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## **GLOBAL BIO-CHEM TECHNOLOGY GROUP COMPANY LIMITED**

### **大成生化科技集團有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 00809)**

### **ANNOUNCEMENT OF THE FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009**

The board (the “Board”) of directors (the “Directors”) of Global Bio-chem Technology Group Company Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2009 (the “Year”), together with the comparative figures in the previous year as follows:

	<b>2009</b>	2008 (Restated)	% of Decrease
Revenue (HK\$’Mn)	<b>7,838</b>	8,688	10%
Gross profit (HK\$’Mn)	<b>1,057</b>	1,734	39%
Net profit for the year (HK\$’Mn)	<b>14</b>	673	98%
Net (loss)/profit attributable to owners of the Company (HK\$’Mn)	<b>(15)</b>	622	102%
Basic (loss)/earnings per share (HK cents)	<b>(0.6)</b>	26.8	102%
Proposed final dividend per share (HK cents)	—	1.0	100%

\* *For identification purpose only*

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

		2009	2008
	<i>Notes</i>	<i>HK\$'000</i>	(Restated) <i>HK\$'000</i>
REVENUE	5	7,838,301	8,687,939
Cost of sales		<u>(6,781,781)</u>	<u>(6,954,397)</u>
Gross profit		1,056,520	1,733,542
Other income and gains	5	86,811	197,620
Excess over the cost of a business combination		—	23,703
Selling and distribution costs		(434,978)	(532,950)
Administrative expenses		(264,951)	(284,974)
Other expenses		(74,241)	(80,275)
Finance costs	6	(307,169)	(359,438)
Share of profits of jointly controlled entities		<u>3,312</u>	<u>5,677</u>
PROFIT BEFORE TAX	7	65,304	702,905
Income tax expense	8	<u>(51,349)</u>	<u>(30,090)</u>
PROFIT FOR THE YEAR		<u><b>13,955</b></u>	<u><b>672,815</b></u>
OTHER COMPREHENSIVE INCOME			
Gains on property revaluation		186,119	—
Income tax effect		<u>(46,500)</u>	<u>—</u>
		139,619	—
Exchange difference on translation of financial statements of operations outside Hong Kong		(2,028)	409,487
Share of other comprehensive income of jointly controlled entities		<u>(481)</u>	<u>—</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u><b>151,065</b></u>	<u><b>1,082,302</b></u>
(Loss)/profit attributable to:			
Owners of the Company		(14,978)	621,777
Minority interests		<u>28,933</u>	<u>51,038</u>
		<u><b>13,955</b></u>	<u><b>672,815</b></u>

		<b>2009</b>	2008
	<i>Notes</i>	<b><i>HK\$'000</i></b>	(Restated) <i>HK\$'000</i>
Total comprehensive income attributable to:			
Owners of the Company		<b>117,571</b>	1,003,424
Minority interests		<b>33,494</b>	78,879
		<u><b>151,065</b></u>	<u>1,082,303</u>
 (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	<i>10</i>	<u><b>HK(0.6) cents</b></u>	<u>HK26.8 cents</u>
Diluted	<i>10</i>	<u><b>N/A</b></u>	<u>N/A</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2009

		<b>31 December 2009</b>	31 December 2008	1 January 2008
			(Restated)	(Restated)
	<i>Notes</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment		<b>9,110,180</b>	8,960,535	7,571,103
Prepaid land premiums		<b>537,555</b>	534,714	497,726
Deposits paid for acquisition of property, plant and equipment and land premiums		<b>339,416</b>	231,101	190,236
Goodwill		<b>348,428</b>	348,428	360,889
Interests in jointly controlled entities		<b>94,465</b>	91,634	125,731
Breeding biological assets		<b>7,949</b>	—	—
Deferred tax assets		<b>16,516</b>	2,192	—
		<hr/>	<hr/>	<hr/>
Total non-current assets		<b>10,454,509</b>	10,168,604	8,745,685
<b>CURRENT ASSETS</b>				
Inventories	<i>11</i>	<b>2,599,342</b>	2,268,543	1,234,772
Trade and bills receivables	<i>12</i>	<b>1,582,107</b>	1,111,732	1,058,445
Prepayments, deposits and other receivables		<b>745,876</b>	357,894	271,188
Trading biological assets		<b>1,219</b>	—	—
Due from jointly controlled entities		<b>704</b>	2,685	43,771
Tax recoverable		<b>8,429</b>	29,182	14,299
Pledged deposits	<i>13</i>	<b>23,596</b>	—	—
Cash and cash equivalents	<i>13</i>	<b>1,594,315</b>	1,476,700	2,003,808
		<hr/>	<hr/>	<hr/>
Total current assets		<b>6,555,588</b>	5,246,736	4,626,283
<b>CURRENT LIABILITIES</b>				
Trade payables	<i>14</i>	<b>817,439</b>	1,057,996	465,033
Other payables and accruals		<b>1,113,574</b>	778,394	1,074,859
Due to a director		<b>89,368</b>	—	—
Due to jointly controlled entities		<b>101</b>	—	4,128
Interest-bearing bank borrowings		<b>4,474,005</b>	3,416,562	1,662,435
Tax payable		<b>54,219</b>	37,796	53,406
		<hr/>	<hr/>	<hr/>
Total current liabilities		<b>6,548,706</b>	5,290,748	3,259,861
		<hr/>	<hr/>	<hr/>
NET CURRENT ASSETS/(LIABILITIES)		<b>6,882</b>	(44,012)	1,366,422
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>				
		<hr/> <b>10,461,391</b> <hr/>	<hr/> 10,124,592 <hr/>	<hr/> 10,112,107 <hr/>

		<b>31 December 2009</b>	31 December 2008 (Restated)	1 January 2008 (Restated)
	<i>Notes</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT LIABILITIES</b>				
Interest-bearing bank and other borrowings		<b>2,266,428</b>	2,123,441	3,140,668
Deferred tax liabilities		<b>122,112</b>	73,056	57,940
Deferred income		<b>34,188</b>	27,620	27,480
		<u><b>2,422,728</b></u>	<u>2,224,117</u>	<u>3,226,088</u>
Total non-current liabilities				
		<u><b>8,038,663</b></u>	<u>7,900,475</u>	<u>6,886,019</u>
Net assets				
<b>EQUITY</b>				
Equity attributable to owners of the Company				
Issued capital	15	<b>231,885</b>	231,885	231,885
Reserves		<b>7,249,993</b>	7,132,648	6,185,203
Proposed final dividend	9	—	23,188	46,377
		<u><b>7,481,878</b></u>	<u>7,387,721</u>	<u>6,463,465</u>
Minority interests		<b>556,785</b>	512,754	422,554
		<u><b>8,038,663</b></u>	<u>7,900,475</u>	<u>6,886,019</u>
Total equity				

## **1. CORPORATE INFORMATION**

Global Bio-chem Technology Group Company Limited is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. 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 ("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 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\$").

During the year, the Group was granted loan facilities of US\$75 million (equivalent to approximately HK\$581 million) by a bank in Hong Kong which were scheduled for repayment on 15 May 2010, 15 December 2010, 15 May 2011, 15 December 2011 and 15 May 2012 by US\$5 million, US\$5 million, US\$20 million, US\$20 million and US\$25 million, respectively. Pursuant to the loan facility agreement, a termination event would arise if the Group could not meet the financial covenants as set out in the agreement. At the end of the reporting period, the Group was unable to comply with one of the financial covenants. Accordingly, the whole balance of the loan amounting to approximately HK\$581 million has been classified as a current liability as at 31 December 2009. The Directors have been taking action to rectify the non-compliance. On 20 April 2010, the lender has confirmed in writing their consent for the relaxation of the breached financial covenant. The Directors considered that the Group's inability to comply with such financial covenant of the loan will not result in any liquidity issue to the Group and the Group will have adequate working capital to finance its operations. Accordingly, these financial statements have been prepared on a going concern basis.

#### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Group for the Year. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

## 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 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments</i>
HKFRS 8	<i>Operating Segments</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 <i>Revenue – Determining whether an entity is acting as a principal or as an agent</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement – Embedded Derivatives</i>
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i>
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate</i>
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i>
HK(IFRIC)-Int 18	<i>Transfers of Assets from Customers</i> (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008)	Amendments to a number of HKFRSs

\* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

\*\* The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*, which is effective for annual periods beginning on or after 1 July 2009.

Other than as further explained below regarding the impact of HKAS 1 (Revised) and HKFRS 8, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements, and except for the changes to the accounting policy as further described below in note 2.3, there have been no significant changes to the accounting policies applied in these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

### (a) HKFRS 8 *Operating Segments*

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources

to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in the financial statements.

**(b) HKAS 1 (Revised) *Presentation of Financial Statements***

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present one single statement. Furthermore, when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements, it shall present, as a minimum, three statements of financial position, two of each of the other statements, and related notes.

### **2.3 CHANGES OF ACCOUNTING POLICY**

During the Year, the Directors elected to change the accounting policy used to account for the Group's jointly controlled entities from proportionate consolidation to the equity method, both of which are allowed under HKAS 31. The Directors considered that the International Accounting Standards Board has published an exposure draft that proposes to eliminate the proportionate consolidation option, and requires that joint arrangements be accounted for using the equity method. In addition, the Directors also considered that other countries' framework, such as United States and China, requires equity method accounting and does not allow proportionate consolidation. Given the above considerations, the Directors considered that the adoption of equity method will provide more reliable, relevant and comparable information about the economic activity of the Group to the readers of the financial statements. The effect of this change did not result in any impact on the profit and the equity attributable to owners of the Company in the periods prior to the change.

### **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 judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

### ***Classification of the Union Company as a third party***

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 purchase from the Union Company accounted for approximately 61% 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 over the Union Company, the Union Company is regarded as a third party to the Group.

### ***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 2009 was approximately HK\$348,428,000 (2008: HK\$348,428,000; 1 January 2008: HK\$360,889,000).

### ***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.

### **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 discussed below:

### ***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 2009 was approximately HK\$9,110,180,000 (2008: HK\$8,960,535,000; 1 January 2008: HK\$7,571,103,000).

### ***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 on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

### ***Allowances for inventories***

The 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 2009, the carrying amount of inventories was approximately HK\$2,599,342,000 after netting off the allowance for inventories of approximately HK\$132,030,000.

### ***Estimation of fair value of biological assets***

The Group's biological assets are stated at fair value less point-of-sale cost. This requires an independent valuer's assessment of the fair value of the biological assets. Changes in conditions of the biological assets could impact the fair value of the assets. The carrying amount of the Group's biological assets at 31 December 2009 was approximately HK\$9,168,000 (2008: Nil).

## **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; and
- (b) the corn based biochemical products segment engages the manufacture and sale of corn based biochemical products, including corn sweeteners, polyol chemicals and amino acids; and
- (c) the biological products segment comprises the breed of cattle and sales 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.

Segment assets exclude goodwill, interests in jointly controlled entities, and 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. The geographical information is another basis on which the Group reports its segment information.

**(a) Business unit information**

The following table presents revenue, profit and certain asset, liability and expenditure information for the Group's business units for the years ended 31 December 2009 and 2008.

Year ended 31 December 2009	Corn refined products <i>HK\$'000</i>	Corn based biochemical products <i>HK\$'000</i>	Biological products <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Segment revenue:</b>				
Sales to external customers	2,276,811	5,424,976	136,514	7,838,301
Intersegment sales	2,635,083	—	—	2,635,083
	<u>4,911,894</u>	<u>5,424,976</u>	<u>136,514</u>	<u>10,473,384</u>
<i>Reconciliation:</i>				
Elimination of intersegment sales				<u>(2,635,083)</u>
Revenue				<u><u>7,838,301</u></u>
<b>Segment results</b>	<b>350,214</b>	<b>897</b>	<b>1,909</b>	<b>353,020</b>
<i>Reconciliation:</i>				
Interest income				2,144
Unallocated gains				84,667
Corporate and other unallocated expenses				(67,358)
Finance costs				<u>(307,169)</u>
Profit before tax				<u><u>65,304</u></u>
<b>Segment assets as at 31 December 2009</b>	<b>6,034,904</b>	<b>10,618,416</b>	<b>109,323</b>	<b>16,762,643</b>
<i>Reconciliation:</i>				
Elimination of intersegment receivables				(1,240,220)
Goodwill				348,428
Corporate and other unallocated assets				<u>1,139,246</u>
Total assets				<u><u>17,010,097</u></u>
<b>Segment liabilities as at 31 December 2009</b>	<b>507,939</b>	<b>2,207,687</b>	<b>94,602</b>	<b>2,810,228</b>
<i>Reconciliation:</i>				
Elimination of intersegment payables				(848,081)
Interest-bearing bank and other borrowings				6,740,433
Unallocated liabilities				<u>268,854</u>
Total liabilities				<u><u>8,971,434</u></u>

<b>Year ended 31 December 2009</b>	<b>Corn refined products HK\$'000</b>	<b>Corn based biochemical products HK\$'000</b>	<b>Biological products HK\$'000</b>	<b>Total HK\$'000</b>
<b>Other segment information:</b>				
Share of profits of jointly controlled entities	—	3,132	—	3,132
Depreciation	118,629	361,208	193	480,030
Amortisation of prepaid land premiums	2,964	13,963	—	16,927
Impairment of trade receivables	10,941	30,352	—	41,293
Write-down of inventories to net realisable value	(3,176)	46,172	—	42,996
Capital expenditure, including payment of land premiums	24,559	522,633	—	547,192
Interests in jointly controlled entities	—	94,465	—	94,465
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	Corn refined products (Restated) HK\$'000	Corn based biochemical products (Restated) HK\$'000	Biological products (Restated) HK\$'000	Total (Restated) HK\$'000
<b>Year ended 31 December 2008</b>				
<b>Segment revenue:</b>				
Sales to external customers	2,725,994	5,961,945	—	8,687,939
Intersegment sales	2,744,483	—	—	2,744,483
	<u>5,470,477</u>	<u>5,961,945</u>	<u>—</u>	<u>11,432,422</u>
<i>Reconciliation:</i>				
Elimination of intersegment sales				<u>(2,744,483)</u>
Revenue				<u>8,687,939</u>
<b>Segment results</b>	455,618	556,214		1,011,832
<i>Reconciliation:</i>				
Interest income				23,661
Unallocated gains				173,959
Unallocated expenses				(147,109)
Finance costs				<u>(359,438)</u>
Profit before tax				<u>702,905</u>
<b>Segment assets as at 31 December 2008</b>	5,035,857	9,565,357	—	14,601,214
<i>Reconciliation:</i>				
Elimination of intersegment receivables				(1,339,229)
Goodwill				348,428
Corporate and other unallocated assets				<u>1,804,927</u>
Total assets				<u>15,415,340</u>
<b>Segment liabilities as at 31 December 2008</b>	385,477	1,861,295	—	2,246,772
<i>Reconciliation:</i>				
Elimination of intersegment payables				(769,291)
Interest-bearing bank and other borrowings				5,540,003
Unallocated liabilities				<u>497,381</u>
Total liabilities				<u>7,514,865</u>

Year ended 31 December 2008	Corn refined products (Restated) HK\$'000	Corn based biochemical products (Restated) HK\$'000	Biological products (Restated) HK\$'000	Total (Restated) HK\$'000
<b>Other segment information:</b>				
Share of profits of jointly controlled entities	—	5,677	—	5,677
Depreciation	132,229	323,500	—	455,729
Amortisation of prepaid land premiums	4,623	11,567	—	16,190
Impairment of trade receivables	2,050	1,967	—	4,017
Write-down of inventories to net realisable value	5,024	66,160	—	71,184
Excess of a business combination	—	23,703	—	23,703
Capital expenditure, including payment of land premiums	83,424	1,193,029	—	1,276,453
Interests in jointly controlled entities	—	91,634	—	91,634

**(b) Geographical segments**

*Revenue from external customers*

	<b>2009</b>	2008 (Restated)
	<b>HK\$'000</b>	HK\$'000
Mainland China	<b>6,566,406</b>	6,609,933
Regions other than Mainland China	<b>1,271,895</b>	2,078,006
	<b>7,838,301</b>	8,687,939

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

*Non-current assets*

	<b>31 December 2009</b>	31 December 2008 (Restated)	1 January 2008 (Restated)
	<b>HK\$'000</b>	HK\$'000	HK\$'000
Mainland China	<b>10,141,059</b>	9,872,069	8,448,467
Regions other than Mainland China	<b>313,450</b>	296,536	297,218
	<b>10,454,509</b>	10,168,605	8,745,685

The non-current asset information above is based on the location of 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:

	2009 <i>HK\$'000</i>	2008 (Restated) <i>HK\$'000</i>
<b>Revenue</b>		
Sales of goods	<u>7,838,301</u>	<u>8,687,939</u>
<b>Other income</b>		
Bank interest income	2,144	23,661
Net profit arising from the sales of packing materials and by-products	44,005	43,205
Government grants	35,805	20,412
Others	<u>2,963</u>	<u>12,580</u>
	<b>84,917</b>	<b>99,858</b>
<b>Gains</b>		
Exchange differences	114	96,083
Gain on disposal of items of property, plant and equipment	<u>1,780</u>	<u>1,679</u>
	<u><b>86,811</b></u>	<u><b>197,620</b></u>

## 6. FINANCE COSTS

An analysis of finance costs is as follows:

	2009 <i>HK\$'000</i>	2008 (Restated) <i>HK\$'000</i>
Interest on bank loans		
wholly repayable within five years	345,759	407,131
Finance costs for discounted notes receivable	<u>7,780</u>	<u>10,479</u>
	<b>353,539</b>	<b>417,610</b>
<i>Less:</i> Interest capitalised	(42,775)	(49,064)
Interest subsidies *	<u>(3,595)</u>	<u>(9,108)</u>
	<u><b>307,169</b></u>	<u><b>359,438</b></u>

\* Non-refundable interest subsidies are granted by the local government for a specific construction project carried out by a subsidiary of the Group.

## 7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	2009	2008
	<i>HK\$'000</i>	(Restated) <i>HK\$'000</i>
Raw materials and consumables used	4,867,577	4,730,038
Depreciation	408,030	455,729
Amortisation of prepaid land premiums	16,927	16,190
Research and development costs	8,553	9,425
Auditors' remuneration	4,280	4,280
Employee benefits expenses (including directors' remuneration):		
Wages and salaries	140,469	130,311
Pension scheme contributions	32,233	22,141
	<u>172,702</u>	<u>152,452</u>
Impairment of goodwill	—	12,461
Impairment of trade receivables	41,293	4,017
Write-down of inventories to net realisable value #	42,996	71,184
	<u><u>42,996</u></u>	<u><u>71,184</u></u>

# Included in "Cost of sales" in the consolidated statement of comprehensive income.

## 8. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in the locations in which the Group operates.

	2009	2008
	<i>HK\$'000</i>	(Restated) <i>HK\$'000</i>
Current — Hong Kong	2,221	(420)
Current — Mainland China	60,896	21,566
Deferred	(11,768)	8,944
	<u>51,349</u>	<u>30,090</u>

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:

2009	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	<u>(147,964)</u>		<u>213,268</u>		<u>65,304</u>	
Tax at the statutory rate	(24,414)	16.5	53,317	25.0	28,903	44.3
Preferential tax rate offered (note (a))	—	—	(6,165)	(2.9)	(6,165)	(9.4)
Lower tax rate for tax relief granted (note (b))	—	—	(22,651)	(10.6)	(22,651)	(34.7)
Income not subject to tax	(131)	0.1	(10,442)	(4.9)	(10,573)	(16.2)
Tax losses not recognised	16,396	(11.1)	17,490	8.2	33,886	51.9
Expenses not deductible for tax	<u>10,370</u>	<u>(7.0)</u>	<u>17,579</u>	<u>8.2</u>	<u>27,949</u>	<u>42.8</u>
Tax charge at the Group's effective rate	<u>2,221</u>	<u>(1.5)</u>	<u>49,128</u>	<u>23.0</u>	<u>51,349</u>	<u>78.6</u>
2008 (Restated)	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	<u>(95,608)</u>		<u>798,513</u>		<u>702,905</u>	
Tax at the statutory rate	(15,775)	16.5	199,628	25.0	183,853	26.2
Preferential tax rate offered (note (a))	—	—	(93,573)	(11.7)	(93,573)	(13.3)
Lower tax rate for tax relief granted (note (b))	—	—	(53,947)	(6.7)	(53,947)	(7.7)
Income not subject to tax	(1,577)	1.6	(22,324)	(2.8)	(23,901)	(3.4)
Tax losses not recognised	5,338	(5.6)	8,953	1.1	14,291	2.0
Expenses not deductible for tax	11,594	(12.1)	15,544	1.9	27,138	3.9
Tax losses utilised from previous periods	—	—	(8,018)	(1.0)	(8,018)	(1.1)
Tax deduction from purchase of domestic equipment	—	—	(21,370)	(2.7)	(21,370)	(3.0)
Effect of withholding tax on the distributable profits of the Company's PRC subsidiaries	—	—	5,617	0.7	5,617	0.8
Tax charge at the Group's effective rate	<u>(420)</u>	<u>0.4</u>	<u>30,510</u>	<u>3.8</u>	<u>30,090</u>	<u>4.3</u>

The statutory tax rate for all subsidiaries in Mainland China is 25% for the current year (2008: 25%).

- (a) Nine (2008: Nine) subsidiaries were subject to tax concessions in 2009. The total taxable profit of the subsidiaries that are subject to tax concessions amounted to approximately HK\$386,511,000 (2008: HK\$847,053,000) in aggregate. They were granted tax concessions by the state tax bureau in accordance with the Enterprise Income Tax Law of the People's Republic of China (the "EITL") 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.
- (b) Five (2008: five) subsidiaries, which were granted Technologically Advanced Enterprise status 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 rate of 15% in 2007 and are subject to the corporate income tax rates of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012.

## 9. DIVIDENDS

	<b>2009</b> <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Interim – Nil (2008: HK1.5 cents) per ordinary share	—	34,783
Proposed final – Nil (2008: HK1.0 cents) per ordinary share	—	23,188
	<u>—</u>	<u>57,971</u>

The Directors do not recommend the payment of any dividend for the Year.

## 10. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share is based on the consolidated net loss for the year attributable to ordinary equity holders of the Company of approximately HK\$14,978,000 (2008: earnings of HK\$621,777,000), and on 2,318,849,403 (2008: 2,318,849,403) ordinary shares in issue during the Year.

The Group had no potential dilutive ordinary shares in issue during those years.

## 11. INVENTORIES

	<b>31 December 2009</b>	31 December 2008 (Restated)	1 January 2008 (Restated)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	1,991,221	1,556,819	806,929
Finished goods	<u>608,121</u>	<u>711,724</u>	<u>427,843</u>
	<u><b>2,599,342</b></u>	<u><b>2,268,543</b></u>	<u><b>1,234,772</b></u>

As at 31 December 2009, certain inventories were written down to net realisable value which amounted to approximately HK\$146,135,000 (2008: HK\$259,474,000).

## 12. TRADE AND BILLS RECEIVABLES

	<b>31 December 2009</b>	31 December 2008 (Restated)	1 January 2008 (Restated)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	1,404,909	1,057,907	879,122
Bills receivables	234,033	69,367	189,946
Impairment	<u>(56,835)</u>	<u>(15,542)</u>	<u>(10,623)</u>
	<u><b>1,582,107</b></u>	<u><b>1,111,732</b></u>	<u><b>1,058,445</b></u>

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. 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, is as follows:

	<b>31 December 2009</b>	31 December 2008 (Restated)	1 January 2008 (Restated)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	588,566	293,746	597,276
1 to 2 months	413,625	184,625	249,182
2 to 3 months	253,646	110,522	92,257
Over 3 months	<u>383,105</u>	<u>538,381</u>	<u>130,353</u>
	<u><b>1,638,942</b></u>	<u><b>1,127,274</b></u>	<u><b>1,069,068</b></u>

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

	<b>2009</b>	2008
	<b>HK\$'000</b>	(Restated) HK\$'000
At 1 January	<b>15,542</b>	10,623
Impairment losses recognised	<b>41,293</b>	4,017
Exchange realignment	—	902
	<u><b>56,835</b></u>	<u>15,542</u>

Included in the above provision for impairment of trade receivables is a full provision for individually impaired trade receivables of approximately HK\$56,835,000 (31 December 2008: HK\$15,542,000; 1 January 2008: HK\$10,623,000). The individually impaired trade receivables relate to customers that were in financial difficulties and the receivables are expected to be unrecoverable. The Group does not hold any collateral or other credit enhancements over these balances.

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

	<b>31 December</b>	31 December	1 January
	<b>2009</b>	2008	2008
	<b>HK\$'000</b>	(Restated) HK\$'000	(Restated) HK\$'000
Neither past due nor impaired	<b>1,255,837</b>	588,893	938,715
Less than 1 month past due	<b>95,019</b>	365,117	66,868
1 to 3 months past due	<b>69,927</b>	14,533	39,998
Over 3 months past due	<b>218,159</b>	158,731	23,487
	<u><b>1,638,942</b></u>	<u>1,127,274</u>	<u>1,069,068</u>

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. The Group does not hold any collateral or other credit enhancements over these balances.

### 13. CASH AND CASH EQUIVALENTS

	<b>31 December 2009</b>	31 December 2008 (Restated)	1 January 2008 (Restated)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and bank balances	<b>1,487,951</b>	1,128,794	1,970,324
Time deposits	<b>129,960</b>	347,906	33,484
	<b>1,617,911</b>	1,476,700	2,003,808
<i>Less: Pledged for banking facilities</i>	<b>(23,596)</b>	—	—
Cash and cash equivalents	<b><u>1,594,315</u></b>	<b><u>1,476,700</u></b>	<b><u>2,003,808</u></b>

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to approximately HK\$880,402,000 (31 December 2008: HK\$665,051,000; 1 January 2008: HK\$910,269,000). 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.

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.

### 14. TRADE PAYABLES

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

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

	<b>31 December 2009</b>	31 December 2008 (Restated)	1 January 2008 (Restated)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	<b>317,550</b>	786,347	358,584
1 to 2 months	<b>166,860</b>	110,484	27,920
2 to 3 months	<b>88,429</b>	46,343	13,076
Over 3 months	<b>244,600</b>	114,822	65,453
	<b><u>817,439</u></b>	<b><u>1,057,996</u></b>	<b><u>465,033</u></b>

## 15. SHARE CAPITAL

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

	<b>31 December 2009 <i>HK\$'000</i></b>	31 December 2008 <i>HK\$'000</i>	1 January 2008 <i>HK\$'000</i>
Authorised:			
10,000,000,000 (31 December 2008: 10,000,000,000; 1 January 2008: 10,000,000,000) ordinary shares of HK\$0.10 each	<b><u>1,000,000</u></b>	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid:			
2,318,849,403 (31 December 2008: 2,318,849,403; 1 January 2008: 2,318,849,403) ordinary shares of HK\$0.10 each	<b><u>231,885</u></b>	<u>231,885</u>	<u>231,885</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

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

The negative effects of global financial crisis in 2008 extended to the Year. Although the global market has shown sign of recovery since the second half of 2009, the global economy remained weak during the Year. Particularly, the Group's export business and the performance of the Group were affected adversely. During the Year, the demand from overseas markets dropped significantly. Export sales shrank and accounted for only approximately 16% (2008: 24%) of the Group's revenue. Despite such adverse overseas market conditions, the Group's operations remained strong in PRC. The PRC economic recovery was drastic as the PRC government's economy stimulation policies were successful. Resulted from those policies on agriculture, cost of corn reduced while the farmers in PRC were motivated to breed and feed more pigs and poultry. Moreover, customers restored their stock level back to normal, which drove the demand for the amino acids products, including lysine products. The sales volume increased sharply during the Year. However, the average selling price of the amino acids products dropped approximately 28% compared with the last year, the recovery pace of selling price of the amino acids products did not pick up as well as the volume growth.

During the Year, certain government grant was introduced by the PRC government on corn kernels which in turn stabilised the corn kernels price for corn processors. It is anticipated that subsidies in similar form will be continued in 2010. Nevertheless, management expected that in view of the unfavorable weather condition and seasonable pattern, corn price will be pushed up in 2010. Therefore, high inventory level of corn kernels was kept at the end of 2009 to stabilise the cost of corn kernels. The corn starch market has recovered since the second half of 2009 and the selling price of corn starch has reached over HK\$2,500 per metric ton recently which represents approximately 16% of increase as compared to the average selling price of corn starch in 2009. It is expected that the performance of upstream products will be further improved in 2010.

As alternatives to some of the petroleum-based chemical products, the price of our polyol chemicals are highly correlated to those refined products from crude oil. The crude oil price has rebounded and increased over a double during the Year. Performance of polyol chemical business has substantially improved during the first quarter of 2010.

## Financial Performance

(Revenue: HK\$7,838 million (2008: HK\$8,688 million))

(Gross profit: HK\$1,057 million (2008: HK\$1,734 million))

(Net profit: HK\$14 million (2008: net profit of HK\$673 million))

The adverse financial performance was mainly due to the significant decline of average selling price of approximately 10% as compared with the last year.

### *Upstream products segment*

(Revenue: HK\$2,354 million (2008: HK\$2,755 million))

(Gross profit: HK\$287 million (2008: HK\$356 million))

Due to the impact arising from the global financial crisis and the keen competition of corn starch in the PRC during the first half of 2009 and increase in internal consumption of corn starch for downstream products, the average selling price and sales volume of upstream products during the Year dropped by approximately 5% and approximately 10% respectively as compared to the last year although the sales of upstream products had resumed gradually since the second half of 2009. As a result the gross profit was adversely affected with a reduction of approximately 20% as compared to last year's figure.

### *Downstream products segment*

(Revenue: HK\$5,348 million (2008: HK\$5,933 million))

(Gross profit: HK\$769 million (2008: HK\$1,378 million))

The revenue and gross profit of downstream products decreased substantially by approximately 10% and 44% respectively during the Year, which was mainly attributable to the decline of selling prices and drop in sales volume of most of our downstream product series. The sales volume, average selling price, average cost of goods sold, revenue and gross profit for the Year and the analysis of the changes are summarised as follows:

Change of downstream product series for the year					
Product series	Sales Volume	Average selling price	Average cost of good sold	Revenue	Gross profit
Amino acids	37%	(28%)	(18%)	(1%)	(35%)
Modified starch	(4%)	(11%)	(9%)	(15%)	(25%)
Corn sweeteners	(16%)	0%	(2%)	(15%)	(3%)
Polyol chemicals	(9%)	(30%)	(8%) <sup>^</sup>	(36%)	(146%)
Overall	<u>6%</u>	<u>(15%)</u>	<u>(6%)</u>	<u>(10%)</u>	<u>(44%)</u>

<sup>^</sup> additional provision for polyol chemicals at 31 December 2009 of approximately HK\$91 million had been taken into consideration.

Among those downstream products series, amino acids division still constituted the key products of the Group as previous years. Their revenue and gross profit in 2009 of approximately HK\$3,606 million (2008: HK\$3,625 million) and approximately HK\$652 million (2008: HK\$1,009 million), accounted for approximately 46% (2008: 42%) and approximately 62% (2008: 58%) of the Group's total revenue and gross profit respectively. The sales volume of amino acids increased by approximately 37% over the last year because of the rise of demand and the restoration of normal stock level after the financial tsunami in the PRC. However, the slip of selling price by approximately 28% over the last year caused to a 35% reduction in gross profit.

The modified starch division has been resuming gradually since the second half of the Year. This division contributed a gross profit of approximately HK\$24 million (2008: HK\$32 million) to the Group during the Year.

The polyol chemicals division generated revenue of approximately HK\$655 million (2008: HK\$1,027 million). The gross loss contributed from this division during the Year amounted to approximately HK\$75 million (2008: gross profit of HK\$163 million). Due to the slip of crude oil price, the selling price of those chemical products from both petroleum-based and agricultural-based dropped seriously. The average selling price of our polyol chemicals dropped by approximately 30% as compared with that of the previous year. Furthermore, an additional provision of closing inventories of polyol chemical products at the balance sheet date amounting to approximately HK\$91 million (2008: HK\$81 million) was made. In view of the rebound of crude oil price and the promotion of the use of green products, the Directors believe that our chemicals division would operate profitably in foreseeable future.

Because of the outbreak of melamine-tainted food incident in PRC and the global financial crisis in the second half of 2008, the operating environment of sweeteners was adversely affected in the first half of 2009. Although the demand and selling price of glucose and maltose picked up rapidly since the second half of 2009, the sales volume and revenue of sweeteners division dropped by approximately 17% and approximately 15% respectively compared with the last year. The drop of gross profit of sweetener division narrowed to approximately 3% while the gross profit margin slightly improved by approximately 2%, which were resulted from the rebound of the selling price and the tight control on the production cost of sweeteners during the Year.

### ***Biological product segment***

During the Year, Global Sweeteners Holdings Limited ("GSH") (a Hong Kong listed company with stock code: 03889), an indirect non-wholly owned subsidiary of the Company, started launching food related products for the purpose of product diversification. A non-wholly owned subsidiary, of which GSH holds approximately 62% equity interest indirectly, had been set up for launching high end beef products for both wholesale and retail sales in the PRC. During the Year, GSH had invested approximately HK\$8 million in this joint venture and the business recorded a revenue and gross profit of approximately HK\$137 million (2008: Nil) and HK\$1 million (2008: Nil) respectively. In the year of 2010, it is expected that GSH will expand its business to cattle flattening by investing approximately HK\$100 million as working capital of the business.

### ***Product segments***

The revenue and gross profit of upstream products accounted for approximately 30% (2008: 32%) and approximately 27% (2008: 21%) of the Group's totals, respectively. There was no significant change on revenue contribute by these product segments. However, due to the weak selling price of downstream products, the gross profit margin was suppressed. As a result, the profit contributed by downstream product segment dropped substantially. On the other side, the revenue generated from the biological products accounted for approximately 2% of the Groups total revenue while its gross profit accounted for less than 1% of the Group's total gross profit.

### ***Other revenue, operating expenses, finance costs and income tax***

During the Year, other income of the Group has sharply decreased to approximately HK\$87 million (2008: HK\$198 million). The main reason for the fall was that an exchange gain arising for the appreciation of RMB amounting to approximately HK\$96 million was recognised for the year 2008, while an exchange gain of approximately HK\$0.1 million was recorded during the Year.

The selling and distribution costs of approximately HK\$435 million (2008: HK\$533 million) decreased by approximately HK\$98 million or 18% over the last year and represented approximately 5.5% (2008: 6.1%) over the Group's revenue for the Year. The drop was mainly because of the slow down of sales activities, particularly export business, and the decrease of transportation costs as the petroleum price dropped.

The administrative expenses of approximately HK\$265 million (2008: HK\$285 million) decreased by approximately HK\$20 million or approximately 7% over the last year and represented approximately 3.4% (2008: 3.3%) of the Group's revenue for the Year. The administrative expenses were stable as the Group continued to impose stringent control over the costs.

The other operating expenses for the Year amounted to HK\$74 million (2008: HK\$80 million) comprising the legal expenses spent for the infringement litigations amounting to approximately HK\$25 million (2008: HK\$47 million).

Despite the enlarged borrowing portfolio, the finance costs of approximately HK\$307 million (2008: 359 million) decreased by approximately 14% as compared to the last year mainly due to the drop in average interest rate by approximately 1% per annum. The interest capitalised as fixed assets was decreased to approximately HK\$43 million (2008: HK\$49 million) for the Year. However, it is anticipated that the pressure from finance costs will remain heavy for 2010.

With the prevailing income tax laws and regulations, certain subsidiaries established in the PRC can still enjoy income tax relief. However, as the tax holiday of those profitable entities had been expired while those entities still enjoying tax relief operated at losses during the Year. As a result, income tax amounting to approximately HK\$51 million (2008: HK\$30 million) was charged for the Year despite an operating loss of the Group. The overall effective tax rate of the Group drastically increased to approximately 79% (2008: 4%).

### ***Share of profits of jointly controlled entities***

During the Year, the high fructose corn syrup joint venture recorded a net profit attributable to the Group of approximately HK\$3 million (2008: HK\$6 million). The drop was mainly due to the reduction of sales volume.

### ***Profit shared by minority shareholders***

As at 31 December 2009, the Company indirectly held approximately 67% issued share capital of GSH and profit shared by the minority shareholders of GSH amounted to approximately HK\$29 million (2008: HK\$51 million) for the Year.

## **FINANCIAL RESOURCES AND LIQUIDITY**

### **Net borrowing position**

To support additional working capital requirement and the capital expenditure on projects including the construction of facilities and/or expansion projects, the net borrowings as at 31 December 2009 increased to approximately HK\$5.1 billion (31 December 2008: HK\$4.1 billion).

### **Structure of interest bearing borrowings**

As at 31 December 2009, the Group's bank borrowings amounted to approximately HK\$6.7 billion (31 December 2008: HK\$5.5 billion), of which approximately 11% (31 December 2008: 19%) were denominated in Hong Kong dollars or US dollars while the remainder were denominated in RMB. The average interest rate during the Year was approximately 5.7% (2008: 6.5%).

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 2008: 62%) and approximately 34% (31 December 2008: 38%) and less than 1% (31 December 2008: less than 1%) respectively. The change was mainly due to the classification of long term borrowings, which were repayable within Year 2010, as current liabilities. In view of the continual support from existing bankers, no material pressure in obtaining continuous financing resource is expected. As at 31 December 2009, certain borrowings were secured by the Group's fixed assets with a carrying value/ aggregate net book value of approximately HK\$20 million (31 December 2008: HK\$21 million).

## **Turnover days, liquidity ratios and gearing ratios**

Normally, the Group allows credit terms to established customers ranging from 30 to 90 days. Due to the global financial tsunami, more favourable credit terms were granted to customers inducing more sales, as a result, the turnover days of trade receivables recorded a relatively high level which has increased to approximately 74 days (2008: 47 days) for the Year. Meanwhile, the trade creditors turnover days decreased to approximately 44 days (2008: 56 days) which was in line with the seasonal pattern of raw material acquisition. On the other hand, due to the additional purchases of corn kernels during the last quarter of 2009 to prevent the anticipated upward costs trend of corn kernels in 2010 and the slow-down of the sales activities during 2009, the stock level of both raw material and finished good as at 31 December 2009 became relatively high so that the inventory turnover days increased to approximately 140 days (2008: 119 days).

Because of addition of bank borrowings and the reclassification of certain bank borrowings from long term to short term and high level of inventories and accounts receivable, the current ratio and the quick ratio as at 31 December 2009 remained at a relatively low level of approximately 1 (31 December 2008: 1) and 0.6 (31 December 2008: 0.6) respectively. At the same time, due to the reduction of cash inflow after the global financial tsunami, gearing ratio in term of net debts (i.e. net balance between bank borrowings and cash and cash equivalent) to total equity (aggregate total of shareholders equity and minority interest) deteriorated to 64% (31 December 2008: 51%). Moreover, gearing ratios in terms of (i) bank borrowings to total assets and (ii) bank borrowings to total equity increased to approximately 40% (31 December 2008: 36%) and 84% (31 December 2008: 70%), 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. During the Year, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 31 December 2009.

## **LISTING OF TDR OF GSH ON TAIWAN STOCK EXCHANGE**

On 25 March 2010, 100 million units of Taiwan Depositary Receipts (“TDR”) of GSH, representing 100 million of new shares issued by GSH and 100 million of existing shares transferred by a wholly owned subsidiary of the Company, were listed on the Taiwan Stock Exchange. Each unit of TDR represents two ordinary shares of GSH. The Company’s indirect interest in GSH was then reduced from approximately 67% to approximately 52%. Based on the offer price of 15.50 New Taiwan Dollars (equivalently to approximately HK\$3.79) per TDR unit, the net cash inflow in respect of the TDR amounted to approximately HK\$370 million.

## **PROSPECT**

2009 is a year full of challenges. With the global financial tsunami and general slowdown of the world economy since the second half of 2008, the Group had been facing a tough business environment in terms of economic situations in the PRC and abroad, especially in the first half of 2009. Operating environment has been gradually improving since the second half of 2009 and the Directors believe that those existing difficulties are considerable but surmountable. In view of various economic revitalisation proposals launched by the PRC government, the PRC is one of the countries that first recover from the world financial downturn. The Directors also expect that the Group's performance will be further improved as over 80% of the Group's income is generated from businesses in the PRC. The Group will strive to enlarge its market share and diversify its product mix, as well as enhance its capability in developing high value-added downstream products through research and development and through strategic business alliances with prominent international market leaders. The Board will endeavor to manage the existing businesses and any new investment of the Group prudently in order to maximise the return and wealth to the Shareholders. The Board believes that the Group is riding out of the global financial tsunami in 2010.

### **Polyol project**

Polyol products include ethylene glycol, propylene glycol, glycerin and butanediols and can be used in textile, plastic, construction materials, medical, chemical and cosmetic industries. The end products from polyol include polyester fibre, polymer resin and anti-freezer, chemicals applied in the production of coatings, PVC stabilisers, detergents, paint driers, etc. Usually, polyol chemicals are refined from crude oil and thus, their prices are highly correlated. In view of the insufficient supply of crude oil in long run and the consciousness of eco-friendly businesses, the Directors believe that the use of agricultural products as raw material of polyol chemicals becomes a feasible alternative.

The Board is of the opinion that the PRC and other regions in Asia are markets with enormous potential for the polyol chemical products. In addition to the polyol chemical plant with an annual capacity of 210,000 metric tonnes in Changchun, the Board has the intention to further expand the capacity of polyol chemicals in order to capture such huge potential market. To facilitate such development, foundation work of a new production site, Xinglongshan of Changchun, is now in progress. It is expected the success in the polyol project will generate large contribution to the Group in foreseeable future.

### **Amino acids**

Currently, the aggregate annual planned production capacity of amino acids is around 460,000 metric tonnes and those facilities can be interchangeable to produce different amino acids or fermentation products. Meanwhile, huge additional demand, in the PRC, is expected when feed producers lift up their consumption rate of lysine to follow the national or western countries' indicated additive proportion in feed industry. With the continuous and strong demand growth in lysine products, the Group is utilising almost all fermentation facilities for the production of lysine products. In addition, the Group is also dedicated to the research and development of many other high value-added amino acids to fuel our growth momentum.

## **STATUS OF INFRINGEMENT LITIGATIONS**

The Company and certain of its subsidiaries are currently proposed 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 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. The Directors believe the judgment to be incorrect and an appeal against the court's judgment had been lodged. 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 2009.

## **NUMBER AND REMUNERATION OF EMPLOYEES**

As at 31 December 2009, 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.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members will be closed from 27 May 2010 to 31 May 2010, both days inclusive, during which period no transfer of shares will be registered in order to determine the entitlements to the attendance at the annual general meeting.

Shareholders are reminded that in order to qualify for the attendance at the annual general meeting, they must ensure that all transfers accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's Hong Kong Branch Registrar, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 26 May 2010.

## **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.

## **COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES AND MODEL CODE**

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

In the opinion of the Directors, the Company has complied throughout the Year with all code provision of 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").

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers 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. Based on specific enquiry of the Company's directors, the Directors have complied with the required standard set out in the Model Code throughout the Year.

## **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.

