

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%
	<u>1,385,808</u>	<u>100.0%</u>	<u>1,208,026</u>	<u>100.0%</u>	<u>626,006</u>	<u>100.0%</u>	<u>718,636</u>	<u>100.0%</u>

	Sales amount			Sales volume		
	2001	2000	%	2001	2000	%
	HK\$'000	HK\$'000	increase	MT*	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%
	<u>614,024</u>	<u>349,644</u>		<u>96,198</u>	<u>38,666</u>	

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%
	<u>556,347</u>	<u>100.0%</u>	<u>40.1%</u>	<u>408,628</u>	<u>100.0%</u>	<u>33.8%</u>

	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%
	<u>348,772</u>	<u>56.8%</u>	<u>77.5%</u>	<u>196,492</u>	<u>56.2%</u>

* MT stands for metric tonne

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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.

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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.

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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.

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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.

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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 HK\$343.4 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.

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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.

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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.

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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

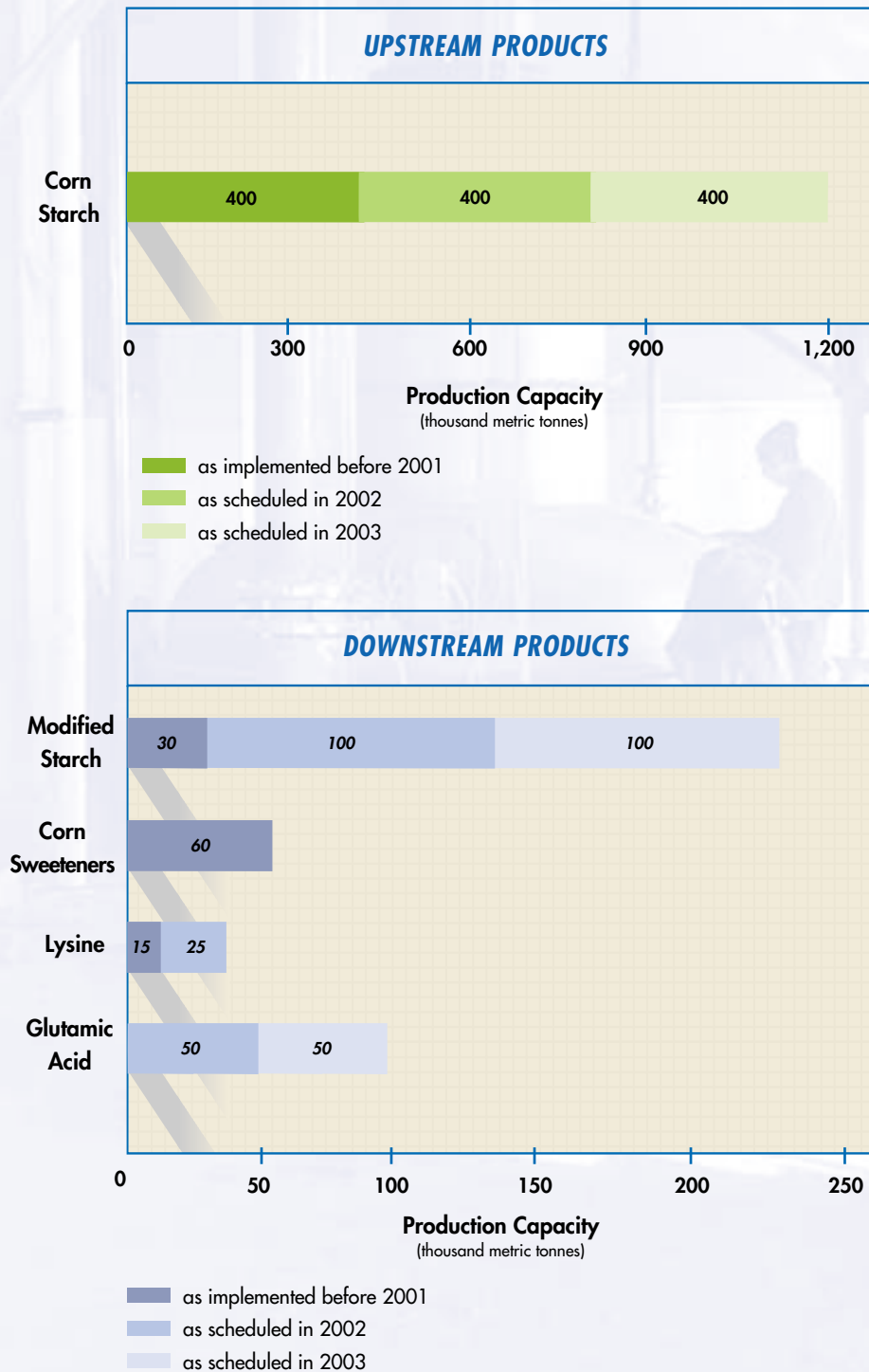
In view of the increasing demand from the livestock industry in China, the Group speeded up the expansion in lysine production from 15,000 metric tonnes to 40,000 metric tonnes per annum. By the end of 2001, the installation of the necessary production facilities has been completed and it is expected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

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MAJOR EXPANSION PROJECTS IN PIPELINE



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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

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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.

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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.