

Message to Shareholders

Dear Fellow Shareholders,

PROVEN CORPORATE STRATEGY WITH EXCELLENT PERFORMANCE

During the first half of 2004, Global Bio-chem adhered to its corporate strategy to expand and diversify the production capacity of high value-added corn based biochemical products. The Group has also augmented its corn processing capacity so as to secure raw materials supply for downstream products.

During the period, the Group's business model in concentrating on high-value added downstream products has been established, accounting for 70% of the Group's gross profit. The Group further expanded the product range of lysine and successfully launched protein lysine to the China market, resulting in favourable growth in the turnover and profit.

Even though the austerity measures implemented by the PRC Government, the Group recorded promising growth during the Period. Resulting from the downstream product expansion, the Group's turnover and net profit improved significantly by 41% and 84% respectively compared to the same period last year as well as gross margins upsurges from 36% to 44%.

ADHERENCE TO CORPORATE STRATEGY WELL-ESTABLISHED POSITION AS A MARKET LEADER

The Group is the largest lysine manufacturer in Asia. Sales of the Group's lysine products accounted for approximately 50% of the total market share in the PRC. With over 20% of the global market share, the Group is also one of the major lysine manufacturers.

After the trial production of protein lysine by the end of 2003, this new product has successfully penetrated into the domestic market within a short period. In the first half of 2004, 40,000 metric tonnes of protein lysine were sold to domestic customers and captured a 25 percent market share in the PRC swiftly.

To meet overwhelming domestic and overseas demands, the Group expanded the annual capacity of protein lysine from 60,000 metric tonnes in January 2004 to 80,000 metric tonnes. In the meantime, the Group is actively strengthening its marketing effort to make protein lysine becomes a mainstream product in the global market. On the other hand, the Group continued to expand overseas market share as well as to achieve well-balanced market coverage.

During the first half of 2004, the Group sustained its largest corn processing capacity in the PRC and capable to secure raw material supply for its downstream product expansion. In addition, modified starch expansion project has been completed and introduced into the market.

EXPLOITED RESEARCH AND DEVELOPMENT AND ENHANCED GROWTH MOMENTUM

In collaboration with experts from various countries, the world's first polyol project, applied with biotechnology and using corn starch as raw material, has commenced its trial production in July this year. Through this project, the Group has extended its products' applications from feeds, food, beverages, paper-making and pharmaceutical industries to the chemical industry. To keep abreast with the global trend in utilising environmental friendly materials, the Group's polyol project refines agricultural raw materials substituting petroleum by-products. It relieves the shortage of oil resources and reduces polyol's production costs substantially. Such project will not only broaden the Group's business scope and earnings base, but also enhance the growth momentum.

Furthermore, the sorbitol plant with an annual capacity of 60,000 tonnes for the joint venture project between the Group and Mitsui Group is under construction and commercial operation is expected to commence by mid 2005.

CONSUMMATE CORPORATE GOVERNANCE AND COMMUNICATION

The Group is dedicated to interact with global investors to maintain the Group's high transparency and to ensure all investors are well informed of the Company's latest corporate development. Global Bio-chem was selected as one of the enterprises with the "Best Governance" and "Best Investors Relationship" by regional well-known capital market magazines and financial institutions.

PROSPECTS OF THE SECOND HALF YEAR

The Group anticipates the demands for lysine products will remain strong with stable pricing in the second half year. Since the austerity measures in the PRC have already shown obvious results, the Chinese economy is expected to sustain stable development which impose a positive impact on the demand for the Group's products. In spite of increased price in corn, the principal raw material for the Group's production, the Group has kept sufficient reserves so that the raw material costs are effectively stabilised and secure adequate supply to downstream product production.

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The Group will continue to expand its high value-added products via the construction of a new amino acid production base in Dehui, Jilin Province. In utilising the Group's advanced technology and local resources, new products like arginine, threonine and valine will be developed, as well as to accelerate glutamic acid projects in the production base. Meanwhile, to become the largest lysine manufacturer in the world, a lysine series production facility with an annual capacity of 120,000 metric tonnes will be developed in two phases to satisfy huge market demands. The first phase operation with annual capacity of 60,000 metric tonnes is expected to commence in the first quarter of 2005 while the second phase production will begin in third quarter of 2005.

To cope with the development of downstream products, a corn processing plant in Jinzhou with an annual capacity of 600,000 metric tonnes also commenced its operation in the second half, thereby expanding the Group's annual processing capacity to 1,800,000 metric tonnes.

The management will continue to strive, together with its wealth of experiences and advantages, in enhancing operating efficiency, maximising returns on assets, returns for shareholders and shareholder's value. Finally, we would like to extend our most heartfelt thanks to our customers, business partners, investors, shareholders and staff who have rendered continuous support over the years.

Liu Xiaoming
Co-Chairman

Xu Zhouwen
Co-Chairman

1 September 2004