

### **Product diversification sustains continuous growth and development**

During the first half of the year, the turnover and the net profit of the Group increased by 51% and 32% respectively when compared with the same period last year. The overall gross profit margin was maintained at a satisfactory level of 36%.

The increase of sales volume of lysine, a high value-added product, led to higher profit growth during the period. In order to create a new profit stream and to lay the ground work for further development, the Group has accelerated product diversification. To support product diversification, the Group will expand its corn processing capacity further by establishing a new production base in Jinzhou, Liaoning, the PRC.

### **Market globalisation, capturing a larger share of the lysine market**

The demand for lysine keeps on increasing in the PRC in recent years. The Group is a prominent player in the PRC lysine market and has successfully entered the European market this year.

To broaden the product range of amino acids and to cater to different customer needs, the Group signed agreements in July 2003 to establish a joint venture company, Changchun Baocheng Bio-chem Development Co., Ltd., for the production and sale of protein lysine and compound amino acids. Currently, the Group is a world-class lysine manufacturer in terms of production technology and equipment. Upon the completion of expansion projects on protein lysine & compound amino acids, the Group's annual lysine production capacity will increase to 100,000 metric tonnes, making the Group one of the largest lysine manufacturers in the world.

### **Strategic deployment of production base for product expansion**

The Group entered into an agreement in May 2003 to acquire 70% equity interest in Jinzhou Yuancheng Bio-chem Technology Co., Ltd. The acquisition marked a strategic deployment by the Group to extend its production base and product lines and will increase the Group's overall annual corn processing capacity from 1.2 million to 1.8 million metric tonnes. The Group estimates that corn starch for internal use will increase from 670,000 metric tonnes per annum by the end of 2003 to over one million metric tonnes by the end of 2004. Internal needs for corn starch cannot be met by the two existing corn refineries if no expansion is carried out. The increase in the supply of corn starch can be speeded up by one year by the acquisition when compared with the construction of a new refinery. The new refinery will commence production by the first quarter of 2004.

The Group will also construct a glutamic acid plant adjacent to the corn refinery in Jinzhou. Glutamic acid is the major raw material in MSG production. The plant, with a designed annual capacity of 100,000 metric tonnes and consuming 200,000 metric tonnes of corn starch, will commence production by the fourth quarter of 2004.

Jinzhou is the transportation hub in northeastern PRC. The geographic advantage provides a cost-effective transportation platform for the Group's expansion into markets in southern PRC and overseas as the cost of shipment from Jinzhou by sea is substantially lower than from Changchun by land.

**Strategic alliances with international enterprises to accelerate business development**

During the period, the Group signed a Memorandum of Understanding with Mitsui Group to form a joint venture company for the manufacture and sale of sorbitol products in the PRC. In addition, the high fructose corn syrup joint venture refinery formed between the Group and Cargill, Incorporated has started to supply HFCS to a number of international and domestic food and beverage groups. Through the co-operation with a well-established conglomerate in Japan and a multi-national corporation in the U.S., the development of the huge potential markets for sobitol and HFCS can be enhanced and this in turn accelerates the development of the Group.

**To become a leading vertically integrated corn based biochemical product manufacturer**

The Group's long term corporate strategy is to manufacture and sell high profit margin downstream corn based biochemical products.

Apart from downstream corn based biochemical products like protein lysine, various types of compound amino acids, glutamic acid, sorbitol and HFCS, the Group is actively engaged in a modified starch expansion project. The modified starch plant for the paper-making industry will commence production by the end of 2003, with annual capacity of 60,000 metric tonnes, to be raised further to 100,000 metric tonnes in the first quarter of 2004. Upon the completion of all expansion projects, it is expected that the Group's performance will be improved further.

In view of the current low interest environment, the Group intends to enhance financial flexibility by arranging a syndication loan facility of not less than HK\$700 million in the second half of this year. It will place the Group in a position for sustainable future business expansion and will also satisfy general working capital needs.

The Group also places great importance in improving production efficiency by enhancing production technology and controlling production costs. Therefore, the Group will continue to allocate resources in recruiting qualified and experienced staff for the research and development and production teams.

I would like to extend heartfelt thanks to our staff, shareholders, investors, customers and business partners who have rendered continuous support to the Group.

**Liu Xiaoming**  
*Chairman*

28 August 2003