

Report of the Directors

The directors herein present their report and the audited financial statements of Global Biochem 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.

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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.

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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

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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.

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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.

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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.

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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.

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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		At 31 December 2001	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Share price***	
		Granted during the year	Exercised during the year					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.

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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.

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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.

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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