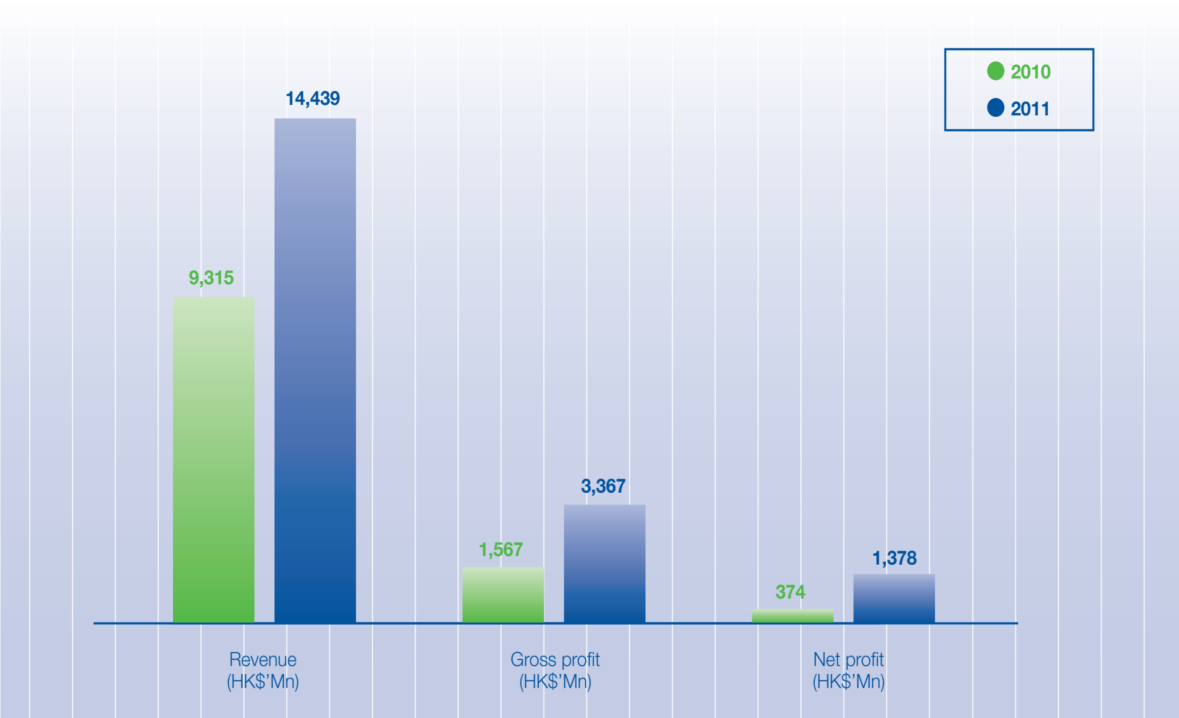
GLOBAL Bio-Chem Technology Group Company Limited
大成生化科技集團有限公司

Stock Code : 00809

ANNUAL REPORT 2011

Contents

Financial Highlights



	2011	2010	Increase
Revenue (HK$'Mn)	**14,439**	9,315	55%
Gross profit (HK$'Mn)	**3,367**	1,567	115%
Net profit for the year (HK$'Mn)	**1,378**	374	268%
Net profit attributable to owners of the parent (HK$'Mn)	**1,310**	332	295%
Basic earnings per share (HK cents)	**40.3**	12.1	233%
Proposed final dividend per share (HK cents)	**2.0**	1.0	100%

Dear Shareholders,

The Group's consolidated revenue and net profit reached record highs in 2011 driven by steady economic development in Mainland China. The consolidated revenue increased by 55 per cent from 2010 to HK$14.4 billion in 2011, while net profit amounted to HK$1.31 billion, representing an increase of three times when compared with that of the previous year.

The continued upsurge in corn price in 2011 was offset by the improvement in the average selling prices and sales volume of the Group's amino acids and other downstream products, as well as the enhancement in the Group's operational efficiency. The Group's gross profit therefore soared by 115 per cent to HK$3.4 billion when compared with that of last year, while the gross profit margin of the Group rose by 6 percentage points to 23 per cent.

Substantial increase in livestock consumption and growth in demand for animal feed had led to accelerated consumption of lysine, the major amino acid product of the Group. Prices of lysine stayed at relatively high levels during the first three quarters in 2011, with average selling price reaching HK$12,200 per metric tonne for the full year in 2011. Enhanced utilisation resulted from fine-tuned processing technology raised the output of lysine, thereby enabling the Group to achieve a sales volume of 574,000 metric tonnes in 2011, which exceeded the rated capacity of 500,000 metric tonnes per annum by 15 per cent.

During the year under review, the Group continued to emphasize on extending its lysine product line, and successfully developed new series of protein lysine products with 75% and 80% lysine concentrations respectively. With a breakthrough in research and development, the Group began to apply new type of bacteria for fermentation, which resulted in higher product yield. This together with improved production efficiency and better resource utilisation achieved through the new series of lysine served to broaden the gross profit margin of the Group's amino acid products.

To cope with the future development needs of lysine products and to further reduce its production costs, the Group invested in the construction of an ammonia production line, with an annual production capacity of 120,000 metric tonnes in 2010. Ammonia is one of the major raw materials in the production of various types of lysine. The Group's competitive edge will be sharpened in the future following the completion of the production line.

Performance of the Group's polyol chemical products had been in line with the management's expectation. This line of product reported a sales volume of 105,000 metric tonnes in the first three quarters of the year. The rapid urban development of Changchun city had imposed great restrictions on the polyol chemical production plant in Lu Yuan District, Changchun city. The Group therefore decided to suspend its production since the fourth quarter of 2011. The production plant will be relocated to the new production facilities of the Group in Xinglongshan, which is currently under construction. The Group regarded this as an appropriate opportunity to centralise its polyol chemicals production facilities under one roof in its Xinglongshan production base. The new polyol chemical production facilities' proximity to upstream raw material supply allowed the Group to save material transportation costs and improve management efficiency.

The Group's Biopropylene Glycol, a category of polyol chemical products, has been granted a BioPreferred label by the United States Department of Agriculture during the year under review. The accreditation signified the US authorities' recognition of the Group's effort in applying renewable resources in the production of biochemical materials. Moreover, exploration of new applications of polyol chemicals are underway as reflected in our development and launch of products for anti-freeze/snow dissolved agent and plant-based bitumen.

The Group's sweeteners segment, which has been operated by a separated-listed subsidiary, delivered satisfying results fuelled by surging average selling prices and enlarging sales volume of sweeteners.

In order to fine-tune its debt structure and to control its financial expenses, the Group issued RMB450 million guaranteed bonds in May 2011. The proceeds from the guaranteed bonds had been applied to the repayment of the Group's indebtedness. The Group's gearing ratio in terms of net debts to total equity ratio had been improved to 54 per cent at the end of the year.

PROSPECTS

Despite market uncertainties and fluctuations in the global economy, the domestic economy is expected to grow at a relatively steady pace. Demand for daily necessities and commodities will keep up at promising levels supported by improving living standard in the Mainland China.

Corn price in Mainland China had been displaying an upward trend in the past few years. It is anticipated that corn price in 2012 will remain at a relatively high level compared to 2011. Leveraging on its advantageous location within the golden corn belt in China, the Group continues to implement strategic cost management.

The Group commanded over 70 per cent share of the PRC lysine market. The Group has made continued efforts in the development of protein lysine of different standards in order to cater the needs of different markets and customers. The newly developed protein lysine products will be launched to the market in the second half of 2012. This will lay a solid foundation for the Group in further consolidating its market position and strengthening its competitiveness.

Upon completion of the relocation of the Polyol Chemical production facilities to Xinlongshan, Changchun, in the second half of 2012, its contribution to the Group's performance will be resumed.

Research and development of new polyol chemical products is underway to enrich this product category and broaden its market and customer bases. The rising crude oil price and the Group's continued efforts to optimise utilisation of its production facilities will precipitate the Group's polyol chemical products into becoming the main growth driver of the Group in the near future.

The Group's research on application of non-food crop as raw material for its production has progressed further. Laboratory tests on the refining of corn stalk for the production of polyol chemicals have generated favourable results. The Group will further increase its scale of testing in 2012.

To escalate its pace of development, both in terms of product range and market reach, the Group is exploring capable strategic business partners for technology, production, as well as sales distribution cooperation. The Group understands that this is one of the essential approaches to stay in the forefront of the industry.

The Group has been actively adopting strategies to strengthen its balance sheet. With advancement in the Group's profitability and deployment of stringent cost control measures, the Group recorded reduction in its debt ratio during the year under review. To continuously improve its financial position and balance sheet, the Group will strive to explore new financing channels and funding sources in order to reduce its financing costs and current to total liabilities ratio.

As the largest vertically integrated corn based biochemical producer in Asia, the Group strives to maintain its dominant position in the industry and enlarge its market share through technological advancement and strategic cost control measures. Riding on the solid foundation set by the Group in the past decade, the Group is well poised to capture opportunities arising from both domestic and overseas markets in the coming year.

The management will continue to uphold its prudent approach in the development strategies to cope with the ever changing operating environment ahead. We will ride along the positive momentum in the market and endeavour to maximise shareholder returns and wealth.

Liu Xiaoming
Co-chairman

Xu Zhouwen
Co-chairman

21 March 2012

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

BUSINESS ENVIRONMENT

During the year 2011, despite a gradual recovery in the global economy, challenges were still posed by the sovereign debts crisis in euro zone countries, slow recovery of the US economy, and the economic impact of calamitous natural disasters worldwide, such as the Fukushima earthquake and the consequential tsunami and nuclear catastrophe. The PRC economy hence experienced challenging market conditions with no exception. The PRC government responded by implementing a series of comprehensive measures to mitigate the macro economic impacts. The effective measures resulted in a steady growth of 9% GDP in the domestic market, taking into account the soaring inflation rate. The improving living standards in the PRC also fuelled the increase in domestic demand that resulted in increase in general products price spanning across various industries and products, particularly agricultural and food products. On the contrary, slow growth of western countries' economy pulled back the pace of global economic recovery. In light of such circumstances, the Group shifted its focus to the PRC market. As a result, although the revenue arising from export sales had still increased, it only accounted for approximately 19% of the Group's total revenue during the Year as compared to approximately 23% in the year 2010. With the Group's developed business model and holistic strategies, we managed to sustain a strong growth momentum in 2011.

The PRC government had imposed price stabilisation measures by slowing down the demand of corn kernels for corn refinery industry. The average acquisition price (net of 13% tax) of the corn kernels, the Group's principal raw material, increased to RMB1,886 per metric tonne from RMB1,666 per metric tonne in the same period of the last year, representing a 13% increase. However, such also had the impact of reducing the competitive environment in the industry. In comparing to the increasing pressure in market price for corn, the Group has been adopting the usual practice in maintaining reasonable inventory level of corn kernels in minimising the adverse effect from inflation.

The operating environment in animal feed industry improved significantly driven by the strong demand in food and agricultural products, and therefore amino acid business is in its favorable condition. Given the balance supply and demand of lysine products in the market, the Group's lysine business is moving towards the beginning trend of its business cycle; both the selling price and sales volume of the Group's lysine recorded a robust growth. The average selling price (net of 17% tax) of the Group's lysine increased to HK$12,225 per metric tonne from HK$7,661 per metric tonne in the same period of the last year, represented a 60% increase.

The crude oil price was pushed up to over US$100 a barrel at first quarter of 2011 with the outbreak of protests in the Middle East and North Africa. However, protests diluted in the second quarter of 2011, and along with the easing monetary policies in the U.S. and Japan, crude oil price remained at around US$90 a barrel. The increase in consumption of various chemicals for downstream business caused the crude oil prices to remain at relatively high level during the first half of 2011. Despite the global rout in equities markets after Standard & Poor's cut the U.S. credit rating and PRC's accelerating inflation in third quarter, the crude oil price had still managed to stabilise at over US$80 a barrel, trading at a range between US$80 to US$100 a barrel during the second half of 2011. Recently, owing to the Iran nuclear issue and the rebound of US economy, the crude oil price climbed to almost US$110 a barrel. The sustainability of high level of crude oil price in 2012 is likely to strengthen the operating environment of our polyol chemicals business.

FINANCIAL PERFORMANCE

(Revenue: HK$14.4 billion (2010: HK$9.3 billion))
(Gross profit: HK$3.4 billion (2010: HK$1.6 billion))
(Net profit: HK$1,378 million (2010: HK$374 million))

The enhanced financial performance was mainly due to the significant improvement in the average selling price of all products of approximately 33% as compared with the corresponding period last year.

Upstream products segment

(Revenue: HK$4.0 billion (2010: HK$2.8 billion))
(Gross profit: HK$195 million (2010: HK$243 million))

During the Year, the average cost of corn kernels increased by approximately 15% to RMB1,793 per metric tonne (2010: RMB1,556 per metric tonne) while the average selling price of corn starch increased by approximately 16% to approximately HK$3,291 per metric tonne (2010: HK$2,843 per metric tonne) as compared to the corresponding period last year.

The average selling price and sales volume of upstream products during the Year increased by approximately 18% and approximately 22% respectively as compared to last year. However, the increasing costs of corn kernels consumed and other related cost, with slow improvement in corn refinery industry, lead to a retreat in the profit margin of the upstream products in 2011 gross profit decreased by 20% year-on-year to approximately HK$195 million. The Group's upstream business operational was basically stable, despite the fluctuations in the cost of corn kernels. According to the Group's upstream business model, corn starch mainly serves as a feedstock for the production of the Group's downstream high value-added products.

FINANCIAL PERFORMANCE *(Continued)*

Downstream products segment

(Revenue: HK$10.3 billion (2010: HK$6.4 billion))
(Gross profit: HK$3.2 billion (2010: HK$1.3 billion))

The revenue and gross profit of downstream products surged substantially by approximately 61% and 140% respectively during the Year, which was mainly attributable to the rise in the average selling prices and sales volume of most of the Group's downstream product series of approximately 44% and 12% respectively. The year-on-year changes in sales volume, average selling price, average cost of goods sold, revenue and gross profit for the Year (as compared to last year) are set out as follows:

	Changes in downstream product series for the Year				
Product series	**Sales volume**	**Average selling price**	**Average cost of goods sold**	**Revenue**	**Gross profit**
Amino acids	11%	58%	31%	76%	169%
Modified starch	20%	21%	19%	45%	61%
Corn sweeteners	15%	27%	22%	46%	80%
Polyol chemicals	0%	19%	22%	19%	(9%)
Overall	12%	44%	26%	61%	140%

Among those downstream products series, the revenue and gross profit of amino acids for the Year of approximately HK$7.0 billion (2010: HK$4.0 billion) and approximately HK$2.6 billion (2010: HK$1 billion) respectively, accounted for approximately 49% (2010: 43%) and approximately 78% (2010: 63%) of the Group's total revenue and gross profit respectively. The outstanding performance of amino acids division during the Year was attributable to the significant increase in the prices of meat and egg, leading to upsurges in both demand and selling price of amino acids during the Year. The sales volume of approximately 574,000 metric tonnes (2010: 516,000 metric tonnes) increased by approximately 11% year-on-year, was initially beyond our full designed capacity of 500,000 metric tonnes. However, the management promptly reacted to the rising demand and enhanced its capacity by 20% to 600,000 metric tonnes through technological improvement in the conversion ratio of bacteria during the Year. Higher sales volume together with a remarkable year-on-year increase of approximately 58% in average selling price had also contributed to an increase of almost 1.7 times or approximately 169% in gross profit.

The modified starch division has been improving gradually since 2010 owing to the recovery of the price of paper. This division contributed a gross profit of approximately HK$52 million (2010: HK$32 million) to the Group during the Year.

FINANCIAL PERFORMANCE *(Continued)*

Downstream products segment *(Continued)*

The polyol chemicals division generated a revenue of approximately HK$981 million (2010: HK$824 million) in 2011. The increase in revenue was mainly due to the rebound of crude oil price during the Year, which drove up the selling price of the related refined chemical products. The average selling price of polyol chemicals increased by approximately 19% in compared with the corresponding period last year. No additional provision of closing inventories of polyol chemical products at 31 December 2011 was recorded. Although there was only nine months of production period due to the relocation of production facilities which took place in the last quarter of 2011, the gross profit contributed by this division for the Year decreased slightly to approximately HK$81 million (2010: HK$89 million). The gross profit margin decreased to approximately 8% (2010: 11%) during the Year owing to the accountability for the full year depreciation and other related expenses against nine month production period. In view of the stability of crude oil price and the increasing awareness of green products, the Directors believe that the Group's polyol chemicals division will operate profitably after resumption of production in the third quarter of 2012.

Benefiting from a historical high sugar price, the Group's sweeteners business saw a favourable operating environment during the Year. The sales volume and revenue of sweeteners division increased by approximately 15% and approximately 46% respectively compared with last year. The average selling price of all the sweeteners products of the Group increased by approximately 27% during the Year, driving up the gross profit of this division to approximately HK$387 million (2010: HK$214 million).

Biological products segment

During the Year, the beef and cow business recorded a revenue and gross profit of approximately HK$139 million (2010: HK$166 million) and HK$13 million (2010: HK$8 million) respectively.

Product segment

The revenue and gross profit of upstream products accounted for approximately 28% (2010: 30%) and approximately 6% (2010: 16%) of the Group's total revenue and gross profit respectively. There was no significant change in product segments. However, the percentage of gross profit contributed by the upstream division decreased because of the adverse overall performance of upstream products.

Other revenue, operating expenses, finance costs and income tax

The selling and distribution costs of approximately HK$720 million (2010: HK$551 million) increased by approximately HK$169 million or approximately 31% over the last year. The increase was mainly due to the increase in sales activities. Although the transportation costs increased as petroleum price rose, the ratio of operating expenses over the Group's revenue still decreased to approximately 5% (2010: 5.9%), due to the enhancement in operating efficiency and enlarged turnover as the base of calculation.

FINANCIAL PERFORMANCE *(Continued)*

Other revenue, operating expenses, finance costs and income tax *(Continued)*

The administrative expenses of approximately HK$440 million (2010: HK$270 million) increased by approximately HK$170 million or approximately 63% over the last year and represented approximately 3.0% (2010: 2.9%) of the Group's revenue for the Year. The administrative expenses were stable as the Group continued to impose stringent control over the costs.

During the Year, other income of the Group decreased to approximately HK$133 million (2010: HK$139 million). The main reason for the drop was that government grants were reduced to approximately HK$53 million (2010: HK$81 million).

The other operating expenses for the Year amounted to approximately HK$116 million (2010: HK$24 million), which comprised mainly research and development expenses of approximately HK$12 million (2010: HK$17 million), exchange loss of approximately HK$47 million (2010: HK$2 million) due to appreciation of RMB, provision of doubtful debts of approximately HK$24 million (2010: recovery of doubtful debts of HK$16 million) and legal expenses spent on the infringement litigations and settlement costs for one of the cases in Europe of approximately HK$15 million (2010: HK$15 million).

Owing to the enlarged borrowing portfolio and the rise in interest rate, the finance costs of approximately HK$522 million (2010: HK$379 million) increased by approximately 38% as compared to the corresponding period last year. The interest capitalised as fixed assets was increased to approximately HK$108 million (2010: HK$70 million) for the Year. However, it is anticipated that the pressure from finance costs will remain heavy for 2012.

In view of strong performance, income tax amounting to approximately HK$336 million (2010: HK$110 million) was charged for the Year. With the prevailing income tax laws and regulations, certain subsidiaries established in the PRC can enjoy income tax relief, the overall effective tax rate of the Group decreased to approximately 20% (2010: 23%).

Share of profits of jointly controlled entities

During the Year, the high fructose corn syrup joint venture recorded a net loss attributable to the Group of approximately HK$2.6 million (2010: net profit of HK$1 million). The drop was mainly due to the reduction in sales volume.

Profit shared by minority shareholders

During the Year, profit shared by the minority shareholders amounted to approximately HK$68 million (2010: HK$42 million). The sharp increase was mainly due to the rebound of performance of the sweeteners division.

FINANCIAL RESOURCES AND LIQUIDITY

Net borrowing position

To support the strategy of maintaining high stock level of corn kernels, working capital requirement for the increase in operation, and the capital expenditure on project expansions in Xinglongshan for polyol chemicals and Dehui for lysine products, a total borrowings as at 31 December 2011 maintained at approximately HK$8.6 billion (31 December 2010: HK$8.4 billion). The increase was mainly due to the effect of the appreciation of RMB translated to HK$ for reporting purpose during the Year. However, the net borrowings as at 31 December 2011 decreased to approximately HK$6.4 billion (31 December 2010: HK$6.7 billion). The decrease in the net borrowings was mainly due to the strong cash inflows generated from the satisfactory operation during the Year and the introduction of an investor for the Xinglongshan project in May 2011, which resulted in an increase in cash and cash equivalents of approximately HK$488 million in compared with the cash level as at 31 December 2010.

Structure of interest bearing borrowings

As at 31 December 2011, the Group's bank and other borrowings amounted to approximately HK$8.6 billion (31 December 2010: HK$8.4 billion), of which approximately 4% (31 December 2010: 7%) were denominated in Hong Kong dollars or US dollars while the remainder of approximately 96% were denominated in RMB. The average interest rate during the Year was increased to approximately 6.6% (2010: 5.4%) due to the rise of interest rate in PRC in 2011. In the wake of down reversal of inflation in PRC recently, the interest rate is expected to be stable in 2012.

The percentage of interest bearing borrowings wholly repayable within one year, in the second to the fifth years and beyond five years were approximately 66% (31 December 2010: 50%) and approximately 11% (31 December 2010: 34%) and approximately 23% (31 December 2010: 16%) respectively. The change was mainly due to the addition of 10 years loans of RMB380 million for Xinglongshan projects during the Year. In view of the continual support from existing bankers, no material pressure in obtaining continuous financing resource is expected.

FINANCIAL RESOURCES AND LIQUIDITY *(Continued)*

Turnover days, liquidity ratios and gearing ratios

Normally, the Group allows credit terms to established customers ranging from 30 to 90 days. The turnover days of trade receivables improved significantly to approximately 64 days (2010: 75 days) for the Year due to better credit controls by the Group. Meanwhile, the trade creditors turnover days remained at similar level at approximately 40 days (2010: 36 days) because the velocity of the payment to account payables has been stabilised by the Group though the supply of materials was relatively tight for the Year. On the other hand, due to the strong performance of the Group, the fast inventory turnover caused the inventory turnover days to decrease to approximately 154 days (2010: 197 days). To assort with the growth of turnover, the Group enhanced the stock level reasonably to approximately HK$4.7 billion (31 December 2010: HK$4.2 billion).

Despite of the increase of short term bank borrowings of approximately HK$1.6 billion when compared to the position as at 31 December 2010, the current ratio and the quick ratio as at 31 December 2011 remained at similar level of approximately 1.3 (31 December 2010: 1.5) and 0.7 (31 December 2010: 0.8) respectively. It is because such negative effective was offset by the increase of operating cash flow, high level of inventories and accounts receivable. Moreover, due to the increase in cash and cash equivalents, gearing ratio in term of net debts (i.e. net balance between interest bearing borrowings and cash and cash equivalent) to total equity (aggregate total of shareholders equity and non-controlling interest) and to shareholders equity improved significantly to approximately 54% (31 December 2010: 69%) and to approximately 63% (31 December 2010: 76%) respectively. On the other hand, gearing ratios in terms of (i) interest bearing borrowings to total assets and (ii) interest bearing borrowings to total equity decreased to approximately 36% (31 December 2010: 42%) and 73% (31 December 2010: 87%) respectively. In view of the continual support from existing bankers, the Group can obtain continuous financing resource for its operation.

Foreign exchange exposure

Although most of the operations were carried out in the PRC in which transactions were denominated in RMB, the Directors consider that there is no unfavorable exposure to foreign exchange fluctuation and there will be sufficient cash resources denominated in Hong Kong dollars for the repayment of borrowings and future dividends. In July 2011, the Group entered into a USD/CNY Currency SWAP (the "SWAP") with The Hongkong and Shanghai Banking Corporation Limited ("HSBC") for the purpose of hedging the exchange risk of the RMB450,000,000 guaranteed bonds due 2014 issued (the "Bonds") in May 2011. Under the SWAP, the Group will be liable to pay HSBC 8.6% interest on the principle of US$69,875,776.40 semi-annually up to 16 May 2014 and US$69,875,776.40 on 16 May 2014. On the other hand, HSBC will pay the Group 7% interest on the principle of RMB450,000,000 semi-annually up to 16 May 2014 and RMB450,000,000 on 16 May 2014 which completely matched with the liabilities under the Bonds. The Directors believe the exchange risk of USD/RMB will be avoided by entered into the SWAP. Apart from the SWAP, the Group did not use any financial instrument for hedging purposes during the Year and the Group did not have any hedging instrument outstanding as at 31 December 2011.

ISSUANCE OF RMB450,000,000 7% GUARANTEED BONDS DUE 2014

On 6 May 2011, the Company and certain of its subsidiaries entered into a subscription agreement with HSBC (as sole lead arranger and sole bookrunner) in connection with the issue of the Bonds due 2014 ("Bonds Issue"). The Bonds Issue was completed in May 2011. The net proceeds of the Bonds Issue, after deducting commission and expenses payable by the Company, amounted to approximately RMB441,600,000 and will predominantly be used by the Company for repayment of existing indebtedness of the Group. The Bonds have been listed on the Singapore Exchange Securities Trading Limited.

DEEMED DISPOSAL OF EQUITY INTEREST IN A SUBSIDAIRY

On 20 May 2011, China Bio-chem Group Limited ("China Bio-chem Group"), China Bio-chem Investments Limited ("China Bio-chem Investments") and Changchun Dacheng Bio-Tech Development Co., Ltd. ("Dacheng Bio-Tech"), all being wholly-owned subsidiaries of the Company, entered into the capital increase agreement with the investor, pursuant to which the investor agreed to make the first capital contribution and the second capital contribution in the amount of RMB300 million and RMB300 million in cash to the registered capital of Dacheng Bio-Tech respectively ("Capital Contribution"). The Capital Contribution has been completed and RMB600 million has been injected into Dacheng Bio-Tech in June 2011, the equity interest held by the Group in Dacheng Bio-Tech was diluted from 100% to 70.96% of the enlarged registered capital of Dacheng Bio-Tech. Such dilution of interest in Dacheng Bio-Tech constituted a deemed disposal of Dacheng Bio-Tech under Rule 14.29 of the Listing Rules. Dacheng Bio-Tech continues to be a subsidiary of the Company upon completion of the Capital Contribution.

Under the Capital Increase Agreement, China Bio-chem Investments has agreed to grant to the Investor a put option (the "Put Option"), pursuant to which the Investor shall have the right, at any time during the three calendar months commencing from the date falling on 22nd calendar month after the date of the Capital Increase Agreement, to request China Bio-chem Investments to acquire from the Investor all (but not part) the Investor's interests in the registered capital of Dacheng Bio-Tech then held by the Investor at the time of exercise of the Put Option (the "Put Interests"), for cash at the consideration (the "Put Option Exercise Price") representing 125% of the amount of the Put Interests.

Further, under the Capital Increase Agreement, China Bio-chem Investments has agreed to grant to the Investor a call option (the "Call Option"), pursuant to which, if the Put Option has not been exercised by the Investor or if all the conditions for completion of the exercise of the Put Option cannot be satisfied or waived within the prescribed period in accordance with the terms of the Capital Increase Agreement, China Bio-chem Investments shall have the right, at any time during the six calendar months commencing from the date falling on the 25th calendar month after the date of the Capital Increase Agreement, to request the Investor to sell to China Bio-chem Investments all (but not part) the Investor's interests in the registered capital of Dacheng Bio-Tech then held by the Investor at the time of exercise of the Call Option (the "Call Interests"), for cash at the consideration (the "Call Option Exercise Price") representing 125% of the amount of the Call Interests.

As the applicable percentage ratios of the Capital Contribution (and the deemed disposal) and the highest possible monetary value of the Call Option Exercise Price and the Put Option Exercise Price were more than 5% but less than 25%, the Capital Increase Agreement (and the deemed disposal) and the grant of the Call Option and Put Option constituted discloseable transactions of the Company under Rule 14.06 of the Listing Rules.

PUT OPTION

The Directors consider that the Put Option held by the Investor contains an unavoidable obligation for the Group to purchase the equity interest of Dacheng Bio-Tech for cash, which gives arise to a financial liability of approximately HK$769 million. Such financial liability is initially recognized at the present value of the redemption amount and is subsequently stated at amortised cost. In addition, the Directors have adopted an accounting policy to account for such type of transaction. This approach takes the view that the non-controlling interest continues to be recognized within equity until the Put Option is exercised.

RELOCATION OF PRODUCTION PLANT

As announced by the Company on 23 September 2011, in response to the call of the local government to industrial companies to move their factories away from the central districts of the city which has been developed rapidly, the Group has decided to relocate its production facilities in Lu Yuan district, Changchun, with an aggregate site area of approximately 2,000,000 sq.m., in stages. As the first stage of the relocation plan, the production plant (the "Relocated Production Plant") of the Company's subsidiary, Changchun GBT Bio-Chemical Co., Ltd., which owns a piece of land with a site area of approximately 286,000 sq.m. had been relocated (the "Relocation") to the new production facilities of the Group in Xinglongshan, Changchun. The production of the Relocated Production Plant is expected to be resumed in the third quarter of 2012. The land on which the Relocated Production Plant was originally situated will be resumed by the local government after completion of the Relocation. The Relocation had resulted in the incurrence of relocation costs amounting to approximately HK$20 million during the year 2011 and approximately HK$60 million are expected to be incurred in 2012. The Group was in negotiation with the government of the compensation and benefits for the Relocation, which compensation would generally be determined by reference to the market value of the resumed land.

TRANSFER OF CHANGCHUN JINCHENG CORN DEVELOPMENT CO., LTD.

As jointly announced by the Company and GSH on 2 September 2011, Global Corn Investments (HK) Limited (an indirect wholly-owned subsidiary of Company) and GSH entered into a sale and purchase agreement (the "Jincheng S&P Agreement") for the sale and purchase of the entire issued share capital in, and shareholder's loan of, Global Starch (BVI) Investments Limited (the "Target Company"). The Target Company is the indirect holding company of Changchun Jincheng Corn Development Co., Ltd. Pursuant to the Jincheng S&P Agreement, the consideration for the sale and purchase of the entire issued share capital in the Target Company shall be approximately HK$510 million and shall be settled upon completion by GSH allotting and issuing, credited as fully paid, 377,778,000 new ordinary shares of GSH of HK$0.1 each (the "Consideration Shares") to Global Corn Bio-chem Technology Company Limited at the issue price of HK$1.35 per share at completion. The consideration for the purchase of the shareholder's loan was a nominal amount of HK$1. Completion of Jincheng S&P Agreement had taken place on 17 November 2011. Upon completion, the Target Company, together with its subsidiaries, had become non-wholly owned subsidiaries of the Company and the interest of the Group in GSH had been increased from approximately 52.23% to approximately 64.04% immediately upon issue of the Consideration Shares.

PROSPECTS

Looking ahead, the current market conditions are likely to persist with a gradual improvement in the global economy. With the implementation of the Twelfth Five-Year Plan in the PRC, where it is envisaged to increase fiscal spending and ease credit policy for supporting domestic demand, a stable growth is anticipated in the region.

In light of the growth momentum, it is inevitable for the Group to experience growing market competition and industry consolidation. The Group shall therefore remain cautious in the implementation of its strategies for achieving a sustainable growth.

The Group will continue to strive to enlarge its market share and maintain market leadership through diversification of its product portfolio, forging strategic alliance with prominent market players and strengthening of its research and development capability with respect to operations, raw materials and new product development.

Raw Materials

The rich harvest in mid-October 2011 has stabilised the price of corn kernels at about RMB1,860 per metric tonne (after tax of 13%) recently. The management expects the corn kernel price to remain at a relatively high level. The Group will continue to adopt the strategy of maintaining a reasonable stock level of corn kernels to minimise the impact of price fluctuations and possible future upward pressure on raw material costs.

Amino Acids

Demand for the Group's amino acids products, as feed additives, is correlated to the downstream animal feed industry. Driven by rising living standards and accelerated urbanisation in the PRC, a robust growth in demand for quality meat and that for the Group's amino acids products is expected. The Group will continue to focus on improvements in operational efficiencies and push ahead with its new products development such as arginine and methionine. Through innovative R&D knowhow, the Group will be able to uplift the annual production capacity of its amino acids production facilities to approximately 800,000 metric tonnes. The launch of the newly developed protein lysine products with different concentrations will meet the demands of various animal feed markets and customers. These new protein lysine products will be an alternative to traditional lysine products, but have a better profit margin.

A newly-built facility for the production of ammonia, one of the important chemicals used in the fermentation process of the Group's amino acids products, has been operating since the second half of 2011 and is expected to commence production in the first half of 2012. By supplying its own chemical raw material in the fermentation process, the Group will be able to effectively trim down its production costs in the long run. The Group believes its well-established market position together with the improvement in production techniques and new product development will allow it to remain competitive in the industry. In view of a steady demand growth in amino acids products, lysine business will continue to be the Group's growth driver. The Group aims at consolidating its leading market position, with an 80 per cent share in the PRC market.

PROSPECTS *(Continued)*

Polyol Chemicals

Growing global concerns on environmental issues, petroleum supply and scarce resources will create demands for eco-friendly products and a favourable environment for the development of alternative chemical raw material. Given that the Group's polyol chemical products are eco-friendly in nature, the scarcity and the high crude oil price provide a promising market opportunity. Capturing this business opportunity, the Group is eager to diversify its polyol chemical product portfolio in the long term.

Resumption of polyol chemicals production in the new Xinglongshan production facilities in the third quarter of 2012, together with the completion of the second phase of the polyol chemicals project with a production capacity of 500,000 metric tonnes in Xinglongshan in the last quarter of 2012, will serve as a positive catalyst of the Group's performance in 2012. Operation efficiency and profit margins of the new production plant in Xinglongshan are anticipated to contribute a remarkable return to the Group in the future due to better economies of scale, thereby compensating for the increasing production costs. However, its contribution to the Groups will become the main driver for growth in the near future.

STATUS OF INFRINGEMENT LITIGATIONS

The Company and certain of its subsidiaries are currently the respondents in certain litigations in Europe in relation to the alleged infringement of registered patents applicable in the production of lysine. Among these litigations, the Hague District Court, on 22 August 2007, handed down its judgment ("Judgment") that the Group's L-lysine products had infringed two patents of third parties and issued orders (i) prohibiting the Group from further infringement and the offer for sale, import and/or trade of any infringing products, L-lysine products in the Netherlands with immediate effect and (ii) compensate the damages of the plaintiffs to be assessed by the court. An appeal against the judgment was lodged, but an interim decision from the Hague Appeal Court dated 29 March 2011 had been received, which upheld the Judgment.

Nevertheless, the Group has developed a bacterial strain for production of its L-lysine products which is different from those of the subject of the Judgment but of the same quality, and has ceased to use the bacterial strain that is subject to the Judgment for production L-lysine products. Therefore, the Directors believed that the decision of the Hague Appeal Court will not have any material adverse impact on the sales, financial or trading position and prospects of the Group.

For other litigations, the Directors have been advised by the Group's legal counsel that the Group has sufficient grounds to defend against the claims. Therefore, no provision for any infringement compensation is considered necessary.

Save as disclosed above, there was no material contingent liability of the Group as at 31 December 2011.

NUMBER AND REMUNERATION OF EMPLOYEES

As at 31 December 2011, the Group had approximately 6,000 full time employees in Hong Kong and the PRC. The Group recognises the importance of human resources to its success, therefore qualified and experienced personnel are recruited in the production capability and development of new biochemical products. Remuneration is maintained at competitive levels with discretionary bonuses payable on a merit basis and in line with industrial practice. Other staff benefits provided by the Group include mandatory provident fund, insurance schemes and performance related commission.

EXECUTIVE DIRECTORS

LIU Xiaoming aged 56, is the Co-Chairman of the Group. He is responsible for the Group's overall business development, as well as the formulation of corporate direction and strategies. He holds a bachelor's degree in chemical engineering from the Hua Nan Polytechnic University. Mr. Liu was appointed as an executive director of the Company in 2001.

XU Zhouwen aged 69, is the Co-Chairman of the Group. He is responsible for formulating and implementing the Group's product diversification strategies, managing the Group's product development and technology research, as well as supervising the Group's overall production and operations. He graduated from the Harbin Electric University in 1970. Mr. Xu was appointed as an executive director of the Company in 2001. Mr. Xu was appointed as an executive director of Global Sweeteners Holdings Limited ("GSH"), a subsidiary of the Company and the shares of which are listed on the main board of the Stock Exchange, in October 2010. He is uncle of Mr. Zhang Fusheng, an executive Director and the husband of Ms. Zhang Xiuzhen, a senior management of the Group.

WANG Guifeng aged 61, is responsible for overseeing the finance, management accounting and treasury functions of the Group. Ms. Wang graduated from Changchun Vocational University, majoring in industrial accountancy. She is a member of the Chinese Institute of Certified Public Accountants with over 20 years of experience in accounting and financial resources management.

ZHANG Fusheng aged 39, is responsible for the marketing and sales functions of the Group and he has over 11 years of experience in production, sales and marketing in the PRC. He was accredited as one of the Ten Outstanding Youth Entrepreneurs by Changchun City in 2004. Mr. Zhang graduated from Commerce Department of Jilin University, majoring in business administration. He is the nephew of Mr. Xu Zhouwen, an executive Director.

CHEUNG Chak Fung aged 47, is the financial controller of the Group. He has over 20 years' experience in financial reporting, budgetary control and secretarial practice. He has worked with the Group since 2000. He holds a bachelor's degree in accounting from the Hong Kong Baptist University.

INDEPENDENT NON-EXECUTIVE DIRECTORS

LEE Yuen Kwong aged 51, is a Certified Public Accountant and has been practising since 1990. Graduated from the University of Sunderland, the United Kingdom, he holds a Bachelor of Arts Degree in Business Studies. He has over 23 years' experience in accounting, auditing, taxation and management consulting. Mr. Lee is currently a committee member of consumer council of Hong Kong. He was appointed as an independent non-executive director of the Company in 2001. Mr. Lee was an independent non-executive director of FAVA International Holdings Limited (resigned in November 2011) and was an independent non-executive director of China Best Group Holding Limited (resigned in August 2008), both are listed companies in Hong Kong.

CHAN Man Hon, Eric aged 55, is a solicitor and has been practising in Hong Kong for over 28 years. Mr. Chan holds a bachelor's degree in law from the University of Hong Kong and a master's degree in Business Administration from The Chinese University of Hong Kong. He was admitted as a solicitor of the Supreme Court of Hong Kong in 1981 and is a consultant of Messrs. Vincent T. K. Cheung, Yap & Co. He was appointed as an independent non-executive director of the Company in 2001. Mr. Chan is an independent non-executive director of Emperor International Holdings Limited and a non-executive director of Southeast Asia Properties & Finance Limited, both are listed companies in Hong Kong.

LI Defa aged 57, is the Dean of the College of Animal Science and Technology, China Agricultural University. He has a Ph.D. in animal science from Kansas State University, the United States of America as well as a master's degree in animal science from Beijing Agricultural University. Before becoming the Dean of the College of Animal Science and Technology, China Agricultural University, Mr. Li had been a director of National Feed Engineering Technology Research Centre and Ministry of Agriculture Feed Industry Centre. He was appointed as an independent non-executive director of the Company in September 2004.

SENIOR MANAGEMENT

LI Weigang aged 53, has a master's degree in banking and finance from the University of Wales, the United Kingdom, as well as a master's degree in economics from The Graduate School of Chinese Academy of Social Sciences. Prior to joining the Group as assistant general manager in 2001, Mr. Li has held senior positions in various financial institutions in the PRC, with responsibility in corporate finance and general management.

QI Hongbin aged 45, is the dean of design and research institute and director of development centre of the Group. He holds a master's degree from the Jilin Agricultural University, specialising in mechanical engineering. He has over 10 years' experience in process engineering and technology development. He joined the Group in 1996.

CHU Lalin aged 49, is the chief engineer of the Group. He holds a bachelor's degree from the Shijiazhuang Railroad Engineering Academy and has more than 20 years of experience in mechanical and food engineering. He joined the Group in 1996.

WANG Dehui aged 43, is the assistant chief engineer of the Group. He holds a master's degree in science from the Jilin Agricultural University and has extensive of experience in food engineering and organic engineering. He joined with the Group in 1997.

ZHANG Xiuzhen aged 67, is the manager of the administration department. She is responsible for human resources management of the Group in the PRC. She joined the Group in 1996. She is the wife of Mr. Xu Zhouwen, an executive Director.

CHEUNG Kin Po aged 40, has been appointed as the company secretary of the Company with effect from 20 April 2010. He joined the Group in 2007 as Financial Manager. He holds a bachelor's degree in Commerce from the University of Auckland in New Zealand. He is currently a Certified Practising Accountant of the CPA Australia and an associate of Hong Kong Institute of Certified Public Accountants. He has over 15 years' experience in auditing, financial and management accounting, budgeting, treasury and secretarial function.

The Company is committed to ensuring high standards of corporate governance at all times and in all areas of its operations. The Board believes that good corporate governance is an essential element in enhancing the confidence of current and potential shareholders, investors, employees, business partners and the community as a whole.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board regularly reviews the Group's corporate governance guidelines and developments. It is our belief that, during the year ended 31 December 2011, the Group has complied with the code provisions as laid down in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and Corporate Governance Report as set out in Appendix 23 to the Listing Rules. The Board has also reviewed the Group's corporate governance practices and is satisfied that the Group has been in full compliance with all the code provisions of the Code throughout the Year.

THE BOARD

Member Attendance of Board and Committee Meetings for the year 2011

	Meetings Attended and Held			
	Board Meeting	Written Board Resolution	Audit Committee	Remuneration Committee
Executive Directors				
Liu Xiaoming	4/4	4/4		
Xu Zhouwen	4/4	4/4		
Wang Guifeng	4/4	4/4		
Zhang Fusheng	4/4	4/4		
Cheung Chak Fung	0/4	4/4		0/2
Independent Non-Executive Directors				
Lee Yuen Kwong	4/4	4/4	2/2	2/2
Chan Man Hon, Eric	4/4	4/4	2/2	2/2
Li Defa	2/4	4/4	2/2	

As of the date of this report, the Board comprised eight Directors, being five executive Directors and three independent non-executive Directors. Save that Mr. Xu Zhouwen is the uncle of Mr. Zhang Fusheng, there is no relationship (including financial, business, family or other material/relevant relationship) between any of the Directors. Detailed biographies outlining each individual Directors' range of specialist experience and expertise are set out in pages 17 to 18 of this report.

The Group believes that its independent non-executive Directors comprise a good mix of local and overseas experts, financial consultants and industry experts. The Board believes that such composition is ideally qualified to advise the management team on future strategy development, financial and other statutory requirements, and to act as guardians of shareholders' interests. The Board evaluates the independence of all independent non-executive Directors on an annual basis and has received written confirmation from each independent non-executive Director regarding his independence. As at the date of this report, the Board considers that all independent non-executive Directors are independent and in full compliance with the independence guidelines as laid down in the Listing Rules.

The Board meets at least four times each year at approximately quarterly intervals to discuss the Group's overall strategy, operation and financial performance. Measures were taken to ensure that the Board is supplied in a timely manner with all necessary information in a form and of a quality appropriate to enable it to discharge its duties. All Board meetings adhere to a formal agenda in which a schedule of matters is specifically addressed to the Board for its decision. Specific topics discussed at these quarterly Board meetings include: overall strategy; major acquisitions and disposals; annual budgets; interim and annual results; recommendations on Directors' appointment(s) or reappointment(s); matters relating to share capital; approval of major capital projects; dividend policies; and other significant operational and financial matters. All businesses transacted at individual Board meetings are recorded in the minutes of each meeting. All Board members have access to the advice and services of the Company Secretary. If necessary, Directors also have recourse to external professional advice at the Group's expense. During the intervals between Board meetings, individual Directors are provided with appraisals of all major changes that may affect the Group's businesses.

The Board decides on corporate strategies, approves overall business plans and supervises the Group's financial performance, management and organisation on behalf of the shareholders. Specific tasks that the Board delegates to the Group's management include the preparation of annual and interim accounts for the Board's approval; implementation of strategies approved by the Board; monitoring of operating budgets; the implementation of internal controls procedures; and the ensuring of compliance with relevant statutory requirements and other rules and regulations.

All new Directors, if any, will be briefed about the duties, responsibilities and obligations as a director of a listed company. Newly-appointed Directors are also encouraged to discuss with the Chairman any additional information or training they may require, to more effectively discharge their duties.

In accordance with the articles of association of the Company, every member of the Board shall retire by rotation at the annual general meeting of the Company at least once every three years. The retiring Directors shall be eligible for re-election at the same annual general meeting.

The Board considers that the Group has sufficient and appropriate liability insurance to cover its Directors and senior management team against any legal liability that may arise from their performance of their duties.

In compliance with the Code, the Company has set up an audit committee (the "Audit Committee") and a remuneration committee (the "Remuneration Committee"). The Board considers the determination of the appointment and removal of Directors to be the Board's collective decision and thus does not intend to adopt the recommended best practises of the Code to set up a nomination committee.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Liu Xiaoming and Mr. Xu Zhouwen are the chairmen of the Company. During the Year, the Company did not have any officer with the title "chief executive officer". The duties of a chief executive officer are substantially undertaken by the co-chairmen of the Company. Mr. Xu is mainly responsible for overseeing the operations of the Group in Mainland China while Mr. Liu is mainly responsible for providing leadership to the Board.

Term of Appointment of Non-executive Directors

Mr. Lee Yuen Kwong and Mr. Chan Man Hon, Eric were appointed as independent non-executive Directors on 1 March 2003. Under their current appointment letters, their appointments are for a term of two years commencing on 1 March 2011. Mr. Li Defa was appointed as independent non-executive Director on 16 September 2004. Under his current appointment letter, his appointment is for a term of two years commencing on 15 September 2010.

DIRECTORS' REMUNERATION

During the Year under review, Directors' remuneration is as follows:

	2011 ***HK$'000***	2010 *HK$'000*
Fees	**1,200**	840
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	**11,400**	8,580
Performance related bonuses	**33,600**	15,000
Equity-settled share option expenses	**10,230**	—
Pension scheme contributions	**24**	24
	55,254	23,604
Total	**56,454**	24,444

According to the Directors' service contracts, each of the existing executive Directors 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 2011, the aggregate amount of the bonuses payable to the executive Directors was equivalent to 2.5% (2010: 4.3%) of the net profit from ordinary activities attributable to equity holders.

(a) Independent Non-executive Directors

The fees paid to independent non-executive Directors during the Year were as follows:

	2011	2010
	HK$'000	*HK$'000*
Chan Man Hon, Eric	**480**	360
Lee Yuen Kwong	**480**	360
Li Defa	**240**	120
Total	**1,200**	840

There were no other emoluments payable to the independent non-executive Directors during the Year (2010: Nil).

(b) Executive Directors

	Basic salaries, housing benefits, other allowances and benefits in kind	**Performance scheme related bonuses**	**Equity-settled share option expenses**	**Pension contributions**	**Total remuneration**
	HK$'000	***HK$'000***		***HK$'000***	***HK$'000***
2011					
Executive Directors:					
Liu Xiaoming	**3,720**	**11,000**	**3,540**	**12**	**18,272**
Xu Zhouwen	**3,720**	**12,000**	**3,540**	**–**	**19,260**
Wang Guifeng	**1,800**	**5,600**	**1,050**	**–**	**8,450**
Zhang Fusheng	**600**	**3,000**	**1,050**	**–**	**4,650**
Cheung Chak Fung	**1,560**	**2,000**	**1,050**	**12**	**4,622**
Total	**11,400**	**33,600**	**10,230**	**24**	**55,254**
2010					
Executive Directors:					
Liu Xiaoming	3,000	5,500	–	12	8,512
Xu Zhouwen	3,000	5,500	–	–	8,500
Wang Tieguang	1,620	–	–	9	1,629
Wang Guifeng	450	2,000	–	–	2,450
Zhang Fusheng	150	1,000	–	–	1,150
Cheung Chak Fung	360	1,000	–	3	1,363
Total	8,580	15,000	–	24	23,604

The Directors meet at least once every year to review the nomination procedures and the process and criteria adopted by the Board to select and recommend candidates for directorship. All Directors except Mr. Cheung Chak Fung were present at that meeting.

During the meeting, the Board reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board, identified individuals suitably qualified to become Board members, assess the continual independence of independent non-executive Directors, having regard to the requirements under the applicable laws, rules and regulations and consider and recommend the re-election of the retiring Directors.

In selecting a suitable candidate to become a member of the Board, the Board will consider various criteria such as education, qualification, experience and reputation of such candidate.

AUDIT COMMITTEE

The Audit Committee was established in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three independent non-executive Directors. The Chairman of the Audit Committee is Mr Lee Yuen Kwong, who is a Certified Public Accountant and has been practicing since 1990. The other members of the Audit Committee is Mr Chan Man Hon, Eric, who is a solicitor and has been practicing in Hong Kong for over 20 years and Mr Li Defa, who is the Dean of the College of Animal Science and Technology, China Agricultural University.

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

The Group's annual results for the Year have been reviewed by the Audit Committee.

INTERNAL CONTROL

The Board is entrusted with the overall responsibility for establishing and maintaining the Group's internal control systems and reviewing their effectiveness. The role of the Group's management is to implement all Board policies on risk and control.

The Group's internal control systems are designed to provide reasonable protection of the Group's assets, and to safeguard these assets against unauthorised use or disposition by ensuring that all such transactions are executed in accordance with management's authorisation. The systems also ensure that accounting records are sufficiently accurate for the preparation of financial information used for operation and for reporting purposes. The Group has adopted proper procedures with duly assigned levels of authority in areas of financial, operational and compliance controls and risk management to ensure that its assets and resources remain secure at all times.

The role of the Audit Committee is, through discussion with management and engagement of external consultants, to review the effectiveness of internal control systems, including financial, operational and compliance controls and risk management functions, and to report to the Board any and significant risk issues.

In November 2011, the Board has engaged BDO Financial Services Limited ("BDO"), specialist in risk advisory services, to conduct a review of the effectiveness of the system of internal control of the Group and report any weaknesses identified and recommending means for improvement to the Audit Committee. The Board has conducted a review of the effectiveness of the Group's internal control system based on the assessment of the Audit Committee and BDO and considered that the internal control system and procedure of the Group were effective and adequate.

REMUNERATION COMMITTEE

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

In 2011, the Remuneration Committee held two meeting to review and approve the Directors' and senior management's remuneration packages.

REMUNERATION POLICY

The primary objective of the Group's remuneration policy is to retain and motivate executive Directors by linking their remuneration with the Group's performance and to evaluate their remuneration against corporate goals, so that the interests of the executive Directors are aligned with those of shareholders. No Director is allowed to approve his or her own remuneration.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the Company's code of conduct for dealings in securities of the Company by the Directors. Having made specific enquiry of the Company's Directors, the Directors have complied with the required standard set out in the code of conduct and the Model Code throughout the Year, except that Mr. Zhang Fusheng, an executive Director, was in breach of A.3(a) and B.8 of Appendix 10 to the Listing Rules by making the following dealings in the shares of the Company:

Date of dealing	**Number of shares involved**	**Rule(s) breached**	
		A.3(a) of Appendix 10 to the Listing Rules	**B.8 of Appendix 10 to the Listing Rules**
14 June 2011	Acquisition of 50,000 shares	–	✓
24 June 2011	Acquisition of 50,000 shares	–	✓
27 June 2011	Acquisition of 100,000 shares	–	✓
12 October 2011	Acquisition of 10,000 shares	–	✓
8 December 2011	Sale of 100,000 shares	–	✓
16 December 2011	Sale of 100,000 shares	–	✓
23 December 2011	Sale of 100,000 shares	–	✓
9 January 2012	Sale of 100,000 shares	–	✓
10 January 2012	Sale of 50,000 shares	–	✓
11 January 2012	Sale of 100,000 shares	–	✓
19 January 2012	Sale of 100,000 shares	–	✓
26 January 2012	Sale of 60,000 shares	✓	✓
27 January 2012	Sale of 50,000 shares	✓	✓
1 February 2012	Sale of 50,000 shares	✓	✓
2 February 2012	Sale of 100,000 shares	✓	✓
3 February 2012	Sale of 50,000 shares	✓	✓
8 February 2012	Sale of 100,000 shares	✓	✓
22 February 2012	Sale of 420,000 shares	✓	✓
27 February 2012	Sale of 20,000 shares	✓	✓
14 March 2012	Sale of 100,000 shares	✓	✓
16 March 2012	Sale of 60,000 shares	✓	✓
19 March 2012	Sale of 50,000 shares	✓	✓

The Company will reiterate and remind the Directors from time to time in respect of the relevant rules and requirements in relation to Directors' dealing in securities in order to ensure the compliance of the code of conduct and the Model Code.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for overseeing the preparation of accounts of each financial year, which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that year. In preparing the accounts for the year ended 31 December 2011, the Directors have selected suitable accounting policy and applied them consistently, approved adoption of all Hong Kong Financial Reporting Standards, made judgements and estimates that are appropriate, and prepared the accounts on the going concern basis.

The Group has announced its annual and interim results in a timely manner within the limits of 3 months and 2 months respectively after the end of the relevant period, as laid down in the Listing Rules.

AUDITORS' REMUNERATION

For the year ended 31 December 2011, HK$7,380,000 was incurred as remuneration to Ernst & Young for the provision of audit services and audit related remuneration of HK$4,951,000 was paid to other certified public accountant firms for the provision of audit services of the subsidiaries of the Company located in Mainland China. During the Year, the following amounts were paid as remuneration to Ernst & Young and other certified public accountant firms for the provision of non-audit related services to the Group:

	HK$'000
Taxation compliance	209
Others	2,523
Total	2,732

COMMUNICATION WITH SHAREHOLDERS

The Group establishes and maintains different communication channels with its shareholders through the publication of annual and interim reports, notices, announcements and circulars on the Stock Exchange, the Company website at www.globalbiochem.com, and general and investor meetings held either face-to-face or via telephone conference calls. The Group reports to its shareholders twice a year and maintains a regular dialogue with investors.

The annual general meeting provides a useful forum for shareholders to exchange views with the Board. Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of Directors.

Based on the information that is publicly available to the Group and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Group has maintained the prescribed amount of public float during the year 2011 and up to the date of this annual report as required by the Listing Rules.

DIRECTORS' AND AUDITORS' ACKNOWLEDGEMENT

All Directors acknowledge their responsibility for preparing the accounts for the year ended 31 December 2011.

The auditors of the Company acknowledge their reporting responsibilities in the auditors' report on the financial statements for the year ended 31 December 2011.

21 March 2012

The directors present their report and the audited financial statements of Global Bio-chem Technology Group Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is involved in the manufacture and sale of corn refined products, corn based sweetener products and corn based biochemical products. Details of the principal activities of the principal subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 39 to 126.

An interim dividend of HK1.5 cent per ordinary share was paid on 8 November 2011. The directors recommend the payment of a final dividend of HK2 cents per ordinary share in respect of the year to shareholders on the register of members on 18 May 2012. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the statement of financial position.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, and restated as appropriate, is set out on page 127. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 33 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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

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

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme"), which was adopted pursuant to a resolution passed at a shareholders' meeting held on 3 September 2007, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Scheme became effective on 3 September 2007 and, unless otherwise cancelled or amended, will remain in force 10 years from that date.

Eligible participants of the Scheme include the following:

(i) any employee or proposed employee (whether full time or part time) of the Group or any entity ("Invested Entity") in which any member of the Group holds any equity interest;

(ii) any non-executive director (including independent non-executive directors) of the Group or any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of the Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;

(vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;

(vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and

(viii) any other group or class or participant who has contributed or may contribute by way of joint venture, business alliance or other business arrangement to the growth of the Group.

And, for the purposes of the Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants.

The total number of shares which may be allotted and issued upon exercise of all options to be granted under the Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 10% of the Shares in issue on 3 September 2007 ("General Scheme Limit"). The Company may renew the General Scheme Limit with shareholders' approval provided that each such renewal may not exceed 10% of the Shares in issue as at the date of the shareholders' approval. The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the Shares in issue from time to time.

SHARE OPTION SCHEME *(continued)*

The maximum number of shares issuable upon exercise of the options which may be granted under the Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant (other than a substantial shareholder or an independent non-executive director of the Company as explained below) in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to Shareholders' approval in general meeting (with such participant and his associates abstaining from voting).

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their respective associates (as defined under the Listing Rules), are subject to approval in advance by the independent non-executive Directors (excluding independent non-executive Director who is the grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive Director or any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Shares at the date of grant) in excess of HK$5 million, within any 12-month period up to and including the date of grant, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determined by the Board, which period may commence from the date of acceptance of the offer of the grant of share options but shall end in any event not later than 10 years from the date of grant of the options subject to the provisions for early termination under the Scheme.

The subscription price for the Shares under the Scheme will be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

The following share options were outstanding under the Scheme of the Company during the Year:

	Number of share options								Price of Company's shares			
Participants	At 1 January 2011	Granted during the year	Exercised during the year	Lapse during the year	At 31 December 2011	Date of grant of share options	Exercise period of share options	Vesting period of share options	Exercise price of share options *HK$*	Closing price immediately before the grant date *HK$*	Weighted average closing price immediately before the exercise date *HK$*	Closing price at exercise date of options *HK$*
Wang Guifeng	–	3,000,000	(1,500,000)	–	1,500,000	21 January 2011	21 January 2011 to 20 January 2016	–	1.24	1.24	1.89	1.97
Zhang Fusheng	–	3,000,000	(1,500,000)	–	1,500,000	21 January 2011	21 January 2011 to 20 January 2016	–	1.24	1.24	1.89	1.97
Cheung Chak Fung	–	3,000,000	(1,500,000)	–	1,500,000	21 January 2011	21 January 2011 to 20 January 2016	–	1.24	1.24	1.89	1.97
Employees	–	14,200,000	(2,100,000) (3,500,000) (5,500,000)	–	3,100,000	21 January 2011	21 January 2011 to 20 January 2016	–	1.24	1.24	1.96 2.09 2.22	1.93 1.89 2.15
	–	1,200,000	–	(1,200,000)	-	21 January 2011	21 January 2011 to 20 January 2016	–	1.24	1.24	N/A	N/A
	–	24,400,000	(15,600,000)	(1,200,000)	7,600,000							

As at the date of this report, 7,600,000 Shares were available for issue under the Scheme, representing approximately 0.23% of the issued share capital of the Company as at that date.

SHARE OPTION SCHEME OF THE COMPANY'S SUBSIDIARY

GSH operates a share option scheme (the "GSH Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the operations of GSH and its subsidiaries (the "GSH Group"). The GSH Scheme became effective on 3 September 2007 and, unless otherwise cancelled or amended, will remain in force 10 years from that date.

Eligible participants of the GSH Scheme include the following:

(i) any employee of proposed employee (whether full time of part time) of the GSH Group or any entity ("Invested Entity") in which any member of the GSH Group holds any equity interest;

(ii) any non-executive director (including independent non-executive directors) of the GSH Group or any Invested Entity;

(iii) any supplier of goods or services to any member of the GSH Group or any Invested Entity;

(iv) any customer of the GSH Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to the GSH Group or any Invested Entity;

(vi) any shareholder of any member of the GSH Group or any Invested Entity or any holder of any securities issued by any member of the GSH Group or any Invested Entity;

(vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the GSH Group or any Invested Entity; and

(viii) any other groups or classes or participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of the GSH Group.

And for the purposes of the GSH Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of participants.

The maximum number of unexercised share options currently permitted to be granted under the GSH Scheme is an amount equivalent, upon their exercise, to 30% of the shares of GSH in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of GSH in issue at any time. Any further grant of share options in excess of this limit is subject to GSH shareholders' approval in a general meeting.

SHARE OPTION SCHEME OF THE COMPANY'S SUBSIDIARY *(Continued)*

Share options granted to substantial shareholder of GSH, or an independent non-executive director of GSH or any of their respective associates, in excess of 0.1% of the shares of GSH in issue at any time or with an aggregate value (based on the price of GSH's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to GSH shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors of GSH, which period may commence from the date of acceptance of the offer for the grant of share options but shall end in any event not later than 10 years from the date of grant of the options subject to the provisions for early termination under the Scheme.

The exercise price of share options is determinable by the directors of GSH, but may not be less than the higher of (i) the Stock Exchange closing price of the shares of GSH in the date of offer of the share options; and (ii) the average Stock Exchange closing price of the GSH's shares for the five trading days immediately preceding the date of offer.

The following share options were outstanding under the GSH Scheme during the Year:

Participants	At 1 January 2010	Grant during the year	Lapsed during the year	Exercised during the year	At 31 December 2011	Date of grant of share options	Exercise period of share options	Vesting period of share options	Exercise price of share options	Closing price immediately before the grant date	Weighted average closing price immediately before the exercise date	Closing price at exercise date of options
									HK$ per share	*HK$ per share*	*HK$ per share*	*HK$ per share*
Lee Chi Yung	3,000,000	–	(3,000,000)	–	–	7 July 2008	7 July 2008 to 6 July 2011	–	1.59	1.63	N/A	N/A
Employees of GSH	330,000	–	–	(330,000)	–	7 July 2008	7 July 2008 to 6 July 2011	–	1.59	1.63	1.71	1.84
Kong Zhanpeng	–	6,000,000	–	–	6,000,000	11 July 2011	11 July 2011 to 10 July 2016	–	1.67	1.67	N/A	N/A
Zhang Fazheng	–	2,000,000	–	–	2,000,000	11 July 2011	11 July 2011 to 10 July 2016	–	1.67	1.67	N/A	N/A
Xu Zhouwen	–	6,000,000	–	–	6,000,000	11 July 2011	11 July 2011 to 10 July 2016	–	1.67	1.67	N/A	N/A
Lee Chi Yung	–	4,000,000	–	–	4,000,000	11 July 2011	11 July 2011 to 10 July 2016	–	1.67	1.67	N/A	N/A
Chan Yuk Tong	–	2,000,000	–	–	2,000,000	11 July 2011	11 July 2011 to 10 July 2016	–	1.67	1.67	N/A	N/A
Ho Lic Ki	–	2,000,000	–	–	2,000,000	11 July 2011	11 July 2011 to 10 July 2016	–	1.67	1.67	N/A	N/A
Employees of GSH	–	3,400,000	–	–	3,400,000	11 July 2011	11 July 2011 to 10 July 2016	–	1.67	1.67	N/A	N/A
Liu Xiaoming	–	6,000,000	–	–	6,000,000	11 July 2011	11 July 2011 to 10 July 2016	–	1.67	1.67	N/A	N/A
	3,330,000	31,400,000	(3,000,000)	(330,000)	31,400,000							

As at the date of this annual report, 31,400,000 shares of GSH were available for issue under the GSH Scheme, representing approximately 2.06% of the issued share capital of GSH as at that date.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 35(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2011, the Company had reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounting to approximately HK$453,126,000. Under the Companies Law of the Cayman Islands, the share premium account of the Company of approximately HK$2,717,353,000 as at 31 December 2011 is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The Company's share premium account may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 13% of the total sales for the year and sales to the largest customer included therein accounted for 5% of the total sales of the year. Purchases from the Group's five largest suppliers accounted for 34% of the total purchases for the year and the purchase from the largest supplier included therein accounted for 27% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Liu Xiaoming
Xu Zhouwen
Wang Guifeng
Cheung Chak Fung
Zhang Fusheng

Independent non-executive directors:

Lee Yuen Kwong
Chan Man Hon, Eric
Li Defa

DIRECTORS *(Continued)*

According to article 108(A) of the articles of association of the Company, not less than one-third of the Directors shall retire from office by rotation at each annual general meeting of the Company. Any Director who retires under this article shall then be eligible for re-election as Director. Mr. Xu Zhouwen, Mr. Cheung Chak Fung, Mr. Chan Man Hon, Eric and Mr. Lee Yuen Kwong will retire as Directors. Mr. Xu Zhouwen, Mr. Chan Man Hon, Eric and Mr. Lee Yuen Kwong will, being eligible, offer themselves for re-election as Directors at the forthcoming annual general meeting, while Mr. Cheung Chak Fung will not offer himself for re-election.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and senior management of the Group are set out on pages 17 to 18 of the annual report.

DIRECTORS' SERVICE CONTRACTS AND APPOINTMENT LETTERS

Each of Mr. Liu Xiaoming and Mr. Xu Zhouwen has entered into a service contract with the Company for a term of three years commencing on 1 March 2004, and each of Ms. Wang Guifeng, Mr. Zhang Fusheng and Mr. Cheung Chak Fung has entered into a service contract for a term of three years commencing on 29 September 2010. Each of the above service contract is renewable automatically for successive terms of one year each commencing from the day after the expiry of the then current term of the executive's appointment and subject to termination by either party giving not less than three months' notice in writing.

Each of Mr. Lee Yuen Kwong and Mr. Chan Man Hon, Eric has entered into an appointment letter with the Company for a term of two years commencing on 1 March 2009. Mr. Li Defa has entered into an appointment letter with the Company for a term of two years commencing on 15 September 2010.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or were in existence during the year ended 31 December 2011.

There was no contract of significance between the Company or any of its subsidiaries and a controlling shareholder or any of its subsidiaries during the year ended 31 December 2011.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2011, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in ordinary shares of the Company:

		Number of shares held, capacity and nature of interest			
Name of director	*Notes*	**Directly beneficially owned**	**Through controlled corporation**	**Total**	**Approximate percentage of the Company's issued share capital**
Mr. Liu Xiaoming	*1*	19,090,400	489,048,000	508,138,400	15.58
Mr. Xu Zhouwen	*2*	24,155,600	295,456,000	319,611,600	9.80
Mr. Cheung Chak Fung	*3*	3,049,325	–	3,049,325	0.09
Ms. Wang Guifeng	*4*	3,000,000	–	3,000,000	0.09
Mr. Zhang Fusheng	*5*	2,910,000	–	2,910,000	0.09

Long positions in ordinary shares of Global Sweeteners Holdings Limited:

Name of director	*Notes*	**Number of shares held**	**Approximate percentage of the issued share capital of GSH**
Mr. Liu Xiaoming	*6*	6,000,000	0.39
Mr. Xu Zhouwen	*7*	6,000,000	0.39
Mr. Cheung Chak Fung	*8*	10,000	–

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

Notes:

1. 489,048,000 shares are owned by LXM Limited, a company incorporated in the British Virgin Islands (the "BVI"). The entire issued share capital of LXM Limited is beneficially owned by Mr. Liu Xiaoming.

2. 295,456,000 shares are owned by Crown Asia Profits Limited, a company incorporated in the BVI. The entire issued share capital of Crown Asia Profits Limited is beneficially owned by Mr. Xu Zhouwen.

3. Among these interests, 1,549,325 of which are ordinary shares of the Company held by Mr. Cheung Chak Fung as beneficial owner and 1,500,000 of which are underlying shares comprised in the options granted to Mr. Cheung Chak Fung pursuant to the Scheme.

4. Among these interests, 1,500,000 of which are ordinary shares of the Company held by Ms. Wang Guifeng as beneficial owner and 1,500,000 of which are underlying shares comprised in the options granted to Ms. Wang Guifeng pursuant to the Scheme.

5. Among these interests, 1,410,000 of which are ordinary shares of the Company held by Mr. Zhang Fusheng as beneficial owner and 1,500,000 of which are underlying shares comprised in the options granted to Mr. Zhang Fusheng pursuant to the Scheme.

6. These shares are underlying shares comprised in the options granted to Mr. Liu Xiaoming pursuant to the GSH Scheme.

7. These shares are underlying shares comprised in the options granted to Mr. Xu Zhouwen pursuant to the GSH Scheme.

8. These shares are held by the spouse of Mr. Cheung Chak Fung. Under the SFO, Mr. Cheung is deemed, or taken to be, interested in all shares which his spouse is deemed, or taken to be interested in for the purposes of the SFO.

Save as disclosed above, as at 31 December 2011, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Directors' interests and short positions in shares and underlying shares" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2011, the interests or short positions of the persons (other than a Director or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long positions:

Name	*Notes*	**Number of ordinary shares held**		**Percentage of the Company's issued share capital**
LXM Limited	*1*	489,048,000	(L)	14.99
Crown Asia Profits Limited	*2*	295,456,000	(L)	9.06
Mr. Kong Zhanpeng	*3*	260,176,000	(L)	7.98
Mr. Wang Tieguang	*4*	254,369,920	(L)	7.80
Hartington Profits Limited	*3*	241,920,000	(L)	7.42
Rich Mark Profits Limited	*4*	241,920,000	(L)	7.42

L = long position

Notes:

1. The entire issued capital of LXM Limited is beneficially owned by Mr. Liu Xiaoming, an executive director. Mr. Liu Xiaoming is the sole director of LXM Limited.

2. The entire issued capital of Crown Asia Profits Limited is beneficially owned by Mr. Xu Zhouwen, an executive director. Mr. Xu Zhouwen is the sole director of Crown Asia Profits Limited.

3. These shares were held as to 18,256,000 shares by Mr. Kong Zhanpeng, a former director of the Company and an executive director of Global Sweeteners Holdings Limited, a subsidiary of the Company whose shares are listed on the Stock Exchange and 241,920,000 shares by Hartington Profits Limited, a company incorporated in the BVI. The entire issued capital of Hartington Profits Limited is beneficially owned by Mr. Kong Zhanpeng.

4. These shares were held as to 12,449,920 shares by Mr. Wang Tieguang, a former director of the Company and 241,920,000 shares by Rich Mark Profits Limited, a company incorporated in the BVI. The entire issued share capital of Rich Mark Profits Limited is beneficially owned by Mr. Wang Tieguang. Mr. Wang Tieguang is the sole director of Rich Mark Profits Limited.

Save as disclosed above, as at 31 December 2011, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS

During the year, the Group had no connected transactions that needed to be disclosed in compliance with the requirements under Chapter 14A of the Listing Rules.

The related party transactions entered into by the Group in the year under review which are disclosed in note 39 to the financial statements did not fall under the definition of connected transaction or continuing connected transactions under Chapter 14A of the Listing Rules.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to date of this report, no director of the Company is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, pursuant to the Listing Rules, other than those businesses of which the directors of the Company were appointed as directors to represent the interests of the Company and/or the Group.

AUDITORS

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

ON BEHALF OF THE BOARD

Liu Xiaoming
Co-Chairman

Xu Zhouwen
Co-Chairman

Hong Kong
21 March 2012

ERNST & YOUNG
安 永

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

We have audited the consolidated financial statements of Global Bio-chem Technology Group Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 39 to 126, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong

22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

21 March 2012

	Notes	2011 HK$'000	2010 HK$'000
REVENUE	5	**14,438,887**	9,314,898
Cost of sales		**(11,071,452)**	(7,747,539)
Gross profit		**3,367,435**	1,567,359
Other income and gains	5	**133,098**	138,985
Selling and distribution costs		**(720,255)**	(550,733)
Administrative expenses		**(439,572)**	(269,927)
Other expenses		**(116,474)**	(24,378)
Finance costs	7	**(521,920)**	(378,546)
Gain on loss of control of a subsidiary	36	**14,969**	—
Share of profits and losses of jointly-controlled entities	19	**(2,598)**	1,196
Share of profits and losses of associates	20	**(742)**	—
PROFIT BEFORE TAX	6	**1,713,941**	483,956
Income tax expense	10	**(335,969)**	(110,296)
PROFIT FOR THE YEAR		**1,377,972**	373,660
OTHER COMPREHENSIVE INCOME			
Gain on property revaluation	14	**485,460**	—
Income tax effect		**(121,365)**	—
		364,095	—
Share of other comprehensive income of jointly-controlled entities		**4,313**	1,712
Exchange differences on translation of financial statements of operations outside Hong Kong		**550,281**	175,321
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,296,661**	550,693
Profit attributable to:			
Owners of the parent	11	**1,309,798**	331,726
Non-controlling interests		**68,174**	41,934
		1,377,972	373,660
Total comprehensive income attributable to:			
Owners of the parent		**2,168,032**	495,581
Non-controlling interests		**128,629**	55,112
		2,296,661	550,693
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	13	**HK40.3 cents**	HK12.1 cents
Diluted	13	**HK40.2 cents**	N/A

Details of the proposed dividend for the year are disclosed in note 12 to the financial statements.

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**11,638,571**	9,678,118
Prepaid land lease payments	15	**662,156**	650,284
Deposits paid for acquisition of property, plant and equipment and prepaid land lease payments		**323,384**	369,345
Goodwill	16	**348,428**	348,428
Intangible assets	17	**37,798**	27,684
Deferred tax assets	32	**31,079**	17,513
Breeding biological assets		**9,007**	7,535
Investments in jointly-controlled entities	19	**99,087**	97,372
Investments in associates	20	**95,213**	—
Prepayments, deposits and other receivables		**8,435**	—
Total non-current assets		**13,253,158**	11,196,279
CURRENT ASSETS			
Inventories	21	**4,666,897**	4,185,172
Trade and bills receivables	22	**2,517,641**	1,920,988
Prepayments, deposits and other receivables	23	**1,050,395**	790,240
Trading biological assets		**1,573**	1,947
Due from jointly-controlled entities	39	**970**	3,335
Due from associates	39	**1,493**	—
Equity investments at fair value through profit or loss	24	**33,270**	—
Tax recoverable		**3,165**	2,469
Pledged deposits	25	**1,971**	55,172
Cash and cash equivalents	25	**2,220,195**	1,679,496
Total current assets		**10,497,570**	8,638,819
CURRENT LIABILITIES			
Trade and bills payables	26	**1,228,211**	758,320
Other payables and accruals	27	**753,300**	760,911
Interest-bearing bank borrowings	28	**5,789,314**	4,153,113
Due to jointly-controlled entities	39	**—**	17,299
Tax payable		**206,907**	84,296
Total current liabilities		**7,977,732**	5,773,939
NET CURRENT ASSETS		**2,519,838**	2,864,880
TOTAL ASSETS LESS CURRENT LIABILITIES		**15,772,996**	14,061,159

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	28	**2,309,529**	4,224,425
Guaranteed bonds	29	**527,683**	—
Put option	30	**769,480**	—
Derivative financial instruments		**8,969**	—
Deferred tax liabilities	32	**258,518**	127,316
Deferred income	31	**36,277**	36,543
Total non-current liabilities		**3,910,456**	4,388,284
Net assets		**11,862,540**	9,672,875
EQUITY			
Equity attributable to owners of the parent			
Issued capital	33	**326,199**	324,639
Reserves	35(a)	**9,791,684**	8,341,021
Proposed final dividend	12	**65,240**	32,464
		10,183,123	8,698,124
Non-controlling interests		**1,679,417**	974,751
Total equity		**11,862,540**	9,672,875

Liu Xiaoming
Co-Chairman

Xu Zhouwen
Co-Chairman

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

		Attributable to owners of the parent											
	Notes	Issued capital HK$'000	Share premium account HK$'000	Share option reserve HK$'000	Asset revaluation reserve HK$'000	Other reserve HK$'000	Statutory reserve fund HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2010		231,885	1,820,205	1,667	275,814	–	269,103	857,075	4,026,129	–	7,481,878	556,785	8,038,663
Profit for the year		–	–	–	–	–	–	–	331,726	–	331,726	41,934	373,660
Other comprehensive income for the year:													
Exchange differences on translation of financial statements of operations outside Hong Kong		–	–	–	–	–	–	162,961	–	–	162,961	12,360	175,321
Share of other comprehensive income of jointly-controlled entities		–	–	–	–	–	88	808	–	–	896	816	1,712
Total comprehensive income for the year		–	–	–	–	–	88	163,769	331,726	–	495,583	55,110	550,693
Capital injection by a non-controlling shareholder		–	–	–	–	–	–	–	–	–	–	43,294	43,294
Issue of shares	*33*	92,754	586,169	–	–	–	–	–		–	678,923	–	678,923
Equity-settled share option arrangement		–	–	(97)	–	–	–	–	43	–	(54)	256	202
Dividend paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	(5,495)	(5,495)
Deemed disposal arising from Taiwan Depositary Receipts ("TDRs") offering by a subsidiary		–	–	–	–	41,794	–	–	–	–	41,794	324,801	366,595
Proposed final 2010 dividend	*12*	–	–	–	–	–	–	–	(32,464)	32,464	–	–	–
Transfer from retained profits	*35(a)*	–	–	–	–	–	42,432	–	(42,432)	–	–	–	–
At 31 December 2010		324,639	2,406,374	1,570	275,814	41,794	311,623	1,020,844	4,283,002	32,464	8,698,124	974,751	9,672,875

	Notes	Attributable to owners of the parent											Non-controlling interests HK$'000	Total equity HK$'000
		Issued capital HK$'000	Share premium account HK$'000	Share option reserve HK$'000	Asset revaluation reserve HK$'000	Other reserve HK$'000	Statutory reserve fund HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Put option reserve HK$'000	Total HK$'000		
At 1 January 2011		324,639	2,406,374	1,570	275,814	41,794	311,623	1,020,844	4,283,002	32,464	–	8,698,124	974,751	9,672,875
Profit for the year		–	–	–	–	–	–		1,309,798	–	–	1,309,798	68,174	1,377,972
Other comprehensive income for the year:		–	–	–	–	–	–	–	–	–	–	–	–	–
Exchange differences on translation of financial statements of operations outside Hong Kong		–	–	–	–	–	–	510,470	–	–	–	510,470	39,811	550,281
Gain on property revaluation		–	–	–	345,511	–	–	–	–	–	–	345,511	18,584	364,095
Share of other comprehensive income of jointly-controlled entities		–	–	–	–	–	–	2,253	–	–	–	2,253	2,060	4,313
Total comprehensive income for the year		–	–	–	345,511	–	–	512,723	1,309,798	–	–	2,168,032	128,629	2,296,661
Equity-settled share option arrangement	34	1,560	23,244	2,662	–	–	–	–	–	–	–	27,466	–	27,466
Equity-settled share option arrangement of a subsidiary	34	–	–	16,956	–	–	–	–	1,416	–	–	18,372	680	19,052
Acquisition of non-controlling interest		–	–	–	–	–	–	–	(3,876)	–	–	(3,876)	(953)	(4,829)
Dividend paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	–	(6,046)	(6,046)
Loss of control of a subsidiary		–	–	–	–	–	–	–	–	–	–	–	(54,909)	(54,909)
Deemed disposal of a subsidiary		–	–	–	–	101,193	–	(30,508)	–	–	–	70,685	643,601	714,286
Disposal of a subsidiary intra Group		–	–	–	–	–	–	–	–	–	–	–	(6,336)	(6,336)
Final declared 2010 dividend	12	–	–	–	–	–	–	–	–	(32,464)	–	(32,464)	–	(32,464)
Interim 2011 dividend	12	–	–	–	–	–	–	–	(48,930)	–	–	(48,930)	–	(48,930)
Proposed final 2011 dividend	12	–	–	–	–	–	–	–	(65,240)	65,240	–	–	–	–
Put option reserve	30	–	–	–	–	–	–	–	–	–	(714,286)	(714,286)	–	(714,286)
Transfer from retained profits	35(a)	–	–	–	–	–	18,354	–	(18,354)	–	–	–	–	–
At 31 December 2011		326,199	2,429,618*	21,188*	621,325*	142,987*	329,977*	1,503,059*	5,457,816*	65,240	(714,286)*	10,183,123	1,679,417	11,862,540

* These reserve accounts comprise the consolidated reserves of HK$9,791,684,000 (31 December 2010: HK$8,341,021,000) in the consolidated statement of financial position as at 31 December 2011.

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,713,941**	483,956
Adjustments for:			
Finance costs	7	**521,920**	378,546
Bank interest income	5	**(6,695)**	(2,442)
Gain on disposal of items of property, plant and equipment	5	**(184)**	(158)
Loss on disposal of biological assets		**828**	145
Changes in fair value of biological assets		**(238)**	2,940
Depreciation	6	**593,057**	524,209
Amortisation of prepaid land lease payments	6	**22,260**	19,349
(Reversal of provision)/provision for impairment of trade receivables	6	**24,040**	(15,867)
Share of profits and losses of jointly-controlled entities	19	**2,598**	(1,196)
Write-down of inventories to net realisable value	6	**51,274**	21,534
Amortisation of deferred income	31	**(2,494)**	(3,393)
Amortisation of intangible assets	17	**2,937**	—
Share of profits and losses of associates	20	**742**	—
Gain on loss of control of a subsidiary	36	**(14,969)**	—
Fair value (gains)/losses, net:			
— Derivative financial instruments	6	**8,969**	—
— Equity investments at fair value through profit or loss	6	**(1,173)**	—
— Guaranteed bonds	6	**(21,112)**	—
Equity-settled share option expense	34	**26,646**	—
		2,922,347	1,407,623
Increase in inventories		**(298,881)**	(1,636,216)
Increase in trade and bills receivables		**(517,907)**	(322,268)
Increase in prepayments, deposits and other receivables		**(221,550)**	(41,950)
Increase/(decrease) in trade and bills payables		**423,652**	(59,119)
Increase/(decrease) in other payables and accruals		**140,737**	(149,675)
(Increase)/decrease in trading biological assets		**839**	(1,931)
(Increase)/decrease in amounts due from jointly-controlled entities		**(14,920)**	14,567
Increase in amounts due from associates		**(1,493)**	—
Cash generated from/(used in) operations		**2,432,824**	(788,969)
Interest received		**6,695**	2,442
Overseas taxes paid		**(220,693)**	(71,076)
Net cash flows from/(used in) operating activities		**2,218,826**	(857,603)

	Notes	**2011** **HK$'000**	2010 HK$'000
Net cash flows from/(used in) operating activities		**2,218,826**	(857,603)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(1,887,827)**	(940,852)
Proceeds from disposal of items of property, plant and equipment		**5,222**	22,004
Payment of prepaid land lease payments	15	**(172,605)**	(125,216)
Payment of acquisition consideration		**—**	(202,988)
Purchase of breeding biological assets		**(1,948)**	(1,256)
Increase in deferred income	31	**—**	5,423
Loss of control of a subsidiary	36	**(25,415)**	—
Capital contribution to subsidiaries		**(44,330)**	—
Purchase of equity investments at fair value through profit or loss		**(32,097)**	—
Net cash flows used in investing activities		**(2,159,000)**	(1,242,885)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**3,528,794**	6,067,903
Repayment of bank loans		**(3,754,269)**	(4,567,365)
Repayment of other loans		**(211,835)**	(1,368)
Interest paid		**(462,038)**	(378,546)
Decrease in an amount due to a director		**—**	(89,368)
Proceeds from equity-settled share option arrangement		**19,344**	—
Proceeds from equity-settled share option arrangement of a subsidiary		**525**	202
Capital injection by a non-controlling shareholder	30	**714,286**	43,294
Proceeds from issuance of shares		**—**	678,923
Proceeds from the offering of TDRs of a subsidiary		**—**	366,595
Proceeds from the issue of guaranteed bonds	29	**525,744**	—
Dividends paid		**(81,394)**	(5,495)
Dividends paid to non-controlling interests		**(6,046)**	—
Acquisition of non-controlling interest		**(4,829)**	—
Net cash flows from financing activities		**268,282**	2,114,775
NET INCREASE IN CASH AND CASH EQUIVALENTS		**328,108**	14,287
Cash and cash equivalents at beginning of year		**1,734,668**	1,617,911
Effect of foreign exchange rate changes, net		**159,390**	102,470
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,222,166**	1,734,668

	Notes	2011 HK$'000	2010 HK$'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	**2,113,808**	1,522,715
Non-pledged time deposits with original maturity of less than three months when acquired	25	**106,387**	156,781
Cash and cash equivalents as stated in the statement of financial position		**2,220,195**	1,679,496
Time deposits with original maturity of less than three months when acquired, pledged as security for issuance of bills payable	25	**1,971**	55,172
Cash and cash equivalents as stated in the statement of cash flows		**2,222,166**	1,734,668

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	18	**574,478**	555,817
Total non-current assets		**574,478**	555,817
CURRENT ASSETS			
Due from subsidiaries	18	**3,570,656**	3,330,103
Prepayments, deposits and other receivables	23	**356**	356
Cash and cash equivalents	25	**375,779**	436,900
Total current assets		**3,946,791**	3,767,359
CURRENT LIABILITIES			
Interest-bearing bank borrowings	28	**176,158**	426,250
Other payables and accruals	27	**51,006**	24,775
Total current liabilities		**227,164**	451,025
NET CURRENT ASSETS		**3,719,627**	3,316,334
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,294,105**	3,872,151
NON-CURRENT LIABILITIES			
Guaranteed bonds	29	**527,683**	—
Derivative financial instruments		**8,969**	—
Financial guarantee contracts		**192,873**	180,160
Total non-current liabilities		**729,525**	180,160
Net assets		**3,564,580**	3,691,991
EQUITY			
Issued capital	33	**326,199**	324,639
Reserves	35(b)	**3,173,141**	3,334,888
Proposed final dividend	12	**65,240**	32,464
Total equity		**3,564,580**	3,691,991

Liu Xiaoming
Co-Chairman

Xu Zhouwen
Co-Chairman

1. CORPORATE INFORMATION

Global Bio-chem Technology Group Company Limited is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. 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, corn based biochemical products and biological products. There were no significant 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 include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "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 guaranteed bonds, derivative financial instruments, biological assets and certain property, plant and equipment with periodic remeasurement at fair value as further explained in the financial statements. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in Improvements to HKFRSs 2010, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) Related Party Disclosures

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 39 to the consolidated financial statements.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

2.3 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.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[1]
HKFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 9	*Financial Instruments*[5]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation — offsetting Financial Assets and Financial Liabilities*[6]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2015
6 Effective for annual periods beginning on or after 1 January 2014

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation — Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly-Controlled Entities — Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes — Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group expects to adopt HKAS 12 Amendments from 1 January 2012. Upon the adoption, the Group's deferred tax liability with respect to investment properties located in Hong Kong is expected to be reduced.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Joint ventures *(Continued)*

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.

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 investments in its jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in profit or loss and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Associates

An associate is an entity, not being a subsidiary or jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated statement of changes in equity, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and not individually tested for impairment.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. 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.

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

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.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, biological assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is 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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets *(Continued)*

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an 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, but 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 an impairment loss is credited to profit or loss 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.

Related parties

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

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the Group (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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 statement of comprehensive income. Any subsequent revaluation surplus is credited to the consolidated statement of comprehensive income to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. 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.

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% to 3.4%
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 least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised 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 profit or loss 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 a 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 when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Research and development costs

All research costs are charged to profit or loss 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.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products of ten years, commencing from the date when the products are put into commercial production.

Trademarks

Trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

Golf club membership

Golf club membership is stated at cost less impairment losses, if any. The carrying amount of individual golf club membership is reviewed at the end of each reporting period to assess whether the fair value has declined below the carrying amount. When a decline other than temporary has occurred, the carrying amount of such golf club membership is reduced to its fair value. The amount of the reduction is recognised as an expense in profit or loss.

Biological assets

Biological assets represent breeding cattle recorded as non-current assets and trading cattle recorded as current assets. The biological assets are measured at their fair value on initial recognition and at the end of each reporting period less estimated costs to sell. The fair values of the biological assets are determined based on the most recent market transaction prices. Change in fair value less estimated costs to sell of a biological asset is included in profit or loss for the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Operating 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 profit or loss on the straight-line basis over the lease terms.

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

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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.

The Group's financial assets include trade and bills receivables, prepayments, deposits and other receivables, amounts due from jointly-controlled entities and cash and cash equivalents.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the consolidated income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement *(Continued)*

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation as these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other expenses for receivables.

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 when:

- the rights to receive cash flows from the asset have expired; or

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets *(Continued)*

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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 there is objective evidence that an impairment loss 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). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, amounts included in other payables and accruals, interest-bearing bank and other borrowings, derivative financial instruments, guaranteed bonds and put option.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of HKAS 39 are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings 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 profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

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 income statement.

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, foreign currency swaps, to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Inventories

Inventories, other than the biological assets which are measured in accordance with the accounting policy for “biological assets” above, 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 statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash 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 statement of financial position, 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.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period 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:

- when the deferred tax liability arises from the initial recognition of goodwill or 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, associates and joint ventures, when 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, the carryforward of unused tax credits and any unused tax losses, deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when 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, associates and 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 the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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 by the end of the reporting period.

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 income statement over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(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.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value for the Company is determined using a Black-Scholes-Merton model, and a binomial model by an external valuer for a subsidiary, further details of which are given in note 34 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Employee benefits

Pension schemes and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefit 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 profit or loss 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 benefit schemes (the "PRC RB Schemes") operated by the respective local municipal governments 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 profit or loss 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, i.e., 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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, 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.

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 recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the income statement.

All differences arising on settlement or translation of monetary items are taken to the income statement with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in equity.

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 gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries, jointly-controlled entities and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries 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 which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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:

The Union Company is not a related party under HKAS24

One of the major suppliers of the Group is a company beneficially owned by the staff union of the Group's PRC employees (the "Union Company"). The total purchases from the Union Company accounted for approximately 82.7% of the total corn kernels purchased by the Group for the year. Since none of the directors nor senior management has taken part in the operations of the Union Company, and none of the Company's directors could exercise control or significant influence over the Union Company, the Union Company is not regarded as a related party to the Group under the definition of HKAS24.

Recognition of a deferred tax liability for withholding taxes

The Group determines that no dividends to be distributed from the PRC subsidiaries to the Company or any subsidiary outside Mainland China in the next five years could give rise to the recognition of withholding taxes. Therefore, no deferred tax liability for withholding taxes was recognised in these financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty

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

Estimation of fair value of leasehold buildings

In the absence of current prices in an active market for similar properties, the Group considers information by reference to the valuation performed by an independent valuer based on the open market value basis.

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 units 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 2011 was HK$348,428,000 (31 December 2010: HK$348,428,000). More details are given in note 16 to the financial statements.

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as the technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, the expected usage of the asset, the expected physical wear and tear, the care and maintenance of the asset, and the legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with a similar asset that is used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed, at each financial year end date based on changes in circumstances.

Impairment of property, plant and equipment

The Group assesses at each reporting date whether there is an indication that property, plant and equipment may be impaired. If any such indication exists, the Group makes an estimate of the recoverable amount of property, plant and equipment. This requires an estimation of the value in use of property, plant and equipment. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from property, plant and equipment and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of property, plant and equipment as at 31 December 2011 was HK$11,638,571,000 (31 December 2010: HK$9,678,118,000). Further details are given in note 14 to the financial statements.

Apart from the above, during the year ended 31 December 2011, the Group agreed with the local government to relocate certain properties, plant and equipment amounting to HK$269,277,000 for future city redevelopment. Management estimated the recoverable amount of these assets, together with the land premiums associated, based on the agreed compensation framework with the local government, with reference to the current market value of these assets.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Impairment of trade receivables

The policy for provision for impairment loss of the Group is based on the evaluation of collectability, the aged analysis of trade receivables and 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 Group reviews an aged analysis of its inventories at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The estimated net realisable value of the Group's inventories is based primarily on the latest invoice prices and current market conditions. As at 31 December 2011, the carrying amount of inventories was approximately HK$4,666,897,000 after netting off the allowances for inventories of approximately HK$181,337,000.

Estimation of fair value of biological assets

The Group's biological assets are stated at fair value less point-of-sale costs. This requires an independent valuer's assessment of the fair value of the biological assets. Changes in conditions of the biological assets could impact on the fair value of the assets. The carrying amount of the Group's biological assets at 31 December 2011 was HK$10,580,000 (2010: HK$9,482,000).

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2011, the best estimate of the carrying amount of capitalised development costs was HK$29,372,000 (2010: HK$27,684,000).

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) the corn refined products segment engages in the manufacture and sale of corn refined products, including corn starch, corn gluten meal and corn oil;

(b) the corn based biochemical products segment engages in the manufacture and sale of corn based biochemical products, including corn sweeteners, polyol chemicals and amino acids; and

(c) the biological products segment engages in the breeding of cattle and the sale of beef.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, government grants and corporate expenses are excluded from such measurement.

Segment assets exclude goodwill, other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The Group's revenue is derived from customers based in the mainland of the People's Republic of China ("Mainland China") and in regions other than Mainland China. Another basis on which the Group reports its segment information is by geographical region.

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2011	Corn refined products HK$'000	Corn based biochemical products HK$'000	Biological products HK$'000	Total HK$'000
Segment revenue:				
Sales to external customers	4,020,970	10,278,520	139,397	14,438,887
Intersegment sales	3,171,172	—	—	3,171,172
Other income	55,099	—	—	55,099
	7,247,241	10,278,520	139,397	17,665,158
Reconciliation:				
Elimination of intersegment sales				(3,171,172)
Revenue				14,493,986
Segment results	358,457	1,797,592	(2,259)	2,153,790
Reconciliation:				
Bank interest income				6,695
Unallocated gains				71,304
Corporate and other unallocated expenses				4,072
Finance costs				(521,920)
Profit before tax				1,713,941
Segment assets	8,977,683	12,683,098	129,319	21,790,100
Reconciliation:				
Elimination of intersegment receivables				(1,026,858)
Goodwill				348,428
Corporate and other unallocated assets				2,639,058
Total assets				23,750,728
Segment liabilities	1,769,680	1,355,824	120,617	3,246,121
Reconciliation:				
Elimination of intersegment payables				(1,026,858)
Interest-bearing bank and other borrowings				8,098,843
Unallocated liabilities				1,570,082
Total liabilities				11,888,188
Other segment information:				
Share of profits and losses of jointly-controlled entities	—	(2,598)	—	(2,598)
Depreciation	180,297	411,982	778	593,057
Amortisation of land lease payments	9,972	11,992	296	22,260
Provision/(reversal of provision) for impairment of trade receivables	(10,110)	22,104	12,046	24,040
Write-down/(reversal) of inventories to net realisable value	(18,488)	69,762	—	51,274
Capital expenditure, including land lease payments	205,865	1,856,895	10,073	2,072,833
Loss on disposal of biological assets	—	—	828	828
Investments in jointly-controlled entities	—	99,087	—	99,087

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2010	**Corn refined products** *HK$'000*	**Corn based biochemical products** *HK$'000*	**Biological products** *HK$'000*	**Total** *HK$'000*
Segment revenue:				
Sales to external customers	3,069,742	6,079,336	165,820	9,314,898
Intersegment sales	3,032,919	—	—	3,032,919
Other income	50,996	—	—	50,996
	6,153,657	6,079,336	165,820	12,398,813
Reconciliation:				
Elimination of intersegment sales				(3,032,919)
Revenue				9,365,894
Segment results	342,641	511,947	3,308	857,896
Reconciliation:				
Bank interest income				2,442
Unallocated gains				85,547
Corporate and other unallocated expenses				(83,383)
Finance costs				(378,546)
Profit before tax				483,956
Segment assets	5,451,683	12,540,614	131,446	18,123,743
Reconciliation:				
Elimination of intersegment receivables				(474,699)
Goodwill				348,428
Corporate and other unallocated assets				1,837,626
Total assets				19,835,098
Segment liabilities	274,021	1,763,025	142,794	2,179,840
Reconciliation:				
Elimination of intersegment payables				(474,699)
Interest-bearing bank and other borrowings				8,377,538
Unallocated liabilities				79,544
Total liabilities				10,162,223
Other segment information:				
Share of profits and losses of jointly-controlled entities	—	1,196	—	1,196
Depreciation	166,657	357,226	326	524,209
Amortisation of land lease payments	8,397	10,714	238	19,349
Reversal of provision for impairment of trade receivables	(8,486)	(7,381)	—	(15,867)
Write-down of inventories to net realisable value	20,868	666	—	21,534
Capital expenditure, including land lease payments	40,979	1,020,656	4,612	1,066,247
Investments in jointly-controlled entities	—	97,372	—	97,372

4. OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

(a) Revenue from external customers

	2011 *HK$'000*	2010 *HK$'000*
Mainland China	**11,692,774**	7,207,846
Regions other than Mainland China	**2,746,113**	2,107,052
	14,438,887	9,314,898

The revenue information above is based on the location of the customers.

(b) Non-current assets

	2011 *HK$'000*	2010 *HK$'000*
Mainland China	**12,806,028**	10,764,884
Regions other than Mainland China	**416,051**	413,882
	13,222,079	11,178,766

The non-current asset information above is based on the location of assets and excludes deferred tax assets.

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:

	2011	2010
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**14,438,887**	9,314,898
Other income		
Bank interest income	**6,695**	2,442
Net profit arising from the sale of packing materials and by-products	**55,099**	50,996
Government grants*	**53,354**	80,623
Others	**4,450**	4,766
	119,598	138,827
Gains		
Gain on disposal of items of property, plant and equipment	**184**	158
Fair value gains/(losses), net:		
— Derivative financial instrument	**(8,969)**	—
— Equity investments at fair value through profit or loss	**1,173**	—
— Guaranteed bonds	**21,112**	—
	13,500	158
	133,098	138,985

* Government grants in 2011 represented the rewards to certain subsidiaries located in Mainland China for environmental protection, technology innovation and improvement and compensation for use of land owned by certain subsidiaries located in Mainland China.

6. PROFIT BEFORE TAX

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

	Notes	2011 HK$'000	2010 HK$'000
Cost of inventories sold		**8,288,226**	5,411,089
Depreciation	*14*	**593,057**	524,209
Amortisation of land lease payments	*15*	**22,260**	19,349
Research and development costs		**12,409**	17,308
Auditors' remuneration		**4,500**	4,280
Employee benefit expenses (including directors' remuneration *(note 8)*):			
Wages and salaries		**183,497**	158,334
Pension scheme contributions		**29,777**	10,673
		213,274	169,007
Provision/(reversal of provision) for impairment of trade receivables, net	*22*	**24,040**	(15,867)
Write-down of inventories to net realisable value#		**51,274**	21,534
Fair value (gains)/losses, net:			
— Derivative financial instrument		**8,969**	—
— Equity investments at fair value through profit or loss		**(1,173)**	—
— Guaranteed bonds		**(21,112)**	—
Foreign exchange difference, net		**47,475**	1,967

Included in "Cost of inventories sold" on the consolidated statement of comprehensive income.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Notes	Group 2011 HK$'000	Group 2010 HK$'000
Interest on bank loans wholly repayable within five years		**421,150**	370,325
Interest on bank loans not wholly repayable within five years		**108,348**	68,830
Finance costs for discounted bills receivable		**17,862**	13,500
Interest on guaranteed bonds		**27,714**	—
Interest on put option	*30*	**55,194**	—
		630,268	452,655
Less: Interest capitalised		**(108,348)**	(69,511)
Interest subsidies*		**—**	(4,598)
		521,920	378,546

* Non-refundable interest subsidies are granted by the local government for a specific construction project carried out by certain subsidiaries of the Company.

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:

	Notes	Group 2011 HK$'000	Group 2010 HK$'000
Fees	*(a)*	**1,200**	840
Other emoluments:	*(b)*		
Basic salaries, housing benefits, other allowances and benefits in kind		**11,400**	8,580
Performance related bonuses		**33,600**	15,000
Equity-settled share option expense		**10,230**	—
Pension scheme contributions		**24**	24
		55,254	23,604
		56,454	24,444

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 performance related bonuses. 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 equity holders in respect of that financial year. For the year ended 31 December 2011, the aggregate amount of the bonuses payable to the executive directors was equivalent to approximately 2.5% (2010: 4.3%) of the net profit from ordinary activities attributable to equity holders.

(a) Independent non-executive directors

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

	2011	2010
	HK$'000	*HK$'000*
Mr. Chan Man Hon, Eric	**480**	360
Mr. Lee Yuen Kwong	**480**	360
Mr. Li Defa	**240**	120
	1,200	840

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors

	Basic salaries, housing benefits, other allowances and benefits in kind	Performance related bonuses	Equity-settled share option expense	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2011					
Executive directors:					
Mr. Liu Xiaoming	3,720	11,000	3,540	12	18,272
Mr. Xu Zhouwen	3,720	12,000	3,540	–	19,260
Ms. Wang Guifeng	1,800	5,600	1,050	–	8,450
Mr. Cheung Chak Fung	1,560	2,000	1,050	12	4,622
Mr. Zhang Fusheng	600	3,000	1,050	–	4,650
Total	11,400	33,600	10,230	24	55,254
2010					
Executive directors:					
Mr. Liu Xiaoming	3,000	5,500	–	12	8,512
Mr. Xu Zhouwen	3,000	5,500	–	–	8,500
Ms. Wang Guifeng	450	2,000	–	–	2,450
Mr. Cheung Chak Fung	360	1,000	–	3	1,363
Mr. Zhang Fusheng	150	1,000	–	–	1,150
Mr. Wang Tieguang (resigned on 29 September 2010)	1,620	–	–	9	1,629
Total	8,580	15,000	–	24	23,604

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 three (2010: three) executive directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2010: two) non-director, highest paid employees for the year are as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**4,184**	3,588
Performance related bonuses	**6,400**	4,400
Equity-settled share option expense	**5,900**	—
Pension scheme contributions	**24**	24
	16,508	8,012

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2011	2010
Nil to HK$1,500,000	**—**	—
HK$1,500,001 to HK$2,000,000	**—**	1
HK$2,000,001 to HK$4,500,000	**—**	—
HK$4,500,001 to HK$5,000,000	**1**	—
HK$5,000,001 to HK$6,000,000	**—**	—
HK$6,000,001 to HK$6,500,000	**—**	1
HK$6,500,001 to HK$11,000,000	**—**	—
HK$11,000,001 to HK$12,000,000	**1**	—
	2	2

10. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year. In the prior year, Hong Kong profits tax was provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong. Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in the locations in which the Group operates.

	Group	
	2011	2010
	HK$'000	*HK$'000*
Current — Hong Kong	**—**	4,000
Current — Mainland China	**342,607**	103,112
Deferred *(note 32)*	**(6,638)**	3,184
Total tax charge for the year	**335,969**	110,296

10. INCOME TAX EXPENSE *(Continued)*

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 — 2011	**Hong Kong** *HK$'000*	*%*	**Mainland China** *HK$'000*	*%*	***Total*** *HK$'000*	*%*
Profit/(loss) before tax	(138,160)		1,852,101		1,713,941	
Tax at the statutory rate	(22,797)	16.5	463,025	25.0	440,228	25.7
Preferential tax rate offered *(note (a))*	—	—	(104,477)	(5.6)	(104,477)	(6.1)
Lower tax rate for tax relief granted *(note (b))*	—	—	(54,424)	(2.9)	(54,424)	(3.2)
Income not subject to tax	—	—	(8,920)	(0.5)	(8,920)	(0.5)
Tax losses not recognised	22,797	(16.5)	7,173	0.4	29,970	1.7
Expenses not deductible for tax	—	—	47,976	2.5	47,976	2.8
Tax losses utilised from previous periods	—	—	(5,234)	(0.3)	(5,234)	(0.3)
Tax credit of corporate income tax for purchase of domestic equipment	—	—	(44,331)	(2.4)	(44,331)	(2.6)
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	—	—	11,486	0.6	11,486	0.7
Capital gain tax on intra-group disposal of subsidiary	—	—	23,695	1.3	23,695	1.4
Tax charge at the Group's effective rate	—	—	335,969	18.1	335,969	19.6

10. INCOME TAX EXPENSE *(Continued)*

Group – 2010	Hong Kong *HK$'000*	*%*	Mainland China *HK$'000*	*%*	Total *HK$'000*	*%*
Profit/(loss) before tax	(43,118)		527,074		483,956	
Tax at the statutory rate	(7,115)	16.5	131,769	25.0	124,654	25.7
Preferential tax rate offered *(note (a))*	—	—	(19,745)	(3.7)	(19,745)	(4.1)
Lower tax rate for tax relief granted *(note (b))*	—	—	(25,391)	(4.8)	(25,391)	(5.2)
Income not subject to tax	(1,544)	3.6	(10,195)	(1.9)	(11,739)	(2.4)
Tax losses not recognised	4,907	(11.4)	26,229	5.0	31,136	6.4
Expenses not deductible for tax	7,752	(18.0)	15,926	2.9	23,678	4.9
Tax losses utilised from previous periods	—	—	(2,112)	(0.4)	(2,112)	(0.4)
Tax credit of corporate income tax for purchase of domestic equipment	—	—	(10,185)	(1.9)	(10,185)	(2.1)
Tax charge at the Group's effective rate	4,000	(9.3)	106,296	20.2	110,296	22.8

The statutory tax rate for all subsidiaries in Mainland China was 25% for the current year (2010: 25%).

Note:

(a) The tax rates of five (2010: five) subsidiaries, which were granted the status of Technologically Advanced Enterprise and were entitled to a lower applicable tax rate under Article 75 of the *Detailed Rules and Regulation for the Implementation of the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises*, shall be gradually transitioned to the new statutory tax rate within a period of five years. As a result, these subsidiaries enjoyed the corporate income tax rates of 15% in 2007, 18% in 2008, 20% in 2009 and 22% in 2010, and are subject to the corporate income tax rates of 24% in 2011 and 25% in 2012.

Changchun Dahe Bio Technology Development Co., Ltd. was approved as an advanced and new technology enterprise by the Jilin Government for the period from 5 November 2010 to 4 November 2013. It enjoys a preferential income tax rate of 15% from 1 January 2010 onwards.

(b) Five (2010: Five) subsidiaries were subject to tax concessions in 2011. The total taxable profit of the subsidiaries that are subject to tax concessions amounted to approximately HK$571,946,000 (2010: HK$328,333,000) in aggregate. They were granted tax concessions by the state tax bureau in accordance with the PRC Corporate Income Tax Law and the corresponding transitional tax concession policy under which these subsidiaries would be exempted from corporate income tax for the first two profitable years and subject to 50% of the applicable tax rate for the following three profitable years.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011 includes a loss of HK$73,483,000 (2010: HK$13,070,000) which has been dealt with in the financial statements of the Company (note 35(b)).

12. DIVIDENDS

	2011 **HK$'000**	2010 HK$'000
Interim paid – HK1.5 cents (2010: Nil) per ordinary share	**48,930**	—
Proposed final – HK2.0 cents (2010: HK1.0 cent) per ordinary share	**65,240**	32,464
	114,170	32,464

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent of approximately HK$1,309,798,000 (2010: HK$331,726,000), and the weighted average number of ordinary shares of 3,253,747,247 (2010: 2,748,313,018) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

	2011 **HK$'000**	2010 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**1,309,798**	331,726

	Number of shares	
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**3,253,747,247**	2,748,313,018
Effect of dilution — weighted average number of ordinary shares:		
Share options	**2,594,813**	—
	3,256,342,060	2,748,313,018

14. PROPERTY, PLANT AND EQUIPMENT

Group

31 December 2011	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*
At cost:					
1 January 2011	4,582,883	6,135,665	174,826	1,674,774	12,568,148
Additions	6,018	47,670	48,224	1,791,482	1,893,394
Disposals	(982)	(7,239)	(1,132)	–	(9,353)
Transfers	13,647	126,280	81	(140,008)	–
Loss of control of a subsidiary	(406)	(6,940)	(568)	(379,240)	(387,154)
Surplus on revaluation	485,460	–	–	–	485,460
Exchange realignment	258,974	372,661	9,763	91,443	732,841
At 31 December 2011	5,345,594	6,668,097	231,194	3,038,451	15,283,336
Accumulated depreciation:					
1 January 2011	500,024	2,247,790	142,216	–	2,890,030
Depreciation provided during the year	129,295	438,916	24,846	–	593,057
Disposals	(196)	(3,072)	(1,047)	–	(4,315)
Loss of control of a subsidiary	–	(236)	(53)	–	(289)
Exchange realignment	27,337	130,952	7,993	–	166,282
At 31 December 2011	656,460	2,814,350	173,955	–	3,644,765
Net book value:					
At 31 December 2011	4,689,134	3,853,747	57,239	3,038,451	11,638,571
At 31 December 2010	4,082,859	3,887,875	32,610	1,674,774	9,678,118
Analysis of cost or valuation:					
At cost	–	3,853,747	57,239	3,038,451	6,949,437
At 31 December 2011 valuation	4,689,134	–	–	–	4,689,134
	4,689,134	3,853,747	57,239	3,038,451	11,638,571

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

31 December 2010	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
At cost:					
1 January 2010	3,772,780	5,418,800	157,948	2,084,694	11,434,222
Additions	4,262	33,148	18,651	856,030	912,091
Disposals	(271)	(16,468)	(4,930)	(6,769)	(28,438)
Transfers	727,099	576,167	(187)	(1,303,079)	–
Exchange realignment	79,013	124,018	3,344	43,898	250,273
At 31 December 2010	4,582,883	6,135,665	174,826	1,674,774	12,568,148
Accumulated depreciation:					
1 January 2010	382,038	1,815,878	126,126	–	2,324,042
Depreciation provided during the year	110,143	395,992	18,074	–	524,209
Disposals	(15)	(3,472)	(4,655)	–	(8,142)
Exchange realignment	7,858	39,392	2,671	–	49,921
At 31 December 2010	500,024	2,247,790	142,216	–	2,890,030
Net book value:					
At 31 December 2010	4,082,859	3,887,875	32,610	1,674,774	9,678,118
At 31 December 2009	3,390,742	3,602,922	31,822	2,084,694	9,110,180
Analysis of cost or valuation:					
At cost	692,117	3,887,875	32,610	1,674,774	6,287,376
At 31 December 2009 valuation	3,390,742	–	–	–	3,390,742
	4,082,859	3,887,875	32,610	1,674,774	9,678,118

The Group's leasehold buildings with the shorter of the lease terms or 50 years were stated at the most recent valuation less accumulated depreciation and impairment.

At 31 December 2011, the Group's leasehold buildings were revalued on an open market value basis, by Savills Valuation and Professional Services Limited, independent professionally qualified valuers, at approximately HK$4,698,134,000. A surplus on revaluation of approximately HK$485,460,000 arising from the 2011 valuation has been credited to the asset revaluation reserve during the year ended 31 December 2011.

At 31 December 2011, no leasehold building of the Group was pledged to secure banking facilities granted to the Group. At 31 December 2010, construction in progress and prepaid land lease payments of the Group with a net carrying amount of HK$57,776,000 were pledged to secure banking facilities granted to the Group (note 28).

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

At 31 December 2011, the Group has not obtained building certificates for certain leasehold buildings with a total net carrying amount of HK$2,791,054,000 (31 December 2010: HK$2,631,754,000). The directors considered that there were no potential risks given that the Group has obtained all certificates for the underlying land use rights.

Had the Group's leasehold buildings been carried at historical cost less accumulated depreciation, their carrying amount would have been approximately HK$3,870,018,000 (31 December 2010: HK$3,749,202,000).

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2011	2010
	HK$'000	*HK$'000*
Carrying amount at 1 January	**669,633**	554,483
Additions	**172,605**	125,216
Loss of control of a subsidiary	**(170,567)**	—
Amortised during the year *(note 6)*	**(22,260)**	(19,349)
Disposal	**—**	(1,550)
Exchange realignment	**35,885**	10,833
Carrying amount at 31 December	**685,296**	669,633
Current portion included in prepayments, deposits and other receivables	**(23,140)**	(19,349)
Non-current portion	**662,156**	650,284

The leasehold land with the shorter of the lease terms or 50 years is situated outside Hong Kong.

At 31 December 2011, the Group has not obtained a land use right certificate for prepaid land lease payments with a total carrying amount of HK$4,388,000 (31 December 2010: HK$10,158,000).

16. GOODWILL

	Group	
	2011	2010
	HK$'000	*HK$'000*
At 1 January:		
Cost	**360,889**	360,889
Accumulated impairment	**(12,461)**	(12,461)
Net carrying amount at 31 December	**348,428**	348,428

The impairment loss of HK$12,461,000 was recognised for the goodwill arising from the acquisition of Changchun Dacheng Special Corn Modified Starch Development Co., Ltd. ("Modified Starch") in the prior year.

16. GOODWILL *(Continued)*

Impairment testing of goodwill

Goodwill acquired through business combinations or acquisition of a non-controlling shareholder has 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
Global Polyol Investments Limited	3,875
	348,428

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 fifteen-year period. The discount rate applied to cash flow projections is 13% (2010: 13%). No growth has been projected beyond the five-year period.

Key assumptions were used in the value in use calculation of each cash-generating unit for 31 December 2011. 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 budget year, increased for expected efficiency improvements and expected market development.

Discount rate — The discount rate used is before tax and reflects 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 markets from where the raw materials are sourced.

The values assigned to the key assumptions on market development of industrial products and infrastructure industries, discount rates and raw materials price inflation are consistent with external information sources.

No impairment loss was noted as at 31 December 2011.

17. INTANGIBLE ASSETS

Group

	Golf club membership HK$'000	Trademarks HK$'000	Deferred development costs HK$'000	Total HK$'000
31 December 2011				
Cost at 1 January 2011	—	—	27,684	27,684
Additions	5,290	6,098	—	11,388
Exchange realignment	—	—	1,663	1,663
Amortisation provided during the year	—	(25)	(2,912)	(2,937)
As at 31 December 2011	5,290	6,073	26,435	37,798
At 31 December 2011:				
Cost	5,290	6,098	29,347	40,735
Accumulated amortisation	—	(25)	(2,912)	(2,937)
Net carrying amount	5,290	6,073	26,435	37,798

	Deferred development costs HK$'000
31 December 2010	
Cost at 1 January 2010	—
Additions — internal development	27,684
Amortisation provided during the year	—
As at 31 December 2010	27,684
At 31 December 2010:	
Cost	27,684
Accumulated amortisation	—
Net carrying amount	27,684

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2011 **HK$'000**	2010 HK$'000
Unlisted shares, at cost	**574,478**	555,817

The amounts due from subsidiaries included in the Company's current assets of HK$3,570,656,000 (31 December 2010: HK$3,330,103,000) 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				
Global Sweeteners Holdings Limited ("GSH")	Cayman Islands	Ordinary HK$152,758,600	64	Investment holding
Changchun Dacheng Industrial Group Co., Ltd. ("Dacheng Industrial")*	PRC/Mainland China	RMB193,000,000	100	Investment holding
Bio-chem Technology (HK) Limited	Hong Kong	Ordinary HK$2	100	Trading of corn refined products and corn based biochemical products
Changchun Dacheng Corn Development Co., Ltd.#	PRC/Mainland China	RMB153,940,000	100	Manufacture and sale of corn refined products
Changchun Jincheng Corn Development Co., Ltd.#	PRC/Mainland China	RMB98,700,000	64	Manufacture and sale of corn refined products
Jinzhou Yuancheng Bio-chem Technology Co., Ltd.*	PRC/Mainland China	US$49,504,000	64	Manufacture and sale of corn refined products
Shanghai Hao Cheng Food Development Co., Ltd.*	PRC/Mainland China	US$6,668,000	64	Manufacture and sale of corn based sweeteners
Changchun Dihao Foodstuff Development Co., Ltd.*	PRC/Mainland China	RMB81,000,000	64	Manufacture and sale of corn based sweetener products

18. 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 Dihao Crystal Sugar Industry Development Co., Ltd.*	PRC/Mainland China	US$22,200,000	64	Manufacture and sale of crystallised sugar
Changchun Baocheng Bio-chem Development Co., Ltd.#	PRC/Mainland China	US$30,632,000	100	Manufacture and sale of corn based biochemical products
Changchun Dahe Bio Technology Development Co., Ltd.*	PRC/Mainland China	US$123,000,000	100	Manufacture and sale of corn based biochemical products
Modified Starch#	PRC/Mainland China	RMB99,250,000	100	Manufacture and sale of corn based biochemical products
Changchun GBT Bio-Chemical Co., Ltd.*	PRC/Mainland China	US$64,000,000	100	Manufacture and sale of corn based biochemical products
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-tech Development (Dacheng Bio-tech) Co., Ltd.*	PRC/Mainland China	RMB2,066,150,000	71	Manufacture and sale of corn based biochemical products
Jinzhou Dacheng Food Development Co., Ltd.*	PRC/Mainland China	US$7,770,000	64	Manufacture and sale of corn based sweetener products
Changchun Dacheng Industrial Group International Trade Co., Ltd.*	PRC/Mainland China	RMB5,000,000	100	Trading of corn based biochemical products

18. 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)*				
Global Bio-chem Technology Americas (Bio-chem American) Inc.	USA	US$500,000	100	Trading of corn based biochemical products
Global Bio-chem Technology Europe GmbH Inc.@	Germany	EUR25,000	100	Trading of corn based biochemical products
Dalian Angus Beef Co., Ltd.**#	PRC/Mainland China	RMB12,000,000	61**	Breeding of cattle and sale of beef
Global Sweeteners Trade Development (Dalian) Co. Ltd.*	PRC/Mainland China	US$4,100,000	64	International trading, exhibition and consultation

* Registered as wholly-owned foreign enterprises under the PRC law

** Dalian Angus Beef Co., Ltd. is a subsidiary of a non-wholly-owned subsidiary of the Company and, accordingly, is accounted for as a subsidiary by virtue of the Company's control over it.

@ Established during the year

\# Registered as Sino-foreign enterprises under the PRC law

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.

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2011	2010
	HK$'000	*HK$'000*
Share of net assets	**59,087**	57,372
Loan to a jointly-controlled entity	**40,000**	40,000
	99,087	97,372

The long term loan of HK$40 million to a jointly-controlled entity represents a quasi-equity loan which is stated at cost less impairment. The long term loan of HK$40 million is unsecured, interest-free and will be repayable in 2101 or upon the liquidation, winding-up or dissolution of the jointly-controlled entity, whenever is earlier.

Particulars of the jointly-controlled entities are as follows:

Name	Nominal value of paid-up share/registered capital	Place of incorporation/ establishment and operations	Percentage of Ownership interest	Percentage of Voting power and profit sharing	Principal activities
Global Bio-chem-Cargill (Holdings) Limited	HK$1,000	Hong Kong	50	50	Investment holding
GBT-Cargill High Fructose (Shanghai) Co., Ltd.*	US$3,000,000	PRC/Mainland China	50	50	Manufacture and sale of high fructose corn syrup

* Wholly-foreign-owned enterprise

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

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES *(Continued)*

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	2011 **HK$'000**	2010 HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	**66,823**	68,962
Non-current assets	**16,913**	17,430
Current liabilities	**(23,834)**	(28,205)
Non-current liabilities	**(815)**	(815)
Net assets	**59,087**	57,372

	2011 **HK$'000**	2010 HK$'000
Share of the jointly-controlled entities' results:		
Revenue	**43,878**	73,818
Other income	**831**	1,101
	44,709	74,919
Total expenses	**(47,307)**	(73,405)
Tax	**—**	(149)
Profit/(loss) after tax	**(2,598)**	1,365
Statutory reserve	**—**	(169)
Share of profits and losses of jointly-controlled entities	**(2,598)**	1,196

20. INVESTMENTS IN ASSOCIATES

	Group	
	2011	2010
	HK$'000	*HK$'000*
Share of net assets	**95,213**	—

The Group's balances with its associates as at 31 December 2011 (2010: Nil) are disclosed in note 39(ii) to the financial statements.

Particulars of the associates are as follows:

Company name	Place and date of incorporation/ registration and operations	Particulars of issued shares held	Percentage of ownership interest attributable to the Group		Principal activities
			Direct	Indirect	
			%	%	
Changchun Dacheng Hexin Technology Development Co., Ltd.* ("Dacheng Hexin")	PRC/Mainland China 19 April 2011	RMB5,000,000	–	28	Manufacture and sale of botanical straw based sweetener products
Harbin Dacheng Bio Technology Co., Ltd.# ("Harbin Dacheng")	PRC/Mainland China 2 July 2008	RMB170,000,000	–	40	Manufacture and sale of corn based sweetener products

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

\# Before 30 December 2011, Harbin Dacheng was accounted for as a subsidiary by virtue of the Company's control over it. The Company lost control over it on 30 December 2011.

The Company's voting power held and profit sharing arrangement in relation to Dacheng Hexin and Harbin Dacheng is 28% and 40%, respectively (2010: Nil and 60%, respectively).

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts or financial statements:

Name of associate	Assets *HK$'000*	Liabilities *HK$'000*	Revenue *HK$'000*	Loss *HK$'000*
Dacheng Hexin	11,773	7,131	—	(1,455)
Harbin Dacheng	702,665	495,831	—	(399)
	714,438	502,962	—	(1,854)

21. INVENTORIES

	Group	
	2011	2010
	HK$'000	*HK$'000*
Raw materials	**3,189,304**	2,960,719
Finished goods	**1,477,593**	1,224,453
	4,666,897	4,185,172

As at 31 December 2011, certain inventories were written down to net realisable value which amounted to approximately HK$597,797,000 (2010: HK$510,771,000).

22. TRADE AND BILLS RECEIVABLES

	Group	
	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**2,083,299**	1,772,939
Bills receivable	**489,836**	181,860
Impairment	**(55,494)**	(33,811)
	2,517,641	1,920,988

The Group normally allows credit terms of 90 days to established customers. 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. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Within 1 month	**867,539**	658,315
1 to 2 months	**439,410**	453,973
2 to 3 months	**185,654**	200,466
3 to 6 months	**709,288**	271,137
Over 6 months	**315,750**	337,097
	2,517,641	1,920,988

22. TRADE AND BILLS RECEIVABLES *(Continued)*

The movements in the provision for impairment of trade receivables are as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
At 1 January	**33,811**	56,835
Impairment losses recognised *(note 6)*	**36,213**	17,093
Impairment losses reversed *(note 6)*	**(12,173)**	(32,960)
Amount written off as uncollectible	**(2,439)**	(7,901)
Exchange realignment	**82**	744
	55,494	33,811

Included in the above provision for impairment of trade receivables is a full provision for individually impaired trade receivables of HK$55,494,000 (31 December 2010: HK$33,811,000). The individually impaired trade receivables relate to customers that were in financial difficulties and the receivables are expected to be unrecoverable.

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Neither past due nor impaired	**1,492,603**	1,312,985
Less than 1 month past due	**487,821**	211,458
1 to 3 months past due	**479,807**	273,996
Over 3 months past due	**57,410**	122,549
	2,517,641	1,920,988

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been any significant change in credit quality and the balances are still considered fully recoverable.

Two subsidiaries have pledged trade and bills receivables of approximately HK$116,632,000 (2010: Nil) to secure bank loans.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Prepayments	**702,624**	448,952	**356**	356
Deposits and other receivables	**347,771**	341,288	**—**	—
	1,050,395	790,240	**356**	356

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

24. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2011	2010
	HK$'000	*HK$'000*
Unlisted equity investments, at market value	**33,270**	—

The management designated this insurance product as an equity investment at fair value through profit or loss, which is carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement.

25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**2,113,808**	1,522,715	**269,392**	330,524
Time deposits	**108,358**	211,953	**106,387**	106,376
	2,222,166	1,734,668	**375,779**	436,900
Less: Pledged for issuance of bills payable	**(1,971)**	(55,172)	**—**	—
Cash and cash equivalents	**2,220,195**	1,679,496	**375,779**	436,900

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$1,331,186,000 (31 December 2010: HK$637,866,000). 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.

25. CASH AND CASH EQUIVALENTS (Continued)

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

26. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the receipt of goods purchased, is as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Within 1 month	**928,554**	484,816
1 to 2 months	**96,238**	94,183
2 to 3 months	**44,090**	23,468
Over 3 months	**159,329**	155,853
	1,228,211	758,320

The trade payables are non-interest-bearing and normally settled on 30 to 90 days' terms.

27. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Payables for purchases of machinery	**213,454**	165,641	**–**	–
Customer deposits/receipts in advance	**253,011**	324,765	**–**	–
Accruals	**95,478**	88,761	**11,381**	19,595
Others	**191,357**	181,744	**39,625**	5,180
	753,300	760,911	**51,006**	24,775

Other payables are non-interest-bearing and have an average repayment term of three months.

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group	2011 effective interest rate %	2011 Maturity	2011 *HK$'000*	2010 effective interest rate %	2010 Maturity	2010 *HK$'000*
Current						
Bank loans — secured	6.56	2012	104,098	–	–	–
Bank loans — unsecured	6.06-7.26/ HIBOR+1.5/ HIBOR+3/ HIBOR+2/ LIBOR+4.5	On demand/ 2012	5,477,828	4.86-6.30/ HIBOR+2/ HIBOR+3/ LIBOR+4.5	On demand/ 2011	4,074,613
Long term bank loans repayable on demand — unsecured	7.87/ HIBOR+3/ HIBOR+2/ LIBOR+4.5/ HIBOR+1.5	On demand	207,388	HIBOR+2/ HIBOR+3/ LIBOR+4.5/ 5.38/HIBOR	On demand	78,500
			5,789,314			4,153,113
Non-current						
Bank loans — secured	–	–	–	5.96	2012	66,667
Bank loans — unsecured	6.39-6.98	2013-2020	2,297,870	5.31-6.57	2012-2020	4,145,402
Other loans — unsecured	–	2018-2019	11,659	–	2018-2019	12,356
			2,309,529			4,224,425
			8,098,843			8,377,538

Company	2011 Effective interest rate %	2011 Maturity	2011 *HK$'000*	2010 Effective interest rate %	2010 Maturity	2010 *HK$'000*
Current						
Bank loans — unsecured	LIBOR+4.5	On demand	21,158	LIBOR+4.5	On demand	426,250
Long term bank loans repayable on demand — unsecured	LIBOR+4.5	On demand	155,000	–	–	–
			176,158			426,250

28. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

	Group		Company	
	2011 **HK$'000**	2010 HK$'000	**2011** **HK$'000**	2010 HK$'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**5,789,314**	4,153,113	**176,158**	426,250
In the second year	**351,220**	2,832,759	**–**	–
In the third to fifth years, inclusive	**19,821**	–	**–**	–
Beyond five years	**1,926,829**	1,379,310	**–**	–
	8,087,184	8,365,182	**176,158**	426,250
Other borrowings repayable:				
Beyond five years	**11,659**	12,356	**–**	–
	11,659	12,356	**–**	–
	8,098,843	8,377,538	**176,158**	426,250

At 31 December 2011, the Group's bank loans amounting to HK$104,098,000 were secured by certain trade and bills receivables, which had a carrying value of HK$116,632,000. As at 31 December 2010, the Group's mortgage loans amounting to HK$66,667,000 were secured by certain construction in progress and prepaid land lease payments, which had a carrying value of HK$57,776,000.

At 31 December 2011, the Group's bank borrowings were guaranteed by the Company and certain subsidiaries of the Group with amounts of approximately HK$6,748,027,000 (31 December 2010: HK$6,441,230,000) and approximately HK$1,058,903,000 (31 December 2010: HK$971,264,000), respectively.

29. GUARANTEED BONDS

On 16 May 2011, the Company issued fixed rate guaranteed bonds in an aggregate amount of RMB450 million. The guaranteed bonds bear fixed interest at 7% per annum and will be fully repayable on 16 May 2014. The guaranteed bonds are listed on the SGX-ST and guaranteed by the subsidiaries of the Company, other than any subsidiaries of the Company established under the law of the PRC, GSH, Bio-chem Technology Americas Inc, and any of their respective subsidiaries. The guaranteed bonds were a financial liability as defined under HKAS 39 and were measured at fair value.

30. PUT OPTION

On 20 May 2011, China Bio-chem Group Limited ("China Bio-Chem Group"), China Bio-chem Investments Limited ("China Bio-Chem Investments") and Dacheng Bio-tech all being wholly-owned subsidiaries of the Company, entered into the Capital Increase Agreement with the Investor, pursuant to which the Investor agreed to make the Capital Contribution totally in the amount of RMB600 million in cash to the registered capital of Dacheng Bio-Tech.

Under the Capital Increase Agreement, China Bio-Chem Investments has agreed to grant to the Investor a put option in respect of the right to request China Bio-chem Investments to acquire from the Investor all (but not part) the Investor's interests in the registered capital of Dacheng Bio-Tech then held by the Investor, for cash at the consideration representing 125% of the amount of the amount of the registered capital of Dacheng Bio-Tech to be so acquired.

The put option was a financial liability as defined under HKAS 39 and was carried in the statement of financial position at amortised cost in accordance with HKAS 39.

Change in carrying value of the put options from the date of issue to 31 December 2011 is set out as follows:

	Note	**2011** ***HK$'000***
Financial liabilities:		
At 20 May 2011, date of issue		**714,286**
Amortisation provided during the year	*7*	**55,194**
At 31 December 2011		**769,480**

31. DEFERRED INCOME

The table below presents the movements of deferred income:

	Group	
	2011 ***HK$'000***	2010 *HK$'000*
At 1 January	**36,543**	34,188
Addition	**—**	5,423
Amortised during the year	**(2,494)**	(3,393)
Exchange realignment	**2,228**	325
At 31 December	**36,277**	36,543

The balance represented the receipt of government grants for the construction of certain of the Group's production plants, which have been credited as a non-current liability in the consolidated statement of financial position. Such deferred income is amortised on the straight-line basis to profit or loss over the expected useful lives of the relevant assets acquired.

32. DEFERRED TAX

The movements in deferred tax liabilities and assets of the Group during the year are as follows:

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation	Revaluation of properties	Loss of control of a subsidiary	Withholding tax on distributable profits of the Group's PRC subsidiaries	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2010	26,168	90,327	–	5,617	122,112
Deferred tax charged to profit or loss during the year *(note 10)*	4,181	–	–	–	4,181
Deferred tax charged to other comprehensive income during the year	1,023	–	–	–	1,023
At 31 December 2010 and 1 January 2011	**31,372**	**90,327**	**–**	**5,617**	**127,316**
Deferred tax charged to profit or loss during the year *(note 10)*	**3,186**	**–**	**3,742**	**–**	**6,928**
Deferred tax charged to other comprehensive income during the year	**–**	**121,365**	**–**	**–**	**121,365**
Exchange realignment	**2,909**	**–**	**–**	**–**	**2,909**
At 31 December 2011	**37,467**	**211,692**	**3,742**	**5,617**	**258,518**

Deferred tax assets

	Accounts receivable provision	Inventories provision	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2010	–	16,516	16,516
Deferred tax credited to profit or loss during the year *(note 10)*	–	997	997
At 31 December 2010 and 1 January 2011	**–**	**17,513**	**17,513**
Deferred tax credited to profit or loss during the year *(note 10)*	**3,072**	**10,494**	**13,566**
At 31 December 2011	**3,072**	**28,007**	**31,079**

32. DEFERRED TAX *(Continued)*

The Group has tax losses arising in Hong Kong of approximately HK$133,044,000 (2010: HK$77,123,000) that are available indefinitely for offsetting against future taxable profits of the companies from which the losses arose. The Group has tax losses arising in Mainland China of approximately HK$179,443,000 (2010: HK$242,568,000) which are available for offsetting against future taxable profits in one to five years. In the opinion of the directors, deferred tax assets have not been recognised as it is uncertain whether future taxable profits would arise to offset against these losses.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2011, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and jointly-controlled entities established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries and jointly-controlled entities will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries, associates and jointly-controlled entities in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$2,975,179,000 at 31 December 2011 (2010: HK$1,794,005,000).

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

33. SHARE CAPITAL

Shares

	2011 HK$'000	2010 HK$'000
Authorised:		
10,000,000,000 (2010: 10,000,000,000) ordinary shares of HK$0.10 each	**1,000,000**	1,000,000
Issued and fully paid:		
3,261,989,164 (2010: 3,246,389,164) ordinary shares of HK$0.10 each	**326,199**	324,639

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

	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 31 December 2009 and 1 January 2010	2,318,849,403	231,885	2,107,940	2,339,825
Issue of shares	927,539,761	92,754	602,901	695,655
	3,246,389,164	324,639	2,710,841	3,035,480
Share issue expenses	–	–	(16,732)	(16,732)
At 31 December 2010 and 1 January 2011	**3,246,389,164**	**324,639**	**2,694,109**	**3,018,748**
Share options exercised	**15,600,000**	**1,560**	**23,244**	**24,804**
At 31 December 2011	**3,261,989,164**	**326,199**	**2,717,353**	**3,043,552**

The subscription rights attaching to 15,600,000 share options were exercised at a subscription price of HK$1.24 per share (note 34), resulting in the issue of 15,600,000 shares of HK$0.1 each for a total cash consideration, before expenses, of HK$19,344,000. An amount of HK$5,460,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

34. SHARE OPTION SCHEMES

(a) Share option scheme of the Company

The Company operates a share option scheme (the "Scheme"), which was adopted pursuant to a resolution passed at a shareholders' meeting held on 3 September 2007, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Scheme became effective on 3 September 2007 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The total number of shares which may be allotted and issued upon exercise of all options to be granted under the Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 10% of the shares in issue on 3 September 2007 (the "General Scheme Limit"). The Company may renew the General Scheme Limit with shareholders' approval provided that each such renewal may not exceed 10% of the shares in issue as at the date of the shareholders' approval. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the shares in issue from time to time.

The maximum number of shares issuable upon exercise of the options which may be granted under the Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant (other than a substantial shareholder or an independent non-executive director of the Company as explained below) in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting (with such participant and his associates abstaining from voting).

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates (as defined under the Listing Rules), are subject to approval in advance by the independent non-executive directors (excluding independent non-executive director who is the grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director or any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the shares at the date of grant) in excess of HK$5 million, within any 12-month period up to and including the date of grant, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determined by the board, which period may commence from the date of acceptance of the offer of the grant of share options but shall end in any event not later than 10 years from the date of grant of the options subject to the provisions for early termination under the Scheme.

34. SHARE OPTION SCHEMES *(Continued)*

(a) Share option scheme of the Company *(Continued)*

The subscription price for the shares under the Scheme will be a price determined by the directors, but shall not be less than the highest of (i) the closing price of shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

The following share options were outstanding under the Scheme of the Company during the year:

	2011		2010	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
	HK$ per share	***'000***	*HK$ per share*	*'000*
At 1 January	**–**	**–**	–	–
Granted during the year	**1.24**	**24,400**	–	–
Forfeited during the year	**1.24**	**(1,200)**	–	–
Exercised during the year	**1.24**	**(15,600)**	–	–
At 31 December	**1.24**	**7,600**	–	–

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2011 **Exercise period**	**Grant date**	**The closing price immediately preceding the date of grant**	**Exercise price***	**Number of options**
		HK$	***HK$***	***'000***
21-1-2011 to 20-1-2016	**21-1-2011**	**1.24**	**1.24**	**7,600**

The fair value of the share options granted during the year was HK$8,540,000 (HK$0.35 each) (2010: Nil) of which the Group recognised a share option expense of HK$8,120,000 during the year ended 31 December 2011.

34. SHARE OPTION SCHEMES *(Continued)*

(a) Share option scheme of the Company *(Continued)*

The fair value of equity-settled share options granted during the year 2011 was estimated as at the date of grant, using the Black-Scholes-Merton model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Dividend yield *(%)*	**4.00**
Expected volatility *(%)*	**45.10**
Risk-free interest rate *(%)*	**1.50**
Expected life of options (month)	**60**
Weighted average share option price (HK$ per share)	**1.24**

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 7,600,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 7,600,000 additional ordinary shares of the Company, giving rise to additional share capital of HK$760,000 and share premium of HK$8,664,000 (before issue expenses).

(b) Share option scheme of GSH

GSH operates a share option scheme (the "GSH Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of GSH Group's operations. Eligible participants of the GSH Scheme include GSH's eligible employees, non-executive directors, suppliers of goods or services to GSH Group, customers of any member of the GSH Group, the shareholders of GSH Group, advisers or consultants of GSH Group, and any other groups or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of GSH Group. The GSH Scheme became effective on 3 September 2007 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the GSH Scheme is an amount equivalent, upon their exercise, to 30% of the shares of GSH in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the GSH Scheme within any 12-month period is limited to 1% of the shares of GSH in issue at any time. Any further grant of share options in excess of this limit is subject to GSH shareholders' approval in a general meeting.

34. SHARE OPTION SCHEMES (Continued)

(b) Share option scheme of GSH (Continued)

Share options granted to a substantial shareholder of GSH, or an independent non-executive director or any of their respective associates, in excess of 0.1% of the shares of GSH in issue at any time or with an aggregate value (based on the price of GSH's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to GSH shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, which may commence from the date of acceptance of the grant of share options but shall end in any event not later than 10 years from the date of grant of the options subject to the provisions for early termination under the GSH Scheme.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of GSH's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of GSH's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the GSH Scheme during the year:

	2011		2010	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
	HK$ per share	***'000***	*HK$ per share*	*'000*
At 1 January	**1.59**	**3,330**	1.53	3,698
Granted during the year	**1.67**	**31,400**	–	–
Forfeited during the year	**1.59**	**(3,000)**	0.99	(164)
Exercised during the year	**1.59**	**(330)**	0.99	(204)
At 31 December	**1.67**	**31,400**	1.59	3,330

34. SHARE OPTION SCHEMES *(Continued)*

(b) Share option scheme of GSH *(Continued)*

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2011 **Exercise period**	**Grant date**	**The closing price immediately preceding the date of grant** ***HK$***	**Exercise price*** ***HK$***	**Number of Options** ***'000***
11-7-2011 to 10-7-2016	**11-7-2011**	**1.67**	**1.67**	**31,400**

2010 Exercise period	Grant date	The closing price immediately preceding the date of grant *HK$*	Exercise price* *HK$*	Number of options *'000*
7-7-2008 to 6-7-2011	7-7-2008	1.63	1.59	3,330

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in GSH's share capital.

The fair value of the share options granted during the year was HK$18,526,000 (HK$0.59 each) (2010: Nil) of which GSH Group recognised a share option expense of HK$18,526,000 during the year ended 31 December 2011.

The fair value of equity-settled share options granted during 2011 was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Dividend yield (%)	**1.00**
Expected volatility (%)	**63.00**
Risk-free interest rate (%)	**1.44**
Expected life of options (month)	**60**
Weighted average share price (HK$ per share)	**1.67**

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

34. SHARE OPTION SCHEMES *(Continued)*

(b) Share option scheme of GSH *(Continued)*

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, GSH had 31,400,000 share options outstanding under the GSH Scheme. The exercise in full of the outstanding share options would, under the present capital structure of GSH, result in the issue of 31,400,000 additional ordinary shares of GSH, giving rise to additional share capital of HK$3,140,000 and share premium of HK$49,298,000 (before issue expenses).

35. 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 pages 42 to 43 of the financial statements.

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 GSH's shares on the Main Board of the Stock Exchange in prior years, and the nominal value of the shares of the Company issued in exchange therefor; (ii) the premium arising from the capitalisation issue in prior years; and (iii) the premium arising from the placing and subscriptions of new ordinary shares in the prior and current years.

Certain subsidiaries, which are established in the PRC as wholly-owned foreign investment enterprises, are required to transfer 10% of their profits after tax calculated in accordance with the PRC accounting regulations to their respective statutory reserve funds until the reserve reaches 50% of their respective registered capital, upon which any further appropriation is at the directors' recommendation. Such reserve may be used to reduce any losses incurred by the subsidiaries or may be capitalised as paid-up capital of the subsidiaries.

35. RESERVES *(Continued)*

(b) Company

	Notes	Share premium account HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2010		2,107,940	–	686,313	2,794,253
Loss for the year	11	–	–	(13,070)	(13,070)
Rights issue	33	586,169	–	–	586,169
Proposed final 2010 dividend	12	–	–	(32,464)	(32,464)
At 1 January 2011		**2,694,109**	**–**	**640,779**	**3,334,888**
Loss for the year	11	**–**	**–**	**(73,483)**	**(73,483)**
Equity-settled share option arrangement		**23,244**	**2,662**	**–**	**25,906**
Interim 2011 dividend	12	**–**	**–**	**(48,930)**	**(48,930)**
Proposed final 2011 dividend	12	**–**	**–**	**(65,240)**	**(65,240)**
At 31 December 2011		**2,717,353**	**2,662**	**453,126**	**3,173,141**

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.

36. LOSS OF CONTROL OF A SUBSIDIARY

The net assets of Harbin Dacheng derecognised at the date when the Group lost control were as follows:

	2011 HK$'000
Net assets disposed of:	
Property, plant and equipment	386,865
Prepayment for fixed assets	97,598
Prepaid land premiums	170,567
Prepayments, deposits and other receivables	1,144
Inventories	21,076
Cash and cash equivalents	25,415
Interest-bearing bank loans	(304,219)
Other payables and accruals	(191,612)
Non-controlling interests	(117,590)
Translation reserve realised	(10,799)
	78,445
Gain on loss of control of a subsidiary	14,969
	93,414
Satisfied by:	
Investments in associates	93,414

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

	2011 HK$'000
Cash and bank balances derecognised	(25,415)
Net outflow of cash and cash equivalents in respect of the loss of control of a subsidiary	(25,415)

37. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the end of the reporting period.

At 31 December 2011, the banking facilities granted to subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$6,748,027,000 (2010: HK$6,441,230,000).

38. COMMITMENTS

At 31 December 2011, the Group had capital commitments as follows:

	Group	
	2011	2010
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Land premiums and leasehold buildings	**616,465**	563,820
Plant and machinery	**600,722**	597,262
Capital contributions	**—**	811,530
	1,217,187	1,972,612

The Company did not have any other significant commitments as at 31 December 2011.

39. RELATED PARTY TRANSACTIONS

(i) Transactions with related parties

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

	Notes	**2011** ***HK$'000***	2010 *HK$'000*
Utility costs charged to a jointly-controlled entity	*(a)*	**5,684**	9,714
Sale of corn starch to a jointly-controlled entity	*(b)*	**28,507**	28,408

Notes:

(a) The utility costs were charged to Cargill Shanghai, a jointly-controlled entity of the Group, based on the actual costs incurred.

(b) The transactions with Cargill Shanghai, a jointly-controlled entity in which the Group effectively holds a 50% equity interest, were made at prices mutually agreed between the parties.

39. RELATED PARTY TRANSACTIONS *(Continued)*

(ii) Balances with related parties

At the end of the reporting period, the Group's balances due from/to related parties were as follows:

	2011 **HK$'000**	2010 HK$'000
Due from jointly-controlled entities	**970**	3,335
Due from an associate	**1,493**	—
Due to jointly-controlled entities	**—**	(17,299)
Total	**2,463**	(13,964)

The short term balances with jointly-controlled entities and an associate are unsecured, interest-free and have no fixed terms of repayment. The balances approximate to their fair values.

(iii) Compensation of key management personnel of the Group

	2011 **HK$'000**	2010 HK$'000
Short term employee benefits	**45,000**	24,420
Post-employment benefits	**24**	24
Equity settled share option expenses	**10,230**	—
Total compensation paid to key management Personnel	**55,254**	24,444

40. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments at the end of the reporting period are as follows:

2011

	Group		
Financial assets	**Fair assets at fair value through profits or loss— designated as such upon initial recognition** *HK$'000*	**Loans and receivables** *HK$'000*	**Total** *HK$'000*
Trade and bills receivables	**—**	**2,517,641**	**2,517,641**
Financial assets included in prepayments, deposits and other receivables *(note 23)*	**—**	**347,771**	**347,771**
Due from jointly-controlled entities	**—**	**970**	**970**
Due from associates	**—**	**1,493**	**1,493**
Equity investments at fair value through profit or loss	**33,270**	**—**	**33,270**
Pledged deposits	**—**	**1,971**	**1,971**
Cash and cash equivalents	**—**	**2,220,195**	**2,220,195**
Total	**33,270**	**5,090,041**	**5,123,311**

2010

Financial assets	**Loans and receivables** *HK$'000*
Trade and bills receivables	1,920,988
Financial assets included in prepayments, deposits and other receivables *(note 23)*	341,288
Due from jointly-controlled entities	3,335
Due from associates	—
Pledged deposits	55,172
Cash and cash equivalents	1,679,496
Total	4,000,279

40. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

2011

	Group		
Financial liabilities	**Financial liabilities at fair value through profit or loss— designated as such upon initial recognition**	**Financial liabilities at amortised cost**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Trade and bills payables	**—**	**1,228,211**	**1,228,211**
Financial liabilities included in other payables and accruals	**—**	**500,289**	**500,289**
Interest-bearing bank and other borrowings	**—**	**8,098,843**	**8,098,843**
Guaranteed bonds	**527,683**	**—**	**527,683**
Put option	**—**	**769,480**	**769,480**
Derivative financial instruments	**8,969**	**—**	**8,969**
Total	**536,652**	**10,596,823**	**11,133,475**

2010

Financial liabilities	**Financial liabilities at amortised cost**
	HK$'000
Trade and bills payables	758,320
Financial liabilities included in other payables and accruals	436,146
Interest-bearing bank and other borrowings	8,377,538
Due to jointly-controlled entities	17,299
Total	9,589,303

40. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

	Company	
Financial assets	**2011 Loans and receivables** *HK$'000*	2010 Loans and receivables *HK$'000*
Due from subsidiaries	**3,570,656**	3,330,103
Cash and cash equivalents	**375,779**	436,900
Total	**3,946,435**	3,767,003

2011

Financial liabilities	**Financial liabilities at fair value through profit or loss— designated as such upon initial recognition** *HK$'000*	**Financial liabilities at amortised cost** *HK$'000*	**Total** *HK$'000*
Financial liabilities included in other payables and accruals	**—**	**51,006**	**51,006**
Financial guarantee contracts	**—**	**192,872**	**192,872**
Interest-bearing bank borrowings	**—**	**176,158**	**176,158**
Guaranteed bonds	**527,683**	**—**	**527,683**
Derivative financial instruments	**8,969**	**—**	**8,969**
Total	**536,652**	**420,036**	**956,688**

2010

Financial liabilities	**Financial liabilities at amortised cost** *HK$'000*
Financial liabilities included in other payables and accruals	24,775
Financial guarantee contracts	180,160
Interest-bearing bank borrowings	426,250
Total	631,185

41. FAIR VALUE

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

Group

	Carrying amounts		Fair values	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Trade and bills receivables	**2,517,641**	1,920,988	**2,517,641**	1,920,988
Financial assets included in prepayments, deposits and other receivables	**347,771**	341,288	**347,771**	341,288
Due from jointly-controlled entities	**970**	3,335	**970**	3,335
Due from associates	**1,493**	—	**1,493**	—
Pledged deposits	**1,971**	55,172	**1,971**	55,172
Cash and cash equivalents	**2,220,195**	1,679,496	**2,220,195**	1,679,496
Equity investment at fair value through profit or loss	**33,270**	—	**33,270**	—
	5,123,311	4,000,279	**5,123,311**	4,000,279

	Carrying amounts		Fair values	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial liabilities				
Trade and bills payables	**1,228,211**	758,320	**1,228,211**	758,320
Financial liabilities included in other payables and accruals	**500,289**	436,146	**500,289**	436,146
Interest-bearing bank and other borrowings	**8,098,843**	8,377,538	**8,098,843**	8,377,538
Due to jointly-controlled entities	**—**	17,299	**—**	17,299
Guaranteed bonds	**527,683**	—	**527,683**	—
Put option	**769,480**	—	**769,480**	—
Derivative financial instruments	**8,969**	—	**8,969**	—
	11,133,475	9,589,303	**11,133,475**	9,589,303

41. FAIR VALUE *(Continued)*

Company

	Carrying amounts		Fair values	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
Due from subsidiaries	**3,570,656**	3,330,103	**3,570,656**	3,330,103
Cash and cash equivalents	**375,779**	436,900	**375,779**	436,900
	3,946,435	3,767,003	**3,946,435**	3,767,003

	Carrying amounts		Fair values	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial liabilities				
Financial liabilities included in other payables and accruals	**51,006**	24,775	**51,006**	24,775
Financial guarantee contracts	**192,872**	180,160	**192,872**	180,160
Interest-bearing bank borrowings	**176,158**	426,250	**176,158**	426,250
Guaranteed bonds	**527,683**	—	**527,683**	—
Derivative financial instruments	**8,969**	—	**8,969**	—
	956,688	631,185	**956,688**	631,185

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals and amounts due from/to jointly-controlled entities approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of interest-bearing bank and other borrowings, equity investments at fair value through profit or loss, guaranteed bonds, put option and derivative financial instruments have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

The fair values of financial guarantee contracts have been calculated based on quoted market prices.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial assets of the Group include trade and bills receivables, prepayments, deposits and other receivables, amounts due from jointly-controlled entities and associates, equity investments at fair value through profit or loss and cash and cash equivalents. Financial liabilities of the Group include trade and bills payables, other payables, interest-bearing bank and other borrowings, guaranteed bonds, put option and derivative financial instruments.

Financial assets of the Company include amounts due from subsidiaries and cash and cash equivalents. Financial liabilities of the Company include other payables, financial guarantee contracts, interest-bearing bank borrowings, guaranteed bonds and derivative financial instruments.

The Group also enters into derivative transactions, including foreign currency swaps. The purpose is to manage the currency risks arising from the Group's sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and supply risk. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

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 floating interest rates.

The Group manages its interest rate exposure with a focus on reducing the Group's overall cost of debt and exposure to changes in interest rates. Management continues to monitor the cash flows of the operations and the debt markets, where the Group would expect to refinance these borrowings with a lower cost of debt, when considered appropriate.

The following table demonstrates the sensitivity to a reasonably possible change in the Hong Kong dollar interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's and the Company's equity.

	Group			Company	
	Increase/ (decrease) in interest rate %	Increase/ (decrease) in profit before tax *HK$'000*	Increase/ (decrease) in equity *HK$'000*	Increase/ (decrease) in interest rate %	Increase/ (decrease) in equity *HK$'000*
2011					
Hong Kong dollar	**1**	**(60,637)**	**(46,534)**	**1**	**(1,762)**
Hong Kong dollar	**(1)**	**60,637**	**46,534**	**(1)**	**1,762**
2010					
Hong Kong dollar	1	(51,606)	(44,679)	1	(1,506)
Hong Kong dollar	(1)	51,606	44,679	(1)	1,506

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

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. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

The credit risk of the Group's other financial assets, which comprise, trade and bills receivables, financial assets included in prepayments and deposits and other receivables, amounts due from jointly-controlled entities and cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 37 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables, and financial assets included in prepayments, deposits and other receivables are disclosed in notes 22 and 23 to the financial statements.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

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

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

	2011					
	On demand *HK$'000*	**Less than 3 months** *HK$'000*	**3 to less than 12 months** *HK$'000*	**1 to 5 years** *HK$'000*	**Over 5 years** *HK$'000*	**Total** *HK$'000*
Trade and bills payables	**1,228,211**	**–**	**–**	**–**	**–**	**1,228,211**
Interest-bearing bank and other borrowings *(Note)*	**349,241**	**558,013**	**5,233,933**	**893,864**	**2,326,831**	**9,361,882**
Other payables and accruals	**404,811**	**95,478**	**–**	**–**	**–**	**500,289**
Guaranteed bonds	**–**	**–**	**–**	**527,683**	**–**	**527,683**
Put option	**–**	**–**	**–**	**–**	**769,480**	**769,480**
Derivative financial instruments	**–**	**–**	**–**	**8,969**	**–**	**8,969**
	1,982,263	**653,491**	**5,233,933**	**1,430,516**	**3,096,311**	**12,396,514**

Group

	2010					
	On demand *HK$'000*	Less than 3 months *HK$'000*	3 to less than 12 months *HK$'000*	1 to 5 years *HK$'000*	Over 5 years *HK$'000*	Total *HK$'000*
Trade and bills payables	758,320	–	–	–	–	758,320
Interest-bearing bank and other borrowings *(Note)*	568,400	742,253	3,192,947	3,251,403	1,725,227	9,480,230
Other payables and accruals	347,385	88,761	–	–	–	436,146
Amounts due to jointly controlled entities	17,299	–	–	–	–	17,299
	1,691,404	831,014	3,192,947	3,251,403	1,725,227	10,691,995

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

The maturity profile of the Company's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Company

	2011					
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 Months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Interest-bearing bank borrowings (Note)	176,158	–	–	–	–	176,158
Financial guarantee contracts	70,588	292,683	4,165,244	292,683	1,926,829	6,748,027
Other payables and accruals	39,625	11,381	–	–	–	51,006
Guaranteed bonds	–	–	–	527,683	–	527,683
Derivative financial instruments	–	–	–	8,969	–	8,969
	286,371	304,064	4,165,244	829,335	1,926,829	7,511,843

Company

	2010					
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 Months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Interest-bearing bank borrowings (Note)	426,250	–	–	–	–	426,250
Financial guarantee contracts	42,150	126,437	2,391,609	2,501,724	1,379,310	6,441,230
Other payables and accruals	5,180	19,595	–	–	–	24,775
	473,580	146,032	2,391,609	2,501,724	1,379,310	6,892,255

Note:

Included in interest-bearing bank and other borrowings of the Group are term loans in the amount of HK$207,388,000 (31 December 2010: HK$78,500,000). Each of the loan agreements contains a repayment on-demand clause giving the bank the unconditional right to call the loan at any time and therefore, for the purpose of the above maturity profile, the total amount is classified as "on demand".

Notwithstanding the above clauses, the directors do not believe that the loans will be called, in their entirety or in part, within twelve months and they consider that the loan will be repaid in accordance with the maturity dates as set out in the loan agreement. This evaluation was made considering the financial position of the Group at the date of approval of these financial statements, the Group's compliance with the loan covenants, the lack of events of default, and the fact that the Group has made all previously scheduled repayments on time. In accordance with the terms of the loans of the Group, the contractual undiscounted payments at 31 December 2011 will be HK$182,630,000 in 2013, HK$5,973,000 in 2014, and HK$29,541,000 in and after year 2015.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Supply risk

For each financial year, the Group would enter into purchase agreements with a company established in the PRC which is beneficially owned by the staff union of the Group's Mainland China employees (the "Union Company") for the purchases of corn kernels, the principal raw materials for the production of certain of the Group's products. Pursuant to the existing purchase agreements, the Group agreed to purchase from the Union Company a total of 2,400,000 tons of corn kernels amounting to approximately HK$4,610 million during the contract period (one and a half years) and bear certain warehouse administration expenses. At the end of the reporting period, the purchase commitment pursuant to the above agreements was approximately 377,661 tons, and the directors have estimated the amount to be approximately HK$712 million (2010: HK$3,752 million).

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

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011 and 31 December 2010.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital. The Group's policy is to maintain the gearing ratio at approximately 60%. Net debt includes interest-bearing bank and other borrowings less cash and cash equivalents. Capital represents equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

Group

	2011 ***HK$'000***	2010 *HK$'000*
Interest-bearing bank and other borrowings	**8,098,843**	8,377,538
Less: Cash and cash equivalents	**(2,220,195)**	(1,679,496)
Net debt	**5,878,648**	6,698,042
Capital	**10,183,123**	8,698,124
Gearing ratio	**58%**	77%

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 March 2012.

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

	Year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
REVENUE	**14,438,887**	9,314,898	7,838,301	8,687,939	6,672,940
Cost of sales	**(11,071,452)**	(7,747,539)	(6,781,781)	(6,954,397)	(5,096,401)
Gross profit	**3,367,435**	1,567,359	1,056,520	1,733,542	1,576,539
Other income and gains	**133,098**	138,985	86,811	197,620	119,458
Loss of control of a subsidiary	**14,969**	—	—	—	—
Gain on spin-off of a subsidiary group	**—**	—	—	—	270,913
Excess over the cost of a business combination	**—**	—	—	23,703	—
Selling and distribution costs	**(720,255)**	(550,733)	(434,978)	(532,950)	(362,945)
Administrative expenses	**(439,572)**	(269,927)	(264,951)	(284,974)	(219,619)
Other expenses	**(116,474)**	(24,378)	(74,241)	(80,275)	(32,575)
Finance costs	**(521,920)**	(378,546)	(307,169)	(359,438)	(265,681)
Share of profits of jointly-controlled entities	**(2,598)**	1,196	3,312	5,677	8,758
Share of profits of associates	**(742)**	—	—	—	—
PROFIT BEFORE TAX	**1,713,941**	483,956	65,304	702,905	1,094,848
Income tax expense	**(335,969)**	(110,296)	(51,349)	(30,090)	(114,994)
PROFIT FOR THE YEAR	**1,377,972**	373,660	13,955	672,815	979,854
Profit attributable to:					
Owners of the parent	**1,309,798**	331,726	(14,978)	621,777	943,486
Non-controlling interests	**68,174**	41,934	28,933	51,038	36,368
	1,377,972	373,660	13,955	672,815	979,854

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
TOTAL ASSETS	**23,750,728**	19,835,098	17,010,097	15,415,340	13,371,968
TOTAL LIABILITIES	**(11,888,188)**	(10,162,223)	(8,971,434)	(7,514,865)	(6,485,949)
NON-CONTROLLING INTERESTS	**(1,679,417)**	(974,751)	(556,785)	(512,754)	(422,554)
	10,183,123	8,698,124	7,481,878	7,387,721	6,463,465

Corporate Information

BOARD OF DIRECTORS

Liu Xiaoming, *Co-Chairman*
Xu Zhouwen, *Co-Chairman*
Wang Guifeng, *Executive Director*
Zhang Fusheng, *Executive Director*
Cheung Chak Fung, *Executive Director*
Lee Yuen Kwong*,
Independent Non-Executive Director
Chan Man Hon, Eric*,
Independent Non-Executive Director
Li Defa*,
Independent Non-Executive Director

* Audit Committee Members

COMPANY SECRETARY

Cheung Kin Po, CPA Australia, HKICPA

REGISTERED OFFICE

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Cayman Islands

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18 Harcourt Road
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AUDITORS

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

LEGAL ADVISERS

Chiu & Partners
40th Floor, Jardine House
1 Connaught Place
Central
Hong Kong

PRINCIPAL BANKERS

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

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

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

China Construction Bank
No. 810 Xian Road
Changchun
Jilin Province
The People's Republic of China

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

HSBC Trustee (Cayman) Limited
PO Box 484, HSBC House
68 West Bay Road
Grand Cayman, KY1-1106
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

WEBSITE

www.globalbiochem.com
STOCK CODE
00809

KEY DATES

Closure of register of members:
For determining the entitlement of attend and vote at the AGM, 7 May 2012 to 8 May 2012 (both dates inclusive)
For determining the entitlement to the Proposed Final Dividend, 17 May 2012 to 18 May 2012 (both dates inclusive)
Annual general meeting:
8 May 2012