To become the largest integrated corn based biochemical product manufacturer in the Asian Pacific region

Contents

Corporate Information

BOARD OF DIRECTORS
Liu Xiaoming, *Chairman*
Xu Zhouwen, *Executive Director*
Kong Zhanpeng, *Executive Director*
Au Chun Fat, *Executive Director*
Wang Tieguang, *Executive Director*
Patrick E Bowe,
Non-Executive Director
Steven C Wellington,
Alternate Director of Patrick E Bowe
Lee Yuen Kwong,
Independent Non-Executive Director
Chan Man Hon, Eric,
Independent Non-Executive Director

COMPANY SECRETARY
Ng Wai Kee FHKSA, FCCA

REGISTERED OFFICE
Century Yard, Cricket Square
Hutchins Drive
George Town
Grand Cayman
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
15th Floor, Hutchison House
10 Harcourt Road
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
4th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

WEBSITE
www.globalbiochem.com

STOCK CODE: 809

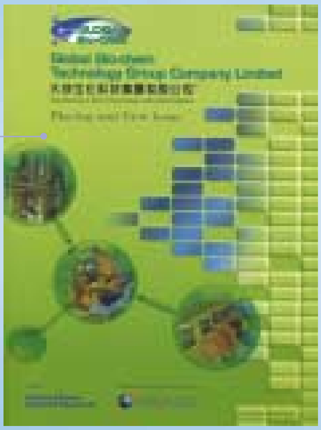
KEY DATES
Closure of register of members:
19 April 2002 to 23 April 2002
(both days inclusive)
Annual general meeting:
23 April 2002
Date of payment of final dividend and dealings in the bonus shares:
14 May 2002

Table of Major Events

2001

March

Listed on the Main Board of the Hong Kong Stock Exchange by way of Placing and New Issue



July

Selected by UBS Warburg as a component stock in its China Private Chip Index

August

Signed Master Joint Venture Structure Agreement with Cargill, Incorporated

Appointment of Xu Zhouwen as Executive Director

September

Signed Joint Venture Agreements with Cargill, Incorporated

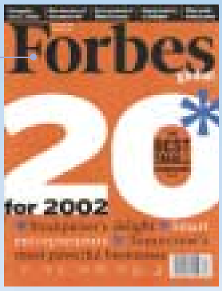
Placing of Existing Shares and Topping up Subscription for New Shares

October

Became a component stock of Hang Seng Mainland Composite Index

Became a component stock of CLSA's Private Enterprise Index

Selected by "Forbes Global" Magazine as one of the 200 Best Small Companies in the world



2002

January

Became a component stock of CLSA's China World Index

February

Appointment of Patrick E Bowe, President of Cargill's North America Sweeteners Business, as Non-Executive Director and Steven C Wellington as his alternate

March

Lysine production capacity expanded to 40,000 metric tonnes p.a. from 15,000 metric tonnes p.a.

Financial Highlights

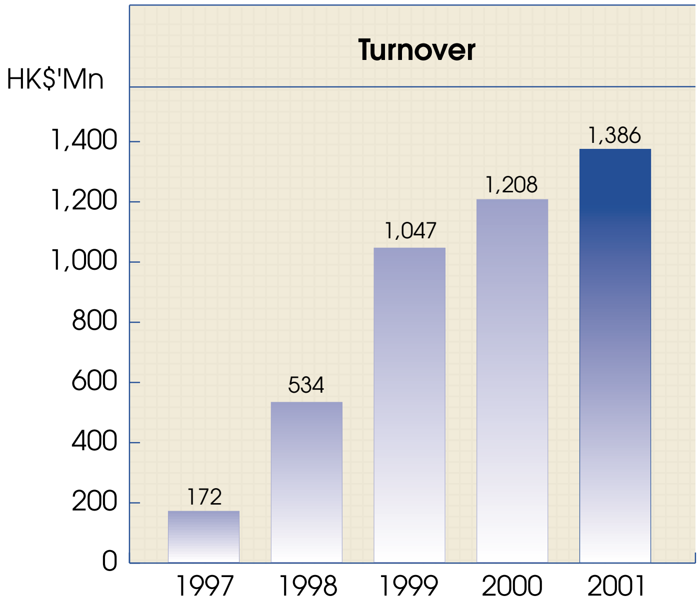
"Satisfactory Results,

Profitable Returns ..."

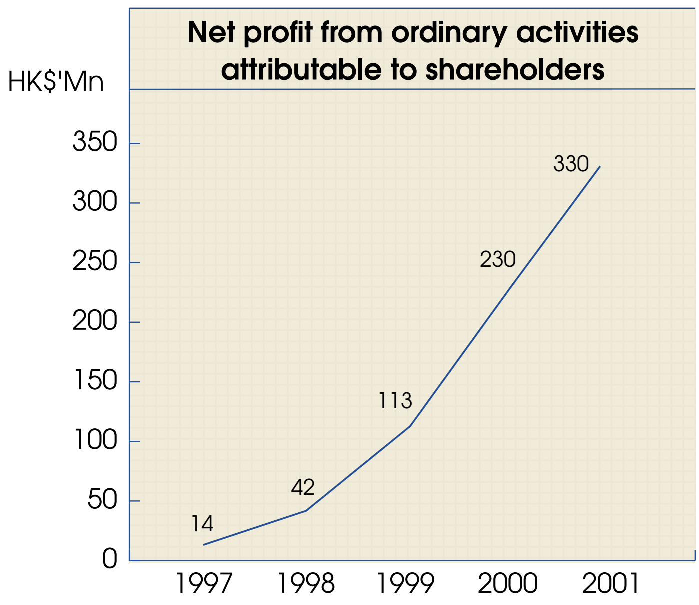
	2001 HK$'Mn	2000 HK$'Mn	% Change
Turnover	**1,386**	1,208	14.7
Profit before tax	**405**	281	44.1
Net profit from ordinary activities attributable to shareholders	**330**	230	43.4
Earnings per share – basic	**HK25.7 cents**	HK24.0 cents	7.1
Dividends per share			
– Interim	**HK1.5 cents**	–	N/A
– Proposed final	**HK2.0 cents**	–	N/A
Issue of bonus shares	**1 bonus share for every 5 issued shares**	–	N/A
Return on equity	**23.2%**	62.7%	(63.0)

"...Pursuit of Strong Growth through

Long-range Corporate Strategies"



"Continuous Growth in Turnover, Profit ..."



Chairman's Statement

SATISFACTORY RESULTS, PROFITABLE RETURNS

As the largest manufacturer of corn based biochemical products in the PRC, the Group reported continuous growth in turnover, profit and earnings per share for the year 2001. The Group has now entered a new phase of corporate development.

During the year, the Group reported satisfactory performance with earnings per share amounting to HK 25.7 cents, an increase of 7.1 per cent from that achieved by the Group in the previous year. It reflects the continuous enhancement in profit margin, which was mainly attributable to the Group's focus on producing high value and high margin downstream corn based biochemical products and the Group's effort in cost reduction in manufacturing and operations.

While in 2001 the Group made full utilisation of the production capacity available from its manufacturing facilities, it has been increasing its production capacity on a continuous basis as planned. As of March 2002, the Group's lysine production capacity has been expanded to 40,000 metric tonnes from 15,000 metric tonnes yearly, which amounted to 70 per cent of the PRC's national capacity. To ease the pressure of increased internal consumption of corn starch arising from the Group's expanding production of corn based biochemical products, the annual capacity of 600,000 metric tonnes for corn processing will be geared up to 1,200,000 metric tonnes in the first half of 2002. Through a series of expansion of manufacturing facilities, the Group has become the largest, and the only vertically integrated, corn based biochemical product manufacturer in the PRC.

Remarkably, the Group successfully listed its shares on the Main Board of the Hong Kong Stock Exchange in March 2001, thereby strengthening its financing flexibility. Through the initial public offering upon the listing and the subsequent placing in September 2001, the Group raised a total of over HK$738 million after expenses, which provides adequate capital for the Group's development in 2002.

The Group also completed its business rationalisation by reorganising its businesses into four operating units to enhance efficiency and effectiveness throughout the Group. Coupling the reorganisation, the Group appointed professionals and experts with extensive management and operating experience from the biochemical industry to the board of directors and senior management to assist in business development and project implementation.

In August 2001, the Group entered into business co-operation with Cargill, Inc. ("Cargill") in an important strategic move towards internationalisation of its business. The establishment of Global Bio-chem-Cargill (Holdings) Limited in Hong Kong in equal partnership with Cargill marked an important milestone in this co-operation. The first investment project under the partnership vehicle is the construction of a refinery in Shanghai, the PRC which is commissioned to run an annual production capacity of 100,000 metric tonnes of high fructose corn syrup ("HFCS"). Commercial production of the refinery is scheduled to commence in June 2002. This will be a pioneering entrance of the Group, and the PRC, into mass production of HFCS.

In February 2002, Mr Patrick E Bowe, President of the North America Sweeteners Business Unit of Cargill, was appointed to the board. The appointment is expected to reinforce the strategic cooperation between the Group and Cargill.

Chairman's Statement

PURSUIT OF STRONG GROWTH THROUGH LONG-RANGE CORPORATE STRATEGIES

Following the PRC's accession to the World Trade Organisation ("WTO"), the Group envisions growing opportunities for further development in the biochemical market. The Group has been positioning itself to take advantage of these opportunities and to pursue strong growth through the implementation of its long-range corporate strategies:

1) continuously increase the weight of high value-added downstream corn based biochemical products in the product mix to ensure continuing enhancement in profit margin;

2) regularly undertake production process re-engineering to improve production efficiency and lower production costs of individual products;

3) constantly invest in research and development of new biochemical products and technologies to increase product lines, product types and production capabilities as well as maintain the Group's leading position;

4) rationalise business structure and accelerate corporate expansion through mergers, acquisitions and strategic alliances; and

5) take proactive steps to sustain a high rate of return to our shareholders and other stakeholders and to maintain the interactive and complementary relationship between the financial markets and the Group's corporate development.

Looking forward to 2002, the Group will not only maintain its best course as before but also step up its effort. To stay in the forefront of the industry, the Group will expedite the progress of existing expansion projects, especially the glutamic acid project. In addition, the Group will take active yet prudent action to widen its income sources and to strengthen its profit base. The Group will strive to become the largest integrated corn based biochemical product manufacturer in the Asia Pacific region. As the economy of the PRC, the Group's principal market, continues its high growth, the Group is confident that its business will prosper further.

On behalf of the Group, I would like to extend my heartfelt thanks to our staff, partners, shareholders and all parties who have rendered their support and contribution to the Group.

Liu Xiaoming
Chairman
14 March 2002

Management Discussion and Analysis

Sales Analysis

	Sales amount				Sales volume			
	2001		2000		2001		2000	
	HK$'000	%	HK$'000	%	MT*	%	MT*	%
Corn refined products	**771,784**	**55.7%**	858,382	71.1%	**529,808**	**84.6%**	679,970	94.6%
Corn based biochemical products	**614,024**	**44.3%**	349,644	28.9%	**96,198**	**15.4%**	38,666	5.4%
	1,385,808	**100.0%**	1,208,026	100.0%	**626,006**	**100.0%**	718,636	100.0%

	Sales amount			Sales volume		
	2001 HK$'000	2000 HK$'000	% increase	2001 MT*	2000 MT*	% increase
Lysine	**223,504**	82,201	171.9%	**13,399**	5,478	144.6%
Modified starch	**289,964**	252,562	14.8%	**30,422**	25,537	19.1%
Corn sweeteners	**100,556**	14,881	575.7%	**52,377**	7,651	584.6%
	614,024	349,644		**96,198**	38,666	

Gross Profit Analysis

	2001			2000		
	HK$'000	%	Gross profit %	HK$'000	%	Gross profit %
Corn refined products	**207,575**	**37.3%**	**26.9%**	212,136	51.9%	24.7%
Corn based biochemical products	**348,772**	**62.7%**	**56.8%**	196,492	48.1%	56.2%
	556,347	**100.0%**	**40.1%**	408,628	100.0%	33.8%

	2001			2000	
	HK$'000	Gross profit %	% increase	HK$'000	Gross profit %
Lysine	**134,103**	**60.0%**	**192.0%**	45,925	55.9%
Modified starch	**162,380**	**56.0%**	**13.9%**	142,587	56.5%
Corn sweeteners	**52,289**	**52.0%**	**555.3%**	7,980	53.6%
	348,772	**56.8%**	**77.5%**	196,492	56.2%

* MT stands for metric tonne

Management Discussion and Analysis

BUSINESS ENVIRONMENT

China, the world's second largest corn producing country, accounts for approximately 20% of global production. However, a substantial portion of this output is used for the production of feed while only a small percentage is processed and refined into higher value-added products, such as amino acids and corn sweeteners. Industrial consumption of corn for 2001 was approximately 7 million metric tonnes, representing only 6% of total output in China.

In view of the improvements in living standard as well as rising awareness in health care and environmental protection in China, the demand for corn based biochemical products has been experiencing a substantial increase, which is being met by rapidly expanding production capacity through great advancement in biochemical technology.

With the most advanced technological know-how, the Group aims to capitalise on its dominant market position in the manufacture and sale of corn based biochemical products in the PRC to capture the emerging opportunities and enormous demand in China and other Asian countries, and generate high returns on this investment and to its shareholders.

Products of the Group

Currently, products of the Group are divided into two categories, upstream corn refined products and downstream corn based biochemical products. Upstream products include corn starch, corn gluten, corn oil and feed. Corn starch, as intermediate material, are further refined or processed into wide range of high value-added downstream products including amino acid series, corn sweetener series and modified starch series.

As in previous years, the Group focuses on supplying its products to manufacturers rather than end consumers in China and other Asian countries. This approach enables the Group to maintain maximum flexibility in production efficiency as well as cost-effectiveness in sales and marketing.

Operating environment

In 2001, the economy of the PRC, the key market of the Group, has been experiencing continuous growth, and provided the Group with a favourable operating environment. The demand for different kinds of products remained strong.

Although there were unfavorable price fluctuations on corn kernels, the principal raw material of the Group during the first half of 2001, the Group's performance had not been significant affected as the Group successfully passed on the increased cost to its customers. The strategy of bulk purchase of corn kernels at competitive prices also reduced the impact of price fluctuations on the Group.

Management Discussion and Analysis

It is inevitable that because of the availability of basic technological know-how on corn refining, many new corn refiners entered the market, which resulted in keen competition on upstream products. As the Group focuses on downstream products, a significant portion of corn starch is consumed internally, which relieved the pressure from direct competition. In addition, the construction of the Group's new corn processing plant will not only provide the Group with a stable supply of corn starch for its downstream products when it commences operation in the first half of 2002, but also enable the Group to achieve cost efficiency through mass production.

FINANCIAL PERFORMANCE

During the year under review, the Group reported an encouraging and significant growth in its results. Net profit from ordinary activities attributable to shareholders increased over 43.4% as compared to the financial year 2000. The Group achieved an earnings per share of HK25.7 cents, representing an increase of about 7.1% from the previous financial year. This strong performance was mainly attributable to the success in the further expansion of high margin downstream products during this year.

Sales overview

In 2001, the PRC remained as the dominant market of the Group which accounted for about 93% of the Group's total sales while 7% were derived from overseas countries, including Korea, Malaysia and the Philippines.

During the year under review, the sales volume of the Group decreased to approximately 626,000 metric tonnes (2000: 719,000 metric tonnes) whereas the sales amount increased from approximately HK$1.2 billion in 2000 to approximately HK$1.4 billion in 2001. Such improvement in sales amount despite the reduction in total sales volume was principally attributable to the Group's success in changing its product mix to increase the proportion of sales of downstream products, which accounted for 44.3% (2000: 28.9%) of the Group's total sales. The remaining portion represented the sales of upstream products.

Downstream corn based biochemical products

The sales volume and sales amount of downstream products increased in 2001 to approximately 96,000 metric tonnes (2000: 39,000 metric tonnes) and approximately HK$614.0 million (2000: HK$349.6 million), representing increases of approximately 148.8% and 75.6%, respectively. The increase was mainly attributable to the full year commercial production of both corn sweeteners and lysine in 2001. Meanwhile, the sales volume of modified starch increased by approximately 19.1% because of higher output yield through the improvement in production efficiency. The selling price of these corn based biochemical products remained stable in 2001, except that during the first quarter of 2001 the price of lysine increased temporarily as a result of the mad cow disease in Europe. In view of stable supply and proven quality, demand of these products remains strong and stable.

Management Discussion and Analysis

Upstream corn refined products

The sales volume of upstream products dropped by 22.1% compared to the previous year. As a result of the substantial increase in internal consumption of corn starch for the production of downstream products, the corn starch available for external sales reduced accordingly. It is expected that this situation will improve when the Group's new production plant commences operation in the first half of 2002. In addition, in order to restructure the production facilities to produce high value-added biochemical feed, the Group ceased its production of low-end feed in the second half of 2001. The decline in sales volume of feed of approximately 73,000 metric tonnes had no significant impact on the Group's overall profitability because of the relatively low profit margin of feed. In 2001, the average price of upstream products increased by approximately 15.4% mainly because of the Group's success in passing the increased corn price to customers.

Profit growth

In 2001, the gross profit and gross profit margin of the Group increased to approximately HK$556.3 million (2000: HK$408.6 million) and approximately 40.1% (2000: 33.8%), respectively. This remarkable improvement was mainly attributable to the success in changing product mix to increase the proportion of sales of downstream products, coupled with the continuous effort in controlling the cost of the Group's products. Gross profit of downstream products increased to approximately HK$348.8 million (2000: HK$196.5 million) and accounted for approximately 62.7% (2000: 48.1%) of the Group's total gross profit. The remaining portion was derived from sales of upstream products.

In 2001, the Group spent approximately HK$20.4 million (2000: HK$14.9 million) in the research and development of value-enhanced downstream products, which amounted to an increase of approximately 36.6% from that of last year. Although it is believed that these products will provide the Group with substantial profit in future, for sake of prudence, product development expenditure is recognised as expense when incurred.

The operating expenses net of other revenue and other than those for research and development amounted to approximately HK$96.4 million (2000: HK$77.0 million). In order to strengthen its controls over the operations of the Group upon its listing in March 2001, the Group had invested further resources for the enhancement of the Group's administration functions. As a result, the percentage of these expenses to turnover increased by approximately 0.6% over that of previous year.

Through an initial public offering (the "IPO") in March 2001 and a placing completed in early October 2001, the Group raised aggregate net proceeds of approximately HK$738.0 million. In addition to the early repayment of bank borrowings of HK$60.0 million from the IPO proceeds, proceeds from the placing of approximately HK$194.0 million was utilised to repay certain interest bearing borrowings on a temporary basis so as to maximise the return on financial resources. As a result, despite of the substantial capital expenditure which amounted to approximately HK$455.1 million in 2001, interest expenses amounting to approximately HK$34.5 million (2000: HK$35.9 million) remained at a similar level of last year.

Management Discussion and Analysis

Most of the Group companies operate within either an economic technological development zone or open coastal areas in the PRC, and are still enjoying income tax relief ranging from 50% to 100% under the Income Tax Law of the PRC. In the absence of significant changes in the bases or rates of profits tax, the effective tax rate on the Group's profit remained at approximately 5.7% (2000: 5.1%).

Similarly, in the absence of significant changes in equity holding of all operating companies within the Group, the percentage of profits shared by minority shareholders over profit before minority interests of approximately 13.5% (31 December 2000: 13.6%) remained at a similar level of previous year.

Combining the effects of gross profit improvement, stringent control of operating expenses and stability of financial costs, rates of taxation and proportion of profits shared by minority shareholders, the Group's net profit from ordinary activities attributable to shareholders improved substantially from approximately HK$230.2 million in 2000 to approximately HK$330.1 million in 2001, representing an increase of 43.4%.

FINANCIAL RESOURCES AND LIQUIDITY

Funds from IPO and placing

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 March 2001 through a placing of 288 million shares and a new issue of 32 million shares, pursuant to which the Group raised net proceeds of approximately HK$278.0 million. Substantial portion of such net proceeds was applied for the enhancement of the Group's production capability, which enabled the Group to take advantage of the market growth in its products and proposed products and to strengthen its competitive edge and market position.

To help fund rapid expansion of the Group as planned in the upcoming years, the Group placed an aggregate of 256 million shares under a placing (the "Placing"), which was completed in early October 2001, to individuals, corporate and institutional investors to raise additional capital for the Group's future business development and to broaden the shareholders base and capital base. It is intention of the Group to apply the net proceeds of approximately HK$460.0 million from the Placing for future investment projects including, but not limited to, the manufacture and sale of products from the fermentation of corn and/or starch, and for general working capital of the Group.

Share options to other corporations

During the year under review, the Company granted options to wholly owned subsidiary of Cargill and Cheung Kong (Holdings) Limited for the subscription for an aggregate of 183.2 million shares at exercise prices ranging from HK$1.40 to HK$2.65 per share. These options are exercisable for a period of 4 years up to April 2005. If these options are exercised in full, an aggregate amount of HK$372.0 million will be raised, which not only provides additional resources for the Group's development in coming future, but also improves the Group's financial position.

Management Discussion and Analysis

Liquidity and financial ratios

With strong net cash inflow from operating activities of approximately HK$443.7 million and aggregate net proceeds of approximately HK$738.0 million from the IPO and the Placing, the liquidity and financial position of the Group improved substantially.

At 31 December 2001, the Group had total assets of approximately HK$2.0 billion (31 December 2000: HK$1.2 billion) which were financed by current liabilities of approximately HK343.4 million (31 December 2000: HK$357.5 million), non-current liabilities of approximately HK$58.8 million (31 December 2000: HK$296.7 million), minority interests of approximately HK$202.3 million (31 December 2000: HK$172.4 million) and shareholders equity of approximately HK$1.4 billion (31 December 2000: HK$367.0 million).

Current assets and current liabilities

At 31 December 2001, net current assets of the Group amounted to approximately HK$535.2 million (31 December 2000: HK$141.9 million) comprising inventories of approximately HK$143.3 million (31 December 2000: HK$90.4 million), trade receivables of approximately HK$258.4 million (31 December 2000: HK$228.3 million), other receivables of approximately HK$65.3 million (31 December 2000: HK$84.9 million), cash and bank balances of approximately HK$411.4 million (31 December 2000: HK$95.7 million) and current liabilities of approximately HK$343.4 million (31 December 2000: HK$357.5 million). Included in the cash and bank balances were the remaining net proceeds from the IPO amounting to approximately HK$40.0 million which are placed on short term deposits with licensed banks in Hong Kong.

The increase in trade receivables was in line with the growth of sales amount while the debtor turnover period remained at approximately 68 days (31 December 2000: 69 days). In order to procure corn kernels at more competitive price, the Group adopted the policy of direct bulk purchases from farmers, which were mainly conducted on cash basis. As a result, the inventory turnover period increased to approximately 63 days (31 December 2000: 41 days) while the turnover period of trade payables shortened to approximately 20 days (31 December 2000: 34 days).

The current ratio and quick ratio as at 31 December 2001 were approximately 2.6 (31 December 2000: 1.4) and 2.1 (31 December 2000: 1.1), respectively.

Management Discussion and Analysis

Interest bearing borrowings

The Group had interest bearing borrowings of approximately HK$247.1 million as at 31 December 2001 (31 December 2000: HK$540.0 million), representing a decrease of approximately 54.2% over that of last year. The reduction of borrowings of approximately HK$292.9 million together with the capital expenditure of approximately HK$455.1 million was principally financed by both internal operating results and the net proceeds raised from the IPO and the placing during the year. At 31 December 2001, approximately 16.4% of the total borrowings were denominated in Hong Kong dollars and United States dollars while the remainder was denominated in Reminbi ("RMB"). Except for a mortgage loan of approximately HK$16.3 million wholly repayable in 10 years, the maturity profile of the Group's outstanding borrowings is spread over a period of 3 years. Approximately 76.2% of the total interest bearing borrowings as at 31 December 2001, with interest rates ranging from approximately 3.3% to 7.9%, was repayable within one year. The Group's gearing ratio as at 31 December 2001 was approximately 12.2% (31 December 2000: 45.2%), which was calculated based on the aggregate amount of interest bearing borrowings of approximately HK$247.1 million (31 December 2000: HK$540.0 million) and total assets of approximately HK$2.0 billion (31 December 2000: HK$1.2 billion).

Certain assets of the Group have been pledged to secure its borrowings, including bank deposits of approximately HK$61.6 million (31 December 2000: nil) and fixed assets with a carrying value/aggregate net book value of approximately HK$242.8 million as at 31 December 2001 (31 December 2000: HK$234.6 million).

Although significant portion of the Group's assets, sales and purchases are primarily denominated in RMB, the Directors consider that the Group has no significant exposure to foreign exchange fluctuations in view of the stability of the RMB. The Directors also consider that there will be sufficient cash resources denominated in Hong Kong dollars for the repayment of its borrowings and for future dividends payable to shareholders. During the year under review, 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 2001.

Management Discussion and Analysis

GROUP REORGANISATION

Corporate restructuring for the corn sweeteners business

With an emphasis to expand the downstream products, it is the Group's strategy to rationalise the current Group structure in line with its future business development. In order to streamline the corporate structure to reflect the future development in the Group's corn sweeteners business, a new wholly-owned subsidiary of the Company, Global Sweeteners Investments Limited ("Global Sweeteners"), was incorporated and became the principal intermediate holding company for the Group's corn sweeteners business and /or investments. In addition to the joint venture project with Cargill, Global Sweeteners also acquired the entire equity of Shanghai Hao Cheng Food Development Co., Ltd. ("Hao Cheng"), formerly a sino-foreign equity joint venture in which the Group owned a 87.0% equity interest effectively before the acquisition. Hao Cheng, with an annual production capacity of approximately 60,000 metric tonnes, is principally engaged in the manufacture and sale of corn starch based products including high fructose corn syrup ("HFCS"), liquid glucose, liquid maltose and modified starch.

RESEARCH AND DEVELOPMENT

In order to reinforce the competitive advantage and keep ahead of its competitors, the Group places continuous emphasis on improving product quality and developing a more diversified range of products. As at date of this report, the Group had over 40 experienced in-house research and development staff comprising agricultural scientists and biochemical engineers. The in-house research and development team targets on new products development, quality control, improvement of production technologies and operational efficiency, application and improvement of mirco-organism technologies, etc. In addition, the Group also collaborates with various science and academic institutions to engage in certain research and development projects. The products currently under development include various types of modified starch and corn sweeteners, glutamic acid, refined lysine, biodegradable plastic, methionine and ethanol. It is believed that these products will be launched to market and will provide the Group with substantial contribution in the coming years.

It is the Group's strategy to invest at least approximately HK$20.0 million per annum in the research and development of downstream products. In 2001, the expenses on research and development activities amounted to approximately HK$20.4 million.

Management Discussion and Analysis

PRODUCTION CAPACITY EXPANSION

With the increasing public awareness of the importance of health care and environmental protection, the Directors are confident that there will be a strong demand for corn based biochemical products, which are used for producing various types of health care, environmentally friendly, nutraceutical and pharmaceutical products. To the vertical expansion of new downstream product, the Group also seeks to consolidate and increase its present market shares by increasing the production of its existing products. The increase in market share in the PRC and other Asian countries will strength the Group's position as a leading manufacturer with vertical integration of both corn refined and corn based biochemical products.

Doubling annual corn processing capacity to 1.2 million metric tonnes

In view of the Group's rapid expansion of downstream products including HFCS, various types of modified starches and glutamic acid, corn starch supplied by our existing plant of approximately 400,000 metric tonnes per annum is considered inadequate in supporting the demand from our planned downstream products expansion. Such shortage in supply will hinder the growth of the Group. Therefore, during the year, the Group commenced the construction of a new corn processing plant with an estimated capacity of 600,000 metric tonnes per annum. Upon its commencement of operation, total annual supply of corn starch will reach approximately 800,000 metric tonnes, which is considered sufficient to meet the demand from the Group's downstream products operations up to year 2003.

Expansion of lysine production

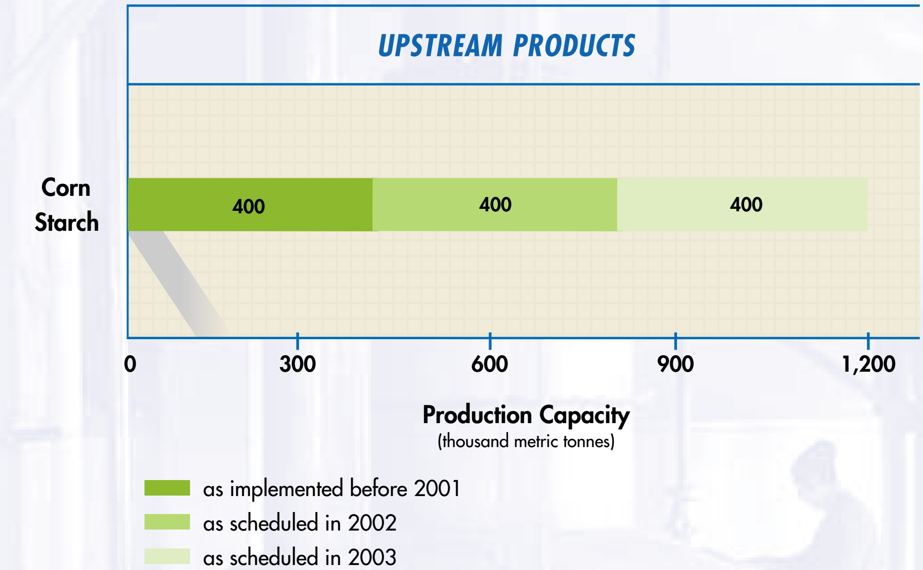
In view of the increasing demand from the livestock industry in China, the Group speeded up the expansion in lysine production from 15,000 metric tonnes to 40,000 metric tonnes per annum. By the end of 2001, the installation of the necessary production facilities has been completed and it is expected to commence full-scale production in the first half of 2002.

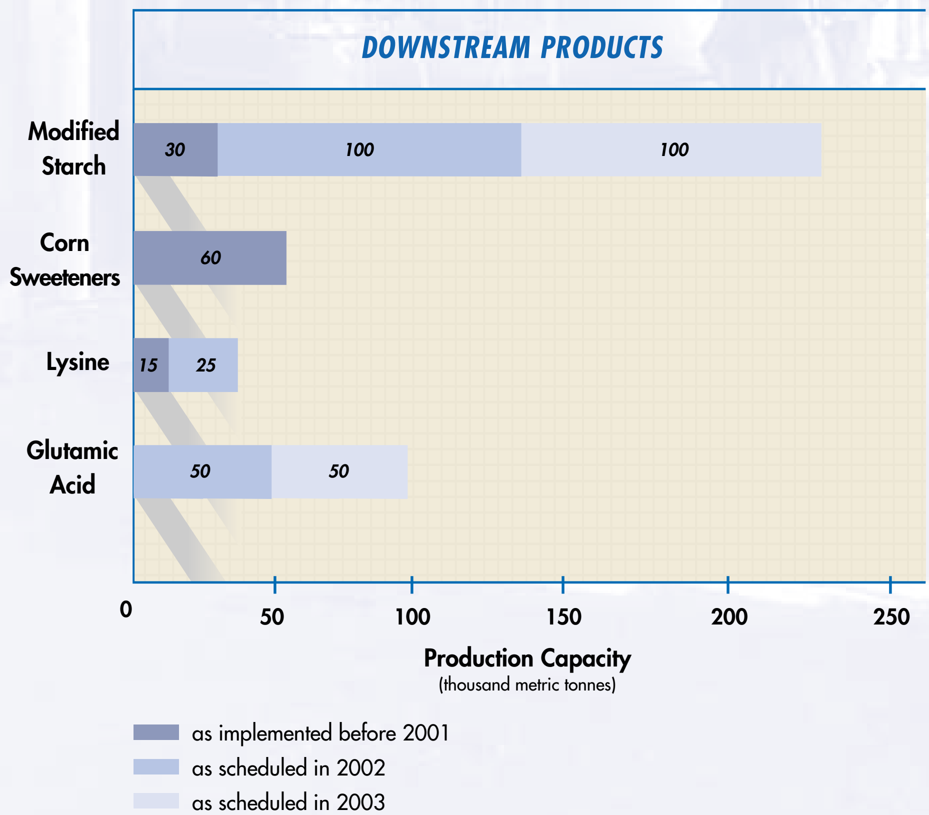
Expansion of corn sweeteners

Originally, the Group planned to expand its annual production capacity for corn sweeteners by 90,000 metric tonnes, such output is intended to use for the intermediate material for producing HFCS. As there is a reorganisation of the Group's sweeteners business during the year, the Directors decided to extend the expansion plan.

Management Discussion and Analysis

MAJOR EXPANSION PROJECTS IN PIPELINE





Management Discussion and Analysis

VERTICAL EXPANSION OF DOWNSTREAM PRODUCTS

It is the Group's strategy to commercialise at least one new type of downstream products every two years in order to maintain its competitive advantage over other manufacturers. In 2001, trial production of both biochemical feed and biochemical fertiliser has been completed. The Directors intend to launch these products under appropriate market conditions.

Glutamic acid

In view of the environmental regulations in the PRC, most of the existing monosodium glutamate ("MSG") plants are facing the risk of having to discontinue their operation because of the pollution arising from the production of glutamic acid, a type of amino acid and intermediate material for MSG. In addition, their cost of production is relatively high because of their technological inefficiency in producing glutamic acid. It is likely that these manufacturers have to source the glutamic acid externally to continue the production of MSG. With extensive sewage discharge control and treatment station coupled with advanced technological know-how, the Group can effectively mitigate not only the magnitude of pollution from producing glutamic acid, but also lower the cost of production. In order to penetrate into this rapidly changing market, the Directors have resolved to start construction of a glutamic acid plant in 2002 with an expected annual capacity of 100,000 metric tonnes, of which the production of first 50,000 metric tonnes will commence in the first half of 2003.

Modified starch

At present, a substantial portion of modified starch consumed by the paper industry in the PRC is imported from overseas. In view of the huge demand for this product, the Group plans to expand its current annual production capacity of modified starch from 30,000 metric tonnes, which at present are mainly consumed by the food industry, to 230,000 metric tonnes, with the additional capacity targeting at the paper industry. The expansion will be carried out in two phases: the installation of facilities for the first 100,000 metric tonnes is scheduled for completion before the end of 2002, while the second phase is scheduled to commence construction by early 2003.

MAJOR INVESTMENT

Joint venture with Cargill

During the year, the Company and Cargill entered into a master joint venture structure agreement and certain ancillary agreements. Pursuant to these agreements, Global Bio-chem – Cargill (Holdings) Limited ("Global Bio-chem – Cargill") was incorporated in Hong Kong. Global Bio-chem – Cargill, which is jointly owned as to 50% by the Company and 50% by Cargill, is a joint venture vehicle for setting up a joint venture in the PRC, GBT-Cargill High Fructose (Shanghai) Co., Ltd. in which the Group has a 50% beneficial interests, to build and operate a refinery of HFCS. In addition to the refinery, the Directors expect that Global Bio-chem – Cargill will also endeavour to invest in and hold equity interest in other similar projects that the Company and Cargill, may wish to pursue in the PRC from time to time. The construction work of the refinery commenced in October 2001 and the Directors expect it to become operational in the first half of 2002, with an annual production capacity of

100,000 metric tonnes of HFCS. Since HFCS is one of the widely used corn sweeteners for soft drink and other food and beverage products, the Directors are optimistic that upon the commencement of operation of this refinery, the market share and prospects of the Group will grow substantially.

IMPACT OF WTO

After China's accession to the World Trade Organisation, tariff on certain upstream and downstream products and corn kernels will be reduced. Although it will increase competition in the existing market in the medium and long term, the Directors are optimistic that it will lift the export sales of the Group and lower the price of corn kernels currently acquired locally. Moreover, in view of the improvements in general living standards in the PRC, the accession also creates business opportunities for other joint venture projects with international corporations to produce other high value-added downstream products. It is expected that collaboration with such international corporation will help enhancing the Group's profitability, technological knowhow in production and products application.

USE OF NET PROCEEDS FROM THE NEW ISSUE AND PLACEMENT

The Company was listed on the Stock Exchange on 16 March 2001, pursuant to which net proceeds of approximately HK$278.0 million were raised from the IPO. As at the date of this report, the Group had utilised a total of approximately HK$238.0 million of the proceeds. Approximately HK$140.0 million, HK$60.0 million, HK$14.0 million, HK$2.0 million and HK$22.0 million had been applied towards the construction of a new production corn refining plant in the PRC, early repayment of bank borrowing, research and development activities, expansion of the Group's distribution and sales network and as general working capital, respectively. The Directors do not intend to change the application of the net proceeds. The remaining proceeds are placed on short term deposits with licensed banks in Hong Kong.

In early October 2001, the Company successfully raised additional net proceeds of approximately HK$460.0 million through a placement of shares of the Company to professional and institutional investors, and a significant portion of the proceeds were mainly applied towards the repayment of borrowings, acquisition of fixed assets and capital injection to a long term investment.

Details of the application of cash for the year ended 31 December 2001 are set out in the "Consolidated Cash Flow Statement" on page 41 of this annual report.

Management Discussion and Analysis

NUMBER AND REMUNERATION OF EMPLOYEES

At 31 December 2001, the Group had 802 full time employees in Hong Kong and the PRC. The Group recognises the importance of its human resources to its success. Remuneration is maintained at competitive levels with discretionary bonuses payable on a merit basis and in line with industry practice. Other staff benefits provided by the Group include mandatory provident fund, insurance schemes and performance related commissions.

During the year under review, the Company granted share options to certain eligible staff including the Directors to acquire a total of 128,000,000 ordinary shares of HK$0.10 each in the capital of the Company at exercise prices ranged from HK$0.98 to HK$1.58 per share. The share options are exercisable from 14 May 2001 to 20 August 2011. At the date of this report, a total of 119,168,000 share options remained unexercised.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

LIU Xiaoming, aged 46, is the Chairman of the Group. He is responsible for the Group's overall business development as well as formulation of corporate policies and strategies. He holds a bachelor's degree in chemical engineering from the Hua Nan Polytechnic University.

XU Zhouwen, aged 59, is responsible to enhance the Group's production expertise and technological knowhow, support the Group in the development of biochemical technologies, and advise the Group on product and market strategies. He graduated from the Harbin Electric University in 1970 and has over 29 years' experience in manufacturing and engineering. Mr. Xu is a member of the Corn Refiners Association in the US.

KONG Zhanpeng, aged 38, 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.

AU Chun Fat, aged 59, is one of the founders of the Group. He is responsible for the Group's administration. Prior to founding the Group, Mr. Au had accumulated over 12 years' management experience in various companies which engaged in the trading of machinery and equipment in Hong Kong and the PRC.

WANG Tieguang, aged 37, 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 43, is the President of North America Sweeteners Business of Cargill, and is responsible for all aspects of Cargill's sweeteners business. He has a total of 20 years of experience in corn milling and sweetener operations.

Steven C WELLINGTON (alternate director of Patrick E BOWE)
Mr. Wellington, aged 48, is the PRC Business Development Manager of the Sweeteners & Starches Division in Cargill 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 owned company established by the Group and Cargill.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

LEE Yuen Kwong, aged 41, is a Certified Public Accountant and has been practising since 1990. Graduated from the University of Sunderland, the United Kingdom, he holds a Bachelor of Arts in Business Studies. He has over 15 years' experience in accounting, auditing, taxation and management consulting. Mr. Lee is currently an appointed member of the Kwai Tsing District Council and also a member of the Kwai Tsing District Fight Crime Committee.

CHAN Man Hon, Eric, aged 45, is a solicitor and has been practising in Hong Kong for over 20 years. Mr. Chan holds a bachelor's degree in law from the University of Hong Kong and a master's degree in Business Administration from the Chinese University of Hong Kong. He was admitted as a solicitor of the Supreme Court of Hong Kong in 1981 and is a consultant of Messrs. Vincent T. K. Cheung, Yap & Co.

SENIOR MANAGEMENT

NG Wai Kee, aged 41, is the company secretary of the Company. He holds a diploma in accounting from the Hong Kong Shue Yan College. He is a fellow member of the Hong Kong Society of Accountants and also of The Association of Chartered Certified Accountants. He has over 15 years' experience in auditing, accounting, and secretarial practice.

CHEUNG Chak Fung, aged 36, is the financial controller of the Group. He is an associate member of The Association of Chartered Certified Accountants. He holds a bachelor's degree in accounting from the Hong Kong Baptist University. He has over 11 years' experience in auditing, financial and management accounting, budgeting and treasury.

LI Wiegang, aged 43, 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 had held senior positions in various financial institutions in the PRC, with responsibility in corporate finance and general management.

Dennis BYRNE, aged 44, holds a bachelor's degree in chemical engineering from the University of Wisconsin, the US. Mr. Byrne has been the Project Manager of various products for Cargill and its subsidiaries in the US, Brazil and Turkey, specializing in sweetener operations in recent years. In January 2002, He has been seconded as the general manager of GBT-Cargill High Fructose (Shanghai) Company Limited, a jointly owned company established by the Group and Cargill.

Biographical Details of Directors and Senior Management

PON Intranual, aged 61, has 40 years of professional experience. He joined the Group in 1998 and now acts as chief engineer specialising in lysine culture, fermentation and refining techniques.

QI Hong-bin, aged 35, is the manager of the research and development department. He holds a master's degree from the Jilin Agricultural University, specialising in mechanical engineering. He has over 5 years' experience in process engineering and technology development.

WANG Hui, aged 37, is the manager of the corn products section of the production department. He graduated from the Qiqihaer University with a bachelor's degree in chemical engineering specialising in high polymer material engineering.

HAN Zhengjun, aged 38, is the manager of the corporate planning office. He has over 14 years of economic strategic planning and management experience. He holds a bachelor's degree in economics from the Jilin Government University.

JIN Zhihui, aged 48, graduated from the Jilin Shulan Ministry of Mining Employee University. Prior to joining the Group as project manager for sweetener operations in January 2002, he had accumulated over 25 years of working experience, including 20 years in senior positions in biochemical and pharmaceutical industries.

ZHENG Guichen, aged 40, is the assistant manager of the corn products section of the production department. He graduated from the Jilin Grain High College for Professional Training, specialising in food engineering.

WANG Guicheng, aged 34, is the assistant manager of the biochemical products section of the production department. He graduated from the Jilin Grain High College for Professional Training, specialising in storage and analysis.

CHU Lalin, aged 39, is the assistant chief engineer of the Group. He holds a bachelor's degree from the Shijiazhuang Railroad Engineering Academy and has more than 18 years of experience in mechanical and food engineering.

WANG Dehui, aged 33, is the assistant chief engineer of the Group. He holds a master's degree in science from the Jilin Agricultural University and has extensive of experience in food engineering and organic engineering.

Biographical Details of Directors and Senior Management

WANG Dongsheng, aged 39, holds a bachelor's degree in chemical engineering from the Jilin Chemical Engineering Academy. Prior to joining the Group as chief supervisor and modified starch design manager in May 2001, he had accumulated 18 years of working experience in production management of chemical engineering projects.

YANG Dong, aged 32, is the assistant manager of the corporate planning office. He graduated from the Jilin Financial Trading College.

ZHANG Xiuzhen, aged 57, is the manager of the administration department. She is responsible for human resources management in the PRC.

LEE Chi Yung, aged 27, is the finance manager of the Group. He holds a bachelor's degree in business administration from the City University of Hong Kong. He is an associate member of the Hong Kong Society of Accountants and also of The Association of Chartered Certified Accountants.

Report of the Directors

The directors herein present their report and the audited financial statements of Global Bio-chem Technology Group Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2001.

GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 18 May 2000 under the Companies Law (Revised) of the Cayman Islands. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 1 March 2001. Further details of the Group Reorganisation, together with details of the subsidiaries acquired pursuant thereto, are set out in notes 1, 16 and 24 to the financial statements, and in the Company's prospectus dated 7 March 2001.

On 16 March 2001, the shares of the Company were listed on the Stock Exchange.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

Analysis of the Group's turnover and results by principal activity and geographical location of customers for the year ended 31 December 2001 are set out in note 6 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 38 to 78.

An interim dividend of HK1.5 cents per ordinary share was paid on 24 October 2001. The directors of the Company (the "Directors") recommend the payment of a final dividend of HK2.0 cents per ordinary share in respect of the year, and the grant of bonus shares on the basis of one bonus ordinary share for every five ordinary shares of HK$0.10 each in the issued share capital of the Company held by the shareholders whose names appear on the register of members on 23 April 2002. The recommendation of the payment of final dividend has been incorporated in the financial statements as an allocation of retained profits within capital and reserves in the balance sheet. Further details of this accounting treatment are set out in note 12 to the financial statements.

Report of the Directors

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new ordinary shares at the time of its listing on the Stock Exchange on 16 March 2001, after deduction of related issuance expenses, amounted to approximately HK$278 million. These proceeds were partially applied during the year ended 31 December 2001 in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

– approximately HK$140 million was used for the purchase and installation of production equipment and facilities at a new production plant in the People's Republic of China (the "PRC");

– approximately HK$60 million was used for early repayment of bank borrowings;

– approximately HK$14 million was used for the research and development of new products and the improvement of the Group's existing production technology, production processes and product quality;

– approximately HK$2 million was used for the expansion of the distribution and sales network of the Group; and

– approximately HK$22 million was applied as general working capital of the Group.

The balance of the proceeds of approximately HK$40 million as at 31 December 2001 remained unused and was placed on short term deposits with licensed banks in Hong Kong.

USE OF PROCEEDS FROM THE COMPANY'S PLACEMENT OF NEW SHARES

The total proceeds from the Company's placement of new ordinary shares on 26 September 2001 and 4 October 2001, after deduction of related issuance expenses, amounted to approximately HK$460 million. These proceeds were partially applied during the year ended 31 December 2001 as follows:

– approximately HK$194 million was used for early repayment of bank borrowings;

– approximately HK$133 million was used for the purchase and installation of production equipment and facilities at production plants in the PRC; and

– approximately HK$43 million was invested in jointly-controlled entities for the production of high fructose corn syrup.

The balance of the proceeds of approximately HK$90 million as at 31 December 2001 remained unused and was placed on short term deposits with licensed banks in Hong Kong.

Report of the Directors

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated/combined results and of the assets and liabilities of the Group for the years ended 31 December 1997, 1998, 1999, 2000 and 2001, respectively, prepared on the bases set out in notes 1 and 2 disclosed in page 28:

RESULTS

	Year ended 31 December				
	2001	**2000**	**1999**	**1998**	**1997**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
TURNOVER	**1,385,808**	1,208,026	1,046,910	534,413	172,443
PROFIT FROM OPERATING ACTIVITIES	**439,625**	316,683	165,701	63,771	14,471
Finance costs	**(34,495)**	(35,947)	(23,812)	(12,246)	(82)
Share of profit/(loss) of an associate	**–**	–	5,526	1,517	(461)
Share of loss of a jointly-controlled entity	**(506)**	–	–	–	–
PROFIT BEFORE TAX	**404,624**	280,736	147,415	53,042	13,928
Tax	**(23,234)**	(14,227)	(174)	(2,338)	–
PROFIT BEFORE MINORITY INTERESTS	**381,390**	266,509	147,241	50,704	13,928
Minority interests	**(51,312)**	(36,341)	(34,483)	(8,520)	–
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	**330,078**	230,168	112,758	42,184	13,928

SUMMARY FINANCIAL INFORMATION (continued)

ASSETS AND LIABILITIES

	At 31 December				
	2001	2000	1999	1998	1997
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
NON-CURRENT ASSETS	**1,150,053**	694,295	575,366	261,616	3,898
CURRENT ASSETS	**878,522**	499,306	331,896	323,303	51,648
TOTAL ASSETS	**2,028,575**	1,193,601	907,262	584,919	55,546
CURRENT LIABILITIES	**343,361**	357,453	297,657	298,526	41,205
NON-CURRENT LIABILITIES	**58,826**	296,729	348,229	124,000	–
TOTAL LIABILITIES	**402,187**	654,182	645,886	422,526	41,205
MINORITY INTERESTS	**202,340**	172,382	130,658	114,434	–
NET ASSETS	**1,424,048**	367,037	130,718	47,959	14,341

Notes:

1. The summaries of the combined results of the Group for the years ended 31 December 1997, 1998, 1999 and 2000 have been extracted from the Company's prospectus dated 7 March 2001, and the published audited financial statements for the year ended 31 December 2000, respectively. Such summaries were prepared from the audited financial statements of the companies now comprising the Group, as if the current structure of the Group had been in existence throughout these financial years and were presented on the basis set out in note 4 to the financial statements. The results of the Group for the year ended 31 December 2001 are those set out on page 38 of the financial statements.

2. To date, the only published audited consolidated balance sheets of the Group prepared is that as at 31 December 2001. The Group's combined balance sheets as at 31 December 1997, 1998, 1999 and 2000 have been extracted from the Company's prospectus dated 7 March 2001, and the published audited financial statements for the year ended 31 December 2000, respectively, prepared on the basis as if the Group had been in existence as at 31 December 1997, 1998, 1999 and 2000. The Group's consolidated balance sheet as at 31 December 2001 are those set out on page 40 of the financial statements.

FIXED ASSETS

Details of the movements in the Group's fixed assets during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 24 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

The Company's shares were listed on the Stock Exchange on 16 March 2001. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2001, the Company had distributable reserves of approximately HK$919,924,000. Under the Companies Law (Revised) of the Cayman Islands, the share premium of the Company of approximately HK$878,685,000 as at 31 December 2001 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 may also be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$1,000,000.

MAJOR CUSTOMERS AND SUPPLIERS

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

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

Report of the Directors

DIRECTORS

The Directors during the year were as follows:

Executive Directors

Mr. Liu Xiaoming
Mr. Xu Zhouwen (appointed on 21 August 2001)
Mr. Kong Zhanpeng
Mr. Au Chun Fat
Mr. Wang Tieguang

Independent non-executive Directors

Mr. Lee Yuen Kwong
Mr. Chan Man Hon, Eric

Subsequent to the balance sheet date, on 5 February 2002, Mr. Patrick E Bowe was appointed as a non-executive Director and Mr. Steven C Wellington was appointed as an alternate director to Mr. Patrick E Bowe.

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 21 to 24 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Liu Xiaoming, Mr. Kong Zhanpeng, Mr. Au Chun Fat and Mr. Wang Tieguang have entered into service contracts with the Company for an initial term of three years commencing from 1 March 2001, which will continue thereafter until terminated by either party giving not less than three months' notice in writing.

Mr. Xu Zhouwen has entered into a service contract with the Company for an initial term commencing from 21 August 2001 to 29 February 2004, which will continue thereafter until terminated 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.

Report of the Directors

DIRECTORS' INTERESTS IN CONTRACTS

Other than in connection with the Group Reorganisation in preparation for the Company's initial public offering, no Director had a significant beneficial interest, either directly or indirectly, in any contract of significance to 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 in existence during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2001, the interests of the Directors in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Ordinary shares of the Company

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

The interests of the Directors in the share options of the Company are separately disclosed in the section "Share option scheme" below.

Notes:

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

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

3. These shares are owned by In-depth Profits Limited, a company incorporated in the BVI. The entire issued share capital of In-depth Profits Limited is beneficially owned by Mr. Au Chun Fat.

Save as disclosed above, none of the Directors or their associates had any personal, family, corporate or other interests in the equity securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' interests in shares" above and "Share option scheme" below, 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 children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

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

The maximum number of unexercised share options currently permitted to be granted under the SO Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. At 31 December 2001, the number of shares issuable under share options granted under the SO Scheme was 153,600,000, which represented approximately 9.95% of the Company's shares in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the SO Scheme within any 12-month period, is limited to 2.5% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

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

On 23 August 2001, the Stock Exchange announced amendments to Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in respect of share option schemes, which came into effect on 1 September 2001. In compliance with the amendments to the Listing Rules and the announcement of the Stock Exchange, the Directors consider that it is in the interest of the Company to terminate the existing SO Scheme of the Company adopted on 12 March 2001 and to adopt a new SO Scheme. An ordinary resolution will be proposed at the Company's shareholders' meeting for the approval of the said adoption of the new SO Scheme and termination of the Company's existing SO Scheme.

The share options granted by the Company to the grantee under the existing SO Scheme will not be affected by the proposed new SO Scheme.

Report of the Directors

SHARE OPTION SCHEME (continued)

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

Category or name of participant	At 1 January 2001	Number of share options Granted during the year	Exercised during the year	At 31 December 2001	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$	Share price*** At grant date of options HK$	At exercise date of options HK$
Directors									
Mr. Liu Xiaoming	–	6,912,000	–	6,912,000	14 May 2001	14 May 2001 to 13 May 2011	0.98	1.20	–
	–	12,288,000	–	12,288,000	21 August 2001	21 August 2001 to 20 August 2011	1.58	2.00	–
	–	19,200,000	–	19,200,000					
Mr. Xu Zhouwen	–	19,200,000	–	19,200,000	21 August 2001	21 August 2001 to 20 August 2011	1.58	2.00	–
Mr. Kong Zhanpeng	–	6,912,000	–	6,912,000	14 May 2001	14 May 2001 to 13 May 2011	0.98	1.20	–
	–	12,288,000	–	12,288,000	21 August 2001	21 August 2001 to 20 August 2011	1.58	2.00	–
	–	19,200,000	–	19,200,000					
Mr. Au Chun Fat	–	6,912,000	–	6,912,000	14 May 2001	14 May 2001 to 13 May 2011	0.98	1.20	–
	–	12,288,000	–	12,288,000	21 August 2001	21 August 2001 to 20 August 2011	1.58	2.00	–
	–	19,200,000	–	19,200,000					
Mr. Wang Tieguang	–	6,912,000	(3,456,000)	3,456,000	14 May 2001	14 May 2001 to 13 May 2011	0.98	1.20	2.80
	–	12,288,000	–	12,288,000	21 August 2001	21 August 2001 to 20 August 2011	1.58	2.00	–
	–	19,200,000	(3,456,000)	15,744,000					
	–	96,000,000	(3,456,000)	92,544,000					
Other employees									
In aggregate	–	10,752,000	(3,840,000)	6,912,000	14 May 2001	14 May 2001 to 13 May 2011	0.98	1.20	2.48
	–	21,248,000	–	21,248,000	21 August 2001	21 August 2001 to 20 August 2011	1.58	2.00	–
	–	32,000,000	(3,840,000)	28,160,000					
	–	128,000,000	(7,296,000)	120,704,000					

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

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of share options within the disclosure category.

SHARE OPTION SCHEME (continued)

Summary details of the Company's SO Scheme are also set out in note 24 to the financial statements.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the share options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their costs. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

The Directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year to the executive Directors and employees, because in the absence of a readily market value of the share options on the ordinary shares of the Company, the Directors were unable to arrive at an assessment of the value of these share options.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2001, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests in shares required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of ordinary shares held	Percentage of the Company's share capital
LXM Limited	288,000,000#	18.66%
Hartington Profits Limited	288,000,000#	18.66%
In-depth Profits Limited	240,000,000#	15.55%

The shareholding is duplicated in the "Directors' interests in shares" disclosed above.

Save as disclosed above, no person, other than the Directors, whose interests are set out above, had registered an interest of 10% or more in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

Report of the Directors

CONNECTED TRANSACTIONS

Details of the connected transactions that are required to be disclosed for the year are set out in note 30 to the financial statements. Save as disclosed therein, there were no other transactions needed to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to date of this report, no Director is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, pursuant to the Listing Rules, other than those business of which the Directors were appointed as Directors to represent the interest 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 31 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company complied with the Code of Best Practice (the "Code") as set out in appendix 14 of the Listing Rules of the Stock Exchange, since the listing of the Company's shares on the Stock Exchange on 16 March 2001.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive Directors.

Report of the Directors

AUDITORS

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

ON BEHALF OF THE BOARD

Liu Xiaoming
Chairman

Hong Kong
14 March 2002

Report of the Auditors

ERNST & YOUNG
安 永 會 計 師 事 務 所

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

We have audited the financial statements on pages 38 to 78 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
14 March 2002

Consolidated Profit and Loss Account

Year ended 31 December 2001

	Notes	2001 HK$'000	2000 HK$'000
TURNOVER	5	**1,385,808**	1,208,026
Cost of sales		**(829,461)**	(799,398)
Gross profit		**556,347**	408,628
Other revenue		**12,985**	4,933
Selling and distribution expenses		**(44,491)**	(45,967)
Administrative expenses		**(64,852)**	(36,006)
Other operating expenses		**(20,364)**	(14,905)
PROFIT FROM OPERATING ACTIVITIES	7	**439,625**	316,683
Finance costs	9	**(34,495)**	(35,947)
Share of loss of a jointly-controlled entity		**(506)**	–
PROFIT BEFORE TAX		**404,624**	280,736
Tax	10	**(23,234)**	(14,227)
PROFIT BEFORE MINORITY INTERESTS		**381,390**	266,509
Minority interests		**(51,312)**	(36,341)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**330,078**	230,168
DIVIDENDS	12		
Interim		**19,200**	–
Proposed final		**30,897**	–
		50,097	–
EARNINGS PER SHARE	13		
– Basic		**HK25.7 cents**	HK24.0 cents
– Diluted		**HK25.1 cents**	N/A

Consolidated Statement of Recognised Gains and Losses

Year ended 31 December 2001

	Note	2001 HK$'000	2000 HK$'000
Surplus on revaluation of leasehold land and buildings	25	**1,053**	6,151
Gains not recognised in the profit and loss account		**1,053**	6,151
Net profit from ordinary activities attributable to shareholders		**330,078**	230,168
Total recognised gains and losses		**331,131**	236,319

Consolidated Balance Sheet

31 December 2001

	Notes	2001 HK$'000	2000 HK$'000
NON-CURRENT ASSETS			
Fixed assets	14	**1,107,147**	694,295
Interests in jointly-controlled entities	15	**42,906**	–
		1,150,053	694,295
CURRENT ASSETS			
Prepayments, deposits and other receivables		**65,347**	84,907
Inventories	17	**143,337**	90,415
Trade receivables	18	**258,443**	228,253
Pledged time deposits	19	**61,554**	–
Cash and cash equivalents	19	**349,841**	95,731
		878,522	499,306
CURRENT LIABILITIES			
Interest-bearing bank loans	21, 22	**188,305**	243,313
Trade payables	20	**45,940**	74,458
Other payables and accruals		**85,558**	25,455
Tax payables		**23,558**	14,227
		343,361	357,453
NET CURRENT ASSETS		**535,161**	141,853
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,685,214**	836,148
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	21, 22	**58,826**	296,729
MINORITY INTERESTS	23	**202,340**	172,382
		1,424,048	367,037
CAPITAL AND RESERVES			
Issued capital	24	**154,330**	200
Reserves	25	**1,238,821**	366,837
Proposed final dividend	12	**30,897**	–
		1,424,048	367,037

LIU Xiaoming
Director

XU Zhouwen
Director

Consolidated Cash Flow Statement

Year ended 31 December 2001

	Notes	2001 HK$'000	2000 HK$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	26(a)	**443,718**	121,201
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**7,366**	2,883
Interest paid		**(35,798)**	(36,350)
Dividend paid		**(19,200)**	–
Dividends paid to minority shareholders		**(7,477)**	(1,683)
Net cash outflow from returns on investments and servicing of finance		**(55,109)**	(35,150)
TAX			
Overseas taxes paid		**(13,903)**	(174)
INVESTING ACTIVITIES			
Purchases of fixed assets		**(453,816)**	(144,129)
Capital contribution to jointly-controlled entities		**(2,341)**	–
Advances to jointly-controlled entities		**(41,071)**	–
Net cash outflow from investing activities		**(497,228)**	(144,129)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		**(122,522)**	(58,252)
FINANCING ACTIVITIES	26(b)		
Inception of new bank loans		**902,705**	452,852
Repayment of bank loans		**(1,195,616)**	(135,669)
Repayment of other loans		**–**	(201,500)
Repayment to minority shareholders		**(29,906)**	–
Capital contribution from minority shareholders of subsidiaries		**15,923**	5,596
Proceeds from issue of share capital		**326,400**	–
Proceeds from placement of new shares		**476,160**	–
Proceeds from exercise of share options		**7,150**	–
Share issue expenses		**(64,630)**	–
Net cash inflow from financing activities		**438,186**	121,279

Consolidated Cash Flow Statement (continued)

Year ended 31 December 2001

	2001 HK$'000	2000 HK$'000
INCREASE IN CASH AND CASH EQUIVALENTS	**315,664**	63,027
Cash and cash equivalents at beginning of year	**95,731**	32,704
CASH AND CASH EQUIVALENTS AT END OF YEAR	**411,395**	95,731
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**183,244**	95,731
Non-pledged time deposits with original maturity of less than three months when acquired	**166,597**	–
Time deposits with original maturity of less than three months when acquired, pledged as security for banking facilities	**61,554**	–
	411,395	95,731

Balance Sheet

31 December 2001

	Notes	2001 HK$'000	2000 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	16	**287,937**	–
CURRENT ASSETS			
Due from subsidiaries	16	**764,134**	–
Cash and cash equivalents	19	**170,020**	–
		934,154	–
CURRENT LIABILITIES			
Other payables and accruals		**11,210**	–
Due to subsidiaries	16	**136,627**	–
		147,837	–
NET CURRENT ASSETS		**786,317**	–
		1,074,254	–
CAPITAL AND RESERVES			
Issued capital	24	**154,330**	–
Reserves	25	**889,027**	–
Proposed final dividend	12	**30,897**	–
		1,074,254	–

LIU Xiaoming
Director

XU Zhouwen
Director

Notes to Financial Statements

31 December 2001

1. GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 18 May 2000 under the Companies Law (Revised) of the Cayman Islands. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 March 2001, the Company became the holding company of the companies now comprising the Group on 1 March 2001. This was accomplished by the Company acquiring the entire issued share capital of Global Corn Bio-chem Technology Company Limited ("Global Corn"), the then holding company of the other subsidiaries, as set out in note 16 to the financial statements. Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto are set out in notes 16 and 24 to the financial statements and in the Company's prospectus dated 7 March 2001.

2. CORPORATE INFORMATION

The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, George Town, Grand Cayman, British West Indies.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 16 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently issued and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 2.109 (Revised) : Events after the balance sheet date
- SSAP 2.118 (Revised) : Revenue
- SSAP 2.126 : Segment reporting
- SSAP 2.128 : Provisions, contingent liabilities and contingent assets
- SSAP 2.129 : Intangible assets
- SSAP 2.130 : Business combinations
- SSAP 2.131 : Impairment of assets
- SSAP 2.132 : Consolidated financial statements and accounting for investments in subsidiaries

3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (continued)

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 2.109 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained profits on a separate line within the capital and reserves section of the balance sheet.

SSAP 2.118 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 2.109 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements for the year.

SSAP 2.126 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 6 to the financial statements.

SSAP 2.128 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. SSAP 2.128 has had no major impact on these financial statements.

SSAP 2.129 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. SSAP 2.129 has had no major impact on these financial statements.

SSAP 2.130 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the balance sheet. It requires that goodwill is amortised to the profit and loss account over its estimated useful life. SSAP 2.130 has had no major impact on these financial statements.

3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (continued)

SSAP 2.131 prescribes the recognition and measurement criteria for impairment of assets. SSAP 2.131 has had no major impact on these financial statements.

SSAP 2.132 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements. SSAP 2.132 has had no major impact on these financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of presentation and consolidation

The Group Reorganisation involved companies under common control. The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group Reorganisation completed on 1 March 2001. Under this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented, rather than from the date of acquisition of the subsidiaries. Accordingly, the results of the Group for the years ended 31 December 2001 and 2000 include the results of the Company and its subsidiaries with effect from 1 January 2000 or since their respective dates of incorporation/establishment, where this is a shorter period. The comparative balance sheet as at 31 December 2000 has been prepared on the basis that the existing Group had been in place at that date.

In the opinion of the directors of the Company, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Revenue recognition

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the 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.

Each of the subsidiaries operating in the People's Republic of China (the "PRC") has participated in the retirement benefits scheme (the "PRC RB Scheme") operated by the local municipal government in Jilin Province, the PRC. These PRC subsidiaries are required to contribute a certain percentage of their payroll to the PRC RB Scheme to fund the benefits. The only obligation of the Group with respect to the PRC RB Scheme is to pay the ongoing required contributions under the PRC RB Scheme. Contributions under the PRC RB Scheme are charged to the profit and loss account as they become payable in accordance with the rules of the PRC RB Scheme.

Research and development costs

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

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

Dividends

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends (continued)

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

In previous year, the Company and its subsidiaries did not propose or paid any interim and final dividends to shareholders. No revised accounting treatments for dividends resulting from the adoption of SSAP 2.109 (Revised) and SSAP 2.118 (Revised), have given rise to prior year adjustments in both the Group's and the Company's financial statements.

Impairment of assets

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

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

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

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

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

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

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

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset. On the disposal or retirement of a revalued asset, the attributable revaluation surplus realised is transferred directly to retained profits as a movement in reserves.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

Subsidiaries

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

The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

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

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

A joint venture company is treated as:

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities

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

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

Inventories

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

Deferred tax

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

Foreign currencies

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of the balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

5. TURNOVER

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

6. SEGMENT INFORMATION

SSAP 2.126 was adopted during the year, as detailed in note 3 to the financial statements. 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 other business segments. Summary details of the business segments are as follows:

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

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

In determining the Group's geographical segments, revenue and assets are attributed to the segments based on the location of the customers.

6. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables represent revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2001 and 2000.

Group

	Corn refined products		Corn based biochemical products		Eliminations		Consolidated	
	2001 HK$'000	2000 HK$'000	2001 HK$'000	2000 HK$'000	2001 HK$'000	2000 HK$'000	2001 HK$'000	2000 HK$'000
Segment revenue:								
Sales to external customers	**771,784**	858,382	**614,024**	349,644	**–**	–	**1,385,808**	1,208,026
Intersegment sales	**238,472**	146,534	**3,200**	–	**(241,672)**	(146,534)	**–**	–
Total revenue	**1,010,256**	1,004,916	**617,224**	349,644	**(241,672)**	(146,534)	**1,385,808**	1,208,026
Segment results	**184,647**	197,314	**252,378**	114,486	**–**	–	**437,025**	311,800
Unallocated revenue							**12,985**	4,933
Unallocated expenses							**(10,385)**	(50)
Profit from operating activities							439,625	316,683
Finance costs							**(34,495)**	(35,947)
Share of loss of a jointly-controlled entity							**(506)**	–
Profit before tax							**404,624**	280,736
Tax							**(23,234)**	(14,227)
Profit before minority interests							**381,390**	266,509
Minority interests							**(51,312)**	(36,341)
Net profit from ordinary activities attributable to shareholders							**330,078**	230,168
Segment assets	**1,223,531**	868,006	**592,118**	466,236	**–**	(140,641)	**1,815,649**	1,193,601
Interests in jointly-controlled entities							**42,906**	–
Unallocated assets							**170,020**	–
Total assets	**1,223,531**	868,006	**592,118**	466,236	**–**	(140,641)	**2,028,575**	1,193,601
Segment liabilities	**73,567**	108,115	**46,635**	132,391	**–**	(140,641)	**120,202**	99,865
Unallocated liabilities							**484,325**	726,699
Total liabilities	**73,567**	108,115	**46,635**	132,391	**–**	(140,641)	**604,527**	826,564
Other segment information:								
Capital expenditure	**288,180**	68,787	**166,939**	75,745	**–**	–	**455,119**	144,532
Depreciation	**28,587**	25,343	**14,839**	7,881	**–**	–	**43,426**	33,224

6. SEGMENT INFORMATION (continued)

(b) Geographical segments

Over 90% of the Group's revenue, results, assets and liabilities are derived from customers based in the PRC.

7. PROFIT FROM OPERATING ACTIVITIES

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

	2001 HK$'000	2000 HK$'000
Cost of inventories sold	**829,461**	799,398
Depreciation	**43,426**	33,224
Minimum lease payments under operating leases:		
Leasehold land and buildings	**1,417**	1,001
Plant and machinery	**280**	280
Staff costs (excluding directors' remuneration – note 8):		
Wages and salaries*	**22,958**	13,856
Retirement benefits scheme contributions	**177**	5
Auditors' remuneration	**1,750**	1,350
Research and development costs	**20,364**	14,905
Interest income	**(7,366)**	(2,883)

* In addition to the above remuneration, 32,000,000 (2000: Nil) share options to subscribe for ordinary shares in the Company were granted to certain non-director employees of the Group during the year. No value was included in staff costs above in respect of the share options granted during the year. Further details of share option scheme are included in note 24 to the financial statements.

8. DIRECTORS' REMUNERATION AND SEVEN HIGHEST PAID EMPLOYEES

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

	Group	
	2001 HK$'000	2000 HK$'000
Fees	**500**	–
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	**9,552**	3,072
Performance related bonuses	**6,602**	–
Retirement benefits scheme contributions	**46**	–
	16,200	3,072
	16,700	3,072

8. DIRECTORS' REMUNERATION AND SEVEN HIGHEST PAID EMPLOYEES (continued)

Fees include HK$500,000 (2000: Nil) payable to the independent non-executive directors of the Company. There were no other emoluments payable to the independent non-executive directors of the Company during the year (2000: Nil).

According to the directors' service contracts, each of the executive directors, on completion of every 12 months of service, is entitled to a management bonus. The aggregate amount of the bonuses payable to all the executive directors for any financial year may not exceed 5% of the consolidated net profit from ordinary activities attributable to shareholders in respect of that financial year. For the year ended 31 December 2001, the aggregate amount of the bonuses payable to the executive directors is equivalent to 2% of the net profit from ordinary activities attributable to shareholders.

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

	2001 Number of directors	2000 Number of directors
Nil – HK$1,000,000	**2**	6
HK$1,000,001 – HK$1,500,000	**1**	–
HK$2,000,001 – HK$2,500,000	**1**	–
HK$3,500,001 – HK$4,000,000	**2**	–
HK$5,000,001 – HK$5,500,000	**1**	–
	7	6

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

During the year, 96,000,000 share options were granted to the directors of the Company in respect of their services to the Group, further details of which are set out under the heading "Share option scheme" in the Report of the Directors on pages 32 to 34. No value in respect of the share options granted during the year has been charged to the profit and loss account.

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

8. DIRECTORS' REMUNERATION AND SEVEN HIGHEST PAID EMPLOYEES (continued)

The seven highest paid employees during the year include five (2000: four) directors, details of whose remuneration are disclosed above. Details of the remuneration of the remaining two (2000: three) non-directors, highest paid employees, which fell within the range of nil to HK$1,000,000 are as follows:

	Group	
	2001	**2000**
	HK$'000	**HK$'000**
Basic salaries, housing benefits,		
other allowances and benefits in kind	**1,534**	332
Retirement benefits scheme contributions	**12**	3
	1,546	335

During the year, 12,800,000 share options were granted to one of the non-director employee of the Group, further details of which are included in the disclosures set out under the heading "Share option scheme" in the Report of the Directors on pages 32 to 34. No value in respect of the share options granted during the year has been charged to the profit and loss account.

9. FINANCE COSTS

	Group	
	2001	**2000**
	HK$'000	**HK$'000**
Interest on bank loans:		
Wholly repayable within five years	**35,523**	36,350
Repayable beyond five years	**239**	–
Interest on trust receipt loans, secured	**36**	–
	35,798	36,350
Less: Interest capitalised	**(1,303)**	(403)
	34,495	35,947

Interest capitalised during the year was calculated at a rate of approximately 6% (2000: 6%) per annum.

10. TAX

	Group 2001 HK$'000	Group 2000 HK$'000
Current year provision:		
Hong Kong	–	375
Elsewhere	**23,234**	13,852
Tax charge for the year	**23,234**	14,227

No provision for Hong Kong profits tax had been made as the Group did not generate any assessable profits arising in Hong Kong in respect of the year (2000: 16%). Taxes on profits assessable elsewhere had been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

Taxes on the assessable profits of three of the Company's PRC subsidiaries had been calculated at the applicable rates of tax prevailing in the PRC during the year. No provision for income tax had been made for two of the Company's PRC subsidiaries as they were exempt from income tax for their second year following the first profitable year of their operations. No provision for the income tax of the PRC had been made for other PRC subsidiaries as they did not generate any assessable profits for the year.

No provision for deferred tax had been made as the Group did not have any significant unprovided deferred tax liabilities in respect of the year (2000: Nil).

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

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2001 was approximately HK$60,439,000 (period from 18 May 2000 (date of incorporation) to 31 December 2000: Nil).

12. DIVIDENDS

	2001 HK$'000	2000 HK$'000
Interim – HK1.5 cents (2000: Nil) per ordinary share	**19,200**	–
Proposed final – HK2.0 cents (2000: Nil) per ordinary share	**30,897**	–
	50,097	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

During the year, the Group adopted the revised SSAP 2.109 "Events after the balance sheet date", as detailed in note 3 to the financial statements. The effect of this change in accounting policy as at 31 December 2001, is that the current year's proposed final dividend of approximately HK$30,897,000 has been included in the proposed final dividend reserve account within the capital and reserves section of the balance sheet at that date, whereas in previous years it would have been recognised as a current liability at the balance sheet date.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated net profit from ordinary activities attributable to shareholders for the year of approximately HK$330,078,000 (2000: HK$230,168,000) and the weighted average number of 1,282,664,789 (2000: 960,000,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the consolidated net profit from ordinary activities attributable to shareholders for the year of approximately HK$330,078,000 and on 1,317,621,254 ordinary shares, being the weighted average number of ordinary shares in issue during the year plus the weighted average of 34,956,465 ordinary shares deemed to be issued at no consideration if all of the outstanding share options had been exercised since their respective dates of issue.

There were no potential dilutive ordinary shares in existence during the year ended 31 December 2000 and accordingly, no diluted earnings per share has been presented.

Notes to Financial Statements

31 December 2001

14. FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Construction in progress HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture, office equipment and motor vehicles HK$'000	Total HK$'000
Cost or valuation:					
At 1 January 2001	169,231	133,629	444,658	15,407	762,925
Additions	69,788	227,218	151,582	6,531	455,119
Transfers	72,631	(210,977)	138,346	–	–
Revaluation	(3,150)	–	–	–	(3,150)
At 31 December 2001	308,500	149,870	734,586	21,938	1,214,894
Analysis of cost or valuation:					
At cost	–	149,870	734,586	21,938	906,394
At valuation	308,500	–	–	–	308,500
	308,500	149,870	734,586	21,938	1,214,894
Accumulated depreciation:					
At 1 January 2001	–	–	60,638	7,992	68,630
Provided during the year	4,309	–	34,930	4,187	43,426
Written back on revaluation	(4,309)	–	–	–	(4,309)
At 31 December 2001	–	–	95,568	12,179	107,747
Net book value:					
At 31 December 2001	308,500	149,870	639,018	9,759	1,107,147
At 31 December 2000	169,231	133,629	384,020	7,415	694,295

14. FIXED ASSETS (continued)

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

	Group	
	2001	**2000**
	HK$'000	**HK$'000**
At valuation:		
Medium term leases in Hong Kong	**24,500**	–
Medium term leases outside Hong Kong	**284,000**	169,231
	308,500	169,231

At 31 December 2001, the Group's leasehold land and buildings were revalued on a depreciated replacement cost basis, by Castores Magi Surveyors Limited, an independent firm of professional valuers, at approximately HK$308,500,000 (2000: HK$169,231,000). A surplus on revaluation of approximately HK$1,159,000 (2000: HK$7,621,000) arising from the above valuation has been credited to the fixed asset revaluation reserve (note 25).

Had the Group's leasehold land and buildings held in Hong Kong been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK$24,367,000 (2000: Nil).

Had the Group's leasehold land and buildings held outside Hong Kong been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK$275,242,000 (2000: HK$161,610,000).

Prior to its transfer to other categories of fixed assets, the carrying amount of construction in progress included capitalised interest of approximately HK$1,748,000 (2000: HK$543,000).

At 31 December 2001, certain leasehold land and buildings of the Group with a carrying value of approximately HK$74,505,000 (2000: HK$51,250,000) and certain plant and machinery of the Group with an aggregate net book value of approximately HK$168,270,000 (2000: HK$183,310,000) were pledged to secure banking facilities granted to the Group (note 22).

15. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group 2001 HK$'000	Group 2000 HK$'000
Share of net assets	1,835	–
Amounts due from jointly-controlled entities	41,071	–
	42,906	–

The amounts due from jointly-controlled entities are unsecured, interest-free and are not repayable before 31 December 2002.

Particulars of the jointly-controlled entities are as follows:

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

16. INVESTMENTS IN SUBSIDIARIES

	Company 2001 HK$'000	Company 2000 HK$'000
Unlisted shares, at cost	287,937	–

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

Notes to Financial Statements

31 December 2001

16. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ establishment and operations	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Directly held				
Global Corn Bio-chem Technology Company Limited	British Virgin Islands ("BVI")	Ordinary US$600	100%	Investment holding
Indirectly held				
Global Bio-chem Technology Limited	BVI	Ordinary US$200	100%	Investment holding
Global Corn Investments Limited	BVI	Ordinary US$200	100%	Investment holding
Global Sweeteners Investments Limited	BVI	Ordinary US$1	100%	Investment holding
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
Changchun Dacheng Bio-chem Engineering Development Co., Ltd.	PRC	RMB154,645,600	90%	Manufacture and sale of corn based biochemical products
Changchun Decheng Bio-chemical Feed Development Co., Ltd.	PRC	US$846,400	100%	Manufacture and sale of corn based biochemical products

16. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment and operations	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)				
Changchun Dacheng Corn Development Co., Ltd.	PRC	RMB99,540,000	80%	Manufacture and sale of corn refined products
Changchun Dacheng Special Corn & Modified Starch Development Co., Ltd.	PRC	RMB99,250,000	90%	Manufacture and sale of corn based biochemical products
Changchun Dacheng Starch Development Co., Ltd.	PRC	RMB54,400,000	90%	Manufacture and sale of corn refined products
Changchun Jincheng Corn Development Co., Ltd.	PRC	RMB98,700,000	90%	Manufacture and sale of corn refined products
Changchun Jiutai Corn Development Co., Ltd.	PRC	US$560,000	100%	Manufacture and sale of livestock feeds
Shanghai Hao Cheng Food Development Co., Ltd.	PRC	US$2,668,000	100%	Manufacture and sale of corn sweeteners

17. INVENTORIES

	Group	
	2001	2000
	HK$'000	HK$'000
Raw materials	**109,997**	65,682
Finished goods	**33,340**	24,733
	143,337	90,415

18. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 30 to 90 days.

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

	Group	
	2001	2000
	HK$'000	HK$'000
1 – 30 days	**150,055**	143,971
31 – 60 days	**94,925**	75,818
61 – 90 days	**13,463**	8,464
	258,443	228,253

19. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2001	2000	2001	2000
	HK$'000	HK$'000	HK$'000	HK$'000
Cash and bank balances	**183,244**	95,731	**3,423**	–
Time deposits	**228,151**	–	**166,597**	–
	411,395	95,731	**170,020**	–
Less: Pledged time deposits for banking facilities-note 22	**(61,554)**	–	**–**	–
Cash and cash equivalents	**349,841**	95,731	**170,020**	–

Notes to Financial Statements

31 December 2001

20. TRADE PAYABLES

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

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

	Group	
	2001	**2000**
	HK$'000	**HK$'000**
1-30 days	**36,112**	65,678
31-60 days	**9,675**	8,358
61-90 days	**153**	422
	45,940	74,458

21. INTEREST-BEARING BANK LOANS

	Group	
	2001	**2000**
	HK$'000	**HK$'000**
Trust receipt loans, secured	**16,802**	–
Bank loans, secured and repayable:		
Within one year	**171,503**	243,313
In the second year	**21,121**	159,346
In the third to fifth years, inclusive	**29,144**	137,383
Beyond five years	**8,561**	–
	230,329	540,042
	247,131	540,042
Portion classified as current liabilities	**(188,305)**	(243,313)
Long term portion	**58,826**	296,729

22. BANKING FACILITIES

At 31 December 2001, the Group's banking facilities were secured by the following:

(i) Fixed charges on certain leasehold land and buildings, and plant and machinery of the Group (note 14);

(ii) The pledge of certain time deposits of the Group amounting to approximately HK$61,554,000 (note 19); and

(iii) A corporate guarantee of HK$86,800,000 given by the Company.

23. MINORITY INTERESTS

	Group	
	2001	**2000**
	HK$'000	**HK$'000**
Minority interests	**156,335**	99,204
Due to minority shareholders	**46,005**	73,178
	202,340	172,382

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

24. SHARE CAPITAL

Shares

	Company	
	2001	**2000**
	HK$'000	**HK$'000**
Authorised:		
3,000,000,000 ordinary shares of HK$0.10 each (2000: 1,000,000 ordinary shares of HK$0.10 each)	**300,000**	100
Issued and fully paid:		
1,543,296,000 ordinary shares of HK$0.10 each (2000:1,000,000 ordinary shares nil paid)	**154,330**	–

24. SHARE CAPITAL (continued)

Shares (continued)

The comparative amount of the share capital as at 31 December 2001 as shown on the consolidated balance sheet represents the pro forma issued share capital of the Company after the issue of 1,000,000 ordinary shares of HK$0.10 each nil paid on incorporation, the issue of 1,000,000 ordinary shares credited as fully paid in consideration for the acquisition of the entire issued share capital of Global Corn, pursuant to the Group Reorganisation on 1 March 2001, an amount of HK$100,000 being a portion of the amount credited to the share premium on the issue and allotment of 1,000,000 ordinary shares nil paid on incorporation in exchange for the shares of Global Corn, and the capitalisation issue of nil paid 958,000,000 ordinary shares of HK$0.10 each.

The following changes in the Company's authorised and issued share capital took place during the period from 18 May 2000 (date of incorporation) to 31 December 2001:

(a) On incorporation, the authorised share capital of the Company was HK$100,000 divided into 1,000,000 ordinary shares of HK$0.10 each, all of which were issued and allotted nil paid on that date. At 31 December 2000, the authorised and issued share capital of the Company were HK$100,000 divided into 1,000,000 shares of HK$0.10 each.

(b) On 1 March 2001, the authorised share capital of the Company was increased from HK$100,000 to HK$200,000 by the creation of a further 1,000,000 ordinary shares of HK$0.10 each, ranking pari passu with the existing share capital of the Company.

(c) On 1 March 2001, as part of the Group Reorganisation, the Company issued an aggregate of 1,000,000 ordinary shares of HK$0.10 each credited as fully paid in consideration for the acquisition of the entire issued share capital of Global Corn. The excess of the fair value of the shares of Global Corn, determined on the basis of its consolidated net assets at that date, over the nominal value of the Company's shares issued and credited as fully paid in exchange therefor, amounting to approximately HK$287,735,000 was credited to the Company's share premium account as set out in note 25 to the financial statements.

(d) On 1 March 2001, an amount of HK$100,000, being a portion of the amount credited to the share premium of the Company on the issue of shares in exchange for the shares of Global Corn as set out in (c) above, was applied to pay up, in full at par value, the 1,000,000 ordinary shares issued and allotted nil paid on incorporation.

24. SHARE CAPITAL (continued)

Shares (continued)

(e) On 1 March 2001, the authorised share capital of the Company was increased from HK$200,000 to HK$300,000,000 by the creation of a further 2,998,000,000 ordinary shares of HK$0.10 each, ranking pari passu with the existing share capital of the Company.

(f) On 1 March 2001, a total of 958,000,000 ordinary shares of HK$0.10 each were allotted as fully paid at par to the holders of the shares on the register of members of the Company, in proportion to their respective shareholdings as at the close of business on 1 March 2001, by way of the capitalisation of the sum of HK$95,800,000 standing to the credit of the share premium account of the Company (the "Capitalisation Issue"), conditional on the share premium account being credited as a result of the issue of new shares to the public as detailed in (g) below.

(g) On 15 March 2001, a total of 320,000,000 ordinary shares of HK$0.10 each were issued to the public at HK$1.02 each (the "New Issue") for a total cash consideration, before expenses, of HK$326,400,000. The excess of the consideration received for share issued over the nominal value amounting to HK$294,400,000, before related expenses, was credited to the share premium account.

(h) On 27 September 2001 and 4 October 2001, the Company had effectively placed 180,000,000 and 76,000,000 new ordinary shares to independent investors at a price of HK$1.86 per share, respectively. The total proceeds of HK$476,160,000, before related expenses, were received by the Company. The excess of the consideration received for shares issued over their nominal value, amounting to HK$450,560,000, before related expenses, was credited to the share premium account.

(i) During the year, 7,296,000 share options, which entitled the holders to subscribe for ordinary shares of HK$0.10 each in the Company at price of HK$0.98 each at any time up to 13 May 2011 were exercised and total proceeds of approximately HK$7,150,000 were received by the Company.

24. SHARE CAPITAL (continued)

Shares (continued)

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

	Notes	Number of shares issued '000	Par value HK$'000
Shares allotted and issued nil paid on incorporation	*(a)*	1,000	–
Issued share capital of the Company as at 31 December 2000		1,000	–
Shares issued as consideration for the acquisition of the entire issued share capital of Global Corn pursuant to the Group Reorganisation	*(c)*	1,000	100
Application of share premium to pay up nil paid shares	*(d)*	–	100
Capitalisation Issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of new shares to the public	*(f)*	958,000	–
Pro forma share capital as at 31 December 2000		960,000	200
New Issue on public listing	*(g)*	320,000	32,000
Capitalisation of the share premium account as set out above	*(f)*	–	95,800
Shares issued on placement	*(h)*	256,000	25,600
Shares issued on exercise of share options	*(i)*	7,296	730
Issued share capital as at 31 December 2001		1,543,296	154,330

Subsequent to the balance sheet date, on 14 March 2002, the Company proposed to grant bonus shares to its shareholders on the basis of one bonus ordinary share for every five ordinary shares of HK$0.10 each in the issued share capital of the Company held by the shareholders whose names appear on the register of members of the Company on 23 April 2002. The bonus shares will rank pari passu in all respects with the shares of the Company in issue on the date of allotment but shall not be entitled to the proposed final dividend for the year ended 31 December 2001.

24. SHARE CAPITAL (continued)

Shares (continued)

The issue of the bonus shares is conditional upon: (i) the approval by the shareholders for the allotment and issue of bonus shares; and (ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the bonus shares. Application will be made to the Listing Committee of the Stock Exchange in respect of such listing.

Share options

The Company operates a share option scheme (the "SO Scheme"), further details of which are set out under the heading "Share option scheme" in the Report of the Directors on pages 32 to 34.

Share options expiring on 13 May 2011

On 14 May 2001, the Company granted a total of 38,400,000 share options to certain executive directors and certain full time employees of the Group, which entitled them to subscribe for a total of 38,400,000 ordinary shares of HK$0.10 each in the Company. The share options are exercisable at a price of HK$0.98 per ordinary share for the period from 14 May 2001 to 13 May 2011, both days inclusive.

During the year, 7,296,000 share options to subscribe for the ordinary shares of HK$0.10 each in the Company were exercised at a subscription price of HK$0.98 per share, resulting in the issue of 7,296,000 new ordinary shares in the Company at a total consideration of approximately HK$7,150,000.

Share options expiring on 20 August 2011

On 21 August 2001, the Company granted a total of 89,600,000 share options to certain executive directors and certain full time employees of the Group, which entitled them to subscribe for a total of 89,600,000 ordinary shares of HK$0.10 each in the Company. The share options are exercisable at a price of HK$1.58 per share for the period from 21 August 2001 to 20 August 2011, both days inclusive.

At 31 December 2001, all of these share options remained outstanding.

Other than the SO Scheme disclosed above, the Company also granted share options to other corporations as follows:

Cargill International Trading Pte Ltd. ("Cargill International")

On 6 March 2001, the Company granted two lots of 5,600,000 share options each to Cargill International, which entitled Cargill International to subscribe for the Company's ordinary shares of HK$0.10 each at an exercise price of HK$1.40 and HK$1.80 per share, respectively. The two lots of share options are exercisable for the period from 18 March 2002 to 16 April 2002, and from 16 September 2002 to 15 October 2002, both days inclusive, respectively.

24. SHARE CAPITAL (continued)

Shares options (continued)

Cargill International Pte Ltd. ("Cargill International") (continued)
On 25 September 2001, the Company granted 23,800,000, 36,800,000 and 47,420,000 share options to Cargill International, which entitled Cargill International to subscribe for the Company's ordinary shares of HK$0.10 each at an exercise price of HK$1.91, HK$2.19 and HK$2.65 per share, respectively. The three lots of share options are exercisable for the period from 25 March 2003 to 23 April 2003, from 25 March 2004 to 23 April 2004, and from 25 March 2005 to 25 April 2005, both days inclusive, respectively.

Cheung Kong (Holdings) Limited ("Cheung Kong")
On 6 March 2001, the Company granted two lots of 32,000,000 share options each to Cheung Kong, which entitled Cheung Kong to subscribe for the Company's ordinary shares of HK$0.10 each at an exercise price of HK$1.40 and HK$1.80 per share, respectively. The two lots of share options are exercisable for the period from 18 March 2002 to 16 April 2002, and from 16 September 2002 to 15 October 2002, both days inclusive, respectively.

At 31 December 2001, all of these share options granted to corporations remained outstanding.

25. RESERVES

Group

	Share premium HK$'000	Fixed asset revaluation reserve HK$'000	Statutory reserve fund HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2000	–	–	5,175	125,343	130,518
Surplus on revaluation	–	7,621	–	–	7,621
Surplus on revaluation shared by minority shareholders	–	(1,470)	–	–	(1,470)
Net profit for the year	–	–	–	230,168	230,168
Transfer from retained profits	–	–	481	(481)	–
At 31 December 2000 and 1 January 2001	–	6,151	5,656	355,030	366,837
Issue of shares	751,380	–	–	–	751,380
Capitalisation issue of shares – note 24	(95,800)	–	–	–	(95,800)
Share issue expenses	(64,630)	–	–	–	(64,630)
Surplus on revaluation – note 14	–	1,159	–	–	1,159
Surplus on revaluation shared by minority shareholders	–	(106)	–	–	(106)
Net profit for the year	–	–	–	330,078	330,078
Interim dividend – note 12	–	–	–	(19,200)	(19,200)
Proposed final dividend – note 12	–	–	–	(30,897)	(30,897)
At 31 December 2001	590,950	7,204	5,656	635,011	1,238,821

25. RESERVES (continued)

Company

	Share premium HK$'000	Retained profits HK$'000	Total HK$'000
Arising on acquisition of Global Corn and applied in payment of 1,000,000 ordinary shares allotted nil paid on incorporation – note 24	287,735	–	287,735
Issue of shares	751,380	–	751,380
Capitalisation issue of shares – note 24	(95,800)	–	(95,800)
Share issue expenses	(64,630)	–	(64,630)
Net profit for the year – note 11	–	60,439	60,439
Interim dividend – note 12	–	(19,200)	(19,200)
Proposed final dividend – note 12	–	(30,897)	(30,897)
At 31 December 2001	878,685	10,342	889,027

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, as at set out in notes 1 and 24 to the financial statements, over the nominal value of the shares of the Company issued in exchange therefor; (ii) the premium arising from the New Issue during the year; (iii) the premium arising from the Capitalisation Issue during the year; and (iv) the premium arising from the placing and subscriptions of new ordinary shares during the year.

The share premium account of the Company includes: (i) the difference between the then combined net assets value of the subsidiaries acquired pursuant to the Group Reorganisation, as set out in notes 1 and 24 to the financial statements, over the nominal value of the shares of the Company issued in exchange therefor; (ii) the premium arising from the New Issue during the year; (iii) the premium arising from the Capitalisation Issue during the year; and (iv) the premium arising from the placing and subscriptions of new ordinary shares during the year.

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 may also be distributed in the form of fully paid bonus shares.

The subsidiaries of the Company established in the PRC are required to transfer 10% of their profit 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 will be at the directors' recommendation. Such reserve may be used to reduce any losses incurred by the subsidiaries or capitalised as paid-up capital of the subsidiaries.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2001 HK$'000	2000 HK$'000
Profit from operating activities	**439,625**	316,683
Interest income	**(7,366)**	(2,883)
Depreciation	**43,426**	33,224
Decrease in prepayments, deposits and other receivables	**19,560**	21,897
Increase in inventories	**(52,922)**	(26,841)
Increase in trade receivables	**(30,190)**	(99,439)
Decrease in trade payables	**(28,518)**	(57,790)
Increase/(decrease) in other payables and accruals	**60,103**	(63,650)
Net cash inflow from operating activities	**443,718**	121,201

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

	Bank loans, secured HK$'000	Other loans, secured HK$'000	Minority interests HK$'000	Issued capital and share premium HK$'000
Balance at 1 January 2000	222,859	201,500	130,658	200
Cash inflow/(outflow) from financing activities, net	317,183	(201,500)	5,596	–
Share of profit	–	–	36,341	–
Share of revaluation surplus	–	–	1,470	–
Dividends	–	–	(1,683)	–
Balance at 31 December 2000 and 1 January 2001	540,042	–	172,382	200
Cash (outflow)/inflow from financing activities, net	(292,911)	–	(13,983)	745,080
Share of profit	–	–	51,312	–
Share of revaluation surplus	–	–	106	–
Dividends	–	–	(7,477)	–
Balance at 31 December 2001	247,131	–	202,340	745,280

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

(c) Major non-cash transactions

The Group Reorganisation involved the acquisition of subsidiaries by the issue of ordinary shares, further details of which are set out in notes 1, 16 and 24 to the financial statements.

During the year, the Group acquired an additional 13% equity interests in Shanghai Hao Cheng Food Development Co., Ltd. ("Shanghai Hao Cheng") based on the unaudited net asset value of Shanghai Hao Cheng as at 30 September 2001 of approximately HK$41,721,000, of which HK$2,743,000 was included in the amounts due to minority shareholders of a subsidiary as at 31 December 2001.

27. CONTINGENT LIABILITIES

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

At 31 December 2001, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$33,150,000 (2000: Nil).

28. OPERATING LEASE ARRANGEMENTS

The Group leases certain leasehold land and buildings under operating lease arrangements. The original lease terms for these leasehold land and buildings ranges from 1 to 50 years.

At 31 December 2001, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2001	**2000**
	HK$'000	**HK$'000**
Within one year	**489**	1,035
In the second to fifth years, inclusive	**965**	248
After five years	**9,379**	–
	10,833	1,283

The Company did not have any operating lease arrangement as at 31 December 2001.

29. COMMITMENTS

In addition to the operating lease commitments detailed in note 28 above, the Group had capital commitments as follows:

	Group	
	2001	**2000**
	HK$'000	**HK$'000**
Leasehold buildings, contracted for	**128,830**	8,527
Plant and machinery, contracted for	**115,352**	–
	244,182	8,527

The Company did not have any significant commitments as at 31 December 2001.

30. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following related party transactions, in addition to those disclosed elsewhere in the financial statements:

	Group	
	2001	**2000**
	HK$'000	**HK$'000**
Sale of goods to Lucky Summit Development Limited ("Lucky Summit")	**–**	22,039
Purchases of raw materials from Jilin Province Jiliang Shuang Lung Cereal Warehouse ("Jilin Warehouse")	**7,280**	6,676
Purchases of machinery from Lucky Summit	**–**	6,731

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

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

In the opinion of the directors of the Company, the purchases of raw materials from Jilin Warehouse were carried out in the ordinary course of business of the Group and were effected on prices and terms similar to other suppliers.

30. RELATED PARTY TRANSACTIONS (continued)

The following related party transactions also constitute connected transactions as defined under the Listing Rules:

(a) During the year, Global Bio-chem Technology Limited ("Global Bio-chem Technology"), a wholly-owned subsidiary of the Company and Changchun Dacheng Corn Development Co., Ltd. ("Dacheng Corn"), a 80% owned subsidiary of the Company each entered into a transfer agreement with Global Sweeteners Investments Limited ("Global Sweeteners"), a wholly-owned subsidiary of the Company. Pursuant to the agreement, Global Bio-chem Technology and Dacheng Corn agreed to sell their equity interests of 35% and 65% in Shanghai Hao Cheng, a subsidiary of the Company to Global Sweeteners.

Upon the transfer, the Group effectively acquired an additional 13% equity interests in Shanghai Hao Cheng and Shanghai Hao Cheng became a wholly-owned subsidiary of the Company.

The considerations payable to Global Bio-chem Technology and Dacheng Corn were approximately HK$15 million and approximately HK$27 million, respectively. The respective considerations were based on the unaudited net asset value of Shanghai Hao Cheng as at 30 September 2001 of approximately HK$42 million (based on the generally accepted accounting principles adopted in Hong Kong) and the proportionate holdings of the equity interests in Shanghai Hao Cheng by Global Bio-chem Technology and Dacheng Corn, respectively.

Further details of the transactions were set out in a press announcement dated 11 December 2001.

(b) Pursuant to a new joint venture contract between Global Corn Investments Limited ("Global Corn"), a wholly-owned subsidiary of the Company, and Changchun Dacheng Enterprise Group Company Limited ("Dacheng Enterprise"), a minority shareholder of certain of the Group's PRC subsidiaries, being the respective PRC joint venture partner on 27 December 2001, the total investment in and registered capital of Changchun Jincheng Corn Development Co., Ltd. ("Jincheng"), a wholly-owned subsidiary of the Company, will be increased from approximately HK$207 million and approximately HK$83 million to approximately HK$230 million and approximately HK$92 million, respectively. Dacheng Enterprise will be responsible for 10% of the enlarged total investment and registered capital of Jincheng by contributing to Jincheng approximately HK$23 million and approximately HK$9 million, respectively.

Further details of the transactions were set out in a press announcement dated 28 December 2001.

31. POST BALANCE SHEET EVENTS

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

(i) On 14 January 2002, 1,536,000 share options under the SO Scheme were exercised;

(ii) On 14 March 2002, the directors of the Company recommended the payment of a final dividend of HK2.0 cents per ordinary share and the grant of bonus shares to its shareholders whose names appeared on the register of members of the Company on 23 April 2002 as detailed in notes 12 and 24; and

(iii) On 14 March 2002, the directors of the Company proposed to increase the authorised share capital from HK$300 million to HK$1,000 million by the creation of an additional 7,000 million ordinary shares of HK$0.10 each.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 14 March 2002.