MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of 2003, the general business environment in the West was still depressed. However, the Group was successfully immune, as our target markets, Asia and the ASEAN countries, enjoyed a robust economy. Coupled with our strengthened core businesses, the Group was able to achieve satisfactory growth in sales in our major markets and for every key products. Our largest market, Vietnam, recorded economic growth of 6.9% in the first half of the year and expects to achieve 7.5% growth in the second half of the year. These favourable factors will definitely enhance the Group's business development.

FINANCIAL REVIEW

During the review period, the Group achieved turnover of US$94,756,000 (HK$739,097,000), up by 7.5% against the same period last year. In addition, profitability was improved with profit attributable to shareholders amounting to US$9,927,000 (HK$77,431,000), an increase of 14.9%. Basic earnings per share was 0.94 US cents (7.332 HK cents). The Board of Directors recommends the payment of an interim dividend of 0.321 US cents (2.504 HK cents) per share to reward the support of our shareholders.

As compared to the financial position as at the end of last year, total bank borrowings fell by 8.8%. The current ratio increased from 0.83 to 1.3, whilst the debt ratio dropped from 46.5% to 38.1%.

Benefiting further from our sizable economies of scale, fully integrated production processes and stringent cost control measures, our financial expenses moved downwards, increasing both gross profit and net profit margins. Stable margin growth was also a result of steady materials supply. During the period, the gross profit margin recorded slight growth to 25.3% against the corresponding period last year, whilst the net profit margin surged from last year's 9.8% to 10.5% this year.

PRODUCT ANALYSIS

Amino acid products, including MSG, GA and lysine, remain the major revenue contributor , accounting for 67.9%, 8.7% and 12.4% respectively of total turnover during the period. Meanwhile, cassava starch and other products accounted for the remaining 5.6% and 5.4% of the sales.

MSG is widely used as a food additive in Asian countries, maintains stable prices and records consecutive growth in demand each year. Additionally, our well-known brandname, Vedan, with 40 years history, has established a reputation for total product quality.

In the first half of the year, the Group has successfully established strategic wholesale relationship with other producers in Vietnam, supplied them with semi-finished materials, which further enhanced our leading position in the country. Under our strategic management, sales of ORSAN MSG, which the Group acquired in 2001, recorded significant achievement, resulting in a growth of 11.9% in the Group's total MSG sales compared to the same period last year.

We also gained several new clients from Japan and the PRC in our modified starch segment, resulting in substantial growth in the sale of cassava starch products by 22.3%, to reach US$5,260,000 (HK$41,028,000). The management believes that with the widespread applications of cassava starch, it will become one of the Group's fastest growing products in the future.

MARKET ANALYSIS

With regard to the Group's geographical distribution, the Vietnamese market, particularly Central Vietnam, saw a jump in sales of 21.5% with sales amounting to US$54,573,000 (HK$425,669,000). This figure represents a surge in its contribution to sales moving up to 57.6% of total turnover.

Accounting for 24.4% of total turnover, the Group's second largest market, Japan, recorded sales of US$23,102,000 (HK$180,196,000), an increase of 14.2%. The rise was due to increases in both sales volumes and sales prices.

The PRC market accounted for 9.3% of the Group's total turnover. Owing to the outbreak of SARS throughout the region in the first half of the year, consumers were reluctant to dine in restaurants, directly affecting the sale of MSG and beverages. Sales revenues dropped by 9.6%, to US$8,814,000 (HK$68,749,000) during the period.

The remaining 8.7% was accounted for by Taiwan and other ASEAN countries.

To strengthen our cost competitiveness, we continued our commitment to improving our operations, namely, increasing sales of various products and sales volume in our different markets, tightening the control of production materials, developing new products, improving the yield rate while reducing the costs. With this initiative, we have already re-equipped the natural gas supply apparatus at the Phuoc Thai power generation plant in Vietnam, which is expected to commence operations in the fourth quarter this year.

PROSPECTS

Towards the end of the first half of the year, the Group was successfully listed on the Stock Exchange of Hong Kong on 27th June, 2003, signifying a major milestone in the Group's development.

Looking ahead to the second half of the year, the Asian economy is expected to sustain its stable growth, especially in the Group's two largest markets, Vietnam and the PRC, where growth of over 7% in the second half is forecasted. This will create a favourable environment for the Group's development.

To foster our business growth, the Group will adopt a multi-prong development approach. Firstly, we will improve our short-term performance with the enhancement of our internal operations. In this regard, the Group has upgraded the co-generator at the Vietnam plant from a fuel-oil-based to natural-gas-based system, which the impact on cost saving will materialize in the fourth quarter. The Group anticipates that at least approximately US$4,000,000 (HK$31,200,000) in costs can be saved annually, which will further strengthen the Group's profitability.

Additionally, the starch raw materials processing plant, located in Ham Thuan Nam, Binh Thuan Province of Vietnam, will commence operations by the end of this year. This new plant will not only guarantee a stable supply of raw materials, but also allow us better controls of production costs.

Besides organic growth, we are also committed to new product development, with high margin and high growth potential in particular. The Group has been liaising with various manufacturers and research centers to jointly develop application techniques. We are currently investigating the applications of Poly Glutamic Acid (PGA), and product samples are being produced by laboratory. Product qualities have been assured and certified by our overseas customers after test trials, we are planning the mass production of PGA at the Vietnam plant next year. PGA is a highly absorbent and water retentive compound with extensive applications. It is expected to become one of the Group's fastest growing new products.

To increase our penetration in the PRC and the ASEAN markets, the Group is proactively cooperating with other MSG manufacturers via strategic alliances or by way of mergers and acquisitions. The Group will specially focus on the formation of strategic alliances with local GA material suppliers. Moreover, the Group is currently negotiating and discussing with certain manufacturers, seeking to acquire smaller scale and less efficient producers, but who possess well-known brand names, to expand our market share in the PRC. It is the Group's target to reach a conclusion of these negotiations next year.

Leveraging these favourable external factors, together with our effective operational strategies, Vedan International will sustain stable growth in the second half of the year to achieve the targeted profit for the full year.