

Chairman's Statement

Dear shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of the Company, I take great pleasure to present, in this first annual report since the Company was listed on the Stock Exchange on 16 March 2001, the operating results of the Group for the year ended 31 December 2000.

Year 2000 marked an important milestone in corporate development for Global Bio-chem. During the year, Global Bio-chem Group worked hard to gradually expand its sale of corn based biochemical products through its extensive nationwide sales and marketing network and reported record sales of approximately HK\$1,208 million and net profit of approximately HK\$230 million for the year. With these results, the Company was successfully listed on the Stock Exchange in March 2001. It gives me great pleasure to report that the production bases and technology resources developed over the past two years have begun to generate favorable returns and benefits.

During the year under review, the Group reported an encouraging and significant growth in its results, with turnover and net profit amounting to approximately HK\$1,208 million and HK\$230 million respectively, representing increases of approximately 15.4% and 104.1%, respectively over those of the previous year. Earnings per share were HK24 cents, representing an increase of approximately 105.1% from the previous financial year. The strong performance was attributable to the increase in the sale of higher profit margin corn based biochemical products, and the increase in the gross profit margin of corn refined products resulting from the decrease in the purchase costs of corn kernels.

Business review

To enhance the corporate profile of Global Bio-chem Group in the PRC and the Asia Pacific region and to strengthen its capital base and financial resources for continuous downstream expansion, the Company has opted for a listing on the Main Board of the Stock Exchange.

The Company's successful listing in March this year has also served to fuel the continued business development of the Group, as we strengthen our competitive edge and expand the ongoing growth of our production capability. Most importantly, it enabled us to leverage on our leadership position in corn refined and corn based biochemical products to become the first and the largest vertically integrated corn based biochemical manufacturer in the PRC. We are certain that all these will bring a fruitful return to the shareholders.

In light of Global Bio-chem Group's dominant market position in the PRC and its strong growth potential, both Cargill Inc. ("Cargill"), a worldwide leading agricultural and food company and Cheung Kong (Holdings) Limited ("Cheung Kong"), a conglomerate whose shares are listed on the Stock Exchange (stock code: 001) have committed to investing in the Company. Partnering with an industry leader like Cargill and a well-connected locally listed company such as Cheung Kong will ensure that the Group's expansion in capacity, its business connections and its market development are further strengthened and enhanced.

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In 2000, the Group continued to reinforce its strategy of broadening the sale of higher profit margin biochemical products while further reducing its costs through enlarged capacity and maintaining self-sufficiency in key raw materials such as corn starch. The significant upsurge in the profitability of the Group is an evidence of the Group's success in adopting this strategy.

The Group succeeded in the trial production of lysine in 1999 and began mass production in mid 2000. This product is widely accepted and used by industrial users. Since the gross profit margin of lysine is one of the highest among the products of the Group, this marked the start of the rapid growth in earnings of the Group.

The Group launched its corn sweeteners production during the year under review. This type of corn based biochemical product is expected to become a significant profit contributor in the coming years. Global Bio-chem Group is believed to be one of the largest producers of corn sweeteners in the PRC. Its production facilities in Shanghai (the "Hao Chang Plant") has an annual capacity of 60,000 metric tonnes. Situated in Eastern China, a major food and beverage manufacturing and distribution centre, the Group's Hao Cheng Plant is well positioned to capture a significant share of the market.

The Group focuses on supplying intermediate biochemical products to industrial manufacturers, whereby its products are used by other manufacturers as raw materials for further processing into other consumer products. This approach enables the Group to maintain maximum flexibility in production efficiency, as well as cost-effectiveness in sales and marketing.

It is our objective to capitalise on our dominant market position in corn based biochemical products in the PRC in order to capture the emerging opportunities and the enormous demand for environmentally friendly products in China and other Asian countries for higher returns.

Prospects and Plans

The production capacity of corn in the PRC has increased dramatically in the past 15 years, making it the world's second largest corn producing country. However, corn refined and corn based biochemical product processing in the PRC is still in their infant stage. In China, most of the corn refiners are in small-scale operations, with a capacity of less than 50,000 metric tonnes a year. The three largest corn starch producers, including Global Bio-chem Group, have an aggregate annual processing capacity of over 2,000,000 metric tonnes per annum, which represents almost 50% of the market share in the PRC.

Technology advancements in biochemistry have created new ways of converting corn starch into more valuable industrial and pharmaceutical chemicals. As China is still at its initial stage of corn utilisation, corn refiners are set for new and high growth opportunities brought by the development in biochemical technologies.

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The demand for corn based biochemical products has increased due to the increasing awareness of the importance of health care and environmental protection. We anticipate that while the sale of corn refined products will continue to provide a healthy and strong income to the Group, the development and production of corn based biochemical products such as lysine and corn sweeteners will generate higher income growth for the Group in the coming years. In addition, as most of the lysine used in the PRC is imported, we believe that there is substantial room in the PRC domestic market for the Group to expand. Given the relatively high unit price and gross profit margin of lysine as compared to other products of the Group, we estimate that lysine will account for a high percentage of our profits in the coming years.

Looking ahead, Global Bio-chem Group will capitalise on its strengths and strive to achieve the following major objectives while maintaining a steady and healthy development of the Group in 2001.

Firstly, the Group intends to expand its existing production capacity for corn refined and corn based biochemical products by the construction of new production plants equipped with advanced equipment and facilities in Changchun in 2001.

The Group also plans to increase its modified starch production capacity from 30,000 metric tonnes per annum to 230,000 metric tonnes per annum in 2001. The Hao Chang Plant will increase its annual production capacity from 60,000 metric tonnes to 150,000 metric tonnes by the end of 2001. In view of the increasing demand from the livestock industry in China, we plan to speed up the expansion in lysine production and aim at completing the installation of production facilities by the end of 2001, thereby increasing the production capacity of lysine from 15,000 metric tonnes per annum to 40,000 metric tonnes per annum. To ensure a continuous supply of raw materials for our corn based biochemical products and maintain our market share in corn refined products, the Company will increase the existing production capacity in corn refining to 600,000 metric tonnes by early 2002. We plan to reach an annual corn processing capacity of 1,200,000 metric tonnes nine months ahead of the original plan, and become the largest corn refiner in Asia.

Secondly, to further enhance our market penetration and to fortify our position as a leading manufacturer of corn refined and corn based biochemical products, we will begin the development and expansion of our distribution network by establishing new points of sale in five major cities in China, namely Chongqing, Dalian, Qingdao, Xian and Zhengzhou. Overseas sales offices will also be established in Korea, Taiwan and the Philippines to capture business opportunities in these regions.

Thirdly, the Group will further expand into higher value downstream product operations. As such, we plan to develop a new production line for biochemical feed in 2001 with an expected annual production capacity of 50,000 metric tonnes and to commence mass production of biochemical fertiliser in 2001 with an expected annual production capacity of 200,000 metric tonnes.

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In addition to the above, the Group's new products under development include glutamic acid, refined lysine, biochemical fertiliser, biochemical feed, methionine, high fructose syrup, biodegradable plastic, other biochemical pharmaceutical products and environmentally friendly products.

Finally, the Group will invest at least HK\$20 million of the net proceeds raised from the Share Offer (as defined in the Company's listing prospectus dated 7 March 2001) in 2001 in the research and development of value-enhanced corn based biochemical products to further improve our manufacturing technology and our research and development capabilities. This will reinforce the Company's competitive advantage, keeping us ahead of our competitors. To maintain our competitive advantage, we also aim to market at least one new type of corn based biochemical product in every two years.

Our production plants are strategically located in the Gold Corn Belt, and within the food and beverage manufacturing centre of the country. Global Bio-chem Group has a competitive edge over its competitors in the following areas: (1) economies of scale from vertically integrated production, (2) cost efficiency from mass production, (3) unique production know-how and effective research and development, (4) access to low-cost raw materials, and (5) extensive sales and marketing network. The Group is therefore a leading beneficiary of the sector's growth. We are optimistic of the enormous opportunities over the coming years and are confident of the prospects of Global Bio-chem Group. We believe that year 2001 will be another prosperous year and our shareholders will see many satisfactory returns.

At 24 April 2001, among the net proceeds from the Share Offer of approximately HK\$278 million, approximately HK\$31 million was used for the purchase and installation of production equipment and facilities at a new production plant in the PRC, and approximately HK\$22 million was used as general working capital of the Group. The net proceeds which have not yet been applied for are now placed on short term deposits with licensed banks. It will be applied for the purchase and installation of production equipment and facilities at a new production plant in the PRC, the early repayment of bank borrowings, the research and development of new products and improvement of the Group's existing production technology, production processes and product quality, and the expansion of the distribution and sales network of the Group.

I take this opportunity to thank all my fellow directors for their invaluable contribution. Let me also express my appreciation to our shareholders, customers and business partners, as well as our staff, for their continuous support and dedication. Without your partnership, Global Bio-chem Group would not be the market leader as it stands today.

Liu Xiaoming

Chairman

24 April 2001