

# Message to Shareholders

Dear Fellow Shareholders,

## **BUSINESS REVIEW**

In 2004, Global Bio-chem sustained rapid growth with its turnover and net profit surged by 45% and 57% respectively compared with the preceding year. Overall gross profit margin was 39%.

Last year, the Group's major products recorded an outstanding performance in both production and sales. Although lysine prices have declined since the second half of the year due to the rapid capacity expansion by major global manufacturers, the Group managed to achieve satisfactory growth by strong production capacity, effective cost control measures and sound sales network.

The Group is also one of the pioneers in the world in using corn starch to commercialise polyol products production, signifying a technology breakthrough to relieve today's global oil shortage problem as well as establishing our leading position in this aspect. In addition, the Group is also the largest manufacturer of corn sweeteners in China, sustaining a definite market share and providing a supply of sweeteners as raw material for other downstream products. Meanwhile, our upstream corn processing capacity has been raised to ensure that there is sufficient supply of raw materials for the development of downstream products.

## **STRENGTHENED PRODUCTION CAPACITY TO SOLIDIFY WELL-ESTABLISHED POSITION AS A MARKET LEADER**

After years of development, the Group has become the largest corn processing manufacturer in China with its annual corn processing capacity reaching 1.8 million metric tonnes by the end of 2004, which represented 1.2 million metric tonnes of corn starch and around 600,000 metric tonnes of corn refined by-products including corn oil, corn gluten, fibre and feeds etc.. Production capacity of downstream products include 120,000 metric tonnes of lysine, 560,000 metric tonnes of corn sweeteners and 90,000 metric tonnes of modified starch. Thus, the Group has become the largest manufacturer of lysine and corn sweeteners in China. Also, the Group is actively involved in the expansion of overseas market to establish product sale worldwide.

The Group's lysine production plant in Dehui, Jilin Province, with an annual capacity of 120,000 metric tonnes, commenced commercial operation in January 2005, raising the overall lysine production capacity to 240,000 metric tonnes. The Group thus became the largest lysine manufacturer in China and one of the top three players in the world.

In September 2004, the Group acquired a corn sweetener plant with an annual capacity of 150,000 metric tonnes. After expansion the capacity raised to 500,000 metric tonnes. It not only enabled us to maintain our existing market sales but also provide a solid foundation for the production and capacity expansion of other downstream products including amino acids, sorbitol and polyol products etc..

### PRODUCT MIX DIVERSIFICATION TO SUSTAIN GROWTH MOMENTUM

It is expected the lysine series business will remain stable. Research is currently carried out to develop new lysine micro-organism with improved conversion ratio and production efficiency which will reduce production costs and maintain substantial gross margin. We are also dedicated to the research and development of many other high value-added amino acids, including arginine, threonine and valine to fuel our growth momentum. Trial production and sale of threonine is currently in progress and it is expected that a production plant with an annual capacity of 10,000 metric tonnes will commence commercial production in 2005. Also, glutamic acid plant with an annual production capacity of 100,000 metric tonnes is currently under construction and is expected to start commercial production in 2005.

The joint venture project with Mitsui Group for the production of the sorbitol, which has an annual capacity of 60,000 metric tonnes, is on the verge of completion. Commercial production is expected to commence in 2005.

It is the Group's long term strategy to sustain its growth momentum by ongoing research and development to enhance the Group's competitiveness. In 2004, the Group became one of the first global players in the successful commercialisation of polyol products using corn starch in substitution of petroleum. During the year, a production plant with an annual capacity of 20,000 metric tonnes was completed and commenced trial production, delivering products which were soon well-accepted by the market. The application of chemical technology of using corn starch reduces production cost of polyol products and relieve reliance on petroleum. This project is expected to have a promising future given worldwide shortages of petroleum and upsurges in oil prices. According to some statistics, the demand for ethylene glycol and propylene glycol in China was around 4 million metric tonnes and 150,000 metric tonnes respectively in 2004, whereas their imports were around 3 million metric tonnes and 92,000 metric tonnes respectively. In view of this huge market demand, the Group is confident that polyol products will be our major driver of growth in the future.

The polyol project will be one of the Group's important focus for future development. A production line with an annual capacity of 200,000 metric tonnes is currently in the design and preparation stage. It is expected that construction will begin in 2005. Ethylene glycol and propylene glycol of polyol have a wide range of applications in various industries including textile, plastics, chemical, pharmaceutical and cosmetics etc.. The Group believes that the polyol project will play an important role to sustain the Group's high growth in the future.

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Apart from the expansion of downstream products, the Group is also in active expansion of the overseas market. In terms of volume, the Group covers an approximate 30% share of the global lysine market. Our promotions initiative over the last year has won us recognition in the overseas market. Export of lysine reached 17,000 metric tonnes, tripled the amount as compared with the previous year, with our sales network extended to Europe, America, and Asia, etc.. We are dedicated to further explore the international market. In 2005, we expect a substantial volume growth in the sales of lysine overseas.

Corn kernels, our major raw material, had great harvest towards the end of last year. This has kept corn prices stable. As at year end , the Group maintained a storage level of 400,000 metric tonnes, adequate for three months' production needs of the Group.

The Group expects that the economic development of China will be steady and demand for our products will remain strong. The Group's strong production capacity and leading technology know-how has established its prominent position in the domestic and international lysine market. Having established the Group's leading position in the domestic lysine market, we expect to extend our global market share by increasing export sales. At the same time, research and development of downstream products will continue and efforts will be made to enhance new product commercialisation, with an aim to expand the revenue base of the Group as well as to explore new areas for profit growth.

The management will continue to strive for excellence in corporate governance and to enhance communications with investors. Meanwhile, the management is committed to further enhance operating efficiency and maximise returns on assets, thereby generating reasonable returns for shareholders and maximising shareholders' value. On behalf of Global Bio-chem, 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*

12 April 2005