

## Chairman's Message

### ENCOURAGING INTERIM PERFORMANCE REAPING REWARDS OF FUTURE EXPANSION

During the first half of the year, the Group achieved satisfactory results with turnover and net profit reaching HK\$686 million and HK\$174 million respectively. The Group's overall gross profit margin remained at a high level of 40%, experiencing no downward adjustment despite the drop in the selling prices of certain products. All of these were attributed to the joint effort of our outstanding management team and devoted staff, as well as the long-range corporate strategies upheld by the Group.

### EXPANSION OF LYSINE BUSINESS

The expansion in production of lysine, a biochemical product with high profit margin, was another main reason for the satisfactory results. The second lysine production facility with an annual capacity of 25,000 metric tonnes commenced operation in mid-April of the second quarter, which was three months ahead of schedule, thereby lifting the Group's annual lysine production capacity from 15,000 metric tonnes to 40,000 metric tonnes. Although changes in the market led to a decrease in the price of lysine from the recent high of RMB20,000 to RMB22,000 per metric tonne in 2001 to between RMB14,500 and RMB16,000 per metric tonne in the third quarter in 2002, the sales of lysine in the first half of the year increased from approximately 6,600 metric tonnes to 12,000 metric tonnes compared to the corresponding period last year, representing an increase of 84% with gross profit margin remaining at 53%.

It is expected that the Group's overall gross profit margin will remain at a high level in the second half of the year. The total production capacity and sales of lysine for the entire year will increase from approximately 13,000 metric tonnes of last year to 30,000 metric tonnes, and its price has currently increased to RMB15,500 per metric tonnes. Furthermore, the Group has been appointed by the Management Committee of National Animal Feed Engineering Technology Research Centre to establish the only "National Animal Feed Engineering Technology Research Centre - Lysine Specialised Centre" in the People's Republic of China (the "PRC"). The centre is expected not only to facilitate the development and business expansion of lysine products, but also to bring positive effects to the sales of lysine of the Group.

### GLOBALISATION OF CORN SWEETENER BUSINESS

The 100,000-metric-tonne High Fructose Corn Syrup ("HFCS") refinery in Shanghai, a joint venture established with Cargill, Inc. ("Cargill"), a United States ("US") partner, was put into production and commenced sales in July.

The completion of these two projects lays a solid foundation for further development of downstream biochemical products by the Group, and it generates a new impetus for the growth of profit of the Group in the second half of the year.

During the third quarter, the Group's second corn refinery with an annual processing capacity of 600,000 metric tonnes was also completed and put into operation. This can ensure a stable and a highly cost effective supply of corn starch feedstock for downstream biochemical products.

### THE ONLY PRC HFCS MANUFACTURER RECOGNISED BY INTERNATIONAL BEVERAGE GROUPS

The joint venture HFCS refinery in Shanghai has made the Group presently the only PRC HFCS manufacturer with commercial production capacity and with its product quality recognised by international beverage groups. Currently, the Group is actively approaching a number of multinational food and beverage enterprises, which have factories in the PRC, for sales contracts. Although commercial operation has just begun over a month ago, the joint venture refinery in Shanghai has already started the provision of HFCS to beverage factories in Shanghai and other regions.

Under business alliances with international companies, the Group's technology, management level and market position will be recognised further in the corn based biochemical manufacturing industry in the PRC as well as in the Asia Pacific region. The Group is ready to step forward towards international markets.

### ADHERING TO LONG-RANGE CORPORATE STRATEGIES PROMOTING CORPORATE VALUE AND REWARDING SHAREHOLDERS

We believe that corn based biochemical products can be applied extensively in everyday life, thus improving the living standard and creating a better life. In this regard, the Group has formulated long-range corporate strategies to increase the weight of high value-added downstream products continuously. This strategy was reflected in the expansion of production capacity of lysine and the commencement of production of HFCS. For the second half of the year, the Group will actively map out another corn based biochemical project - glutamic acid.

We strongly believe that adhering to long-range corporate strategies is the best way to promote corporate value and reward our shareholders. The Group will strive to become the largest integrated corn based biochemical products manufacturer in the Asian Pacific region.

On behalf of the Group, I would like to extend my heartfelt thanks to all shareholders, customers, business partners and staff who have always been so supportive to the Group.

**Liu Xiaoming**

*Chairman*

29 August 2002