Global Bio-chem Technology Group Company Limited

大成生化科技集團有限公司*

Stock Code: 0809

RESOURCES
Integration

Innovative
THINKING

SCIENTIFIC
Development

2006
Interim Report

* For identification purpose only

CHANGCHUN & DEHUI

Annual Capacity:

- Amino Acids
  - Lysine 140,000 mtpa
  - Protein Lysine 220,000 mtpa
  - Glutamic Acid 100,000 mtpa
  - Threonine 10,000 mtpa
- Corn Sweeteners
  - Glucose & Maltose 500,000 mtpa
  - Sorbitol 60,000 mtpa
  - Crystallised Glucose 200,000 mtpa
- Modified Starch
  - 80,000 mtpa
- Chemicals
  - Polyol 10,000 mtpa
  - Polyol 200,000 mtpa*
- Corn Refinery
  - 1.2 million mtpa
  - 600,000 mtpa*

Site Area: Over 2.3 million m^2

Location: Situated within Golden Corn Belt

JINZHOU

Annual Capacity:

- Corn Refinery
  - 600,000 mtpa

Site Area: Approximately 370,000 m^2

Location: Situated within Golden Corn Belt and at transportation hub

SHANGHAI

Annual Capacity:

- Corn Sweeteners
  - Glucose & Maltose 60,000 mtpa
  - HFCS 100,000 mtpa

Site Area: Approximately 30,000 m^2

Location: Situated in close proximity to food & beverage manufacturer

HONG KONG

Headquarters

CHANGCHUN

DEHUI

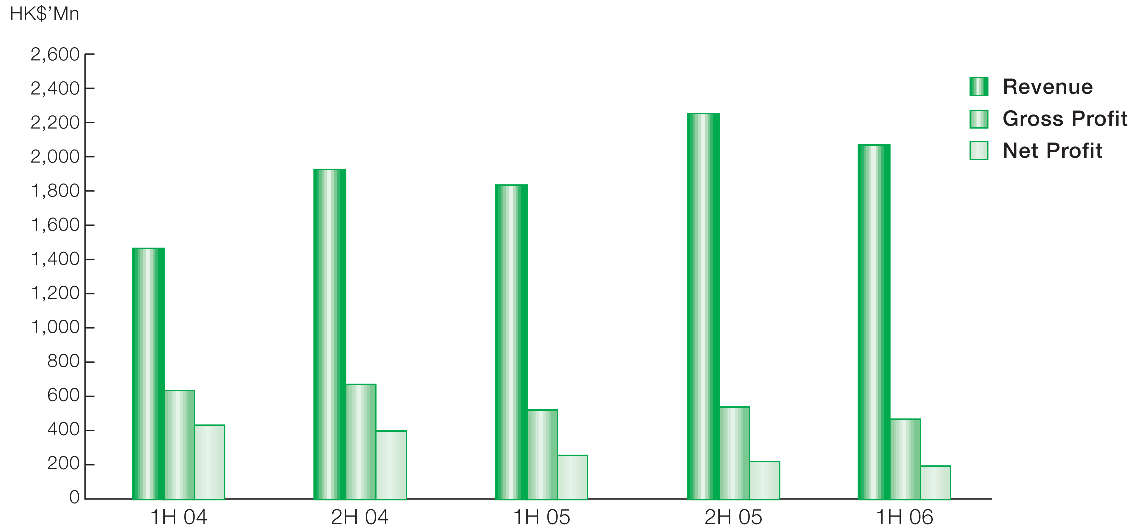
Note: *In progress

Contents

JINZHOU

SHANGHAI

Financial Highlights



	Unaudited six months ended 30 June		
	2006	2005	Change %
Revenue (HK$'Mn)	2,065	1,831	13
Profit before tax (HK$'Mn)	210	335	(37)
Net profit from ordinary activities attributable to shareholders (HK$'Mn)	189	251	(24)
Basic earnings per share (HK cents)	8.2	11.1	(26)
Interim dividend per share (HK cents)	1.0	2.0	(50)

BOARD OF DIRECTORS

Liu Xiaoming, *Co-Chairman*
Xu Zhouwen, *Co-Chairman*
Kong Zhanpeng, *Executive Director*
Wang Tieguang, *Executive Director*
Patrick E Bowe, *Non-Executive Director*
Steven C Wellington,
Alternate Director to Patrick E Bowe
Lee Yuen Kwong,*
Independent Non-Executive Director
Chan Man Hon, Eric,*
Independent Non-Executive Director
Li Defa,*
Independent Non-Executive Director

* Audit Committee Members

COMPANY SECRETARY

Cheung Chak Fung, ACCA

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1104
Admiralty Centre
Tower 1
18 Harcourt Road
Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong

LEGAL ADVISERS

Chiu & Partners
41st Floor, Jardine House
1 Connaught Place
Central
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

The Agriculture Bank of China
6 Beian Road, Nanguan District
Changchun, Jilin Province
The People's Republic of China

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
36C Bermuda House
3rd Floor, British American Tower
Dr. Roy's Drive
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

WEBSITE

www.globalbiochem.com

STOCK CODE: 0809

Dear fellow shareholders,

The Group's results in the first half year of 2006 continued to be affected by weak lysine prices and rising production cost. The interim results, as a result, have dropped as compared to the same period of last year. However, the effort we have put into the expansion of upstream corn processing capacity as well as the portfolio of products began to pay off, thus partially offsetting the above unfavourable factors. During the period under review, the Group continued to plough resources into its product diversification strategy, and expected that such investment would begin to produce results in the coming years.

Save for lysine, the performance of other downstream products of the Group for the period was satisfactory. Benefits from favourable factors including the rising price of sugar, continual improvement of the economy in China and the wide applications of sweetener products, have further stimulated the performance of corn sweeteners, in particular HFCS, glucose and maltose. The sales volume and the revenue of HFCS soared by 112% and 202% respectively as compared to the first half of 2005; the revenue for the first half of the year exceeded that for the entire previous year, and gross profit margin reached 36%. The sales volume and revenue of glucose and maltose increased by 40% and 45% respectively, and gross profit margin reached 33%.

Substantial growth in the sales of the product series of amino acids was achieved by the Group during the period with increased sales volume and revenue of lysine as well as protein lysine. Nevertheless, due to weak lysine prices and significant increase in corn and energy cost, the decline of gross profit margin of the amino acids products had brought negative impact on the overall profit of the Group.

This year, the product diversification strategy adopted by the Group begins to bear fruits. Sales performance of threonine for the period was outstanding, as witnessed by the growth of the sales volume and the revenue by 11 times and 1.2 time respectively when compared to those of the same period of last year.

The glutamic acid plant with 100,000 metric tonnes of annual production capacity in Dehui, Jilin Province commenced trial production in the first quarter of this year. It is expected that the commercial production will start in the last quarter of this year.

In July, the Group acquired the minority interests held by IPP in two joint venture companies originally set up by the Group and IPP for the development and production of polyol products. Following this move, the two joint venture companies will become wholly-owned subsidiaries of the Group. Upon completion of the acquisition, the Group will carry out the development of polyol technology on its own.

In May this year, the Group received a notice from the United States International Trade Commission, stating that it would institute an investigation pursuant to Section 337 of the Tariff Act of 1930 of the Group's alleged infringement of two US patents owned by Ajinomoto Co., Inc ("Ajinomoto") and exclusively licensed to Ajinomoto Heartland LLC, through the importation into the US, the sale for importation, and the sale within the US of various L-lysine feed additive products and genetic constructs for production thereof. The accusation is still under investigation and has not reached the stage of litigation. The Group has appointed two US law firms and one PRC law firm to handle the said accusation. The Group will make an all-out effort to safeguard its legitimate interest. During the period under review, the Group's lysine export to the US and other overseas markets had not been affected.

Prospects

The Group has secured a leading position as one of the world's largest lysine producer. We expect lysine price to remain stable with an increasing trend in the second half of the year; however, there will also be a rise in production costs. We also expect the demand for lysine in the PRC market to grow by 10% to 15% annually, which makes us believe that this product line will continue to provide the Group with a stable cash income.

With 280,000 metric tonnes annual production capacity of lysine, the Group will not inject additional capital for the expansion of the production capacity of this product in the next two years. We will concentrate our resources on the development of other new product categories.

Despite the fact that the recent price of sugar has slightly declined, the sugar price is expected to remain at a relatively high level in the coming two to three years. Substantial expansion of the production capacity of corn sweetener products during the current year will help enhance profitability of the Group.

A new plant of crystallised glucose, with a production capacity of 200,000 metric tonnes per annum, will be launched in Changchun by the end of this year. Together with the existing capacities of 560,000 metric tonnes of glucose and maltose, 100,000 metric tonnes of HFCS, and 60,000 metric tonnes of sorbitol, the Group will have an overall production capacity of 920,000 metric tonnes of corn sweetener products.

The Group expects the annual sales of corn sweetener products will account for approximately 20% of the overall sales and that of the upstream products will represent approximately 30% of the overall sales. The revenue composition will tend to be more balanced.

With regard to costs, it is anticipated that corn price for this year will be up by 8% compared to last year's, while other production costs, including the price of water and coal, will also increase. However, the Group will strive for better gross profit margin by adjusting its product mix.

On the front of upstream business, the Group is the largest corn processing enterprise in the PRC. By the end of this year, the Group will have an additional 600,000 metric tonnes corn processing capacity coming into operation. This expanded capacity will be used to cater to the expansion needs of the Group's midstream and downstream products.

After years of expansion and development, we have established ourselves as a vertically integrated corn-based upstream, midstream and downstream products manufacturer with a diversified product portfolio.

Liu Xiaoming
Co-Chairman

Xu Zhouwen
Co-Chairman

21 September 2006

The Group is principally engaged in the manufacture and sale of corn based refined products, categorised into upstream and downstream products. Upstream products include corn starch, gluten meal and other corn refined products. Corn starch is then further refined into a wide range of high value-added downstream products including amino acids, corn sweeteners, modified starch and polyol chemical products.

BUSINESS ENVIRONMENT

In view of the high oil price during the first half of 2006 (the "Period"), the prices of oil-related materials for the production and transportation remained high. Corn kernel price also rose substantially as compared to previous year's because of the extensive use of agricultural products for the production of ethanol. These pushed up the production and operating cost of the Group.

Due to the abundant supply in global market and the PRC, the depression of lysine price continued since last year. Meanwhile, the increasing interest margin of the US also imposed additional pressure on the finance costs of the Group.

To effect a strategic allocation of client base and in view of keen demand from overseas markets, the Group further extended its sales to other regions other than the PRC. During the Period, such sales accounted for approximately 25% (2005: 18%) of the Group's revenue.

FINANCIAL PERFORMANCE

The Group's consolidated revenue of approximately HK$2.1 billion increased by approximately 13% as compared to the same period last year, which mainly resulted from additional output of high value-added downstream products. However, due to the continuous price depression of lysine and the increase in corn kernel costs, production costs and finance costs, the gross profit of approximately HK$463 million and the net profit of approximately HK$189 million for the Period decreased by approximately 11% and 24% respectively.

Upstream products segment

(Sales amount: HK$744 million (2005: HK$857 million))
(Gross profit: HK$98 million (2005: HK$180 million))

Due to the continual development of downstream products, the internal consumption of corn starch from upstream operation further increased. The sales volume to external parties thus dropped by approximately 14% as compared to the same period of the previous year. As a result, revenue of upstream products segment decreased by approximately 13% to HK$744 million.

During the Period, the corn kernel price increased substantially by approximately 10% due to the extensive use of agricultural products to produce oil-related materials such as ethanol. However the average selling price of the upstream products only slightly increased by approximately 2%. As a result, the gross profit percentage dropped approximately from 21% to 13%.

Downstream products segment

(Sales amount: HK$1,320 million (2005 HK$974 million))
(Gross profit: HK$364 million (2005 HK$337 million))

During the Period, a new amino acids product, glutamic acid, was launched while the existing operation scales of both amino acids and corn sweeteners were expanded when compared to the same period last year. Thus, the revenue of downstream products increased by approximately 36%.

During the Period, the sales volume of lysine and protein lysine increased by approximately 39% and accounted for approximately 42% (2005: 38%) of the Group's revenue. Although the prices of lysine and protein lysine was still weak with a drop of gross profit margin by approximately 6% to 27%, the gross profit contribution of approximately HK$231 million remained stable because of the additional volume of sales. With the contribution from other amino acids, performance is expected to be improved.

Meanwhile, the volume and the revenue of corn sweeteners including glucose and maltose, HFCS and sorbitol increased by approximately 50% and 65% to approximately 164,000 metric tonnes and HK$276 million respectively, which contributed aggregately to an additional gross profit of approximately HK$37 million.

Due to the weakness of the lysine prices and the slight increase in cost of production, the gross profit percentage of downstream products dropped by approximately 7% to 28%.

Product segments

In line with the Group's strategy to expand the portfolio of downstream products, upstream products available for sales were reducing. At the same time, the gross profit of upstream products was further affected by the increase in material costs. Therefore, the sales and gross profit of upstream products accounted for approximately 36% and 21% of the Group's total, which were approximately 11% and 14% less than preceding year respectively.

Operating expenses, tax and profit shared by minority shareholders

Resulted from the general inflation and additional administrative expenses arising from Dehui production site, the operating expenses increased slightly to approximately 10% (2005: 9.0%) to revenue.

The finance costs (after netting-off the amount capitalised as construction in progress of approximately HK$24 million (2005: HK$13 million)) accounted for approximately 3.4% (2005: 1.7%) of revenue. The increase was mainly attributable to the enlarged borrowing portfolio and the increase in interest rate.

With the prevailing income tax laws and regulations, most of the subsidiaries established in the PRC still enjoy income tax relief. Resulted from the increase in export sales, Hong Kong profits tax of approximately HK$5 million (2005: Nil) was provided during the Period. Accordingly, the overall effective tax rate of the Group increased to approximately 9.8% (2005: 7.5%).

In 2005, the Group acquired the entire equity interest of the Group's former minority shareholder. Therefore, no profit was shared by minority shareholder during the Period.

Performance of joint ventures

The Group has two joint venture projects with Cargill Inc. and Mitsui Group to engage in the manufacture and sales of HFCS and sorbitol products respectively. During the Period, these joint ventures recorded an operating profit and an operating loss of approximately HK$11 million and HK$1 million respectively. In view of the strong demand of HFCS and efficiency improvement of sorbitol operation, better return from these joint ventures is expected.

Decrease in net profit attributable to shareholders

Due to the weakness in lysine price and the increase in cost of material and finance, the net profit attributable to shareholders dropped by approximately 24% to approximately HK$189 million.

IMPORTANT TRANSACTIONS

Acquisition of minority interest in joint ventures for production of polyol chemicals

On 24 July 2006, the Group entered into the sale and purchase agreement to acquire from the joint venture partners, IPP, their respective entire interests in those joint ventures for the production of polyol chemicals at an aggregate consideration of US$500,000. As a result of the acquisition, those joint ventures became wholly owned subsidiaries of the Group.

The Directors believe that the acquisition would enhance the efficiency of the Group's administration and control of these companies and their respective research and production facilities. The Directors also believe that, by sharing the Group's research, production and administrative resources and facilities of the joint ventures in the future, the Group's resources can be utilised in a more efficient manner and its operational expenses can be reduced. The Group can then focus its resources on its future research and development of the polyol technology and other different technologies for the production of polyol chemicals.

FINANCIAL RESOURCES AND LIQUIDITY

Net borrowing position

To support (i) additional working capital requirement and, (ii) the huge capital expenditure on projects including the construction of facilities and/or expansion projects in relation to the lysine series, glutamic acid, corn sweeteners, a new corn refinery and polyol of approximately HK$38 million, HK$84 million, HK$13 million, HK$28 million and HK$200 million respectively, the net borrowing as of 30 June 2006 increased up to approximately HK$2.0 billion (31 December 2005: HK$996 million).

Structure of interest bearing borrowings

As at 30 June 2006, the Group's bank borrowings amounted to approximately HK$3.1 billion (31 December 2005: HK$3.1 billion), of which approximately 39% (31 December 2005: 48%) were denominated in Hong Kong dollars or US dollars while the remainder was denominated in RMB. The average interest rate paid during the Period was approximately 6% (2005: 4%).

The percentage of interest bearing borrowings wholly repayable within one year, in the second to the fifth years, and beyond five years were approximately 35% (31 December 2005: 89%), 65% (31 December 2005: 11%) and Nil (31 December 2005: Nil) respectively. There is no material change in repayment pattern. As at 30 June 2006, certain borrowings were secured by the Group's fixed assets with a carrying value/aggregate net book value of approximately HK$85 million.

Turnover days, liquidity ratios and gearing ratios

Normally, the Group allows credit terms to established customers ranging from 30 to 90 days. In view of the expanding capacity and market competition, favourable credit terms are granted to customers with good payment history. Trade receivables turnover days increased to approximately 41 days (31 December 2005: 28 days). To cope with the expanding production capacity of the Group, additional inventory was kept and thus inventory turnover days increased to approximately 77 days (31 December 2005: 63 days). Meanwhile, the trade creditors turnover days decreased to approximately 26 days (31 December 2005: 38 days) in line with the seasonal pattern of stock acquisition.

Due to the reclassification of syndicated facilities from short term borrowings to long term borrowings, the current ratio and the quick ratio as at 30 June 2006 restored to their normal level at approximately 1.1 (31 December 2005: 0.7) and 0.8 (31 December 2005: 0.6) respectively. Meanwhile, gearing ratios in terms of (i) bank borrowings to total assets, (ii) bank borrowings to equity and (iii) net debts (i.e. net balance between bank borrowings and cash and cash equivalent) to equity were pushed up to approximately 33% (31 December 2005: 33%), 63% (31 December 2005: 65%) and 41% (31 December 2005: 21%), respectively. Drop in interest coverage (i.e. EBIDTA over finance costs) of approximately 6 times (2005: 15 times) mainly resulted from the decrease in profit from the lysine operation and increase in both bank borrowings and interest rate.

Foreign exchange exposure

Although most of the operations were carried out in the PRC in which transactions were denominated in RMB, the Directors consider that there is no unfavourable exposure to foreign exchange fluctuation and there will be sufficient cash resources denominated in Hong Kong dollars for the repayment of borrowings and future dividends. During the Period, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 30 June 2006.

PROSPECT

It is the Group's mission to become one of the leading vertically integrated corn based biochemical product manufacturers in the Asia-Pacific Region and then a major player in the global market. To realise this objective, the Group will strive to enlarge its market share and diversify its product mix, as well as enhance its capability in developing high value-added downstream products through research and development and through strategic business alliances with prominent international market leaders.

Lysine

Currently, the Group's planned lysine production capacity includes 140,000 metric tonnes of lysine and 220,000 metric tonnes of protein lysine. Although the current expected consumption of lysine in the PRC had been over 240,000 metric tonnes (or equivalent to approximately 370,000 metric tonnes of protein lysine), the price of lysine remained weak during the Period due to the abundant supply in domestic market. The Board expected that the risk of further drop in lysine price is remote. Moreover, rebound from the bottom is foreseeable because additional demand arises when feed producers lift up their consumption rate of lysine to follow the national or western countries' indicated additive proportion.

In addition, in order to stabilise the selling price during the transitional period of the change of the feed formula, to mitigate the risk of over-concentration in a single market and to attain worldwide recognition of the Group's products, the Group enlarged the share of overseas market. During the Period, lysine (including protein lysine) of approximately 45,700 metric tonnes (2005: 14,800 metric tonnes) was exported to regions other the PRC, which accounted for approximately 31% (2005: 14%) of the Group's lysine products output volume. The Group intends to further increase its export volume of lysine to markets in Europe, the US and Africa, etc.

Glutamic acid project and other amino acids

During the Period, the construction of the glutamic acid plant in Dehui had been completed and the commercial production commenced in June 2006. The planned production capacity of this glutamic acid plant is 100,000 metric tonnes per annum. To facilitate the production of amino acids and benefit from the cost saving from vertical integration and economy of scale, construction of a corn processing plant with sweeteners production capability in Dehui is now in progress and it is expected that the operation will commence in the second half of this year.

The Group is also dedicated to the research and development of many other high value-added amino acids, including arginine, threonine and valine to fuel our growth momentum. Threonine plant with a planned annual capacity of 10,000 metric tonnes commenced commercial production in late 2005.

Polyol project

Polyol products include ethylene glycol, propylene glycol, glycerin, butanediols and can be used in textile, plastic, construction materials, medical, chemical and cosmetic industries. The end products from polyol include polyester fibre, polymer resin and anti-freezer, chemicals applied in the production of coatings, PVC stablisers, detergents, paint driers, etc. Usually, polyol chemicals are refined from petroleum.

In view of the expected insufficient and expensive supply of petroleum in the foreseeable future, the use of agricultural products as raw material of polyol becomes a feasible remedy to this issue.

The Board is of the opinion that the PRC and other regions in Asia are markets with enormous potential for the polyol chemical products. To capture such huge potential market, the construction work of a new plant in Changchun with an initial annual production capacity of 200,000 metric tonnes of the polyol chemical products is now in progress. The expected total investment of the joint venture amounts to US$95 million and the Board expects the deployment for the design, building and construction of the plant shall be completed by early 2007. Definitely the success in the polyol project will generate large contribution to the Group in coming future.

Crystallised glucose

A new corn sweetener product, crystallised glucose, had been launched to the market during the Period. In addition, a new production plant with an annual production capacity of 200,000 metric tonnes has commenced its commercial production in second half of the year. Crystallised glucose is a type of corn sweetener in solid form and has wide applications in various industries such as food manufacturing, fermentation industries and chemical industries.

Sorbitol project

Sorbitol is a type of sweetener applied to food, pharmaceutical and chemical industries and can be used as raw material for polyol chemicals production.

The 51:49 sorbitol project with Mitsui Group is mainly for the manufacture of sorbitol products in Changchun and sale of these products in the PRC and other regions. Mitsui Group also acts as worldwide distributor except for the PRC market.

The refinery under this joint venture, with initial annual production capacity of 60,000 metric tonnes, has commenced its commercial production in the late 2005. In view of wider applications of sorbitol products, the Board expects that will add additional profit to the Group.

High fructose corn syrup ("HFCS") project

In addition to the HFCS refinery in Shanghai, a new HFCS refinery, under the master agreement with Cargill Inc., situated adjacent to the Jinzhou corn refinery Plant is under consideration. The new refinery will not only relieve the heavy transportation cost as it will mainly serve the nearby customers, but also save production cost through vertical integration where starch slurry, instead of powder form adopted by the HFCS refinery in Shanghai, will be supplied by the Jinzhou Plant.

Proposed investigation under Section 337 of the Tariff Act

The Company and certain of its subsidiaries are currently proposed respondents in an investigation under Section 337 of the Tariff Act of 1930, as amended, in the United States. Monetary remedies are not available and the complainant requested a permanent exclusion order and a cease and desist order against certain of the Group's products in the United States. The Directors of the Company, based on the advice from the Group's legal counsel, consider that the Group has sufficient grounds to defend the case. All estimated related legal costs arising therefrom have been properly accrued in the consolidated financial statements.

NUMBER AND REMUNERATION OF EMPLOYEES

As at 30 June 2006, the Group has approximately 4,500 full time employees in Hong Kong and the PRC. The Group recognises the importance of human resources to its success, therefore qualified and experienced personnel are recruited in the production capability and development of new biochemical products. Remuneration is maintained at competitive levels with discretionary bonuses payable on a merit basis and in line with industrial practice. Other staff benefits provided by the Group include mandatory provident fund, insurance schemes and performance related commission.

INTERIM DIVIDENDS

The Board has proposed an interim dividend of HK1.0 cent per ordinary share (2005: HK2.0 cents) in respect of the Period. The Board expects that the proposed interim dividend will be paid on or around 10 November 2006.

DIRECTORS INTEREST AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2006, the interests and short positions of the Directors in the share capital of the Company or its associated corporations (within the meaning at 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 Companies, were as follows:

Long positions in ordinary shares of the Company:

		Number of Shares held, capacity and nature of interest			
Name of Director	Notes	Directly beneficially owned	Through controlled corporation	Total	Percentage of Company's issued shares capital
Liu Xiaoming	1	13,636,000	345,600,000	359,236,000	15.5
Xu Zhouwen	2	14,040,000	211,040,000	225,080,000	9.7
Kong Zhanpeng	3	13,040,000	172,800,000	185,840,000	8.0
Wang Tieguang	4	8,892,800	172,800,000	181,692,800	7.8
		49,608,800	902,240,000	951,848,800	41.0

Warrants of the Company:

		Number of Shares held, capacity and nature of interest			
Name of Director	Notes	Directly beneficially owned	Through controlled corporation	Total	Percentage of Company's issued shares capital
Liu Xiaoming	1	2,361,300	43,200,000	45,561,300	2.0
Xu Zhouwen	2	1,250,000	26,380,000	27,630,000	1.2
Kong Zhanpeng	3	2,286,800	21,600,000	23,886,800	1.1
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

Notes:

1. 345,600,000 Shares were owned by and 43,200,000 Warrants, which remained outstanding as at the 30 June 2006, were issued to LXM Limited, a company incorporated in the British Virgin Island ("BVI"). The entire issued share capital of LXM Limited is beneficially owned by Mr. Liu Xiaoming. Mr. Liu Xiaoming is a director or LXM Limited.

2. 211,040,000 Shares were owned by and 26,380,000 Warrants, which remained outstanding as at the 30 June 2006, 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. Mr. Xu Zhouwen is a director of Crown Asia Profits Limited.

3. 172,800,000 Shares were owned by and 21,600,000 Warrants, which remained outstanding as at the 30 June 2006, 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. Mr. Kong Zhanpeng is a director of Hartington Profits Limited.

4. 172,800,000 Shares were owned by and 21,600,000 Warrants, which remained outstanding as at the 30 June 2006, 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. Mr. Wang Tieguang is a director of Rich Mark Profits Limited.

Save as disclosed above, as at Period ended, none of the Directors and chief executive of the Company had any interests or short positions in the securities of the Company or any of its associated corporation (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHT TO ACQUIRE SHARE OR DEBENTURES

Apart from as disclosed under the paragraph headed "Directors interest and short positions in shares and underlying shares" above, at no time during the Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or to any person in whose shares and debentures any Directors is deemed to be interested under Part XV of the SFO, 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTEREST IN SHARES AND UNDERLYING SHARES

So far as is known to the Directors, at 30 June 2006, the following persons (other than the Directors) had an interest or short position in the shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO;

Name	Note	Number of Shares held	Percentage of Company's issued shares capital
LXM Limited	1	345,600,000	14.9
FMR Corporation		255,803,600	11.0
Fidelity Management & Research Company		255,699,600	11.0
Crown Asia Profits Limited	2	211,040,000	9.1
Morgan Stanley		181,135,254	7.8
Hartington Profits Limited	3	172,800,000	7.5
Rich Mark Profits Limited	4	172,800,000	7.5
Morgan Stanley Capital Management L.L.C.		154,734,271	6.7
Morgan Stanley Domestic Capital Inc.		154,734,271	6.7
Morgan Stanley International Incorporated		154,734,271	6.7
Morgan Stanley Asia Pacific (Holdings) Limited		147,811,408	6.4
Morgan Stanley International Holding Inc.		147,811,408	6.4
Morgan Stanley Asia Regional (Holding) III LLC		147,791,977	6.4
Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd.		147,791,977	6.4
Morgan Stanley Investment Management Limited		147,791,977	6.4

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.

5. The interests of LXM Limited, Crown Asia Profits Limited, Hartington Profits Limited and Rich Mark Profits Limited in the Shares to be allotted and issued upon exercise of subscription rights attaching to the outstanding Warrants issued to them are stated in notes (1) to (4) under "Directors interest and short positions in shares and underlying shares"

Save as disclosed above, no person, other than the Directors, had registered an interest or short position in the shares or underlying shares of the Company that was required to be disclosed pursuant to Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

CORPORATE GOVERNANCE

The Company is committed to maintaining and achieving high standards of corporate governance in the interests of shareholders and devoting considerable effort to identify and formalise best practices.

In the opinion of the Directors, the Company has complied throughout the Period with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

In compliance with the Code, the Company has set up an audit committee and a remuneration committee of 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 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 three independent non-executive Directors. The Chairman of the Audit Committee is Mr. Lee Yuen Kwong, who is a Certified Public Accountant and has been practising since 1990. The other members of the Audit Committee is Mr. Chan Man Hon, Eric, who is a solicitor and has been practising in Hong Kong for over 20 years and Mr. Li Defa, who is the Dean of the College of Animal Science and Technology, China Agricultural University.

The Audit Committee meets regularly with the Company's senior management and the Company's auditors to consider the Company's financial reporting process, the effectiveness of internal controls, the audit process and risk management.

The interim results of the Group for the Period have not been audited, but have been reviewed by the Company's auditors, Ernst & Young. The interim results have been reviewed by the Audit Committee.

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, among others, are 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors by Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2006.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 12 October 2006 to 13 October 2006, both days inclusive, during which period no transfer of shares of the Company will be registered and no shares of the Company will be issued upon exercise of any subscription rights attaching to the outstanding warrants issued by the Company. In order to qualify for entitlement to the proposed interim dividend, all transfers of shares of the Company accompanied by the relevant share certificates and the appropriate transfer forms and, in the case of warrant-holders, all duly completed subscription forms accompanied by the relevant warrant certificates and the appropriate subscription monies must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 11 October 2006.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

All information required by paragraph 46(1) to 46(2) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course

By order of the Board of

Liu Xiaoming	Xu Zhouwen
Co-Chairman	*Co-Chairman*

Hong Kong, 21 September 2006

	Notes	Six months ended 30 June 2006 (Unaudited) HK$'000	2005 (Unaudited) HK$'000
REVENUE			
Sales of goods	4	2,064,841	1,830,882
Cost of sales		(1,602,114)	(1,313,458)
Gross profit		462,727	517,424
Other income	4	13,694	13,157
Selling and distribution costs		(122,148)	(109,795)
Administrative expenses		(65,199)	(53,196)
Other expenses		(9,936)	(1,658)
Finance costs	5	(69,311)	(30,575)
PROFIT BEFORE TAX	6	209,827	335,357
Tax	7	(20,472)	(25,170)
PROFIT FOR THE PERIOD		189,355	310,187
ATTRIBUTABLE TO			
Equity holders of the parent		189,355	250,568
Minority interests		—	59,619
		189,355	310,187
EARNINGS PER SHARE	8		
— Basic		HK8.2 cents	HK11.1 cents
— Diluted		HK8.2 cents	HK11.0 cents
DIVIDEND PER SHARE	9	HK1.0 cent	HK2.0 cents

Condensed Consolidated Balance Sheet

	Notes	30 June 2006 (Unaudited) HK$'000	31 December 2005 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		5,589,655	5,338,090
Prepaid land premiums		489,711	498,550
Deposits paid for acquisition of property, plant and equipment		243,172	74,217
Goodwill		357,014	357,014
Long term loan to a jointly-controlled entity	16(c)	40,000	40,000
Total non-current assets		6,719,552	6,307,871
CURRENT ASSETS			
Inventories		680,937	522,230
Trade receivables	10	461,558	310,534
Prepayments, deposits and other receivables		150,088	173,184
Due from jointly-controlled entities	16(c)	74,751	9,113
Tax recoverable		8,970	13,629
Pledged deposits		19,231	—
Cash and cash equivalents		1,054,047	2,066,424
Total current assets		2,449,582	3,095,114
CURRENT LIABILITIES			
Trade payables	11	232,216	317,132
Other payables and accruals		929,750	1,245,060
Interest-bearing bank and other borrowings		1,075,134	2,733,161
Due to a group company	16(c)	20,000	20,000
Tax payable		7,976	4,728
Total current liabilities		2,265,076	4,320,081
NET CURRENT ASSETS/(LIABILITIES)		184,506	(1,224,967)
TOTAL ASSETS LESS CURRENT LIABILITIES		6,904,058	5,082,904
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		1,996,143	329,482
Deferred tax		14,850	14,850
Total non-current liabilities		2,010,993	344,332
Net assets		4,893,065	4,738,572
EQUITY			
Equity attributable to equity holders of the parent			
Share capital	12	231,885	231,884
Reserves		4,661,180	4,506,688
Total equity		4,893,065	4,738,572

	Attributable to equity holders of the Company									
	Issued share capital HK$'000	Share premium HK$'000	Assets revaluation reserve HK$'000	Statutory reserve fund HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final and interim dividends HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2006	231,884	1,820,070	80,718	4,094	130,662	2,436,361	34,783	4,738,572	—	4,738,572
Issue of shares	1	129	—	—	—	—	—	130	—	130
Net profit for the period	—	—	—	—	—	189,355	—	189,355	—	189,355
2005 final dividend paid	—	—	—	—	—	(405)	(34,587)	(34,992)	—	(34,992)
Transfer from retained profits	—	—	—	502	—	(502)	—	—	—	—
Proposed 2006 interim dividend	—	—	—	—	—	(23,188)	23,188	—	—	—
At 30 June 2006 (Unaudited)	231,885	1,820,199*	80,718*	4,596*	130,662*	2,601,621*	23,384*	4,893,065	—	4,893,065
At 1 January 2005	223,899	1,680,278	60,638	3,334	—	2,054,267	111,949	4,134,365	442,844	4,577,209
Issue of shares	4,942	102,489	—	—	—	—	—	107,431	—	107,431
Capital injection by minority shareholders	—	—	—	—	—	—	—	—	11,916	11,916
Net profit for the period	—	—	—	—	—	250,568	—	250,568	59,619	310,187
2004 final dividend paid	—	—	—	—	—	(2,471)	(111,949)	(114,420)	—	(114,420)
Transfer from retained profits	—	—	—	348	—	(348)	—	—	—	—
Proposed 2005 interim dividend	—	—	—	—	—	(45,768)	—	(45,768)	—	(45,768)
At 30 June 2005 (Unaudited)	228,841	1,782,767*	60,638*	3,682*	—	2,256,248*	—	4,332,176	514,379	4,846,555

* *These reserve accounts comprise the consolidated reserves of the Group of HK$4,661,180,000 (30 June 2005 (unaudited): 4,103,335,000) on the condensed consolidated balance sheet.*

Condensed Consolidated Cash Flow Statement

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash inflow/(outflow) from operating activities	(63,411)	378,920
Net cash outflow from investing activities	(834,196)	(1,073,334)
Net cash inflow/(outflow) from financing activities	(95,539)	316,611
DECREASE IN CASH AND CASH EQUIVALENTS	(993,146)	(377,803)
Cash and cash equivalents at beginning of period	2,066,424	1,307,175
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,073,278	929,372
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	1,022,394	774,184
Non-pledged time deposits with original maturity of less than three months when acquired	31,653	155,188
Pledged deposits with original maturity of less than three months	19,231	—
	1,073,278	929,372

1. ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2005.

2. BASIS OF PREPARATION

As at 30 June 2006, the Group had outstanding loans of US$150,000,000, equivalent to HK$1,162,500,000 (31 December 2005: US$180,000,000, equivalent to HK$1,395,000,000) which were granted by a syndicate of banks ("Syndicated Loan").

During the prior year ended 31 December 2005, the Group was unable to comply with one of the financial covenants at 31 December 2005 and in addition, as at 31 March 2006, the Group was unable to comply with another financial covenant according to the unaudited management accounts as at that date. Accordingly, the whole balance of the Syndicated Loan amounting to approximately HK1,395 million had been classified as a current liability in the annual financial statements for the year ended 31 December 2005. Details of which have been disclosed in the 2005 annual report.

During the Period, the directors have been negotiating with the lenders for a relaxation of the financial covenants. On 29 June 2006, the Group was informed by the agent of the Syndicated Loan that all the lenders have provided written consents agreeing such relaxation. Revised financial covenants have been applied accordingly and no breach of the financial covenants has been noted at the balance sheet date. Documentation work relating to the revision of the terms of the Syndicated Loan has been completed on 14 September 2006. Accordingly, the Syndicated Loan has been classified based on its original repayment terms in the balance sheet as at 30 June 2006 and these financial statements are prepared on a going concern basis.

3. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of other business segments. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers.

Segment information is presented by the way of the following segment formats:

(i) on a primary segment reporting basis, by business segment; and

(ii) on a secondary segment reporting basis, by geographical segment.

3. SEGMENT INFORMATION (Continued)

(a) Business segments

	Corn refined products		Corn based biochemical products		Eliminations		Consolidated	
	Six months ended 30 June							
	2006 (Unaudited) HK$'000	2005 (Unaudited) HK$'000	2006 (Unaudited) HK$'000	2005 (Unaudited) HK$'000	2006 (Unaudited) HK$'000	2005 (Unaudited) HK$'000	2006 (Unaudited) HK$'000	2005 (Unaudited) HK$'000
Segment revenue:								
Sales to external customers	744,433	857,369	1,320,408	973,513	—	—	2,064,841	1,830,882
Intersegment sales	500,793	401,267	—	—	(500,793)	(401,267)	—	—
Total revenue	1,245,226	1,258,636	1,320,408	973,513	(500,793)	(401,267)	2,064,841	1,830,882
Segment results	119,597	172,890	162,605	187,552	—	—	282,202	360,442
Unallocated revenue							13,694	13,157
Unallocated expenses							(16,758)	(7,667)
Finance costs							(69,311)	(30,575)
Profit before tax							209,827	335,357
Tax							(20,472)	(25,170)
Profit for the period							189,355	310,187

(b) Geographical segments

	Mainland China		Countries other than Mainland China		Consolidated	
	Six months ended 30 June					
	2006 (Unaudited) HK$'000	2005 (Unaudited) HK$'000	2006 (Unaudited) HK$'000	2005 (Unaudited) HK$'000	2006 (Unaudited) HK$'000	2005 (Unaudited) HK$'000
Segment revenue:						
Sales to external customers	1,550,397	1,507,147	514,444	323,735	2,064,841	1,830,882

4. REVENUE AND OTHER INCOME

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the Period. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

An analysis of revenue and other income and gains is as follows:

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
REVENUE		
Sale of goods	2,064,841	1,830,882
Other income		
Bank interest income	5,307	4,529
Sale of scraps	4,563	6,545
Others	3,824	2,083
	13,694	13,157

5. FINANCE COSTS

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest on bank loans:		
Wholly repayable within five years	90,082	41,387
Repayable beyond five years	32	66
	90,114	41,453
Amortisation of fees incurred for the granting of banking facilities	2,906	1,808
	93,020	43,261
Less: Interest capitalised	(23,709)	(12,686)
	69,311	30,575

6. PROFIT BEFORE TAX

The Group's profit from operating activities is arrived at after charging:

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Provision for legal expenses *(see note 14)*	8,200	—
Depreciation	128,077	101,021
Amortisation of prepaid land premiums	9,117	2,841
Amortisation of fees incurred for the granting of banking facilities	2,906	1,808

7. TAX

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Provisions for the current period:		
Hong Kong	5,076	—
Elsewhere	15,396	25,170
Tax charge for the Period	20,472	25,170

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during the Period. No provision for Hong Kong profits tax had been made in the prior period as the Group had tax losses brought forward from prior years to offset against the assessable profit arising in Hong Kong. Taxes on profits assessable elsewhere had been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

All of the Group's subsidiaries operating in the PRC are exempt from PRC income tax for two years starting from the first profitable year of their operations and are entitled to a 50% relief from the PRC income tax for the following three years.

During the Period, taxes on the assessable profits of two PRC subsidiaries had been calculated at 50% of the applicable rate of tax prevailing in the PRC and a favourable tax rate of 10% has been granted by tax authorities to another five PRC subsidiaries being High-tech entities. Accordingly, taxes on the assessable profits of these PRC subsidiaries had been calculated at a lower applicable rate of tax during the Period.

No provision for income tax has been made for three of the Group's PRC subsidiaries and one jointly-controlled entity as they remain exempt from income tax for their first two profitable years of their operations.

7. TAX (Continued)

The remaining four PRC subsidiaries and another two jointly-controlled entities of the Group have not made any provision for income tax as they did not generate any assessable profits for the Period.

Tax recoverable represents excess of tax payment over estimated tax liabilities by certain group companies.

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated net profit from ordinary activities attributable to shareholders for the Period of approximately HK$189,355,000 (2005: HK$250,568,000) and the weighted average number of 2,318,838,700 (2005: 2,258,920,329) ordinary shares in issue during the Period.

Since there were no dilutive potential ordinary shares as at 30 June 2006, diluted earnings per share equals to basic earnings per share for the Period. At the balance sheet date, the Company had bonus warrants. Since the exercise price of these bonus warrants was higher than the average market price of the Company's ordinary shares during the Period, no shares were assumed to have been issued on the deemed exercise of the Company's warrants during the Period.

For the six months ended 30 June 2005, the calculation of diluted earnings per share is based on the consolidated net profit from ordinary activities attributable to shareholders for the period of approximately HK$250,568,000 and on 2,281,967,637 ordinary shares, being the weighted average number of 2,258,920,329 ordinary shares in issue during the period, as used in the basic earnings per share calculation, plus the weighted average of 23,047,308 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the six months ended 30 June 2005.

9. DIVIDEND

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interim — HK1.0 cent (2005: HK2.0 cents) per ordinary share	**23,188**	45,768

At the Board Meeting held on 21 September 2006, the Directors declared interim dividend of HK1.0 cent per ordinary share. The interim dividend is not reflected as a dividend payable in the consolidated financial statements, but as a separate component of the shareholders' fund for the Period.

10. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 30 to 90 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing. The carrying amounts of trade receivables approximate to their fair values.

An aged analysis of the trade receivables as at the balance sheet date, based on the date of recognition of the sales, is as follows:

	30 June 2006 (Unaudited) HK$'000	31 December 2005 (Audited) HK$'000
Within 1 month	272,202	198,744
1–2 months	77,401	58,039
2–3 months	36,216	21,625
Over 3 months	75,739	32,126
Total	461,558	310,534

11. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 90 days from its suppliers, except for the purchase of corn kernels from farmers, which are normally settled on a cash basis. The carrying amounts of trade payables approximate to their fair values.

An aged analysis of the trade payables as at the balance sheet date, based on the receipt of goods purchased, is as follows:

	30 June 2006 (Unaudited) HK$'000	31 December 2005 (Audited) HK$'000
Within 1 month	93,398	185,521
1–2 months	53,643	31,981
2–3 months	17,175	23,279
Over 3 months	68,000	76,351
Total	232,216	317,132

12. SHARE CAPITAL

The following is a summary of the authorised share capital and the movements in the issued share capital of the Company:

	30 June 2006 (Unaudited) HK$'000	31 December 2005 (Audited) HK$'000
Authorised:		
10,000,000,000 (31 December 2005: 10,000,000,000) ordinary shares of HK$0.10 each	1,000,000	1,000,000
Issued and fully paid:		
2,318,848,802 (31 December 2005: 2,318,835,552) ordinary shares of HK$0.10 each	231,885	231,884

	Issue share capital '000	Par value HK$'000
Issued share capital as at 1 January 2006 (Audited)	2,318,836	231,884
Exercise of warrants *(Note)*	13	1
Share capital as at 30 June 2006 (Unaudited)	2,318,849	231,885

Note: During the Period, 13,250 warrants were exercised which resulted in the issue of 13,250 ordinary shares of the Company amounting to HK$1,325 and share premium of HK$128,525. No significant issue expenses have been noted.

13. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date.

At 30 June 2006, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$1,118,742,000 (31 December 2005: HK$888,687,000).

At 30 June 2006, the Company had provided guarantee to certain jointly-controlled entities in favour of the bank for banking facilities granted to those jointly-controlled entities. At the balance sheet date, these jointly-controlled entities utilised the banking facilities to the extent of approximately HK$11,625,000 (31 December 2005: HK$11,625,000) (see note 16(a)(iv)).

14. PROPOSED INVESTIGATION UNDER SECTION 337 OF THE TARIFF ACT

The Company and certain of its subsidiaries are currently proposed respondents in an investigation under Section 337 of the Tariff Act of 1930, as amended, in the United States. Monetary remedies are not available and the complainant requested a permanent exclusion order and a cease and desist order against certain of the Group's products in the United States. The directors of the Company, based on the advice from the Group's legal counsel, consider that the Group has sufficient grounds to defend the case. All estimated related legal costs arising therefrom have been properly accrued in the consolidated financial statements.

15. COMMITMENTS

The Group had capital commitments as follows:

	30 June 2006 (Unaudited) HK$'000	31 December 2005 (Audited) HK$'000
Contracted, but not provided for:		
Leasehold buildings	266,546	168,292
Plant and machinery	598,931	688,639
	865,477	856,931
Authorised but not contracted for:		
Capital contributions payable to subsidiaries	24,800	201,500
	890,277	1,058,431

16. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

During the Period, the following related party transactions were noted:

		Six months ended 30 June	
	Notes	2006 (Unaudited) HK$'000	2005 (Unaudited) HK$'000
Sales of corn starch to a jointly-controlled entity	(i)	33,155	10,542
Sales of corn sweeteners to a jointly-controlled entity	(i)	14,147	—
Purchases of sorbitol from a jointly-controlled entity	(i)	3,152	—
Utility costs charged to jointly-controlled entities	(ii)	4,862	1,633
Purchase of a piece of land from Dacheng Industrial	(iii)	—	16,278
Sales of Lysine to Cargill, Incorporated and its subsidiaries	(iv)	8,497	7,262
Sales of goods to Mitsui & Co., Ltd. and its subsidiaries	(v)	—	14,353

16. RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

(i) The sales and purchases were made at prices which are comparable to the prices offered to other customers of the Group.

(ii) The utility costs were charged based on the actual costs incurred.

(iii) The Group, Mitsui-Tokyo, Mitsui-HK and a jointly-controlled entity, Changchun Dacheng Nikken Polyols Company Limited entered into a provisional land acquisition agreement with Changchun Dacheng Industrial Group Company Limited ("Dacheng Industrial"), at a cash consideration of RMB17,417,000 (equivalent to approximately HK$16,278,000) to purchase a piece of land for the construction of the sorbitol plant. Dacheng Industrial was a minority shareholder of certain subsidiaries of the Group. The Group acquired the entire equity interest of Dacheng Industrial in 2005.

(iv) Cargill, Incorporated is the joint venture partner of Global Bio-chem Cargill Limited in which the Group effectively held a 50% equity interest. The transactions were made at prices mutually agreed between the parties.

(v) Mitsui & Co., Ltd. is the joint venture partner of Global Nikken (H.K.) Company Limited in which the Group effectively held a 51% equity interest. The transactions were made at prices mutually agreed between the parties.

(b) Other related party transactions

(i) The Group issued guarantees to secure a jointly-controlled entity for its bank loans with maximum amount of HK$15,113,000 (2005: HK$15,113,000). At 30 June 2006, HK$11,625,000 were utilised by this jointly-controlled entity (2005: HK$11,625,000).

16. RELATED PARTY TRANSACTIONS (Continued)

(c) Due from jointly-controlled entities/Due to a group company

	30 June 2006 HK$'000	31 December 2005 HK$'000
Long term loan to a jointly-controlled entity	40,000	40,000
Short term balance due from jointly-controlled entities	74,751	9,113
Due to a group company	20,000	20,000

The long term loan was unsecured, interest-free and will be repayable in 2101 or upon the liquidation, winding-up or dissolution of the jointly-controlled entity, whenever is earlier.

The short term balance due from jointly-controlled entities is unsecured, interest-free and is repayable within one year. The balance approximates to its fair value.

Since the Group has no legal right to offset the long term loan advanced to a jointly-controlled entity with amortised cost of HK$40,000,000 against the joint venturer's share of liability of HK$20,000,000, the balance were not eliminated.

(d) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2006 (Unaudited) HK$'000	2005 (Unaudited) HK$'000
Short term employee benefits	7,296	7,426
Post-employment benefits	36	36
Total compensation paid to key management personnel	7,332	7,462

17. POST BALANCE SHEET EVENT

Acquisition of minority interests in the Phase I and Phase II joint ventures for production of polyol products

On 24 July 2006, Global Bio-chem Technology Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement whereby it acquired Global Polyol Investments Limited ("Global Polyol") and Global Corn Chemical Investment Limited ("GCCI"), representing 25% and 18.75% of the issued share capital of the respective company at cash considerations of US$500,000 (equivalent to approximately HK$3.9 million) and US$1 (equivalent to approximately HK$7.8), from Icelandic Green Polyols Ehf. and International Polyol Chemicals Inc. As a result of the acquisition, Global Polyol and GCCI became wholly-owned subsidiaries of the Company.

18. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 September 2006.

ERNST & YOUNG
安永會計師事務所

To the board of directors
Global Bio-chem Technology Group Company Limited
(Incorporated in the Cayman Islands with limited liability)

We have been engaged by Global Bio-chem Technology Group Company Limited (the "Company") to review the interim financial report of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2006 as set out on pages 17 to 31.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of the interim financial report to be in compliance with the Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors. It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial statements and based thereon, assessing whether the accounting policies and presentation have been consistently applied and adequately disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the condensed consolidated interim financial statements for the six months ended 30 June 2006.

Ernst & Young
Certified Public Accountants

Hong Kong, 21 September 2006