

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 jointly-controlled entity for the year ended 31 December 2006.

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 2006 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 92.

An interim dividend of HK1 cent per ordinary share was paid on 10 November 2006. The directors recommend the payment of a final dividend of HK2 cents per ordinary share in respect of the year to shareholders on the register of members on 28 May 2007. 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 93. 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 AND WARRANTS

Details of movements in the Company’s share capital and warrants during the year are set out in note 28 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 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company had reserves available for distribution, calculated in accordance with the provisions of the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) ("Companies Law") of the Cayman Islands, amounted to approximately HK\$2,667,305,000, of which approximately HK\$46,377,000 had been proposed as a final dividend for the year. Under the Companies Law of the Cayman Islands, the share premium account of the Company of approximately HK\$2,107,934,000 as at 31 December 2006 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.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 16% of the total sales for the year and sales to the largest customer included therein accounted for 5% of the total sales of the year. Purchases from the Group's five largest suppliers accounted for 15% 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 Tiegung

Non-executive directors:

Patrick E Bowe
Steven C Wellington (alternate 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. Kong Zhanpeng, Mr. Wang Tiegung and Mr. Patrick E. Bowe 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 2006. The non-executive Director, Mr. Patrick E Bowe, is appointed for a term of two years commencing on 6 April 2006.

The Company has received annual confirmations of independence from Mr. Lee Yuen Kwong, Mr. Chan Man Hon, Eric 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 15 to 16 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Liu Xiaoming, Mr. Kong Zhanpeng, Mr. Wang Tiegung and Mr. Xu Zhouwen have renewed the service contracts with the Company for a term of three years commencing on 1 March 2004 and expiring on 28 February 2007 renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term of the executive's appointment and 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 or any of its subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or were in existence during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2006, 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		
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 Tiegung	4	8,892,800	172,800,000	181,692,800	7.8
		49,608,800	902,240,000	951,848,800	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		
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 Tiegung	4	1,768,400	21,600,000	23,368,400	1.1
		7,666,500	112,780,000	120,446,500	5.4

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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 Tieguaung.

Save as disclosed above, as at 31 December 2006, 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", 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 and 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 PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2006, the following interests of 5% or more of the issued share capital and share options of the Company were 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
FMR Corporation		302,687,600	13.1
Fidelity Management & Research Company		302,575,600	13.1
Crown Asia Profits Limited	2	211,040,000	9.1
Hartington Profits Limited	3	172,800,000	7.5
Rich Mark Profits Limited	4	172,800,000	7.5
Morgan Stanley		152,576,613	6.6
Morgan Stanley Capital Management L.L.C.		146,347,386	6.3
Morgan Stanley Domestic Capital Inc.		146,347,386	6.3
Morgan Stanley International Incorporated		146,347,386	6.3
Morgan Stanley Asia Pacific (Holdings) Limited		140,987,544	6.1
Morgan Stanley International Holding Inc.		140,987,544	6.1
Morgan Stanley Asia Regional (Holdings) III LLC		140,973,977	6.1
Morgan Stanley Dean Witter (Singapore) Holdings Pte Ltd.		140,973,977	6.1
Morgan Stanley Investment Management Limited		140,973,977	6.1

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 Tiegung, an executive director of the Company.

There is a duplication of interests of 302,575,600 in the Company between FMR Corporation and Fidelity Management & Research Company and a duplication of interests of 1,143,939,177 among Morgan Stanley and its subsidiaries.

Save as disclosed above, as at 31 December 2006, 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.

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CONTINUING CONNECTED TRANSACTION AND CONNECTED TRANSACTION

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

The independent non-executive directors of the Company have reviewed and confirmed that such 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) (where applicable) the aggregate consideration charged by the Group in respect of such 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 2006. The auditors of the Company have confirmed that such continuing connected transactions have complied with the matters as set out in Rule 14A.38 of the Listing Rules.

Continuing connected transactions

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\$2.2 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 constituted continuing connected transactions under Chapter 14A of the Listing Rules.

Sales to CDNP

Pursuant to the joint venture agreement for the establishment of Global-Nikken (H.K.) Company Limited ("Global-Nikken (Hong Kong)"), an indirectly jointly-controlled entity of the Company, which is owned as to 51% by the Company and 49% by the Mitsui Group, the Group agreed to procure relevant company(ies) in the Group or, a third party supplier, to supply glucose to Changchun Dacheng Nikken Polyols Co., Ltd. ("CDNP"), a company wholly-owned by Global-Nikken (Hong Kong) for the production of its sorbitol products. Glucose, maltose and other corn sweetener products are the principal production materials for production of sorbitol products. Accordingly, CDNP has been sourcing glucose and other corn sweeteners from the Group ("CDNP Transactions") for its production since its commencement of production in November 2005. The above transactions constituted continuing connected transactions under Chapter 14A of the Listing Rules.

Other than the CDNP Transactions, the related party transactions disclosed in note 33 to the financial statements are either exempt connected transactions or connected continuing transactions, or non-exempt connected transactions or non-exempt continuing connected transaction that have complied with the requirements of Chapter 14A of the Listing Rules.

Connected transaction

Acquisition of Global Polyol Investments Limited and Global Corn Chemical Investment Limited

On 24 July 2006, Global Corn Bio-chem Technology Company Limited (“GBTL”), a wholly-owned subsidiary of the Company, as purchaser, entered into an agreement with Icelandic Green Polyols Ehf. (“IGP”) and International Polyol Chemicals, Inc (“IPCI”) as vendors for the purchase of the equity interest in Global Polyol Investments Limited (“GPI”) as to 12.5% from IGP and 12.5% from IPCI for an aggregate cash consideration of HK\$3,875,000, payable upon completion of the acquisition.

On 24 July 2006, GBTL as purchaser, entered into an agreement with IGP and IPCI as vendors for the purchase of the equity interest in Global Corn Chemical Investment Limited (“GCCCI”) as to 12.48% from IGP and 6.27% from IPCI for an aggregate cash consideration of HK\$7.8, payable upon completion of the acquisition.

Since immediately prior to the acquisition, IGP and IPCI are minority shareholders of GPI and joint venture partners of GCCCI holding in aggregate 25% and 18.75% of their issued share capital, respectively, they are connected persons of the Company and therefore the agreement and their transactions constituted connected transactions for the Company under Chapter 14A 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 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, 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.

Report of the Directors

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 35 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 (the "Model Code") 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.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Liu Xiaoming
Co-Chairman

Xu Zhouwen
Co-Chairman

Hong Kong
23 April 2007