

The directors of Global Bio-chem Technology Group Company Limited (the “Company”) herein present their report and the audited financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2002.

## **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding. The Group is involved in the manufacture and sale of corn refined products and corn based biochemical products. Details of the principal activities of the subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group’s principal activities during the year.

## **RESULTS AND DIVIDENDS**

The Group’s profit for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 29 to 76.

An interim dividend of HK1.5 cents per ordinary share was paid on 23 October 2002. The directors of the Company recommend the payment of a final dividend of HK2.0 cents per ordinary share in respect of the year to shareholders whose names appear on the register of members on 21 May 2003. The recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserve section of the balance sheet.

## **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 of Hong Kong Limited (the “Stock Exchange”) on 16 March 2001, after deduction of related issuance expenses, amounted to approximately HK\$278 million. These proceeds were fully applied during the years ended 31 December 2001 and 2002 in accordance with the proposed applications set out in the Company’s listing prospectus, as follows:

- 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”);
- HK\$60 million was used for early repayment of bank borrowings;
- HK\$50 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;
- HK\$6 million was used for the expansion of the distribution and sales network of the Group; and
- HK\$22 million was applied as general working capital of the Group.

**SUMMARY FINANCIAL INFORMATION**

The following is a summary of the published consolidated/combined results and of the assets, liabilities and minority interests of the Group for the years ended 31 December 1998, 1999, 2000, 2001 and 2002, prepared on the bases set out in the accompanying notes:

**Results**

|  | <b>Year ended 31 December</b> |           |           |           |          |
|--|-------------------------------|-----------|-----------|-----------|----------|
|  | <b>2002</b>                   | 2001      | 2000      | 1999      | 1998     |
|  | <b>HK\$'000</b>               | HK\$'000  | HK\$'000  | HK\$'000  | HK\$'000 |
| TURNOVER   | <b>1,657,312</b>              | 1,385,808 | 1,208,026 | 1,046,910 | 534,413  |
| PROFIT FROM OPERATING<br>ACTIVITIES                                    | <b>512,064</b>                | 439,625   | 316,683   | 165,701   | 63,771   |
| Finance costs  | <b>(14,556)</b>               | (34,495)  | (35,947)  | (23,812)  | (12,246) |
| Share of profit of an associate  | <b>—</b>                      | —         | —         | 5,526     | 1,517    |
| Share of losses of a jointly-<br>controlled entity                     | <b>(1,691)</b>                | (506)     | —         | —         | —        |
| PROFIT BEFORE TAX  | <b>495,817</b>                | 404,624   | 280,736   | 147,415   | 53,042   |
| Tax  | <b>(35,615)</b>               | (23,234)  | (14,227)  | (174)     | (2,338)  |
| PROFIT BEFORE MINORITY<br>INTERESTS                                    | <b>460,202</b>                | 381,390   | 266,509   | 147,241   | 50,704   |
| Minority interests   | <b>(55,107)</b>               | (51,312)  | (36,341)  | (34,483)  | (8,520)  |
| NET PROFIT FROM ORDINARY<br>ACTIVITIES ATTRIBUTABLE TO<br>SHAREHOLDERS | <b>405,095</b>                | 330,078   | 230,168   | 112,758   | 42,184   |

**SUMMARY FINANCIAL INFORMATION (continued)****Assets, liabilities and minority interests**

|                          | <b>At 31 December</b> |           |           |          |          |
|--------------------------|-----------------------|-----------|-----------|----------|----------|
|                          | <b>2002</b>           | 2001      | 2000      | 1999     | 1998     |
|                          | <b>HK\$'000</b>       | HK\$'000  | HK\$'000  | HK\$'000 | HK\$'000 |
| NON-CURRENT ASSETS       | <b>1,604,800</b>      | 1,150,053 | 694,295   | 575,366  | 261,616  |
| CURRENT ASSETS           | <b>1,128,298</b>      | 878,522   | 499,306   | 331,896  | 323,303  |
| <b>TOTAL ASSETS</b>      | <b>2,733,098</b>      | 2,028,575 | 1,193,601 | 907,262  | 584,919  |
| CURRENT LIABILITIES      | <b>547,422</b>        | 343,361   | 357,453   | 297,657  | 298,526  |
| NON-CURRENT LIABILITIES  | <b>130,889</b>        | 58,826    | 296,729   | 348,229  | 124,000  |
| <b>TOTAL LIABILITIES</b> | <b>678,311</b>        | 402,187   | 654,182   | 645,886  | 422,526  |
| MINORITY INTERESTS       | <b>200,703</b>        | 202,340   | 172,382   | 130,658  | 114,434  |
| <b>NET ASSETS</b>        | <b>1,854,084</b>      | 1,424,048 | 367,037   | 130,718  | 47,959   |

## Notes:

- The summaries of the combined results of the Group for the years ended 31 December 1998 and 1999 have been extracted from the Company's prospectus dated 7 March 2001, and the results of the Group for the years ended 31 December 2000 and 2001 have been extracted from the Company's respective published audited financial statements. 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 3 to the financial statements. The results of the Group for the year ended 31 December 2002 are those set out on page 29 of the financial statements.
- The Group's combined balance sheet as at 31 December 1998 and 1999 have been extracted from the Company's prospectus dated 7 March 2001, the consolidated balance sheets of the Group as at 31 December 2000 and 2001 have been extracted from the respective published audited financial statements which were prepared on the basis as if the Group had been in existence as at 31 December 1998, 1999 and 2000. The Group's consolidated balance sheet as at 31 December 2002 is that set out on page 30 of the financial statements.

**FIXED ASSETS**

Details of the movements in the Group's fixed assets during the year are set out in note 13 to the financial statements.

**SHARE CAPITAL AND SHARE OPTIONS**

Details of movements in the Company's share capital and share options during the year, together with the reasons thereof, are set out in notes 23 and 24 to the financial statements, respectively.

**PRE-EMPTIVE RIGHTS**

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

**PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

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

**RESERVES**

Details of 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 2002, the Company had distributable reserves of approximately HK\$990,908,000 of which HK\$38,634,000 has been proposed as a final dividend for the year. Under the Companies Law (Revised) of the Cayman Islands, the share premium account of the Company of approximately HK\$924,574,000 as at 31 December 2002 is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The Company's share premium account may also be distributed in the form of fully paid bonus shares.

**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 25% 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.

**DIRECTORS**

The Directors during the year were as follows:

*Executive directors*

Liu Xiaoming

Xu Zhouwen

Kong Zhanpeng

Wang Tiegung

Au Chun Fat (resigned on 30 April 2002)

*Non-executive directors*

Patrick E Bowe (appointed on 5 February 2002)

Steven C Wellington (appointed as alternate non-executive director to Patrick E Bowe on 5 February 2002)

*Independent non-executive directors*

Lee Yuen Kwong

Chan Man Hon, Eric

In accordance with the Company's articles of association, Lee Yuen Kwong and Chan Man Hon, Eric will retire and, being eligible, will 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, which will continue thereafter for another two years of contract.

**BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT**

Biographical details of the Directors and senior management of the Group are set out on pages 15 to 18 of the annual report.

**DIRECTORS' SERVICE CONTRACTS**

Liu Xiaoming, Kong Zhanpeng, Wang Tiegung and Au Chun Fat (who resigned as Director on 30 April 2002) have entered into service contracts with the Company for an initial term of three years commencing from 1 March 2001, which, except for the service contract with Au Chun Fat which was terminated upon his resignation, will continue thereafter until terminated by either party giving not less than three months' notice in writing.

**DIRECTORS' SERVICE CONTRACTS (continued)**

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.

**DIRECTORS' INTERESTS IN CONTRACTS**

Save as disclosed elsewhere in the annual report, 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 2002, 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**

| <b>Name of Director</b> | <b>Notes</b> | <b>Nature of interest</b> | <b>Number of ordinary shares held</b> |
|-------------------------|--------------|---------------------------|---------------------------------------|
| Liu Xiaoming            | 1            | Corporate                 | 345,600,000                           |
|                         |              | Individual                | 8,890,400                             |
| Kong Zhanpeng           | 2            | Corporate                 | 172,800,000                           |
|                         |              | Individual                | 8,294,400                             |
| Wang Tieguaang          | 3            | Corporate                 | 172,800,000                           |
|                         |              | Individual                | 4,147,200                             |

**DIRECTORS' INTERESTS IN SHARES (continued)****Ordinary shares of the Company (continued)**

The interests of the Directors in the share options of the Company are separately disclosed in note 24 to the financial statements.

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 Liu Xiaoming.
2. These shares are owned by Hartington Profits Limited, a company incorporated in the BVI. The entire issued share capital of Hartington Profits Limited is beneficially owned by Kong Zhanpeng.
3. These shares are owned by Rich Mark Profits Limited, a company incorporated in the BVI. The entire issued share capital of Rich Mark Profits Limited is beneficially owned by Wang Tiegung.

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.

**DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Apart from as disclosed in the "Share option scheme" disclosures in note 24 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any of the subsidiaries 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**

Due to the adoption of Statement of Standard Accounting Practice No. 34 "Employee benefits" during the year, most of the detailed disclosures relating to the Company's share option scheme have been moved to note 24 to the financial statements.

**SUBSTANTIAL SHAREHOLDERS**

At 31 December 2002, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests in shares required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

| <b>Name</b>              | <b>Notes</b> | <b>Number of ordinary shares held</b> | <b>Percentage of the Company's share capital</b> |
|--------------------------|--------------|---------------------------------------|--|
| LXM Limited              | 1            | 345,600,000 <sup>#</sup>              | 17.89%   |
| In-depth Profits Limited | 2            | 288,000,000                           | 14.91%   |

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

Note:

1. The entire issued share capital of LXM Limited is beneficially owned by Liu Xiaoming, an executive Director.
2. The entire issued share capital of In-depth Profits Limited is beneficially owned by Au Chun Fat, an employee and ex-Director.

Save as disclosed above, no person, other than the Director and employee of the Group 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.

**CONNECTED TRANSACTIONS**

There were no transactions which needed to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

**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 businesses of the Group, pursuant to the Listing Rules, other than those businesses of which the Directors were appointed as directors to represent the interest of the Company and/or of the Group.

**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, throughout the accounting period covered by the annual report.



**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.

**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

22 April 2003