

# Report of the Directors

The directors present their report and the audited financial statements of Global Bio-chem Technology Group Company Limited (the “Company”), its subsidiaries (collectively referred to as the “Group”) and its share of each of the jointly-controlled entities for the year ended 31 December 2005.

## 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 principal subsidiaries are set out in note 17 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 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 35 to 98.

An interim dividend of HK2 cents per ordinary share was paid on 11 November 2005. The directors recommend the payment of a final dividend of HK1.5 cents per ordinary share in respect of the year to shareholders on the register of members on 22 May 2006. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 99. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements, respectively.

## SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of movements in the Company’s share capital, share options and warrants during the year are set out in note 26 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

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 movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

At 31 December 2005, the Company had reserves available for distribution, calculated in accordance with the provisions of the Companies Law (Revised) of the Cayman Islands, amounting to approximately HK\$2,165,970,000, of which approximately HK\$34,783,000 had 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\$2,107,805,000 as at 31 December 2005 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 be distributed in the form of fully paid bonus shares.

## CHARITABLE CONTRIBUTIONS

During the year, the Group did not make any charitable contributions.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 20% of the total sales for the year and sales to the largest customer included therein accounted for 6% of the total sales of the year. Purchases from the Group's five largest suppliers accounted for 14% of the total purchases for the year.

None of the directors of the Company or any of their associates or any 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.

## DIRECTORS

The directors of the Company during the year were:

*Executive directors:*

Liu Xiaoming  
Xu Zhouwen  
Kong Zhanpeng  
Wang Tieguang

*Non-executive directors:*

Patrick E. Bowe  
Steven C. Wellington (alternate non-executive director to Patrick E. Bowe)

*Independent non-executive directors:*

Lee Yuen Kwong  
Chan Man Hon, Eric  
Li Defa

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## **DIRECTORS (continued)**

In accordance with the Company's articles of association, Mr. Chan Man Hon, Eric, Mr. Lee Yuen Kwong, Mr. Liu Xiaoming and Mr. Xu Zhouwen will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Two of the independent non-executive directors, Mr. Lee Yuen Kwong and Mr. Chan Man Hon, Eric, are appointed for a term of two years commencing on 1 March 2005. One of the independent non-executive directors, Mr. Li Defa, is appointed for a term of two years commencing on 15 September 2004.

The Company has received annual confirmations of independence from Mr. Lee Yuen Kwong, Mr. Chan Man Hon and Mr. Li Defa pursuant to Rule 3.13 of the Listing Rules. The Company considers that these independent non-executive directors to be independent.

## **DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES**

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 14 to 15 of the annual report.

## **DIRECTORS' SERVICE CONTRACTS**

Mr. Liu Xiaoming, Mr. Kong Zhanpeng, Mr. Wang Tiegung and Mr. Xu Zhouwen have entered into the service contracts with the Company for a term of three years commencing on 1 March 2004, and is subject to termination 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' REMUNERATION**

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

## **DIRECTORS' INTERESTS IN CONTRACTS**

Save as disclosed elsewhere in the annual report, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow 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 were in existence during the year.

**DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES**

At 31 December 2005, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

**Long positions in ordinary shares of the Company:**

Name of director	Notes	Number of shares held, capacity and nature of interest		Total	Percentage of the Company's issued share capital
		Directly beneficially owned	Through controlled corporation		
Mr. Liu Xiaoming	1	13,636,000	345,600,000	359,236,000	15.5
Mr. Xu Zhouwen	2	13,040,000	211,040,000	224,080,000	9.7
Mr. Kong Zhanpeng	3	13,040,000	172,800,000	185,840,000	8.0
Mr. Wang Tieguang	4	8,892,800	172,800,000	181,692,800	7.8
		48,608,800	902,240,000	950,848,800	41.0

**Long positions in warrants of the Company:**

Name of director	Notes	Number of shares held, capacity and nature of interest		Total	Percentage of the Company's issued share capital
		Directly beneficially owned	Through controlled corporation		
Mr. Liu Xiaoming	1	2,361,300	43,200,000	45,561,300	2.0
Mr. Xu Zhouwen	2	1,250,000	26,380,000	27,630,000	1.2
Mr. Kong Zhanpeng	3	2,286,800	21,600,000	23,886,800	1.1
Mr. Wang Tieguang	4	1,768,400	21,600,000	23,368,400	1.1
		7,666,500	112,780,000	120,446,500	5.4

The interests of the directors of the Company in the share options of the Company are separately disclosed in note 27 to the financial statements.

## **DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)**

### **Long positions in warrants of the Company: (continued)**

Notes:

1. 345,600,000 shares are owned by and 43,200,000 warrants were issued to 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. 211,040,000 shares are owned by and 26,380,000 warrants were issued to Crown Asia Profits Limited, a company incorporated in the BVI. The entire issued share capital of Crown Asia Profits Limited is beneficially owned by Mr. Xu Zhouwen.
3. 172,800,000 shares are owned by and 21,600,000 warrants were issued to Hartington Profits Limited, a company incorporated in the BVI. The entire issued share capital of Hartington Profits Limited is beneficially owned by Mr. Kong Zhanpeng.
4. 172,800,000 shares are owned by and 21,600,000 warrants were issued to Rich Mark Profits Limited, a company incorporated in the BVI. The entire issued share capital of Rich Mark Profits Limited is beneficially owned by Mr. Wang Tieguang.

Save as disclosed above, as at 31 December 2005, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

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

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" and in the share option scheme disclosures in note 27 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 granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2005, the following persons, other than a director or chief executive of the Company, are interested in 5% or more of the issued share capital and share options of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

#### Long positions:

Name	Notes	Number of ordinary shares held	Percentage of the Company's issued share capital
LXM Limited	1	345,600,000	14.9
Crown Asia Profits Limited	2	211,040,000	9.1
FMR Corporation		180,984,600	7.8
Fidelity Management & Research Company		180,307,600	7.8
Hartington Profits Limited	3	172,800,000	7.5
Rich Mark Profits Limited	4	172,800,000	7.5
Morgan Stanley		139,298,764	6.0
Morgan Stanley International Incorporated		126,553,144	5.5
Morgan Stanley Capital Management L.L.C.		126,553,144	5.5
Morgan Stanley Domestic Capital Inc.		126,553,144	5.5
Morgan Stanley International Holding Inc.		117,870,305	5.1
Morgan Stanley Asia Pacific (Holdings) Limited		117,870,305	5.1
Morgan Stanley Asia Regional (Holdings) III LLC		117,843,000	5.1
Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd.		117,843,000	5.1
Morgan Stanley Investment Management Company		117,843,000	5.1
Government of Singapore Investment Corporation Pte Ltd.		116,280,000	5.0

#### Notes:

1. The entire issued capital of LXM Limited is beneficially owned by Mr. Liu Xiaoming, an executive director of the Company.
2. The entire issued capital of Crown Asia Profits Limited is beneficially owned by Mr. Xu Zhouwen, an executive director of the Company.
3. The entire issued capital of Hartington Profits Limited is beneficially owned by Mr. Kong Zhanpeng, an executive director of the Company.
4. The entire issued capital of Rich Mark Profits Limited is beneficially owned by Mr. Wang Tieguang, an executive director of the Company.

Save as disclosed above, as at 31 December 2005, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## RELATED PARTY TRANSACTIONS, CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Related party transactions, which fall within the definition stipulated in the Hong Kong Accounting Standard 24 (“HKAS 24”) “Related party disclosures”, undertaken by the Group during the Year are set out in note 32 to the financial statements. The transactions included in note 32 to the financial statements also constitute connected transactions as defined under the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

During the Year, the Group had the following connected transactions and continuing connected transactions needed to be disclosed in compliance with the requirements under Chapter 14A of the Listing Rules.

### (a) Acquisition of Dacheng Industrial

On 29 June 2005, Global Corn Bio-chem Technology Company Limited, a wholly-owned subsidiary of the Company, as purchaser, entered into an agreement with Bright Balance Investments Limited (“Bright Balance”), Profit Kingdom Investments Limited (“Profit Kingdom”) and Leadermind Investments Limited (“Leadermind”) as vendors for the purchase of the entire equity interest in Dacheng Industrial as to approximately 25.57% from Bright Balance, approximately 14.09% from Profit Kingdom and approximately 60.34% from Leadermind for an aggregate cash consideration of HK\$900 million, payable upon completion of the acquisition.

Immediately prior to the acquisition, Dacheng Industrial was a substantial shareholder (as defined under the Listing Rules) of eight subsidiaries of the Company and was owned as to approximately 25.57%, 14.09% and 60.34% by Bright Balance, Profit Kingdom and Leadermind respectively. Since Leadermind was then the holding company of Dacheng Industrial and thus an associate of Dacheng Industrial, it was a connected person of the Company and therefore the acquisition constituted a connected transaction for the Company under Chapter 14A of the Listing Rules.

The then major assets of Dacheng Industrial mainly comprise minority equity interests ranging from 10% to 30% in eight subsidiaries of the Company and certain vacant sites for industrial uses near the main production plant of the Group in the PRC. Through the Acquisition, the Group acquired the remaining interests in these subsidiaries and thereby obtained full control of, and financial benefits from, these non-wholly owned subsidiaries and their future expansion plans.

### (b) Establishment of New Joint Venture for the Polyol Project

On 11 August 2005, the Company and Global Bio-chem Technology Limited, a wholly-owned subsidiary of the Company, entered into a supplemental joint venture agreement with International Polyol Chemicals, Inc. and Icelandic Green Polyols Ehf. (collectively, the “IPP”) for the establishment of a new joint venture private company in Hong Kong (namely, Global Corn Chemical Investment Limited) (the “New SPV”), which would in turn establish a wholly-owned subsidiary in the PRC for the joint construction and operation of a new plant in Changchun with an initial annual production capacity of 200,000 metric tonnes of the polyol chemical products.

Under the supplemental joint venture agreement, the expected total investment of the joint venture amounts to US\$95 million, which would be totally injected by the Group on cash basis by way of an unsecured, non-interest bearing loan note while the IPP would make their contribution by way of their grant of royalty fee free licence for the use of certain technology know-how by the new joint venture.

The Group and the IPP will hold 81.25% and 18.75% of the equity interest in the New SPV respectively. Under the supplemental joint venture agreement, a call option will be granted by the Group to the IPP pursuant to which that the IPP may request the Group to sell to them and/or their respective affiliates up to 30.25% of the total issued share capital of the New SPV. The call option is exercisable at any time during the term of the supplemental joint venture agreement while the acquisition price shall be determined with reference to the prospective price earning ratio to be determined by a recognised investment banking company or a certified public accounting company and as agreed by the Group and the IPP.

Since IPP are substantial shareholders of a subsidiary of the Company holding in aggregate 25% of its issued share capital, they are connected persons of the Company and therefore the supplemental joint venture agreement and the grant of the said call option and other transaction as contemplated by the supplemental joint venture agreement and its ancillary agreements constituted connected transactions for the Company under Chapter 14A of the Listing Rules.

### **(c) Sales to the Mitsui Group**

Mitsui & Co. Ltd. and its subsidiaries (collectively, the “Mitsui Group”) is one of the Group’s customers and the Group has been selling its products to the Mitsui Group since 2000. During the Year, the Group had sold some of its products to the Mitsui Group in its ordinary and usual course of business for an aggregate sum of approximately HK\$23 million. The Mitsui Group holds in aggregate 49% interest in the share capital of one of the subsidiaries of the Company and is a substantial shareholder of one of the subsidiaries of the Company. The above sale transactions (the “Continuing Connected Transactions”) constituted continuing connected transactions under Chapter 14A of the Listing Rules.

The independent non-executive directors of the Company have reviewed and confirmed that the Continuing Connected Transactions have been entered into (i) in the ordinary and usual course of the Group’s business; (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (iii) on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole; and (iv) the aggregate consideration charged by the Group in respect of the Continuing Connected Transactions during the year had not exceed the cap amount of the higher of either HK\$10 million or 3% of the latest consolidated audited net tangible assets of the Group as at 31 December 2005. The auditors of the Company have confirmed that the Continuing Connected Transactions have complied with the matters as set out in Rule 14A.38 of the Listing Rules.

Save as disclosed herein, there were no other transactions needed to be disclosed as connected transactions or continuing connected transactions in accordance with the requirements under Chapter 14A of the Listing Rules.

### **DISCLOSURES PURSUANT TO RULE 13.21 OF THE LISTING RULES**

In accordance with the disclosure requirements of Rule 13.21 of the Listing Rules, the following disclosures are included in respect of one of the Company’s loan agreements, which contains covenants requiring performance obligations of the controlling shareholder of the Company.

Pursuant to a syndicated loan facility agreement dated 2 September 2005 entered into between the Company and a syndicate of banks and financial institutions, relating to a 36-month term loan facility of US\$120,000,000 and a 35-month revolving loan facility of US\$60,000,000. A termination event would arise if (i) certain existing executive directors of the Company and Mr. Au Chun Fat, one of the founders



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who is also an ex-director of the Company, cease to own beneficially, directly or indirectly, at least 30% of the shares in the Company's issued share capital; and (ii) the Group cannot meet the financial covenants as set out in the banking facility agreement.

At the balance sheet date and subsequent to the balance sheet date, the Group breached certain financial covenants with respect to (ii) above. The directors have taken action to rectify the iteration, details of which have been disclosed in note 2.1 to the financial statements.

### **SUFFICIENCY OF PUBLIC FLOAT**

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

### **DIRECTORS' INTERESTS IN A COMPETING BUSINESS**

During the year and up to date of this report, no director of the Company 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 of the Company were appointed as directors to represent the interests 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 34 to the financial statements.

### **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the Model Code, throughout the accounting period covered by the annual report.

### **CORPORATE GOVERNANCE**

The Company is committed to ensuring high standards of corporate governance in the interests of shareholders and devotes considerable effort to identifying and formalising best practices.

The Company has complied throughout the year with the Code as set out in Appendix 14 of the Listing Rules.

In compliance with the Code, the Company has set up an Audit Committee and a Remuneration Committee under the Board. The Board considers the determination of the appointment and removal of Directors to be the Board's collective decision and thus does not intend to adopt the recommended best practice of the Code to set up a Nomination Committee.

## AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company. Three audit committee meetings were held during the year prior to the date of this report.

## REMUNERATION COMMITTEE

The members of the Remuneration Committee comprise two independent non-executive directors, Mr. Lee Yuen Kwong and Mr. Chan Man Hon, Eric and one executive director, Mr. Kong Zhanpeng. Mr. Chan Man Hon, Eric is the Chairman of the Remuneration Committee. The duties of the Remuneration Committee are, among others, to make recommendations to the Board on the Group's policy and structure for the remuneration of directors and senior management and to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

## AUDITORS

Ernst & Young will 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**  
*Co-Chairman*

**Xu Zhouwen**  
*Co-Chairman*

Hong Kong  
20 April 2006