

Dear shareholders,

The Group continued its strategy of achieving technology-driven product diversification in 2006, with capacity of its existing product expanded, and the production of certain new products commenced during the year. Such moves constitute a formidable platform for the Group's long-term sustainable development.

During the year under review, the Group encountered a substantial upsurge in prices of corn, a major production raw material, and energy costs including coal and power while at the same time faced severe fluctuation in lysine prices. In light of the adversity, the Group emphasised on maintaining its market share and leading position and achieved an outstanding sales performance in both local and overseas markets. Turnover for the year amounted to HK\$4.7 billion, representing an increase of 16 per cent as compared to that of the previous year. Net profit for the year amounted to HK\$501 million, which was a reasonable growth after a year of correction compared to that of the previous year.

Confronted by severe market conditions, the Group, on one hand, strengthened its operation efficiency by capitalising on its fully vertical integrated production facilities and economies of scale to effectively control production cost. On the other hand, the Group had lifted the sales of corn sweetener, in particular the HFCS, which offered a higher profit margin. Lysine price became stabilised, which led to an improvement in the Group's overall gross profit in the second half of the year. This resulted in a significant enhancement in overall performance of the second half of the year when compared to that of the first half of the year.

The sales of lysine in 2006 had been satisfactory, with sales volume further enlarged to 331,000 metric tonnes, of which export volume further increased doubly to 103,000 metric tonnes, amidst a weak market sentiment during the year. The Group sustained its domestic market share of 60 per cent and further consolidated its position as the country's largest lysine supplier, leveraging opportunities arisen from a lysine market slump.

During the year under review, sales of corn sweeteners recorded a respectable growth. Corn sweeteners including HFCS, glucose and maltose, sold during the year, amounted to an aggregate of 365,000 metric tonnes, representing an increase of 35 per cent when compared to that of the previous year. These product series contributed a sales revenue of HK\$671 million during the Year, accounting for 14 per cent of the Group's total sales revenue.

To satisfy strong market demand for corn sweeteners, the Group has increased its corn sweetener production capacity to 1,140,000 metric tonnes and expanded its product portfolio, including the introduction of crystallised glucose with an annual production capacity of 200,000 metric tonnes.

Other products of the Group also recorded satisfactory sales, of which threonine, with its production commenced in the second half of 2005, recorded favourable growth in both sales volume and revenue during the year under review, reflecting favourable market acceptance of the product.

The Group's glutamic acid plant is moving toward its designed efficiency after a period of tuning and adjusting of its facilities and the upgrading of its output quality. Located in Dehui, Jilin Province and with an annual capacity of 100,000 metric tonnes, the plant commenced its commercial production in the second half of 2006.

Message to Shareholders

The Group originally established two joint venture companies with IPP for production of polyol using corn as raw material. The Group acquired the minority interests held by IPP in the two joint venture companies in July 2006 and they became wholly-owned subsidiaries of the Group. After the acquisition, the Group has been studying the application on a self-developed catalyst and self-initiated technology to produce polyol and has been proven success in applying them in polyol production. The original polyol trial plant has undergone an overhaul during the year. Currently, the Group is modifying the facilities in the larger plant with annual production capacity of 200,000 metric tonnes. Commercial production is expected to commence in the second half of 2007.

The Company is the first enterprise in the world to commercialise production of polyol chemical using corn as raw materials. During the research and development process, the Group has strengthened its technology in chemical industry. The Group's R&D team is currently working on the development of the various polyol applications in different industries.

The Company and certain of its subsidiaries are currently proposed respondents in an investigation under 337 of the Tariff Act of 1930, as amended, in the United States. Based on the advice from the Group's legal counsel, it is considered that the Group has sufficient grounds to defend the case.

In the past few years, the Group gradually expanded its upstream processing and warehousing capacities. This measure not only serves to satisfy the demand derived from various midstream and downstream product expansion, but also offers flexibility to the Group in responding to fluctuation in corn prices. As a result, the Group was able to further stabilise its average raw material cost through the expansion of its raw material stock, in light of the corn price upsurge in the past year.

Prospects

We have emphasised in the past two years' annual reports that the Group need to continue its product diversification, to develop new categories of product and to establish them as new profit centre, in order to maintain its growth momentum. This would be achieved by leveraging the Group's technological strength. The Group successfully expanded its production capacity in downstream products through the enhancement in its research and development and support of upstream refining capabilities. These measures served to lay a strong foundation for its product range expansion.

Given the alleviation of the problem of excess supply of lysine in the domestic and global markets, the increase in demand for lysine and the improvement in operating environment, the price of lysine has returned to a rational level.

Lysine prices in the first quarter of 2007 were relatively higher than that of the same period last year. It is anticipated that the price will remain stable with modest increment when entering the product's peak season in the middle of this year. In the long-run, lysine prices are expected to remain at the level of above RMB12,000 per tonne. We believe this price level will facilitate the consolidation of low efficient excess capacity, and will enable the market to return to a healthy and rational development.

The Group is one of the world's largest lysine suppliers, with its lysine annual capacity reaching 280,000 metric tonnes. We will maintain our capacity at the current level in the coming two years. Our emphasis in lysine will focus on product quality enhancement and the broadening of the product's industrial application.

Threonine, one of the amino acids, will maintain its steady profit contribution to the Group. The production facility of threonine is currently running close to full capacity.

Corn prices are expected to gradually decline in the second half of the year, with the recent increase in corn output from domestic and global markets, leading to an abundant corn stock for 2007. The Group has the largest corn processing capacity in the PRC, which amounted to 2.4 million metric tonnes. It is sufficient to meet the Group's expansion requirement in the coming two years, enabling the Group to substantially uplift its modified starch output, and to realise its objective of expanding corn sweetener capacity.

We believe that the market demand for corn sweetener will remain robust as long as petroleum price maintains at a relatively high level. According to previous statistics, the price movements of petroleum and sweetener reflected a positive co-relation.

Despite the retreat in domestic price of cane sugar at the beginning of this year, the Group's domestic sales of corn sweeteners at the current price level continued to offer satisfactory gross profit margin. With the improvement in the PRC's consumption power and development in food and beverage processing industries, growth in domestic demand for corn sweeteners is expected to sustain.

The Group has a corn sweetener production capacity of 1,140,000 metric tonnes, making it one of the top three corn sweetener manufacturers in the PRC. The Group's strategy in sweetener business continues to strengthen its sales and marketing and to broaden the product's market coverage. As the new crystallised glucose plant is to be fully utilised in 2007, the Group will further develop and expand the production capacity of glucose, dextrin, and crystallised glucose at a tactical timetable.

It is anticipated that the proportion of sales of the Group's corn sweetener products will continue to enlarge, enabling the Group to achieve a more balanced product sales mix.

Having acquired the minority interests in the polyol projects last year, the Group had an overhaul of the pilot plant, and introduced a range of new equipment to the plant. It had completed the testing of self-developed catalyst. Following a series of testing, the pilot plant proved that the Group's self-developed polyol production technology had become mature, and the outcome of its pilot production in the first quarter of 2007 had been satisfactory. The Group's 200,000 metric tonne polyol plant in Changchun has been completed and is currently in the final stage of installation and the feeding of raw material. It is expected that the plant will commence trial production in the second quarter, with full operation scheduled in the third quarter of 2007. Polyol output from the plant is estimated to be 50,000 to 80,000 metric tonnes in 2007. We plan to expand the production capacity of polyol in Changchun by stages. We also seek to invest in polyol production facility development outside Changchun.

We will explore various ways of collaboration with different organisations, with an aim to rapidly expand the production scale of polyol. Collaboration models under consideration include injection of the Group's self-researched and developed technology, as assets into joint venture projects or direct equity investment. Our objective is to enhance the Group's polyol production capacity to one million metric tonnes within five years.

The production capacity and profit contribution of each of the Group's various products has established a leading position and possesses a respectable market share in its respective market. The Group is currently reviewing its existing business portfolio and structure from a long-term development perspective, and is considering ways to expedite independent development of the products and to strengthen the Group's capital base by effective utilisation of the capital market.

Message to Shareholders

The Group has established itself as a leading biochemical product enterprise with massive processing and refining capacities and a diversified product range. The Group's strong production capacity of its various products has listed it among the top suppliers in China and even in the world market. While driving our business expansion, we have also paid attention to solidify the fundamentals for our success, through continued introduction of advanced management systems and professional talents. These moves are aimed to enhance our management efficiency and strengthen risk management consciousness. We have also strengthened the Group's financial position. With respect to corporate governance, the Group not only endeavours to strictly comply with the relevant rules and regulations, but also works closely with the independent committees of the Board, to enable them to effectively monitor the Group's operations, and safeguard the interests of all shareholders.

Liu Xiaoming
Co-Chairman

Xu Zhouwen
Co-Chairman

23 April 2007