

Notes to the Financial Statements

31 December 2006

1. CORPORATE INFORMATION

Global Bio-chem Technology Group Company Limited is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, British West Indies. The principal place of business of the Company is located at Unit 1104, Admiralty Centre, Tower 1, 18 Harcourt Road, Hong Kong.

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. There were no changes in the nature of the Group's principal activities during the year.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain property, plant and equipment at fair value as further explained below. These financial statements are presented in Hong Kong dollars ("HK\$").

During the prior year, the Group was granted loan facilities of US\$180 million by a syndicate of banks ("Syndicated Loan") for a term of 36 months and repayable by four equal instalments. As at 31 December 2006, the outstanding balance of the Syndicated Loan was US\$150 million (equivalent to HK\$1,163 million). The first repayment instalment of US\$37.5 million (equivalent to HK\$296 million) was due on 2 March 2007 and the remaining balance is repayable by three equal instalments which are due on 2 September 2007, 2 March 2008, 2 September 2008, respectively. Pursuant to the loan facility agreement, a termination event would arise if the Group could not meet the financial covenants as set out in the agreement. During the year, a revision of the terms of the loan agreement for the relaxation of the financial covenants was made.

At the balance sheet date, the Group was unable to comply with two of the revised financial covenants. Accordingly, the whole balance of the Syndicated Loan amounting to approximately HK\$1,163 million has been classified as a current liability as at 31 December 2006.

The directors have been taking action to rectify the non-compliance. On 2 April 2007, the Group repaid the entire amount of the Syndicated Loan partially financed by internal resources and partially financed by a new 18-month loan of US\$37.5 million (equivalent to HK\$296 million) granted by a banker on 31 March 2007. In addition, the directors have arranged to convert the Group's short term loans amounting to approximately HK\$637 million to long term loans subsequent to the balance sheet date in order to improve the Group's liquidity position.

2.1 BASIS OF PREPARATION (continued)

The directors consider that the Group will have adequate working capital to finance its operation and will not result in any liquidity issue. Accordingly, these financial statements are prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and its share of each jointly-controlled entity for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.:

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(b) HKAS 39 *Financial Instruments: Recognition and Measurement*

(i) *Amendment for financial guarantee contracts*

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue. During the current and prior years, the Company provided guarantees to banks in connection with bank loans and other banking facilities granted to its subsidiaries. Upon the adoption of this amendment, the Company is required to recognise these financial guarantee contracts as financial liabilities. The change in accounting policy has been recognised since 1 January 2005 when HKAS 39 was initially adopted by the Group/ Company and the comparative amounts for the year ended 31 December 2005 have been restated. The effects of the above change are summarised below.

	2006 HK\$'000	2005 HK\$'000
<i>Company balance sheet at 1 January</i>		
Increase in investments in subsidiaries	7,485	3,262
Increase in financial guarantee liabilities	(3,884)	(2,470)
	3,601	792
<i>Company balance sheet at 31 December</i>		
Increase in investments in subsidiaries	17,648	7,485
Increase in financial guarantee liabilities	(7,327)	(3,884)
	10,321	3,601

(ii) *Amendment for the fair value option*

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(b) HKAS 39 Financial Instruments: *Recognition and Measurement* (continued)

(iii) *Amendment for cash flow hedge accounting of forecast intragroup transactions*

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(c) HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HKFRS 8 shall be applied for accounting period beginning on or after 1 January 2009. The standard requires disclosures that enable users of the financial statements to evaluate the nature and financial effects of the business activities in which the Group engages and the economic environment in which the Group operates.

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2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in its jointly-controlled entities are accounted for by proportionate consolidation, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis.

Goodwill

Goodwill arising on the acquisition of subsidiaries and jointly-controlled entities represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

Goodwill previously eliminated against the consolidated retained profits

Prior to the adoption of the HKICPA's Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated retained profits and is not recognised in the consolidated income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the consolidated income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); or
- (f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the consolidated income statement. Any subsequent revaluation surplus is credited to the consolidated income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold buildings	2%
Plant and machinery	6.7%
Leasehold improvements, furniture, office equipment and motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents plant under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Intangible assets (other than goodwill)

Research and development costs

All research costs are charged to the consolidated income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the consolidated income statement on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Prepaid land premiums/land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Financial assets

Financial assets in the scope of HKAS 39 are classified as loans and receivables. When financial assets are recognised initially, they are measured at fair value. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the consolidated income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated income statement.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provision, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

- (b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Pension schemes and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in the retirement benefits schemes (the "PRC RB Schemes") operated by the respective local municipal government in provinces of Mainland China that the group companies operate. These subsidiaries are required to contribute a certain percentage of their payroll costs to the PRC RB Schemes to fund the benefits. The only obligation of the Group with respect to the PRC RB Schemes is to pay the ongoing required contributions under the PRC RB Schemes. Contributions under the PRC RB Schemes are charged to the consolidated income statements as they become payable in accordance with the rules of the PRC RB Schemes.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. The capitalisation rate is based on the actual cost of the related borrowings. All other borrowing costs are recognised as expenses in the period in which they are incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and jointly-controlled entities are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries and jointly-controlled entities are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries and jointly-controlled entities which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Depreciation and amortisation

The Group's net book value of property, plant and equipment at 31 December 2006 was HK\$6,376,507,000. The Group depreciates the assets on the straight-line basis over their estimated useful lives, and after taking into account of their estimated residual values, at rates ranging from 2% to 20% per annum, commencing from the date the equipment is placed into productive use. The estimated useful lives and dates that the Group places the equipment into productive use reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

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3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Judgements (continued)

Impairment of trade receivables

The policy for provision for impairment loss of the Group is based on the evaluation of collectability, the aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Allowances for inventories

The management of the Group reviews an aging analysis of its inventories at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. Management estimates the net realisable value for such finished goods and work in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowances for obsolete items.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was HK\$360,889,000 (2005: HK\$357,014,000). More details are given in note 16 to the financial statements.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis by business segment; and (ii) on a secondary segment reporting basis by geographical segment.

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 the other business segments. Summary details of the business segments are as follows:

- (a) the corn refined products segment comprises the manufacture and sale of corn starch, corn gluten, corn oil and feed; and
- (b) the corn based biochemical products segment comprises the manufacture and sale of modified starch, corn sweeteners, amino acids and polyol chemical products.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers. Summary details of the geographical segments for revenues are as disclosed below.

Intersegment sales and transfers are transacted with reference to either the selling prices used for sales made to third parties at the then prevailing market prices or at cost plus mark-up basis which is determined by the management.

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4. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

Group	Corn refined products		Corn based biochemical products		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	1,616,007	1,811,472	3,126,935	2,267,418	—	—	4,742,942	4,078,890
Intersegment sales	1,339,589	906,869	—	—	(1,339,589)	(906,869)	—	—
Total	2,955,596	2,718,341	3,126,935	2,267,418	(1,339,589)	(906,869)	4,742,942	4,078,890
Segment results	315,543	356,224	482,315	322,824	—	—	797,858	679,048
Unallocated revenue							16,156	6,998
Unallocated expenses							(50,034)	(16,706)
Profit from operating activities							763,980	669,340
Finance costs							(207,022)	(89,106)
Profit before tax							556,958	580,234
Tax							(55,730)	(39,895)
Profit for the year							501,228	540,339
Attributable to:								
Equity holders of the Company							501,228	466,484
Minority interests							—	73,855
							501,228	540,339
Assets and liabilities								
Segment assets	2,589,679	2,642,996	6,297,431	5,646,477	—	—	8,887,110	8,289,473
Due from jointly-controlled entities							63,539	29,113
Unallocated assets							1,623,551	1,084,399
Total assets							10,574,200	9,402,985
Segment liabilities	1,603,361	1,073,036	2,092,896	1,524,450	—	—	3,696,257	2,597,486
Unallocated liabilities							1,598,559	2,066,927
Total liabilities							5,294,816	4,664,413
Other segment information:								
Capital expenditure, including payment of land premiums	32,878	104,876	1,272,142	2,060,094	—	—	1,305,020	2,164,970
Depreciation	85,581	80,452	196,449	141,321	—	—	282,030	221,773
Impairment of property, plant and equipment	—	—	—	244	—	—	—	244
Amortisation of prepaid land premiums	3,815	3,785	9,629	8,229	—	—	13,444	12,014
Impairment of prepaid land premiums	—	—	—	5,886	—	—	—	5,886
Impairment for trade receivables	—	—	7,945	—	—	—	7,945	—
Write down of inventories to net realisable value	665	—	13,488	3,365	—	—	14,153	3,365

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

Group	Mainland China		Countries other than Mainland China		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	3,603,104	3,322,802	1,139,838	756,088	—	—	4,742,942	4,078,890
Other segment information:								
Capital expenditure, including payments of land premiums	1,305,020	2,164,970	—	—	—	—	1,305,020	2,164,970
Depreciation	282,030	221,773	—	—	—	—	282,030	221,773
Impairment of property, plant and equipment	—	244	—	—	—	—	—	244
Amortisation of prepaid land premiums	13,444	12,014	—	—	—	—	13,444	12,014
Impairment of prepaid land premiums	—	5,886	—	—	—	—	—	5,886
Impairment for trade receivables	7,945	—	—	—	—	—	7,945	—
Write down of inventories to net realisable value	14,153	3,365	—	—	—	—	14,153	3,365

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5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

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

	Note	Group	
		2006 HK\$'000	2005 HK\$'000
Revenue			
Sale of goods		4,742,942	4,078,890
Other income			
Bank interest income		10,586	12,421
Net profit arising from sale of packing materials and by-products		12,628	7,284
Government grants		7,230	—
Excess over the cost of a business combination	30	215	—
Sale of utilities		1,035	3,417
Others		3,046	2,461
		34,740	25,583
Gains			
Exchange differences		13,890	3,293
Gain on disposal of items of property, plant and equipment		—	73
		48,630	28,949

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Group	
		2006 HK\$'000	2005 HK\$'000
Cost of inventories sold		2,508,227	2,163,786
Depreciation	14	282,030	221,773
Impairment of property, plant and equipment	14	—	244
Impairment of prepaid land premiums	15	—	5,886
Amortisation of prepaid land premiums	15	13,444	12,014
Research and development costs		10,207	5,965
Auditors' remuneration		6,728	4,450
Employee's benefits expenses (excluding directors' remuneration (note 8)):			
Wages and salaries		104,539	75,109
Pension scheme contributions		225	1,101
		104,764	76,210
Impairment of accounts receivable		7,945	—
Write-down of inventories to net realisable value		14,153	3,365
Loss on disposal of items of property, plant and equipment		775	—

7. FINANCE COSTS

		Group	
		2006	2005
		HK\$'000	HK\$'000
Write-off/amortisation of the arrangement fee	(Note)	15,500	1,938
Interest on bank loans:			
Wholly repayable within five years		223,587	119,471
Repayable beyond five years		—	429
Total interest		223,587	119,900
Finance costs for discounting notes receivable		2,321	4,136
		241,408	125,974
Less: Interest capitalised		(34,386)	(36,868)
		207,022	89,106

Note: The unamortised arrangement fee of the Syndicated Loan of HK\$15,500,000 was written off to the consolidated income statement for the year ended 31 December 2006.

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

		Group	
		2006	2005
		HK\$'000	HK\$'000
Fees	(a)	840	870
Other emoluments:	(b)		
Basic salaries, housing benefits, other allowances and benefits in kind		10,320	10,320
Performance related bonuses		10,000	10,000
Pension scheme contributions		48	48
		20,368	20,368
		21,208	21,238

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8. DIRECTORS' REMUNERATION (continued)

According to the directors' service contracts, each of the executive directors, upon completion of every 12 months of service, is entitled to a management bonus. The aggregate amount of the bonuses payable to all the executive directors for any financial year may not exceed 5% of the consolidated net profit from ordinary activities attributable to shareholders in respect of that financial year. For the year ended 31 December 2006, the aggregate amount of the bonuses payable to the executive directors was equivalent to approximately 2% (2005: 2%) of the net profit from ordinary activities attributable to shareholders.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
Mr. Chan Man Hon, Eric	360	345
Mr. Lee Yuen Kwong	360	345
Mr. Li Defa	120	180
	840	870

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors

	Basic salaries, housing benefits, other allowances and benefits in kind HK\$'000	Performance related bonuses HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2006				
Executive directors:				
Mr. Liu Xiaoming	3,000	3,000	12	6,012
Mr. Kong Zhanpeng	2,160	2,000	12	4,172
Mr. Wang Tieguang	2,160	2,000	12	4,172
Mr. Xu Zhouwen	3,000	3,000	12	6,012
	10,320	10,000	48	20,368
2005				
Executive directors:				
Mr. Liu Xiaoming	3,000	3,000	12	6,012
Mr. Kong Zhanpeng	2,160	2,000	12	4,172
Mr. Wang Tieguang	2,160	2,000	12	4,172
Mr. Xu Zhouwen	3,000	3,000	12	6,012
	10,320	10,000	48	20,368

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2005: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2005: one) non-director, highest paid employee for the year are as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	1,430	1,530
Pension scheme contributions	12	12
	1,442	1,542

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10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the locations in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2006 HK\$'000	2005 HK\$'000
Current — Hong Kong	6,511	2,445
Current — Elsewhere	46,094	33,191
Deferred (note 27)	3,125	4,259
Total tax charge for the year	55,730	39,895

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the locations in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group — 2006	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	(77,008)		633,966		556,958	
Tax at the statutory rate	(13,476)	17.5	209,209	33.0	195,733	35.1
Preferential tax rate offered	—	—	(101,185)	(16.0)	(101,185)	(18.2)
Lower tax rate for tax relief granted	—	—	(81,790)	(12.9)	(81,790)	(14.7)
Income not subject to tax	(1,944)	2.5	(4,765)	(0.8)	(6,709)	(1.2)
Tax losses not recognised	188	(0.2)	25,811	4.1	25,999	4.7
Expenses not deductible for tax	21,743	(28.3)	2,052	0.3	23,795	4.3
Tax losses utilised from previous periods	—	—	(113)	—	(113)	—
Tax charge at the Group's effective rate	6,511	(8.5)	49,219	7.8	55,730	10.0

10. TAX (continued)

Group — 2005	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	(37,443)		617,677		580,234	
Tax at the statutory rate	(6,553)	17.5	203,833	33	197,280	34.0
Preferential tax rate offered	—	—	(111,182)	(18)	(111,182)	(19.2)
Lower tax rate for tax relief granted	—	—	(64,238)	(10.4)	(64,238)	(11.1)
Income not subject to tax	(2,191)	5.9	—	—	(2,191)	(0.3)
Tax losses not recognised	8,174	(21.8)	—	—	8,174	1.4
Expenses not deductible for tax	3,574	(9.6)	9,037	1.5	12,611	2.2
Tax losses utilised from previous periods	(559)	1.5	—	—	(559)	(0.1)
Tax charge at the Group's effective rate	2,445	(6.5)	37,450	6.1	39,895	6.9

All of the Group's subsidiaries operating in the PRC are exempt from PRC corporate 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.

Tax recoverable represents excess of tax payment over estimated tax liabilities or receivables on last year's rebate entitled by certain group companies.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2006 includes profit of HK\$512,994,000 (2005: HK\$102,124,000) has been dealt with in the financial statements of the Company (note 29(b)).

12. DIVIDENDS

	2006 HK\$'000	2005 HK\$'000
Interim — HK1 cent (2005: HK2 cents) per ordinary share	23,188	46,377
Proposed final — HK2 cents (2005: HK1.5 cents) per ordinary share	46,377	34,783
	69,565	81,160

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12. DIVIDENDS (continued)

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting and is calculated based on the number of shares issued by the Company at the balance sheet date. The subsequent issuance of shares by the Company up to the close of the registered date for the entitlement of a final dividend, if any, has therefore not been taken into account for the above appropriation of a final dividend.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share and diluted earnings per share are based on the consolidated profit for the year attributable to ordinary equity holders of the Company of approximately HK\$501,228,000 (2005: HK\$466,484,000), and the weighted average number of 2,318,848,802 (2005: 2,282,302,102) ordinary shares in issue during the year. As the exercise price of the warrants was higher than the average market price of the Company's ordinary shares during the year, no shares were assumed to have been issued on the deemed exercise of the Company's warrants during the year.

The calculation of diluted earnings per share for the year ended 31 December 2005 was based on the consolidated net profit from ordinary activities attributable to shareholders for the year of approximately HK\$466,484,000 and on 2,303,785,758 ordinary shares, being the weighted average number of 2,282,302,102 ordinary shares in issue during the year, as used in the basic earnings per share calculation, plus the weighted average of 21,483,656 ordinary shares deemed to be issued at no consideration up to the date of the exercise of the share options during the year. In addition, as the exercise price of the warrants was higher than the average market price of the Company's ordinary shares during the year ended 31 December 2005, no shares were assumed to have been issued on the deemed exercise of the Company's warrants for the year ended 31 December 2005.

14. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold buildings HK\$'000	Plant and machinery HK\$'000	Leasehold improvements, furniture, office equipment and motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2006					
At 31 December 2005 and at 1 January 2006:					
Cost or valuation	1,606,955	2,694,546	83,777	1,547,733	5,933,011
Accumulated depreciation	(47,284)	(510,181)	(37,456)	—	(594,921)
Net carrying amount	1,559,671	2,184,365	46,321	1,547,733	5,338,090
At 1 January 2006, net of accumulated depreciation	1,559,671	2,184,365	46,321	1,547,733	5,338,090
Additions	220	33,691	13,965	1,132,501	1,180,377
Acquisition of a subsidiary (note 30)	—	—	—	38,188	38,188
Disposals	—	—	(1,107)	—	(1,107)
Depreciation provided during the year	(51,951)	(212,740)	(17,339)	—	(282,030)
Transfers	633,092	608,830	6,974	(1,248,896)	—
Exchange realignment	28,709	44,313	906	29,061	102,989
At 31 December 2006, net of accumulated depreciation	2,169,741	2,658,459	49,720	1,498,587	6,376,507
At 31 December 2006:					
Cost or valuation	2,270,236	3,383,975	104,226	1,503,375	7,261,812
Accumulated depreciation and impairment	(100,495)	(730,304)	(54,506)	—	(885,305)
Net carrying amount	2,169,741	2,653,671	49,720	1,503,375	6,376,507
Analysis of cost or valuation:					
At cost	663,281	3,383,975	104,226	1,503,375	5,654,857
At 31 December 2005 valuation	1,606,955	—	—	—	1,606,955
	2,270,236	3,383,975	104,226	1,503,375	7,261,812

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group	Leasehold buildings HK\$'000	Plant and machinery HK\$'000	Leasehold improvements, furniture, office equipment and motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2005					
At 31 December 2004 and at 1 January 2005:					
Cost or valuation	982,993	1,878,449	42,916	1,023,895	3,928,253
Accumulated depreciation	(12,260)	(327,981)	(21,548)	—	(361,789)
Net carrying amount	970,733	1,550,468	21,368	1,023,895	3,566,464
At 1 January 2005, net of accumulated depreciation					
	970,733	1,550,468	21,368	1,023,895	3,566,464
Additions	46,868	367,263	38,814	1,418,150	1,871,095
Acquisition of a minority shareholder (note 30)	—	—	713	—	713
Disposals	—	(889)	(70)	(2,657)	(3,616)
Surplus on revaluation	24,339	—	—	—	24,339
Impairment	(244)	—	—	—	(244)
Depreciation provided during the year	(33,929)	(172,745)	(15,099)	—	(221,773)
Transfers	525,964	394,459	—	(920,423)	—
Exchange realignment	25,940	45,809	595	28,768	101,112
At 31 December 2005, net of accumulated depreciation	1,559,671	2,184,365	46,321	1,547,733	5,338,090
At 31 December 2005:					
Cost or valuation	1,606,955	2,694,546	83,777	1,547,733	5,933,011
Accumulated depreciation and impairment	(47,284)	(510,181)	(37,456)	—	(594,921)
Net carrying amount	1,559,671	2,184,365	46,321	1,547,733	5,338,090
Analysis of cost or valuation:					
At cost	—	2,694,546	83,777	1,547,733	4,326,056
At 31 December 2005 valuation	1,606,955	—	—	—	1,606,955
	1,606,955	2,694,546	83,777	1,547,733	5,933,011

Prior to its transfer to other categories of property, plant and equipment, the carrying amount of construction in progress included capitalised interest of approximately HK\$34,386,000 (2005: HK\$36,868,000).

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Had the Group's leasehold buildings been carried at historical cost less accumulated depreciation, their carrying amount would have been approximately HK\$2,095,429,000 (2005: HK\$1,480,453,000).

At 31 December 2006, certain prepaid land premium of the Group with a carrying value of approximately HK\$61,939,000 (2005: HK\$150,111,000 of leasehold building and HK\$109,930,000 of plant and machinery) were pledged to secure banking facilities granted to the Group (note 26).

At 31 December 2006, the applications of building certificates for certain leasehold buildings of the Group with a total carrying amount of HK\$1,264,239,000 were still in progress.

15. PREPAID LAND PREMIUMS

	Group	
	2006 HK\$'000	2005 HK\$'000
Carrying amount at 1 January	512,406	173,021
Additions	1,474	88,265
Acquisition of a minority shareholder (note 30)	—	264,736
Impairment	—	(5,886)
Amortised during the year	(13,444)	(12,014)
Exchange realignment	8,327	4,284
Carrying amount at 31 December	508,763	512,406
Current portion included in prepayments, deposits and other receivables	(13,444)	(13,856)
Non-current portion	495,319	498,550

16. GOODWILL

	Group	
	2006 HK\$'000	2005 HK\$'000
At 1 January		
Cost	357,014	45,362
Accumulated impairment	—	—
Carrying amount	357,014	45,362
Acquisition of minority interests (note 30)	—	6,066
Acquisition of a subsidiary (note 30)	3,875	305,586
At 31 December	360,889	357,014

Notes to the Financial Statements

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16. GOODWILL (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations or acquisition of a minority shareholder have been allocated to the following cash-generating units, which are reportable segments, for impairment testing:

	Goodwill HK\$'000
Corn refinery plants	162,640
Lysine plants	25,927
Changchun Dihao Foodstuff Development Co., Ltd.	155,986
Changchun Dacheng Special Corn and Modified Starch Development Co., Ltd.	12,461
Global Polyol Investments Limited	3,875
	<hr/>
	360,889

The recoverable amount of each cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The discount rates applied to cash flow projections are 7% (2005: 7%). No growth has been projected beyond the five-year period.

Key assumptions were used in the value in use calculation of the corn refined products and corn based bio-chemical products cash-generating units for 31 December 2006. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year, increased for expected efficiency improvements, and expected market development.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant units.

Raw materials price inflation — The basis used to determine the value assigned to raw materials price inflation is the forecast price indices during the budget year for local market from where raw materials are sourced. The values assigned to key assumptions are consistent with external information sources.

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2006 HK\$'000	2005 HK\$'000 (Restated)
Unlisted shares, at cost	305,585	295,422

The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ establishment and operations	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held				
Bio-chem Technology (HK) Limited	Hong Kong	Ordinary HK\$2	100	Trading of corn refined products and corn based biochemical products
Datex Investment Limited	Hong Kong	Ordinary HK\$2	100	Investment holding
Global Polyol Investments Limited	Hong Kong	Ordinary HK\$1,000	100	Investment holding
Global Corn Chemical Investment Limited	Hong Kong	Ordinary HK\$10,000	100	Investment holding
Global Sweeteners Holdings Limited [@]	Cayman Islands	Nil	100	Investment holding
Changchun Baocheng Bio-chem Development Co., Ltd.*	PRC/Mainland China	US\$12,000,000	100	Manufacture and sale of corn based biochemical products
Changchun Dacheng Bio-chem Engineering Development Co., Ltd.*	PRC/Mainland China	RMB154,645,600	100	Manufacture and sale of corn based biochemical products
Changchun Dacheng Corn Development Co., Ltd. *	PRC/Mainland China	RMB153,940,000	100	Manufacture and sale of corn refined products

Notes to the Financial Statements

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17. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment and operations	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)				
Changchun Dacheng Fermentation Technology Development Co., Ltd.**	PRC/Mainland China	US\$2,000,000	100	Manufacture and sale of corn based biochemical products
Changchun Dacheng New Polyol Development Co., Ltd. **	PRC/Mainland China	US\$2,000,000	100	Manufacture and sale of corn based biochemical products
Changchun Dacheng Starch Development Co., Ltd. *	PRC/Mainland China	RMB54,400,000	100	Manufacture and sale of corn refined products
Changchun Dahe Bio Technology Development Co., Ltd.**	PRC/Mainland China	US\$11,672,000	100	Manufacture and sale of corn based biochemical products
Changchun Dacheng Special Corn and Modified Starch Development Co., Ltd.*	PRC/Mainland China	RMB99,250,000	100	Manufacture and sale of corn based biochemical products
Changchun Dihao Foodstuff Development Co., Ltd.*	PRC/Mainland China	RMB81,000,000	100	Manufacture and sale of corn based biochemical products
Changchun Jincheng Corn Development Co., Ltd. *	PRC/Mainland China	RMB98,700,000	100	Manufacture and sale of corn refined products
Changchun Yucheng Sweeteners Co., Ltd.**	PRC/Mainland China	US\$6,000,000	100	Manufacture and sale of corn based biochemical products
Jinzhou Yuancheng Bio-chem Technology Co., Ltd.**	PRC/Mainland China	US\$12,659,400	100	Manufacture and sale of corn refined products
Shanghai Hao Cheng Food Development Co., Ltd.**	PRC/Mainland China	US\$2,668,000	100	Manufacture and sale of corn sweeteners
Changchun GBT Bio-Chemical Co., Ltd.	PRC/Mainland China	US\$32,000,000	100	Manufacture and sale of corn based biochemical products

17. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment and operations	Nominal value of paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)				
Changchun Dacheng Industrial Group Co., Ltd. ("Dacheng Industrial")**	PRC/Mainland China	RMB193,000,000	100	Investment holding
Dacheng Bio-chem Technology (Songyuan) Co., Ltd.**	PRC/Mainland China	HK\$18,000,000	100	Manufacture and sale of corn based biochemical products
Changchun Dacheng Bio-chemical Development Co., Ltd.**	PRC/Mainland China	US\$11,000,000	100	Manufacture and sale of corn based biochemical products
Changchun Dihao Crystal Sugar Industry Development Co., Ltd.*/@	PRC/Mainland China	US\$3,200,000	100	Manufacture and sale of corn based biochemical products

* Registered as Sino-foreign equity joint ventures under the PRC laws.

** Registered as wholly-owned foreign enterprises under the PRC laws.

@ Incorporated/established during the year.

The above subsidiaries are indirectly held by the Company. The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes to the Financial Statements

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18. DUE FROM JOINTLY-CONTROLLED ENTITIES/DUE TO A VENTURER OF A JOINTLY-CONTROLLED ENTITY

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Long term loan advanced to a jointly-controlled entity	40,000	40,000	—	—
Short term balance due from jointly-controlled entities	23,539	9,113	—	79
Due to a venturer of a jointly-controlled entity	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 entities, whenever is earlier.

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

Since the Group has no legal right to offset the long term loan advanced to a jointly-controlled entity against the venturer's share of liability of that jointly-controlled entity, the balance was not eliminated.

Particulars of the jointly-controlled entities are as follows:

Name	Place of incorporation/ registration	Percentage of		Principal activities
		Ownership interest	Voting power and profit sharing	
Global Bio-chem-Cargill (Holdings) Limited	Hong Kong	50	50	Investment holding
GBT-Cargill High Fructose (Shanghai) Co., Ltd.	Mainland China	50	50	Manufacture and sale of high fructose corn syrup
Global-Nikken (H.K.) Company Limited	Hong Kong	51	50	Investment holding
Changchun Dacheng Nikken Polyols Co., Ltd.	Mainland China	51	50	Manufacture and sale of sorbitol products

All of the above investments in jointly-controlled entities are indirectly held by the Company.

18. DUE FROM JOINTLY-CONTROLLED ENTITIES/DUE TO A VENTURER OF A JOINTLY-CONTROLLED ENTITY (continued)

The following table illustrates the summarised financial information of the Group's jointly-controlled entities, which have been proportionately consolidated:

	Group	
	2006 HK\$'000	2005 HK\$'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	65,895	37,074
Non-current assets	68,897	68,776
Current liabilities	(60,099)	(50,749)
Non-current liabilities	(6,941)	(1,286)
Net assets	67,752	53,815
Share of the jointly-controlled entities' results:		
Turnover	142,883	50,244
Other revenue	1,696	671
Total revenue	144,579	50,915
Total expenses	(125,877)	(50,250)
Tax	—	—
Profit after tax	18,702	665

19. INVENTORIES

	Group	
	2006 HK\$'000	2005 HK\$'000
Raw materials	462,131	359,863
Finished goods	141,538	162,367
	603,669	522,230

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20. 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 the 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.

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

	Group	
	2006	2005
	HK\$'000	HK\$'000
Within 1 month	233,791	198,744
1 to 2 months	57,666	58,039
2 to 3 months	36,289	21,625
Over 3 months	47,437	32,126
	375,183	310,534

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	1,630,041	2,016,135	841,146	740,525
Time deposits	—	50,289	—	—
	1,630,041	2,066,424	841,146	740,525

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$657,502,037 (2005: HK\$917,445,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

22. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 90 days from its suppliers.

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

	Group	
	2006 HK\$'000	2005 HK\$'000
Within 1 month	145,426	185,521
1 to 2 months	19,747	31,981
2 to 3 months	12,677	23,279
Over 3 months	62,936	76,351
	240,786	317,132

23. OTHER PAYABLES

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Payables for purchases of machinery	268,968	164,649	—	—
Customer deposits/receipts in advance	237,160	280,582	—	—
Consideration payable for acquisition of Dacheng Industrial (Note)	366,433	630,000	—	—
Accrued interests	14,863	13,713	14,863	13,713
Others	132,505	156,116	3,446	8,073
	1,019,929	1,245,060	18,309	21,786

Note: It represented the unpaid consideration for the acquisition of Dacheng Industrial in 2005. The amount is unsecured, interest-free and has no fixed terms of repayment.

Save the disclosed above, other payables are non-interest-bearing and have an average repayment term of three months.

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24. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%) per annum	Maturity	Group		Company	
			2006	2005	2006	2005
			HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current						
Bank loans — secured	5.115–6.732	2007	2,016,978	1,349,196	—	—
Bank loans — unsecured	5.381	2007	1,162,500	1,379,500	1,162,500	1,379,500
Other loans — unsecured	—	2007	29,331	4,465	—	—
			3,208,809	2,733,161	1,162,500	1,379,500
Non-current						
Bank loans — secured	5.58–6.30	2008–2009	741,696	329,482	—	—
			3,950,505	3,062,643	1,162,500	1,379,500

	Group		Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	3,179,478	2,728,696	1,162,500	1,379,500
In the second year	536,314	170,857	—	—
In the third to fifth years, inclusive	205,382	158,625	—	—
	3,921,174	3,058,178	1,162,500	1,379,500
Other borrowings repayable:				
Within one year or on demand	29,331	4,465	—	—
	3,950,505	3,062,643	1,162,500	1,379,500

During the prior year, the Group was granted loan facilities of US\$180 million by a syndicate of banks (“Syndicated Loan”) for a term of 36 months and repayable by four equal instalments. As at the balance sheet date, the outstanding balance of the Syndicated Loan was US\$150 million, equivalent to HK\$1,163 million (2005: US\$180 million, equivalent to HK\$1,395 million). The first repayment instalment of US\$37.5 million was due on 2 March 2007. A termination event would arise if the Group could not meet the financial covenants as set out in the loan agreement. During the year, a revision of the terms of the loan agreement for the relaxation of the financial covenants was made. At the balance sheet date, the Group was unable to comply with two of the revised financial covenants. Accordingly, the whole balance of the Syndicated Loan amounting to approximately HK\$1,163 million has been classified as a current liability as at 31 December 2006. On 2 April 2007, the Group repaid the entire amount of the Syndicated Loan. The details are set out in note 2.1 to the financial statements.

25. DEFERRED INCOME

The balance represented the receipt of a government grant of HK\$26,451,000 for the construction of certain of the Group's production plants, which has been credited as a non-current liability on the consolidated balance sheet. Such deferred income is amortised on a straight line basis to the consolidated income statement over the expected useful lives of the relevant assets acquired.

26. BANKING FACILITIES

At 31 December 2006, the Group's banking facilities, including term loans, mortgage loan and other general facilities, were secured by the following:

- (i) fixed charges on certain prepaid land premiums and leasehold buildings amounting to approximately HK\$61,939,000 (2005: HK\$150,111,000); and
- (ii) corporate guarantees of approximately HK\$4,129,823,000 (2005: HK\$1,161,739,000) and approximately HK\$1,008,333,000 (2005: HK\$804,327,000) given by the Company and certain subsidiaries of the Group, respectively.

27. DEFERRED TAX

The movements in deferred tax liabilities during the year are as follows:

Group	Depreciation allowance in excess of related depreciation HK\$'000	Revaluation of properties HK\$'000	Total HK\$'000
At 1 January 2005	—	10,591	10,591
Deferred tax debited to equity during the year (note 10)	—	4,259	4,259
At 31 December 2005 and 1 January 2006	—	14,850	14,850
Deferred tax charged to the consolidated income statement during the year (note 10)	3,125	—	3,125
Gross deferred tax liabilities at 31 December 2006	3,125	14,850	17,975

The Group had tax losses arising in Hong Kong of approximately HK\$1,074,000 (2005: HK\$1,180,000) that were available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group had tax losses arising in the PRC of approximately HK\$86,375,000 (2005: HK\$4,721,000) which would expire by the year ending 31 December 2011. In the opinion of the directors, deferred tax assets have not been recognised as the directors consider that it is uncertain whether future taxable profits would arise to offset against these losses.

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27. DEFERRED TAX (continued)

At 31 December 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or joint ventures as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

28. SHARE CAPITAL

Shares	2006 HK\$'000	2005 HK\$'000
Authorised:		
10,000,000,000 (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 (2005: 2,318,835,552) ordinary shares of HK\$0.10 each	231,885	231,884

A summary of the transactions during the year in the Company's issued ordinary share capital is as follows:

	Notes	Number of shares in issue '000	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
As at 31 December 2004 and 1 January 2005		2,238,987	223,899	1,968,013	2,191,912
Share options exercised	(a)	79,849	7,985	139,490	147,475
Warrants exercised		—	—	1	1
Share subscription and placement		—	—	301	301
		79,849	7,985	139,792	147,777
As at 31 December 2005		2,318,836	231,884	2,107,805	2,339,689
As at 31 December 2005 and 1 January 2006		2,318,836	231,884	2,107,805	2,339,689
Warrants exercised	(b)	13	1	129	130
As at 31 December 2006		2,318,849	231,885	2,107,934	2,339,819

- (a) The Company operates a share option scheme (the "SO Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the SO Scheme include any full-time employee of the Company and its subsidiaries, including any executive directors of its subsidiaries, but not any non-executive directors. The SO Scheme became effective on 12 March 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

28. SHARE CAPITAL (continued)

In the opinion of the directors, after seeking relevant advice, the existing SO Scheme does not fully comply with the new requirements as set out in Chapter 17 of the Listing Rules on 23 August 2001, and therefore further new options may not be issued under the existing SO Scheme. However, the share options already granted by the Company to the grantees under the existing SO Scheme are not affected by the Listing Rules changes.

As at 31 December 2005, all share options were fully exercised. No additional share options will be granted or exercised under the SO Scheme.

- (b) 13,250 ordinary shares of HK\$0.1 each were issued for cash at a subscription price of HK\$9.80 per share pursuant to the exercise of the Company's warrants for a total cash consideration, before expenses, of HK\$129,850.

Warrants

On 30 March 2004, the Company granted one bonus warrant for every eight ordinary shares of HK\$0.10 each in the share capital of the Company, to the shareholders whose names appeared on the register of members of the Company on 4 May 2004 (the "Record Day"). On the Record Day, the Company had 2,086,985,200 shares in issue, and accordingly, 260,873,150 bonus warrants were issued.

Each of the bonus warrants will entitle the holder thereof to subscribe for one ordinary share of the Company at an initial subscription price of HK\$9.80 per share, subject to adjustment, from 28 May 2004 to 31 May 2007 (both dates inclusive).

During the year, 13,250 warrants were exercised for 13,250 ordinary shares of HK\$0.1 each at a subscription price of HK\$9.80 per share. At the balance sheet date, the Company had 260,858,348 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 260,858,348 additional ordinary shares of HK\$0.1 each.

29. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 38 of the financial statements.

Notes to the Financial Statements

31 December 2006

29. RESERVES (continued)

(b) Company

	Notes	Share premium account HK\$'000	Retained profits HK\$'000	Total HK\$'000
As previously reported at 1 January 2005		1,968,013	7,697	1,975,710
Prior year adjustments for the adoption of HKAS 39		—	792	792
As restated, after prior year adjustments at 1 January 2005		1,968,013	8,489	1,976,502
Share subscription and placement		139,792	—	139,792
Net profit for the year as previously reported		—	99,315	102,124
Adjustments for the adoption of HKAS 39		—	2,809	2,809
Net profit for the year, after adjustments		—	102,124	102,124
Final 2004 dividend declared		—	(2,470)	(2,470)
Interim 2005 dividend	12	—	(46,377)	(46,377)
Proposed final 2005 dividend	12	—	(34,783)	(34,783)
At 31 December 2005		2,107,805	26,983	2,134,788
As previously reported at 1 January 2006		2,107,805	23,382	2,131,187
Prior year adjustments for the adoption of HKAS 39		—	3,601	3,601
As restated, after prior year adjustments at 1 January 2006		2,107,805	26,983	2,134,788
Warrants exercised		129	—	129
Net profit for the year		—	555,576	555,576
Interim 2006 dividend	12	—	(23,188)	(23,188)
Proposed final 2006 dividend	12	—	(46,377)	(46,377)
At 31 December 2006		2,107,934	512,994	2,620,928

The share premium account of the Group includes: (i) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation for the public listing of the Company's shares on the Main Board of the Stock Exchange in prior years, over the nominal value of the shares of the Company issued in exchange therefore; (ii) the premium arising from the new issue during the year; (iii) the premium arising from the capitalisation issue in prior years; and (iv) the premium arising from the placing and subscriptions of new ordinary shares in prior years.

29. RESERVES (continued)

(b) Company (continued)

The share premium account of the Company includes: (i) the difference between the then combined net asset value of the subsidiaries acquired pursuant to the Group reorganisation for the public listing of the Company's shares on the Main Board of the Stock Exchange in prior years, over the nominal value of the shares of the Company issued in exchange therefore; (ii) the premium arising from the new issue during the year; (iii) the premium arising from the capitalisation issue in prior years; and (iv) the premium arising from the placing and subscriptions of new ordinary shares in prior years.

In accordance with the Companies Law (Revised) of the Cayman Islands, the share premium account 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 share premium account may also be distributed in the form of fully paid bonus shares.

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

Business combination

On 24 July 2006, Global Bio-chem Technology Company Limited ("GBTL"), a wholly-owned subsidiary of the Company, entered into an agreement to acquire the remaining 18.75% equity interest in Global Corn Chemical Investment Limited ("GCCl"). GCCl is an investment holding company which holds Changchun GBT Bio-chemical Co., Ltd., a corporation in the PRC. The aggregate purchase consideration for the acquisition was in the form of cash which amounted to HK\$7.80.

Prior to the acquisition, GCCl was accounted for as a jointly-controlled entity as major operational decisions required the unanimous consent of all joint venture partners. Upon the completion of the acquisition, the Group had control over GCCl and the purchase method of accounting should be applied pursuant to HKFRS 3. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The acquisition of GCCl has no material effect to the Group's turnover and consolidated profit for the year ended 31 December 2006.

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30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

Year ended 31 December 2006 (continued)

Business combination (continued)

The fair values of the identifiable assets and liabilities of GCCI as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on acquisition HK\$'000	Carrying amount HK\$'000
Net assets acquired:			
Property, plant and equipment	14	38,188	38,188
Balance with group companies		(52,526)	(52,526)
Prepayments and other receivables		18,941	18,941
Cash and cash equivalents		1,214	1,214
Other payables		(5,602)	(5,602)
		215	215
Excess over the cost of a business combination recognised in the consolidated income statement	5	(215)	
Satisfied by			
Cash		—	

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2006 HK\$'000
Cash consideration	—
Cash and cash equivalents acquired	1,214
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	1,214

Acquisition of minority interests

On 24 July 2006, GBTL entered into an acquisition agreement with the then minority shareholders of Global Polyol Investments Limited ("GPI"), a company incorporated in Hong Kong, to acquire the minority interests therein at a total consideration of HK\$3,875,000 in cash. GPI is an investment holding company, which holds Changchun Dacheng New Polyol Development Co., Ltd, a subsidiary set up in the PRC. The carrying amount of minority interests acquired was nil and the total consideration was recognised as goodwill.

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

Year ended 31 December 2005

Acquisition of a minority shareholder

On 29 June 2005, Global Corn Investments Limited ("Global Corn"), a wholly-owned subsidiary of the Company, entered into an acquisition agreement with the then shareholders of Dacheng Industrial, a company registered in the PRC, to acquire the entire equity interest therein at a total consideration of HK\$900 million in cash. Dacheng Industrial's principal activity is investment holding and it is the minority shareholder of certain of the Group's subsidiaries. Dacheng Industrial also owned other assets.

The fair values of the identifiable assets and liabilities, except for minority interests at cost, of Dacheng Industrial as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on acquisition HK\$'000	Carrying amount HK\$'000
Net assets acquired:			
Minority interests, at carrying amount		530,717	530,717
Property, plant and equipment	14	713	713
Prepaid land premiums	15	264,736	192,498
Goodwill		6,066	6,066
Prepayments and other receivables		22,130	22,130
Cash and cash equivalents		88,210	88,210
Other payables		(11,605)	(11,605)
Balances with group companies		(229,630)	(229,630)
Interest-bearing bank loans		(76,923)	(76,923)
		594,414	522,176
Goodwill on acquisition	16	305,586	
Satisfied by:			
Cash		900,000	

Notes to the Financial Statements

31 December 2006

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

Year ended 31 December 2005 (continued)

Acquisition of a minority shareholder (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2005 HK\$'000
Cash consideration	(900,000)
Consideration remained payable at balance sheet date	630,000
Cash and cash equivalents acquired	88,210
<hr/>	
Net outflow of cash and cash equivalents in respect of the acquisition of a minority shareholder/subsidiary	(181,790)

Net outflow of cash and cash equivalents in respect of the acquisition of a minority shareholder/subsidiary for the year ended 31 December 2006 was HK\$263,567,000.

31. CONTINGENT LIABILITIES

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

At 31 December 2006, the banking facilities granted to the Company's subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$1,790,907,000 (2005: HK\$888,687,000).

At 31 December 2006, the Company provided a 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 (2005: HK\$11,625,000).

32. COMMITMENTS

At 31 December 2006, the Group had capital commitments as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Contracted, but not provided for:		
Land premiums and leasehold buildings	79,951	168,292
Plant and machinery	131,859	688,639
	211,810	856,931
Authorised, but not contracted for:		
Capital contributions payable to subsidiaries	—	201,500
	211,810	1,058,431

The Company did not have any significant commitments as at 31 December 2006.

33. RELATED PARTY TRANSACTIONS

(i) Transactions with related parties

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

	Notes	Group	
		2006 HK\$'000	2005 HK\$'000
Utility costs charged to Nikken, Incorporated and its subsidiary	(a)	2,697	5,120
Sales of lysine to Cargill, Incorporated and its subsidiary	(b)	—	8,780
Sales of corn starch to a jointly-controlled entity	(c)	66,312	26,078
Sales of corn sweeteners to a jointly-controlled entity	(c)	30,111	5,132
Sales of goods to Mitsui & Co., Ltd. and its subsidiaries	(d)	2,232	22,639
Commission paid to Cargill Investments (China) Ltd.	(e)	3,043	728

Notes:

- (a) Nikken, Incorporated is the joint venture partner of Global Nikken (HK) Company Limited in which the Group effectively held a 51% equity interest. The utility costs were charged based on the actual costs incurred.
- (b) 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.
- (c) The sales were made to Cargill and Nikken, at prices which are comparable to the prices offered to other customers of the Group.
- (d) Mitsui & Co., Ltd. ("Mitsui Group") is the joint venture partner of Nikken. The transactions were made at prices mutually agreed between the parties. Balance with Mitsui Group has been settled as at the balance sheet date.
- (e) Cargill Investments (China) Ltd. is the joint venture partner of GBT Cargill High Fructose (Shanghai) Company Limited in which the Group ultimately held a 50% equity interest. Commission was paid for its operating service provided to the jointly-controlled entity.

Notes to the Financial Statements

31 December 2006

33. RELATED PARTY TRANSACTIONS (continued)

(ii) Balances with related parties:

At the balance sheet date, the Group's balances due from/(to) related parties were as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
Cargill	9,779	5,780
Nikken	13,760	3,333
Mitsui Group	—	—
Cargill Investments (China) Ltd.	(575)	(2,127)

(iii) Other related party transactions

- (a) The Group issued guarantees to secure a jointly-controlled entity's bank loans with maximum amount of HK\$15,113,000 (2005: HK\$15,113,000). At 31 December 2006, bank loans amounting to HK\$11,625,000 were utilised by this jointly-controlled entity (2005: HK\$11,625,000).
- (b) On 24 July 2006, GBTL, a wholly-owned subsidiary of the Group, entered into an acquisition agreement to acquire the entire equity interest in GPI at a total consideration of HK\$3,875,000 in cash (as detailed in notes 16 and 30 to the financial statements).
- (c) On 24 July 2006, GBTL, a wholly-owned subsidiary of the Group, entered into an acquisition agreement to acquire the entire equity interest in GCCI at a total consideration of HK\$7.80 in cash (as detailed in notes 16 and 30 to the financial statements).

(iv) Compensation of key management personnel of the Group:

	2006	2005
	HK\$'000	HK\$'000
Short term employee benefits	21,308	21,308
Post-employment benefits	60	60
Total compensation paid to key management personnel	21,368	21,368

34. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to different types of risks which are mainly categorised into (i) operational and (ii) financial. The management aims to manage these risks to an acceptable level which would not bring significant financial impact to the Group.

The Group's principal financial instruments comprise bank loans, other interest-bearing loans, and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, prepayments deposits and other receivables, trade payables, other payables and balance with joined-controlled entities, which arise directly from its operations.

34. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risk arising from the Group's operation is supply risk. The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The Group's income and operating cash flows are substantially independent of changes in market interest rates.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales by operating units in currencies other than the units' functional currency. Approximately 24% (2005: 19%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed annual credit facilities from banks to meet its commitments over the following year in accordance with its strategic plan.

In addition, the Group is subject to supply risk as a result of material contracts entered into with a supplier of corn kernels, as further explained below:

Supply risk

On 9 October 2006, certain subsidiaries of the Group entered into purchase agreements with a company established in the PRC which is beneficially owned by the staff union of the Group's PRC employees (the "Union Company") for purchases of corn kernels, the principal raw material for the production of certain of the Group's products. Pursuant to the purchase agreements, the Group agrees to purchase from the Union Company a total of 1.2 million tons of corn kernels during the contract period (one year) and bear certain interest expenses resulting from loans obtained by the Union Company from a PRC agricultural policy bank for financing the purchases of corn kernels.

Notes to the Financial Statements

31 December 2006

34. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Supply risk (continued)

Total corn kernels purchased from the Union Company during the year of 382,000 tons amounted to approximately HK\$432 million. Up to 31 March 2007, subsequent purchases of corn kernels from the Union Company amounted to 362,000 tons with a purchase cost of approximately HK\$452 million. At the balance sheet date, the Directors have estimated the purchase commitment pursuant to the above agreements to be approximately HK\$1,106 million.

If the supplier is unable to obtain corn kernels for sale to the Group, and the Group is unable to obtain supplies from other sources, the Group's operation and performance may be adversely affected.

35. POST BALANCE SHEET EVENTS

- (a) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.
- (b) On 2 April 2007, the Group repaid the entire amount of the Syndicated Loan of US\$150 million (equivalent to HK\$1,163 million).
- (c) On 3 April 2007, the Company made an application to the Hong Kong Stock Exchange for the approval of the proposed separate listing of the shares of Global Sweeteners Holdings Limited ("Global Sweeteners"), a wholly-owned subsidiary of the Group, on the Main Board of the Stock Exchange (the "Proposed Spin-off"), and Global Sweeteners submitted an advance booking form (Form A1) to the Stock Exchange for an application for the listing of, and permission to deal in, the shares of Global Sweeteners in issue and to be issued under the proposed offer for subscription of the shares of Global Sweeteners on the main board of the Stock Exchange. The Proposed Spin-off is subject to the requirements under Practice Note 15 and other relevant provisions of the Listing Rules.
- (d) On 23 April 2007, the Company proposed to declare a final dividend of HK2 cents per ordinary share in respect of the year, to shareholders whose names appear on the register of members on 28 May 2007, as detailed in note 12 to the financial statements.

36. COMPARATIVE AMOUNTS

As further explained in notes 2.2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 April 2007.