasehold buildings amounting to approximately HK$61,939,000 (2005: HK$150,111,000); and

(ii) corporate guarantees of approximately HK$4,129,823,000 (2005: HK$1,161,739,000) and approximately HK$1,008,333,000 (2005: HK$804,327,000) given by the Company and certain subsidiaries of the Group, respectively.

27. DEFERRED TAX

The movements in deferred tax liabilities during the year are as follows:

Group	Depreciation allowance in excess of related depreciation HK$'000	Revaluation of properties HK$'000	Total HK$'000
At 1 January 2005	—	10,591	10,591
Deferred tax debited to equity during the year (note 10)	—	4,259	4,259
At 31 December 2005 and 1 January 2006	—	14,850	14,850
Deferred tax charged to the consolidated income statement during the year (note 10)	3,125	—	3,125
Gross deferred tax liabilities at 31 December 2006	3,125	14,850	17,975

The Group had tax losses arising in Hong Kong of approximately HK$1,074,000 (2005: HK$1,180,000) that were available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group had tax losses arising in the PRC of approximately HK$86,375,000 (2005: HK$4,721,000) which would expire by the year ending 31 December 2011. In the opinion of the directors, deferred tax assets have not been recognised as the directors consider that it is uncertain whether future taxable profits would arise to offset against these losses.

27. DEFERRED TAX (continued)

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or joint ventures as the Group has no liability to additional tax should such amounts be remitted.

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

28. SHARE CAPITAL

Shares	2006 HK$'000	2005 HK$'000
Authorised:		
10,000,000,000 (2005: 10,000,000,000) ordinary shares of HK$0.10 each	1,000,000	1,000,000
Issued and fully paid:		
2,318,848,802 (2005: 2,318,835,552) ordinary shares of HK$0.10 each	231,885	231,884

A summary of the transactions during the year in the Company's issued ordinary share capital is as follows:

	Notes	Number of shares in issue '000	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
As at 31 December 2004 and 1 January 2005		2,238,987	223,899	1,968,013	2,191,912
Share options exercised	(a)	79,849	7,985	139,490	147,475
Warrants exercised		—	—	1	1
Share subscription and placement		—	—	301	301
		79,849	7,985	139,792	147,777
As at 31 December 2005		2,318,836	231,884	2,107,805	2,339,689
As at 31 December 2005 and 1 January 2006		2,318,836	231,884	2,107,805	2,339,689
Warrants exercised	(b)	13	1	129	130
As at 31 December 2006		2,318,849	231,885	2,107,934	2,339,819

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

28. SHARE CAPITAL (continued)

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

As at 31 December 2005, all share options were fully exercised. No additional share options will be granted or exercised under the SO Scheme.

(b) 13,250 ordinary shares of HK$0.1 each were issued for cash at a subscription price of HK$9.80 per share pursuant to the exercise of the Company's warrants for a total cash consideration, before expenses, of HK$129,850.

Warrants

On 30 March 2004, the Company granted one bonus warrant for every eight ordinary shares of HK$0.10 each in the share capital of the Company, to the shareholders whose names appeared on the register of members of the Company on 4 May 2004 (the "Record Day"). On the Record Day, the Company had 2,086,985,200 shares in issue, and accordingly, 260,873,150 bonus warrants were issued.

Each of the bonus warrants will entitle the holder thereof to subscribe for one ordinary share of the Company at an initial subscription price of HK$9.80 per share, subject to adjustment, from 28 May 2004 to 31 May 2007 (both dates inclusive).

During the year, 13,250 warrants were exercised for 13,250 ordinary shares of HK$0.1 each at a subscription price of HK$9.80 per share. At the balance sheet date, the Company had 260,858,348 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 260,858,348 additional ordinary shares of HK$0.1 each.

29. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 38 of the financial statements.

29. RESERVES (continued)

(b) Company

	Notes	Share premium account HK$'000	Retained profits HK$'000	Total HK$'000
As previously reported at 1 January 2005		1,968,013	7,697	1,975,710
Prior year adjustments for the adoption of HKAS 39		—	792	792
As restated, after prior year adjustments at 1 January 2005		1,968,013	8,489	1,976,502
Share subscription and placement		139,792	—	139,792
Net profit for the year as previously reported		—	99,315	102,124
Adjustments for the adoption of HKAS 39		—	2,809	2,809
Net profit for the year, after adjustments		—	102,124	102,124
Final 2004 dividend declared		—	(2,470)	(2,470)
Interim 2005 dividend	12	—	(46,377)	(46,377)
Proposed final 2005 dividend	12	—	(34,783)	(34,783)
At 31 December 2005		2,107,805	26,983	2,134,788
As previously reported at 1 January 2006		2,107,805	23,382	2,131,187
Prior year adjustments for the adoption of HKAS 39		—	3,601	3,601
As restated, after prior year adjustments at 1 January 2006		2,107,805	26,983	2,134,788
Warrants exercised		129	—	129
Net profit for the year		—	555,576	555,576
Interim 2006 dividend	12	—	(23,188)	(23,188)
Proposed final 2006 dividend	12	—	(46,377)	(46,377)
At 31 December 2006		2,107,934	512,994	2,620,928

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

29. RESERVES (continued)

(b) Company (continued)

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

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

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

Business combination

On 24 July 2006, Global Bio-chem Technology Company Limited ("GBTL"), a wholly-owned subsidiary of the Company, entered into an agreement to acquire the remaining 18.75% equity interest in Global Corn Chemical Investment Limited ("GCCI"). GCCI is an investment holding company which holds Changchun GBT Bio-chemical Co., Ltd., a corporation in the PRC. The aggregate purchase consideration for the acquisition was in the form of cash which amounted to HK$7.80.

Prior to the acquisition, GCCI was accounted for as a jointly-controlled entity as major operational decisions required the unanimous consent of all joint venture partners. Upon the completion of the acquisition, the Group had control over GCCI and the purchase method of accounting should be applied pursuant to HKFRS 3. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The acquisition of GCCI has no material effect to the Group's turnover and consolidated profit for the year ended 31 December 2006.

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

Year ended 31 December 2006 (continued)

Business combination (continued)

The fair values of the identifiable assets and liabilities of GCCI as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on acquisition HK$'000	Carrying amount HK$'000
Net assets acquired:			
Property, plant and equipment	14	38,188	38,188
Balance with group companies		(52,526)	(52,526)
Prepayments and other receivables		18,941	18,941
Cash and cash equivalents		1,214	1,214
Other payables		(5,602)	(5,602)
		215	215
Excess over the cost of a business combination recognised in the consolidated income statement	5	(215)	
Satisfied by			
Cash		—	

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

	2006 HK$'000
Cash consideration	—
Cash and cash equivalents acquired	1,214
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	1,214

Acquisition of minority interests

On 24 July 2006, GBTL entered into an acquisition agreement with the then minority shareholders of Global Polyol Investments Limited ("GPI"), a company incorporated in Hong Kong, to acquire the minority interests therein at a total consideration of HK$3,875,000 in cash. GPI is an investment holding company, which holds Changchun Dacheng New Polyol Development Co., Ltd, a subsidiary set up in the PRC. The carrying amount of minority interests acquired was nil and the total consideration was recognised as goodwill.

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

Year ended 31 December 2005

Acquisition of a minority shareholder

On 29 June 2005, Global Corn Investments Limited ("Global Corn"), a wholly-owned subsidiary of the Company, entered into an acquisition agreement with the then shareholders of Dacheng Industrial, a company registered in the PRC, to acquire the entire equity interest therein at a total consideration of HK$900 million in cash. Dacheng Industrial's principal activity is investment holding and it is the minority shareholder of certain of the Group's subsidiaries. Dacheng Industrial also owned other assets.

The fair values of the identifiable assets and liabilities, except for minority interests at cost, of Dacheng Industrial as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on acquisition HK$'000	Carrying amount HK$'000
Net assets acquired:			
Minority interests, at carrying amount		530,717	530,717
Property, plant and equipment	14	713	713
Prepaid land premiums	15	264,736	192,498
Goodwill		6,066	6,066
Prepayments and other receivables		22,130	22,130
Cash and cash equivalents		88,210	88,210
Other payables		(11,605)	(11,605)
Balances with group companies		(229,630)	(229,630)
Interest-bearing bank loans		(76,923)	(76,923)
		594,414	522,176
Goodwill on acquisition	16	305,586	
Satisfied by:			
Cash		900,000	

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

Year ended 31 December 2005 (continued)

Acquisition of a minority shareholder (continued)

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

	2005 HK$'000
Cash consideration	(900,000)
Consideration remained payable at balance sheet date	630,000
Cash and cash equivalents acquired	88,210
Net outflow of cash and cash equivalents in respect of the acquisition of a minority shareholder/subsidiary	(181,790)

Net outflow of cash and cash equivalents in respect of the acquisition of a minority shareholder/subsidiary for the year ended 31 December 2006 was HK$263,567,000.

31. CONTINGENT LIABILITIES

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

At 31 December 2006, the banking facilities granted to the Company's subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$1,790,907,000 (2005: HK$888,687,000).

At 31 December 2006, the Company provided a guarantee to certain jointly-controlled entities in favour of the bank for banking facilities granted to those jointly-controlled entities. At the balance sheet date, these jointly-controlled entities utilised the banking facilities to the extent of approximately HK$11,625,000 (2005: HK$11,625,000).

32. COMMITMENTS

At 31 December 2006, the Group had capital commitments as follows:

	Group 2006 HK$'000	Group 2005 HK$'000
Contracted, but not provided for:		
Land premiums and leasehold buildings	79,951	168,292
Plant and machinery	131,859	688,639
	211,810	856,931
Authorised, but not contracted for:		
Capital contributions payable to subsidiaries	—	201,500
	211,810	1,058,431

The Company did not have any significant commitments as at 31 December 2006.

33. RELATED PARTY TRANSACTIONS

(i) Transactions with related parties

During the year, the following related party transactions were noted:

	Notes	Group 2006 HK$'000	Group 2005 HK$'000
Utility costs charged to Nikken, Incorporated and its subsidiary	(a)	2,697	5,120
Sales of lysine to Cargill, Incorporated and its subsidiary	(b)	—	8,780
Sales of corn starch to a jointly-controlled entity	(c)	66,312	26,078
Sales of corn sweeteners to a jointly-controlled entity	(c)	30,111	5,132
Sales of goods to Mitsui & Co., Ltd. and its subsidiaries	(d)	2,232	22,639
Commission paid to Cargill Investments (China) Ltd.	(e)	3,043	728

Notes:

(a) Nikken, Incorporated is the joint venture partner of Global Nikken (HK) Company Limited in which the Group effectively held a 51% equity interest. The utility costs were charged based on the actual costs incurred.

(b) Cargill, Incorporated is the joint venture partner of Global Bio-chem Cargill Limited in which the Group effectively held a 50% equity interest. The transactions were made at prices mutually agreed between the parties.

(c) The sales were made to Cargill and Nikken, at prices which are comparable to the prices offered to other customers of the Group.

(d) Mitsui & Co., Ltd. ("Mitsui Group") is the joint venture partner of Nikken. The transactions were made at prices mutually agreed between the parties. Balance with Mitsui Group has been settled as at the balance sheet date.

(e) Cargill Investments (China) Ltd. is the joint venture partner of GBT Cargill High Fructose (Shanghai) Company Limited in which the Group ultimately held a 50% equity interest. Commission was paid for its operating service provided to the jointly-controlled entity.

33. RELATED PARTY TRANSACTIONS (continued)

(ii) Balances with related parties:

At the balance sheet date, the Group's balances due from/(to) related parties were as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Cargill	9,779	5,780
Nikken	13,760	3,333
Mitsui Group	—	—
Cargill Investments (China) Ltd.	(575)	(2,127)

(iii) Other related party transactions

(a) The Group issued guarantees to secure a jointly-controlled entity's bank loans with maximum amount of HK$15,113,000 (2005: HK$15,113,000). At 31 December 2006, bank loans amounting to HK$11,625,000 were utilised by this jointly-controlled entity (2005: HK$11,625,000).

(b) On 24 July 2006, GBTL, a wholly-owned subsidiary of the Group, entered into an acquisition agreement to acquire the entire equity interest in GPI at a total consideration of HK$3,875,000 in cash (as detailed in notes 16 and 30 to the financial statements).

(c) On 24 July 2006, GBTL, a wholly-owned subsidiary of the Group, entered into an acquisition agreement to acquire the entire equity interest in GCCI at a total consideration of HK$7.80 in cash (as detailed in notes 16 and 30 to the financial statements).

(iv) Compensation of key management personnel of the Group:

	2006	2005
	HK$'000	HK$'000
Short term employee benefits	21,308	21,308
Post-employment benefits	60	60
Total compensation paid to key management personnel	21,368	21,368

34. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to different types of risks which are mainly categorised into (i) operational and (ii) financial. The management aims to manage these risks to an acceptable level which would not bring significant financial impact to the Group.

The Group's principal financial instruments comprise bank loans, other interest-bearing loans, and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, prepayments deposits and other receivables, trade payables, other payables and balance with joined-controlled entities, which arise directly from its operations.

34. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risk arising from the Group's operation is supply risk. The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The Group's income and operating cash flows are substantially independent of changes in market interest rates.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales by operating units in currencies other than the units' functional currency. Approximately 24% (2005: 19%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed annual credit facilities from banks to meet its commitments over the following year in accordance with its strategic plan.

In addition, the Group is subject to supply risk as a result of material contracts entered into with a supplier of corn kernels, as further explained below:

Supply risk

On 9 October 2006, certain subsidiaries of the Group entered into purchase agreements with a company established in the PRC which is beneficially owned by the staff union of the Group's PRC employees (the "Union Company") for purchases of corn kernels, the principal raw material for the production of certain of the Group's products. Pursuant to the purchase agreements, the Group agrees to purchase from the Union Company a total of 1.2 million tons of corn kernels during the contract period (one year) and bear certain interest expenses resulting from loans obtained by the Union Company from a PRC agricultural policy bank for financing the purchases of corn kernels.

34. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Supply risk (continued)

Total corn kernels purchased from the Union Company during the year of 382,000 tons amounted to approximately HK$432 million. Up to 31 March 2007, subsequent purchases of corn kernels from the Union Company amounted to 362,000 tons with a purchase cost of approximately HK$452 million. At the balance sheet date, the Directors have estimated the purchase commitment pursuant to the above agreements to be approximately HK$1,106 million.

If the supplier is unable to obtain corn kernels for sale to the Group, and the Group is unable to obtain supplies from other sources, the Group's operation and performance may be adversely affected.

35. POST BALANCE SHEET EVENTS

(a) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

(b) On 2 April 2007, the Group repaid the entire amount of the Syndicated Loan of US$150 million (equivalent to HK$1,163 million).

(c) On 3 April 2007, the Company made an application to the Hong Kong Stock Exchange for the approval of the proposed separate listing of the shares of Global Sweeteners Holdings Limited ("Global Sweeteners"), a wholly-owned subsidiary of the Group, on the Main Board of the Stock Exchange (the "Proposed Spin-off"), and Global Sweeteners submitted an advance booking form (Form A1) to the Stock Exchange for an application for the listing of, and permission to deal in, the shares of Global Sweeteners in issue and to be issued under the proposed offer for subscription of the shares of Global Sweeteners on the main board of the Stock Exchange. The Proposed Spin-off is subject to the requirements under Practice Note 15 and other relevant provisions of the Listing Rules.

(d) On 23 April 2007, the Company proposed to declare a final dividend of HK2 cents per ordinary share in respect of the year, to shareholders whose names appear on the register of members on 28 May 2007, as detailed in note 12 to the financial statements.

36. COMPARATIVE AMOUNTS

As further explained in notes 2.2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 April 2007.

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

	Year ended 31 December				
	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000	2002 HK$'000
RESULTS					
REVENUE	4,742,942	4,078,890	3,378,070	2,337,943	1,657,312
Cost of sales	(3,536,116)	(3,027,532)	(2,076,404)	(1,472,475)	(1,006,517)
Gross profit	1,206,776	1,051,358	1,301,666	865,468	650,795
Other income and gains	48,630	28,949	23,234	15,957	8,343
Selling and distribution costs	(293,082)	(277,451)	(164,336)	(98,111)	(47,116)
Administrative expenses	(152,893)	(118,056)	(125,232)	(94,728)	(73,713)
Other expenses	(45,451)	(15,460)	(17,709)	(28,458)	(26,245)
Finance costs	(207,022)	(89,106)	(28,322)	(23,874)	(14,556)
Share of profits and losses of jointly-controlled entities	—	—	—	—	(1,691)
PROFIT BEFORE TAX	556,958	580,234	989,301	636,254	495,817
Tax	(55,730)	(39,895)	(58,491)	(42,914)	(35,615)
PROFIT FOR THE YEAR	501,228	540,339	930,810	593,340	460,202
Attributable to:					
Equity holders of the Company	501,228	466,484	815,451	520,772	405,095
Minority interests	—	73,855	115,359	72,568	55,107
	501,228	540,339	930,810	593,340	460,202
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	10,574,200	9,402,985	6,835,295	4,231,716	2,733,098
TOTAL LIABILITIES	(5,294,816)	(4,664,413)	(2,244,068)	(1,418,228)	(678,311)
MINORITY INTERESTS	—	—	(456,862)	(316,829)	(200,703)
	5,279,384	4,738,572	4,134,365	2,496,659	1,854,084

Corporate Information

Board of Directors

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

* *Audit Committee Members*

Company Secretary

Cheung Chak Fung, *ACCA*

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands
British West Indies

Head Office and Principal Place of Business in Hong Kong

Unit 1104
Admiralty Centre
Tower 1
18 Harcourt Road
Hong Kong

Auditors

Ernst & Young
Certified Public Accountants
18/F Two International Finance Centre
8 Finance Street
Central
Hong Kong

Legal Advisers

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

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

Bank of China (Hong Kong) Limited
1 Garden Road
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
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

Website

www.globalbiochem.com

Stock Code: 0809

Key Dates

Closure of register of members:
25 May 2007 to 28 May 2007
(both days inclusive)
Annual general meeting:
28 May 2007
Date of payment of final dividend:
20 June 2007