"Driven by expansion"

CONTINUOUS GROWTH

In 2002, Global Bio-chem recorded continuous growth with its turnover and net profit amounting to HK$1,657 million and HK$405 million respectively, representing an increase of 20% and 23% respectively compared to those of the previous year. Measures adopted by the Group to increase its production capacity of downstream products for the past two years have proved effective and fruitful and brought continuous growth. Global Bio-chem is currently the largest manufacturer of lysine and the largest vertically integrated corn based biochemical product manufacturer in the PRC, as well as the first High Fructose Corn Syrup ("HFCS") manufacturer in the PRC which can mass produce HFCS meeting international standards.

EXPANSION OF DOWNSTREAM PRODUCTS SALES SATISFACTORY

In April 2002, the new lysine production facility with an annual capacity of 25,000 metric tonnes commenced operation, thereby increasing the annual production capacity from 15,000 metric tonnes to 40,000 metric tonnes, and the total volume of lysine produced increased from approximately 13,400 metric tonnes in 2001 to approximately 32,000 metric tonnes in 2002, resulting in sales amounting to HK$451 million. In accordance with the forecast in the interim results, the price of lysine in the second half of the year stopped falling and showed some upward adjustment, the price became more stable, and market demand remained high. Sales and demand for other downstream products, such as modified starch and corn sweeteners also remained stable.

The overall gross profit of the Group remained at a satisfactory level of 39%, as the Group effectively increased the production capacity and the proportion in sales of its high profit margin downstream products.

In order to meet the internal demand for corn starch as raw material, due to the expansion of production of downstream products, the Group's second corn refinery in Changchun with 600,000-metric-tonne annual capacity commenced production in September 2002, thereby increasing annual corn processing capacity to 1.2 million metric tonnes, producing over 800,000 metric tonnes of corn starch, of which a substantial portion was utilized as raw material for downstream products. In view of the continuous enhancement in capacity and variety of downstream products, more corn starch is required as raw material. The Group will expand its annual corn processing capacity further, according to plan, to 1.8 million metric tonnes. The Group is currently contemplating whether to build or acquire such a facility. The Group will accomplish the expansion in the most economical way so as to ensure an adequate supply of high quality and low cost raw material for downstream products.

INVESTMENT IN NEW BIOCHEMICAL PRODUCTS DIVERSIFICATION OF PRODUCTS

In order to maintain its leading position, the Group has devoted much effort to the research and development of high value-added downstream products to diversify its products. In addition, the Group collaborates with various science and academic institutions in the development of new corn based biochemical products, including

protein lysine, various other amino acids, different types of modified starches for food and polyol etc., to ensure that a new product is available for market launch each year.

Recently, the Group is planning to produce a new type of protein lysine. Furthermore, the Group plans to construct a new facility to produce glutamic acid, which is a kind of amino acid and one of the principal raw materials used in producing MSG. The expansion project for the production of modified starch used in the paper-making industry is in progress, and is expected to commence operation by the end of this year.

STRATEGIC ALLIANCES WITH MULTINATIONAL CORPORATIONS

The Group engaged itself actively in collaborations with leading multinational corporations in scientific research and development, exchange of expertise as well as production and operation.

In January 2003, the Group signed a memorandum of understanding with Mitsui Corporation of Japan to form a joint venture to produce and sell a downstream product, sorbitol, in the PRC. Sorbitol is an organic chemical widely used as an important raw material in the food, pharmaceutical, cosmetic and chemical industries. The collaboration with the Japanese conglomerate facilitates the development of the sorbitol market.

The refinery jointly formed and operated by the Group and Cargill, Inc. ("Cargill") of the USA for the production of HFCS in Shanghai commenced production in the year under review. It has been accredited by domestic and international beverage groups as their supplier of HFCS in the PRC. Eventhough the low market price of sugar in the PRC in 2002 caused a setback in market exploration, with the improving living standard in the PRC and the rapid growth of the food and beverage industry, the Group is confident that the project will bring about good business opportunities and return.

ADHERE TO LONG-RANGE CORPORATE STRATEGIES AND STRENGTHEN CORPORATE GOVERNANCE

The Group believes that in addition to having practical and long-range corporate strategies in business, sound corporate governance is also crucial to continuous and healthy growth. The Group will follow and strengthen internal monitoring, through strict internal review procedures and monitoring by independent professionals, to ensure that each major transaction is thoroughly evaluated and complies with relevant listing rules. The Group has also formed a special team, led by an executive director of the Company, to facilitate two-way communication with investors and to issue announcements on business development of the Group regularly to maintain transparency so that both investors and the public can monitor the Group.

On behalf of Global Bio-chem, I would like to extend my heartfelt thanks to our staff, shareholders, investors, customers and business partners who have rendered continuous support to the Group.

Liu Xiaoming
Chairman
22 April 2003