

“After launching new products, the Group further vertically integrated its production process and enjoyed better economies of scale, strengthened the Group’s position as a leading glucose production enterprise in China. We ranked first in 2005 amongst the 20 largest enterprises in the PRC producing starch based glucose.”

BUSINESS REVIEW

The two main product lines of the Group are corn-based biochemical products and corn refined products. Corn-based biochemical products include crystallised glucose, glucose syrup and lysine products, while corn refined products include corn gluten meal, corn germ, animal feed, starch paste and corn slurry.

Corn-based biochemical products

Corn-based biochemical products are the major source of income of the Group. During the year under review, the sales of corn-based biochemical products achieved a satisfactory growth, mainly attributable to the strengthened effort of the Group in raising the production capacity of crystallised glucose to the current annual production level of 250,000 tonnes. At the same time, the Group further expanded its domestic sales network of crystallised glucose which now covers southern part of the PRC and the coastal regions of eastern part of the PRC. The Group also strengthened its sales support, marketing and after-sale services of its existing distribution centres. These help reinforcing the corporate image and strengthening the sales capacity of the Group. During the year, the Group has commenced the production of lysine with purity levels of 65 per cent. and 98.5 per cent. with annual production capacity of 50,000 tonnes and 30,000 tonnes respectively.

For the year ended 31 December 2005, the sales of corn-based biochemical products amounted to approximately RMB751,106,000, representing an increase of 83.0% (2004: RMB410,544,000). Among which, the sales of crystallised glucose reached approximately RMB458,074,000 (2004: RMB374,396,000) which was 22.4% over 2004. The sales of glucose syrup during 2005 amounted to approximately RMB122,746,000 (2004: RMB36,148,000), representing an increase of 239.6% over the previous year. Sales of lysine products during the year under review amounted to approximately RMB170,286,000 (2004: Nil).

Corn refined products

Following the increase in the production capacity of corn-based biochemical products which are the Group’s major products, the sales of corn refined products recorded a decent growth during the year under review.

For the year ended 31 December 2005, the sales of corn refined products amounted to approximately RMB286,605,000, representing an increase of 49.1% (2004: RMB192,192,000).

Expanding customer base

During the year under review, the Group continued to seek new customers and explore new markets to strengthen its market position and increase its market share. As at 31 December 2005, the Group had more than 400 domestic customers, spanning over 25 provinces and autonomous regions in the PRC. The Group also had seven sales offices scattered around the PRC. In addition, the Group actively expanded its overseas markets and developed customer network covering 25 countries, including customers in the food and beverage industry, fermentation, chemical and pharmaceutical industries.



Research and development

The Group has strong research and development capability. It continues to improve production technique and develop new technology and innovative products, so as to enhance the core capability of the Group.

The research projects undertaken by the Group during the year included the enhancement of production processes and techniques. The research department also developed new products such as sorbic alcohol and glycol etc.

During the year, the Group has formed partnership and collaborations with various universities and research institutes in the PRC, such as the Shandong Institute of Light Industry and the Shanghai Zhao Guang Bio-engineering Design and Research Institute Co., Ltd.. As at 31 December 2005, the Group had one patented production technology and 23 proprietary production technologies under patent applications which have been accepted by the authority in the PRC.

Quality control of products

The Group always places strong emphasis on the quality control of its products by establishing quality control procedures for each production process. As at 31 December 2005, the quality control department had 57 staff.

The Group has obtained ISO certifications and was approved as a glucose quality inspection centre for the China Fermentation Industry Association, which represented extensive market recognition of its quality control system.

FINANCIAL REVIEW

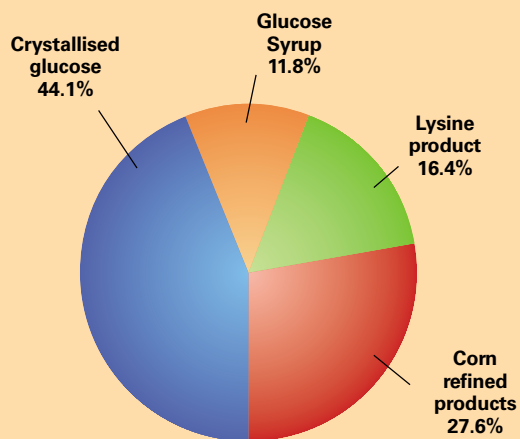
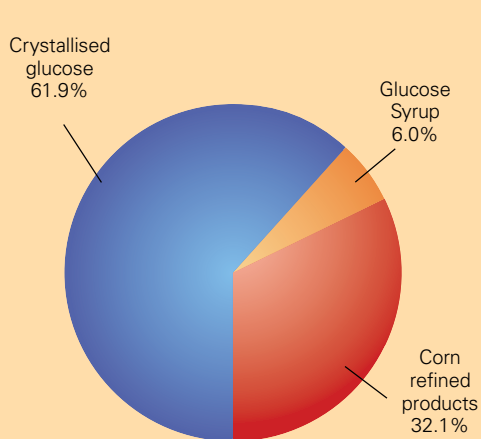
During the year, the Group has achieved continuous growth in turnover and net profit. Turnover increased to RMB1,037.7 million, representing a significant rise of 72.2% as compared with RMB602.7 million in previous year. Net profit for the year was RMB209.8 million representing an increase of 156.8% as compared with RMB81.7 million in 2004. Basic earnings per share for the year was RMB0.365 (2004: RMB0.141) representing a rise of 158.9%.



TURNOVER

The Group's turnover by product categories is as follows:

	Sales				
	2005		2004		% Change
	RMB'000	% to sales	RMB'000	% to sales	
Corn-based biochemical products					
– Crystallised glucose	458,074	44	374,396	62	22
– Glucose syrup	122,746	12	36,148	6	240
– Lysine products	170,286	16	–	N/A	N/A
	751,106	72	410,544	68	83
Corn refined products	286,605	28	192,192	32	49
Total	1,037,711	100	602,736	100	72



2004

2005



TURNOVER ANALYSIS

The significant increase in turnover in 2005 as compared to 2004 was mainly due to the following reasons:

Firstly, the production capacity of the Group increased significantly following completion of the re-engineering of the starch paste processing plant and the glucose production plants in March 2005.

Secondly, the commercial production of new lysine products with 65% purity level and 98.5% purity level with annual production capacity of 50,000 tonnes and 30,000 tonnes respectively commenced in May and

August 2005 respectively. These lysine products have contributed about 16.4% to the Group's sales in 2005 in aggregate.

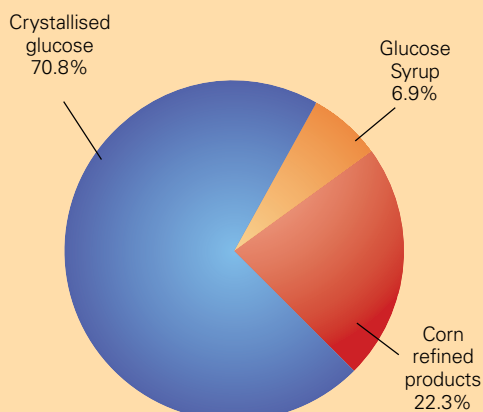
Thirdly, the market demand for crystallised glucose and glucose syrup increased as a result of the surging price of cane sugar in the fourth quarter of 2005.

Finally, the Group placed effort to develop new customers and markets in animal feed and corn gluten meal products which significantly increased the overall sales of the Group in 2005 as compared to 2004.

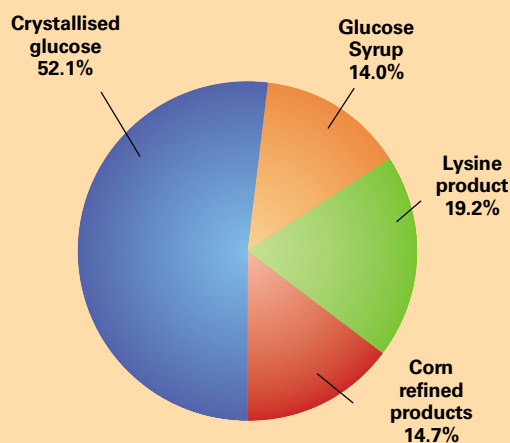
GROSS PROFIT ANALYSIS

The gross profit of the Group is analysed as follows:

	2005		2004		Change %
	RMB'000	GP%	RMB'000	GP%	
Corn-based biochemical products					
– Crystallised glucose	136,217	30%	83,940	22%	62
– Glucose syrup	36,576	30%	8,129	22%	350
– Lysine products	50,158	30%	–	N/A	N/A
	222,951	30%	92,069	22%	142
Corn refined products	38,286	13%	26,422	14%	45
Total	261,237	25%	118,491	20%	120



2004



2005

The Group's gross profit in 2005 increased by approximately RMB142.7 million, representing an increase of approximately 120.5% as compared to that of 2004. Such increase was mainly attributable to: i) the launch of new lysine products with higher gross profit margin; ii) the decrease in the average price of corn kernels by approximately 5% as compared to 2004; and iii) the increase in the selling price of crystallised glucose.

Corn refined products

Corn refined products are mainly refer to corn gluten meal, corn germ, animal feed and starch paste. Following the increase in production of corn-based biochemical products, the sales and gross profit of

corn refined products increased substantially. The gross profit increased from RMB26.4 million in 2004 to RMB38.3 million in 2005. The overall gross profit margin of these products were quite stable compared with last year at 13%.

Corn-based biochemical products

For the crystallised glucose and glucose syrup, the gross profit margin increased from 22% in 2004 to 30% in 2005 which was due to the decrease in cost of raw materials and increase in selling price. For crystallised glucose, the average unit price increased from RMB2,150 (excluding value-added tax) per tonne in 2004 to RMB2,270 (excluding value-added tax) per tonne in 2005. As a result the gross profit margin of crystallised glucose grew from 22% in 2004 to 30% in 2005.

* For identification purposes only

For lysine products, the Group launched lysine products with 65% purity level and 98.5% purity level in May and August 2005, respectively. Due to the increase in supply of lysine products in the market in 2004, the market price of lysine products significantly decreased during 2004 and 2005. However, the Group managed to achieve high gross profit margins from these products which was mainly due to our vertically integrated production facilities that allowed us to use by-products and residual materials to produce lysine products. This unique production technology differentiates the Group from other competitors in the market and enables the Group to enjoy high profit margins.

OTHER GAINS, OPERATING EXPENSE AND FINANCE COSTS

Other gains:

The decrease in other gains by approximately RMB13.0 million in 2005 was mainly due to the fact that in 2004, the Group received value-added tax refund for the starch and animal feedstuff business acquired by the Group from a former related company. There was no such income in 2005.

Selling and marketing costs:

Selling and marketing costs increased by approximately RMB13.7 million from approximately RMB15.0 million to RMB28.7 million. Such increase was principally due to the increase in sales commission and transportation costs which were in line with the growth in turnover. Sales commission represents the commissions paid to salesmen of the Group and is calculated with reference to the sales of products generated by the respective salesmen. Transportation costs mainly represented export and local transportation expenses for the sales of products. These expenses accounted for approximately 1.1% to 1.3% to the Group's total turnover for 2004 and 2005.

Administration expenses:

The amount of administrative expenses in 2005 was similar to those in 2004. The major difference was due to the provision for impairment of trade receivables amounted RMB0.5 million in 2004 while there was no such impairment in trade receivables in 2005. The Group continued to adopt a stringent customer credit policy and most of the Group's sales were either transacted on cash-on-delivery basis or with full prepayment made.

FINANCE COSTS

Finance costs mainly represent bank interest expenses amounted to approximately RMB18.1 million and RMB16.0 million in 2005 and 2004 respectively. In year 2004, there were finance costs allocated by 山東西王澱粉有限責任公司 (Shandong Starch Limited Liability Company*) (a former related company to the Group) amounting to approximately RMB7.0 million relating to the businesses of its No. 3 starch factory and animal feedstuff factory transferred to the Group. Bank interest expenses increased sharply in 2005 which was mainly due to the increase in bank borrowings during the year to finance the construction of lysine production plant and general working capital requirements.

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Profit attributable to equity holders of the Company for the year ended 31 December 2005 was approximately RMB209.8 million, which represented an increase of 166.2% from approximately RMB78.8 million in 2004. Net profit margin (profit for the year expressed as a percentage of sales) attributable to equity holders of the Company for the year was 20.2%, representing an increase of 7.1 percentage points as compared to 13.1% in 2004.

Earnings per share increased by RMB0.224 from RMB0.141 in 2004 to RMB0.365 in 2005. Such increase was mainly due to increase in net profit in 2005.

LIQUIDITY, CAPITAL RESOURCES AND GEARING RATIO

For the year ended 31 December 2005, the net cash inflow from operations of the Group amounted to approximately RMB230.7 million, as compared with net cash inflow of approximately RMB97.9 million for 2004.

Net cash (cash and cash equivalents less bank borrowings) as at 31 December 2005 amounted to approximately RMB157.4 million, representing an increase of approximately RMB359.1 million as compared with the net borrowing position as at 31 December 2004. As at 31 December 2005, the consolidated bank borrowings of the Group were RMB344.7 million (2004: RMB254.7 million) representing an increase of 35.3% or RMB90.0 million

* For identification purposes only

over that as at the previous year end date. The Group's gearing ratio, measured by total loans to total assets, decreased from 38.1% in 2004 to 24.8% in 2005.

CONTINGENT LIABILITIES

As at 31 December 2005, the Group had no material contingent liabilities.

FOREIGN EXCHANGE RISK

Most of the cash balance of the Group are deposited in RMB with major banks in the PRC, and most of assets, liabilities, revenues and payments of the Group are in RMB.

The proceeds derived from the initial public offering of shares are all denominated in Hong Kong Dollars. A large portion of them had been invested into subsidiaries in the PRC or converted into RMB. Therefore, the Directors consider the risk exposure of the Group to foreign exchange rate fluctuation is minimal.

HUMAN RESOURCES

As at 31 December 2005, the Group had about 1,403 employees (31 December 2004: 741 employees).

The employees of the Company's subsidiaries in the PRC are members of a state-managed social welfare scheme operated by the local government of the PRC. Under the scheme, the Group provides retirement, medical, employment injury, unemployment benefits and birth insurance to its employees in the PRC in accordance with the relevant PRC rules and regulations. The Group is required to contribute a specified percentage of the payroll of its staff to the social welfare scheme to fund the benefits. The only obligation of the Group with respect to the social welfare scheme is to make the specified contributions. During the year under review, the Group's pension contribution amounted to RMB1,001,000 (2004: RMB740,000).

The Group will consider the experience, responsibility, workload and the time devoted to the Group to determine the remuneration packages of the Directors and the employees. The Company has also set up the remuneration committee to review and determine the

terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management.

In addition to basic remuneration packages and discretionary bonuses for Directors and employees, share options may also be granted to Directors and eligible employees based on the performance of individuals.

FUTURE PROSPECTS AND DEVELOPMENT STRATEGIES

In view of the strong demand for glucose in the PRC, the Group is establishing new production facilities to further expand the production capacity. The Group contemplates increasing each of the production capacity of starch paste and crystallised glucose by 200,000 tonnes. The new production facilities are expected to commence production in the third quarter of 2006. Moreover, the Group considers re-engineering its production facilities so as to further boost the production capacity. Through establishment of new production facilities and re-engineering of production capacity, the Group's leading position in glucose industry in the PRC will be further strengthened.

In addition to actively expanding the production capacity to meet the growing demand for glucose, the Group strives to step up its sales and marketing efforts in the PRC, especially in the southern part of the PRC and the coastal regions in the eastern part of the PRC. Meanwhile the Group continues to strengthen its sales services, including sales support, marketing and after-sale services of its existing distribution centers, reinforce its corporate image and expand its customer network.

On the other hand, the Group endeavours to develop new products, improve product quality and production technology and increase production efficiency in order to maintain its competitive edges in the industry.

Looking forward, the Group will leverage on its scale production capacity, vertically integrated operation model, strong research and development capability and experienced and professional management team to capture the business opportunities and potential market, with the view to becoming a global leading glucose producer and maximising shareholders' returns.