

Management Discussion and Analysis

管理層研討及分析

Business Overview

Against the upward trend of oil prices in 2004 and into the first half of 2005, the prices of agricultural and industrial raw materials remained high, some climbed even further. This pushed up production costs of the Group and affected our operations in major markets, including Vietnam and China.

In the first half of 2005, the Group's total turnover amounted to US\$117,354,000, 7.2% higher than in the corresponding period last year. Vietnam Vedan brought in US\$101,864,000 in turnover, 2.4% more than the last corresponding period, accounting for 86.8% of the Group total. Turnover from the China operation (Xiamen Mao Tai and Shanghai Vedan) stood at US\$15,490,000, accounting for 13.2% of the Group total and 56.4% higher than in the corresponding period last year. Gross profit margin decreased from 34.2% (US\$37,374,000) in 2004 to 19.9% (US\$23,361,000) in the first half of 2005. Net profit margin decreased from 14.3% (US\$15,677,000) in the corresponding period in 2004 to 4.8% (US\$5,673,000) this half year.

The Group's profit was dragged down by (1) the continuous price slip of lysine and (2) high oil price-linked raw materials costs. The price of lysine started to drop after it peaked in the first quarter of 2004. That resulted in its sales shrinking by US\$8,358,000 during the review period when compared with the corresponding period last year. Our gross profit and gross profit margin for the period also lowered by US\$8,974,000 and 89% respectively.

Over production was to blame for the drop in lysine price. Many manufacturers expanded their production capacity in the second half of 2003 and the first half of 2004 when lysine price was at its highest. However, hit by the outbreak of bird flu in Asia and pig-borne streptococcus disease in China, the demand for feedstock with lysine as an ingredient was lower than anticipated. The steady price and supply of soya beans also added pressure on the price of lysine.

The raw material price hike in the second half of 2004 continued in 2005. The price of molasses, a major raw material of the Group, for example, more than doubled the level in the first half of 2004. As such, the proportion of direct raw material cost to the Group's total manufacturing cost increased to 65.5%, that of molasses alone accounted for 46.4% of the total direct material cost.

業務總覽

二零零五年上半年，緊隨著二零零四年因國際油價高漲而帶來物價上漲的趨勢，並沒有趨緩，農工業原料價格仍處於高檔水平，部分甚至更為上揚。而且，此種現象在集團經營活動的主要區域，越南與中國，更是對於生產成本造成直接影響。

本集團二零零五年上半年總營業額為117,354,000美元，較去年同期增加7.2%。其中越南公司是101,864,000美元，佔86.8%，比去年同期成長2.4%。中國(廈門茂泰與上海味丹)是15,490,000美元，佔13.2%，比去年同期成長56.4%。而毛利率則由二零零四年的34.2%(37,374,000美元)，下降至二零零五年上半年的19.9%(23,361,000美元)，純利率由二零零四年同期的14.3%(15,677,000美元)，下降至二零零五年上半年的4.8%(5,673,000美元)。

集團的獲利減少，主要受到(1)賴氨酸價格持續下跌與(2)油價居高不下造成主要原料價格高漲等兩大因素影響。其中賴氨酸價格，受二零零四年第一季高峰之後逐步下滑的影響，致使二零零四與二零零五年同期比較，銷售金額下降8,358,000美元，毛利下降8,974,000美元，毛利率下降89%。

主要影響賴氨酸價格因素，其一是在二零零三年下半年與二零零四年上半年較高價格情況下，多家廠商擴充產能，致使賴氨酸生產數量急速擴大，其二是在亞洲飼料業面臨禽流感等疾病，致使需求量沒有預期的增長，其三是大豆價格平穩豐收等三方面影響所致。

而原料的價格高漲現象，延續二零零四年下半年的趨勢，仍然居高不下。以集團使用的主要原料，糖蜜的價格為例，由二零零四年上半年的低檔，提升至一倍以上。由於原料價格高漲，致使與二零零四年上半年同期比較，集團本期內的直接原料成本佔製造成本比率提高至65.5%，其中糖蜜又佔46.4%。

During the period, to minimize production cost, the Group adopted measures to enhance efficiency and production capacity, and lower expenses. Sales expense did not increase although sales increased, and administrative cost was reduced by approximately 11.9% (US\$1,166,000). Financial cost, however, increased US\$1,034,000 during the period attributable to the interest rate hike in the US.

The Vietnamese economy grew 7.6% in the first half of this year, against 7.1% in the last corresponding period. To achieve the targeted annual economic growth rate of 8.5%, the Vietnam government is aiming for a 9.3% growth in the second half of the year. Taking into account the approximately 5.3% inflation rate of the country in first half 2005; the relatively stable exchange rate between the Dong and the US dollar with the Dong depreciated only 0.62%; the 2% appreciation of the revaluated RMB; and the PRC lowered its import tariff after her admission to ASEAN, Vietnam Vedan enjoys obvious advantage in exporting its GA, modified starch and lysine to the PRC. During the period, supported by expanded production capacities, the Group's MSG business and GA business grew 16.2% and 43.1% respectively. In the PRC market, the acquisition of Shanghai Vedan proved to be a profitable move. The Group's six months' hard work bore fruit manifesting as a notable 51.6% growth in operating turnover to US\$ 12,617,000, with MSG business as the main contributor. With the chicken essence based seasoning and modified starch production lines expected to start operation in the second half of the year, the Group will have an even more comprehensive product mix to take full advantage of its effective distribution network to achieve business development in the PRC.

The overall performance in the first half of this year suffered a decline in profit owing to the consistently low level of lysine price and the consistently high cost of material. Regarding lysine price, though not optimistic of it rising in the near future, its fluctuation follows an historical track, the Group believes market demand for lysine will continue to grow in the mid to long run. The Group will work hard at lowering production cost including finding new sources of carbohydrates. The Group is cautiously optimistic about its future development.

期間集團採取效率提升、產能增加、費用降低等措施，盡力降低成本。其中在銷售增加的情況下，銷售費用並沒有增加，而行政費用則比去年同期下降1,166,000美元，約11.9%，而財務費用受借款金額增加，美元利率上揚之影響，本期增加1,034,000美元。

在今年上半年越南經濟成長率7.6%，比去年同期7.1%為高。為達成今年目標8.5%，越南政府致力於達到下半年9.3%之經濟成長率。二零零五年上半年通貨膨脹率約5.3%，同時越南盾兌美金維持穩定的狀態，上半年僅貶值0.62%，然人民幣匯率政策修正同時升值2%，及中國加入東盟降低關稅，對集團內越南廠出口谷氨酸、化工澱粉和賴氨酸等產品到中國將更有競爭力。集團內越南廠之營收，因味精和谷氨酸之擴廠完成和業務穩定成長，期內味精成長16.2%、谷氨酸成長43.1%。在中國地區，因併購上海廠之效應已逐步顯現，經半年多來努力，營收已有顯著成長，該地區於期內營收成長51.6%，達12,617,000美元，主要增長動力來自於味精業務，但隨著下半年雞精、化工澱粉之生產線陸續完成，將使中國區產品組合更加完善，充分發揮通路效益，對中國區業務拓展將有助益。

綜觀集團上半年業績，因賴氨酸價格持續低水平與主要原料持續高水平兩大因素影響，致使盈利下滑，然因賴氨酸市場起伏是有歷史軌跡可循的現象，短期內雖較不樂觀，中長期而言，賴氨酸使用量仍是持續成長。集團將再努力降低生產成本，並已針對影響生產成本最重要的糖源，展開更多元化的努力，相信集團的發展方向仍審慎樂觀。

Business Analysis

During the period, all major products saw double-digit growth in sales as compared with the corresponding period last year, except for lysine which sales was dragged down by the drop in lysine prices; and native starch which has low margin. The latter was strategically converted into the production of modified starch.

Table 1: Comparison of sales of various products

		First half of 2004		First half of 2005		Unit: US\$'000 單位：千美元 change (%) 增／減(%)	
		二零零四年上半年		二零零五年上半年			
MSG	味精	72,497	66.2%	84,243	71.8%	11,746	16.2%
GA	谷氨酸	4,434	4.1%	6,347	5.4%	1,913	43.1%
Lysine	賴氨酸	18,808	17.2%	10,450	8.9%	-8,358	-44.4%
Native Starch	生澱粉	4,645	4.2%	138	0.1%	-4,507	-97.0%
Modified Starch	化工澱粉	3,942	3.6%	7,027	6.0%	3,085	78.3%
Specialty Chemicals*	特用化學品*	2,779	2.5%	5,457	4.7%	2,678	96.4%
Others**	其他**	2,334	2.1%	3,692	3.1%	1,358	58.2%
Total	總和	109,439	100%	117,354	100%	7,915	7.2%

* Specialty chemicals: Hydrochloric acid, Hypochlorite, Caustic Soda

** Others: Fertilizer, Feed-use additives, Beverages

經營分析

期內集團主要產品中，除賴氨酸因售價大幅下跌，天然澱粉因毛利低而轉作化工澱粉之策略性考量外，與去年同期相比，其餘產品均有二位數字以上之成長。

表一：各項產品銷售額比較

* 特用化學品包括：鹽酸、次氯酸鹽、蘇打

** 其他包括：肥料、飼料添加物、飲料

(1) Product Analysis

1. MSG

MSG is the core product of the Group, accounting for 70% of the Group's total turnover. In the first half of 2005, the sales of MSG and GA grew 16.2% and 43.1% to US\$84,243,000 and US\$6,347,000 respectively. The growth was primarily the result of:

- (i) Vietnam Vedan completed expansion of its plant in late 2004 resulting in increased production capacities for MSG and GA. With reference to plant development, the Group decided to strategically focus on the production of GA in the first to third quarters. It will change to producing MSG after the new and sophisticated production facilities are completed in the fourth quarter.
- (ii) After the acquisition of Shanghai Vedan, the Group revamped its MSG sales strategy for the PRC, changing its marketing focus from primarily on big city wholesaler market to also retail markets in second and third tier cities, to increase market share. Currently, the Group's major markets are mainly located in Eastern and Southern coastal provinces, such as Guangdong, Fujian, Zhejiang and Jiangsu. The Group expanded its business through: (1) Expanding sales coverage, promoting the Vedan brand in second tier cities like Zhejiang and Jiangsu riding on the acquired "Hoping" brand and its distribution network, and it also stepped up business developments of its two branches in Chongqing and Tianjin to facilitate its expansion to the Yangtze River and the Northern China regions; (2) Consolidation of conventional distribution network and actively rallying the support of restaurant chains, hyper-market and supermarkets; and (3) Increasing market share, especially emphasized on the sales of handy packs designed for family and dining use. The Group's MSG business in the PRC market grew 58.2% when compared with the corresponding period last year. The Group expects its growth momentum to continue into the second half of the year as its brand name and distribution network strengthen and the market keeps expanding.

(一) 產品銷售分析

1. 味精

集團的核心產品，佔集團總營收之70%，於二零零五年上半年味精和谷氨酸(味精之半成品)分別成長16.2%達84,243,000美元和43.1%達6,347,000美元。增長的動力主要來自：

- (i) 越南廠味精及谷氨酸產能之擴廠已於二零零四年底完成。產能增加的部份，基於策略考量與設廠進度之因素，今年第一季到第三季將主要以生產谷氨酸為主，待新設精製廠設備於第四季完成後將轉為生產味精。
- (ii) 中國地區味精業務由於上海廠購併後，重新擬定銷售策略，從批發市場逐步轉向精耕市場。目前主要市場集中於東南沿海省份，如廣東、福建、浙江、江蘇等地。業務拓展主要有三大策略：(1)銷售區域的延伸：特別是利用收購「皇品」之品牌和通路，將味丹品牌亦快速切入江、浙兩省二級城市，另加強重慶和天津分公司業務以配合公司由東南沿海各省擴展到長江流域和華北之長期發展策略；(2)通路之重新整合：除原有各區域傳統代理之重新整合外，並積極佈局連鎖餐廳、大賣場和超商之通路；及(3)精耕市場之強化：特別是著重家庭與餐飲用的小包裝銷售，中國區味精業務比去年同期成長58.2%。集團預期下半年業務，隨著品牌、通路逐步建立以及銷售市場之延伸，應可持續保有成長之動力。

(iii) In the ASEAN market, the Group's MSG business grew a remarkable 68%, increasing from US\$3,471,000 in the corresponding period last year to US\$5,823,000 in the review period. In Japan, the sales of MSG amounted to US\$14,915,000, a growth of 37.3% against US\$10,867,000 in the corresponding period last year. Sales in the European market, however, decreased 14.7% from US\$2,853,000 in the corresponding period last year to US\$2,434,000 this half year.

The substantial drop in the gross profit of MSG in the first half of 2005 was mainly due to the sharp increase in the cost of molasses, which was more than double than that of 2004. The Group's profit was compressed further by the expansion of production capacities that could not be fully absorbed through pricing. Stable growth in sales is anticipated after new production facilities commence operation in the fourth quarter and Shanghai Vedan's expansion is completed. The Group looks forward to improving its gross profit margin in the second half of the year by exploring new sources of carbohydrates, enhancing production efficiency, and further increasing the price of finished products.

2. Lysine

As mentioned in the interim report last year, lysine price moves in a cycle. The Group recorded historically high price for lysine in the first half of 2004 and the reverse happened in the second half of 2004 and continued into the first half of this year. Adding to the drop was the over production by manufacturers lured by the all-time high price of lysine a year ago. The international price of lysine had dropped around 40% when compared with the level in the corresponding period last year. The Group's turnover from lysine decreased 44% to US\$10,450,000, gross profit decreased 89% to US\$8,970,000. Share of total turnover of lysine also dropped from 17.2% to 8.9%. As bird flu cases are still emerging in Vietnam and elsewhere and cases of Streptococcus suis infection are reported in Sichuan, the PRC, the Group did not expect the price of lysine to return to last year's level shortly. The Group will continue to reduce production costs and expenses and explore other potential markets so as to maintain the profit level of this product.

(iii) 在其他市場方面，東盟國家亦有不錯的表現，其中味精業務由去年同期3,471,000美元，成長至二零零五年5,823,000美元，約68%。日本市場在二零零五年味精的銷售為14,915,000美元，較去年同期的10,867,000美元，成長約37.3%。歐洲市場二零零五年的銷售金額為2,434,000美元，則比去年同期的2,853,000美元衰退14.7%。

二零零五年上半年味精毛利大幅下降，主要是糖蜜成本急速上漲約一倍以上，而因產能擴充，為穩定業務致使售價未能完全吸收，以致於壓縮到獲利空間。預期第四季增設之精製廠設備正式運轉和中國區上海廠業務擴展後，銷售量仍應會有穩定成長。而集團致力於多元化糖源取得，生產效率的提升與成品售價的再提升等方向做努力，對於下半年毛利率的提升，都會產生較正面的助益。

2. 賴氨酸

正如我們在去年中期報告所指出，賴氨酸市場價格常有週期性之上下起伏。二零零四年上半年賴氨酸價格屬歷史上高峰之波段，而在二零零四年下半年則開始逆轉，價格開始下滑。今年上半年延伸去年下跌之趨勢，再加上多家廠商，鑑於二零零三年下半年及二零零四年上半年之景氣而擴充產能，因此迫使期內國際賴氨酸價格比去年同期下跌約四成左右。故營業額為10,450,000美元比去年衰退44%，毛利減少8,970,000美元比去年下降約89%，佔總營收比率由17.2%下降至8.9%。由於越南禽流感尚未完全滅絕，同時中國四川又爆發豬鏈球菌疫情，預期短期內價格應無法回升到去年水平。集團已朝向降低生產成本，降低費用與尋找有利市場等三方向努力，期使此產品項目，仍得以維持獲利水平。

3. Starch business

Affected by weather conditions and the increasing demand in Thailand and Vietnam for cassava slices to make feedstock and alcohol, the price of cassava continued to surge. To combat the high price, the Group took the initiative to transform cassava into modified starch raw materials of higher added value during the period. This contributed to the 78.3% growth in turnover from modified starch to reach US\$7,027,000. The sales volume of the product also increased by 64% over that of the corresponding period last year. The sales of native starch, on the other hand, dropped by 97% to US\$138,000.

Starch business is one of the Group's core businesses. The Group has taken a three-prong approach to strengthen this business segment:

- (i) **Raise the added value of the products.** As a way to improve its profitability, the Group established a new technology research and development center in the second half of last year to focus on the research and development of high value added modified starch products for food processing.
- (ii) **Secure stable supply of raw materials.** The Group announced its acquisition of Ve-Thai Tapioca-Starch Co., Ltd. in June. The plant is expected to commence production in the cassava harvest season this year, increasing related production capacity from 60 tonnes/day to 100 tonnes/day this year, and possibly 200 tonnes/day in the coming year. The construction of the new starch factory in Ha Tinh Province is well under way, with initial construction scheduled for completion in the second quarter of 2006. The initial planned production capacity is 200 tonnes/day.
- (iii) **Enhance the production capacity of modified starch.** The acquisition of Shanghai Vedan was completed in July and production is scheduled to begin in the third quarter. The expected production capacity of the new modified starch plant will be 10,000 tonnes/year. Construction of a starch factory in Ha Tinh Province is also underway. Its planned initial production capacity is 20,000 tonnes of modified starch per annum. Vietnam Vedan completed expansion in late June and its current production capacity is 60,000 tonnes/year.

3. 澱粉業務

鑑於泰國和越南產地，因天候影響和木薯切片轉作動物飼料及製造酒精之需求增加，導致木薯價格亦節節高昇，公司的因應措施則是優先將木薯作為附加價值較高之化工澱粉原料，因而期內化工澱粉比去年成長78.3%達7,027,000美元，銷售數量也比同期增加64%，天然澱粉則因原料問題衰退97%，銷售金額僅138,000美元。

澱粉事業是集團積極拓展之核心事業之一，目前正強化三大方向：

- (i) **提高產品之附加價值。** 集團已於去年下半年成立技術研發中心，全力研究開發附加價值較高之食品加工用之化工澱粉，以提升集團獲利。
- (ii) **加強掌握原料。** 集團已於六月公告收購嘉萊澱粉廠，預計今年木薯產季可開始投產，產能將由60噸／天，擴充到100噸／天，明年則將評估擴充產能到200噸／天。另外，河靜新設澱粉廠亦在積極籌設中，預期二零零六年第二季可完成初期建廠，初期產能規劃為200噸／天。
- (iii) **擴大化工澱粉產能。** 上海廠併購手續已於七月完成，預定新設化工澱粉廠產能10,000噸／年，預估初期可於第三季投產。河靜廠目前也正在籌設中，第一期產能亦規劃生產化工澱粉20,000噸／年。越南福泰廠已於六月底完成化工澱粉擴產計畫，增加到60,000噸／年。

4. Specialty Chemicals

As economic development in Vietnam accelerates, the country's demand for specialty chemicals is also rising rapidly. During the period, the sales of soda and hydrochloric acid and related products amounted to US\$5,457,000, up 96.4% against US\$2,779,000 in the corresponding period last year.

5. Fertilizer and Feed Additive (CMS)

Agriculture constitutes a major proportion of the Vietnam economy, and has been the factor underscoring the stable growth of the Group's CMS product. During the period, the sales of CMS and related products totaled at US\$1,292,000, representing an increase of 24% as compared with US\$1,042,000 in the corresponding period last year.

(2) Market Analysis

Vietnam and Japan remained as the Group's major markets in the first half of 2005, while China and ASEAN countries posted robust growth (table below).

Table 2: Comparison of Sales In Major Markets

		First half of 2004		First half of 2005		Change (%)
		二零零四年上半年		二零零五年上半年		增/減 (%)
Vietnam	越南	61,142	55.9%	63,909	54.5%	+4.5%
Japan	日本	26,078	23.8%	25,112	21.4%	-3.7%
The PRC	中國	11,643	10.6%	16,958	14.5%	+45.6%
ASEAN	東盟國家	4,023	3.7%	6,158	5.2%	+53.1%
Others	其他地區	6,553	6.0%	5,217	4.4%	-20.4%
Total	總計	109,439	100%	117,354	100%	

Unit: US\$'000

單位：千美元

Change (%)

增/減 (%)

4. 特用化學品

隨著越南市場經濟成長的速度加快，國內對於特用化學品的需求也隨著增加，本期集團的蘇打與鹽酸相關產品的銷售金額為5,457,000美元，比去年同期的2,779,000美元，大幅成長約96.4%。

5. 肥料與飼料添加物(CMS)

越南經濟結構中，農業仍佔極大比例，這也使集團生產的肥料與飼料添加物逐年穩定成長，本期集團的肥料與飼料添加物(CMS)相關產品的銷售金額為1,292,000美元，比去年同期的1,042,000美元，亦成長24%。

(二) 市場分析

二零零五年上半年集團產品銷售的主要市場仍是以越南和日本為主，而中國和東盟國家則有較為顯著之成長。

表二：各主要市場銷售比較

1. Vietnam

Vietnam remained as the Group's largest market. Total turnover from this market amounted to US\$63,909,000, and its share of the Group's total turnover grew 4.5% to 54.5%. The sales of MSG and GA, the Group's core products, grew 4.7% or US\$2,362,000 to US\$52,684,000. The turnover from lysine, on the contrary, recorded a significant drop of 34% to US\$3,837,000, US\$1,944,000 lower than in the corresponding period last year. The turnover from modified starch sale, the main product in the Group's starch segment, was US\$561,000. Though still posting a relatively small amount, the product's turnover boasted a remarkable 218% growth over the previous corresponding period. Soda sales from the market also saw a sharp increase of 111.78% from US\$2,021,000 last year to US\$4,280,000 this year.

2. Japan

Total turnover from this market slightly decreased by 3.7% to US\$25,112,000 due to the drop in turnover from lysine by 49.2% to US\$6,400,000. As a result of higher prices and sales, the turnover from MSG sale soared 37.3% (US\$ 4,049,000) to US\$14,915,000. Modified starch also recorded an enormous growth of 125% (approximately US\$1,991,000) to US\$3,583,000. Supported by its technology research and development center, the Group is confident of quickly obtaining a stronghold of the modified starch market in Japan.

3. The PRC

The Chinese economy has seen continuous robust growth, with growth rate reported at 9.3% last year and 9.5% in the first half of 2005. Riding on Shanghai Vedan Foods' established distribution network for MSG products and increasing consumer awareness of the Vedan brand, our MSG business recorded a substantial growth of US\$13,683,000, or approximately 58%, during the period under review.

1. 越南市場

集團最大市場仍是在越南，二零零五年上半年越南市場總營收為63,909,000美元，約佔集團總營收之54.5%，比去年同期增加約4.5%。其中以味精和谷氨酸為主要項目，銷售金額為52,684,000美元，比去年同期增加2,362,000美元約4.7%。然而賴氨酸今年營業額為3,837,000美元，比去年同期減少1,944,000美元，呈大幅衰退約34%。澱粉業務則集中於化工澱粉為561,000美元，金額雖小但快速成長約218%。蘇打業務在今年亦呈現大幅成長，銷售金額為4,280,000美元，較去年的2,021,000美元，成長111.78%。

2. 日本市場

期內日本市場總營收為25,112,000美元，比去年略減少3.7%，主要是賴氨酸營收減少約49.2%，相當於6,400,000美元。味精產品則因銷售價格和數量均有調升，成長金額為4,049,000美元約37.3%，達到14,915,000美元。另外化工澱粉亦呈現亮麗的增長，幅度為125%增加金額約1,991,000美元，達到3,583,000美元。預期隨著技術研發中心不斷研究及改良之結果，集團之化工澱粉將可逐漸在日本市場佔有一席之地。

3. 中國市場

隨著中國經濟快速起飛，去年經濟成長率高達9.3%，今年上半年亦有9.5%成長，再加上上海味丹企業已逐步建立相關味精產品之通路、和味丹品牌之知名度，故期內集團中國區味精業務有顯著之成長約58%，金額為13,683,000美元。

Other related products, including chicken essence based seasoning and MSG, will be introduced into the market, creating a more diversified products mix for the Group and paving the way for the Group to expand its business even more effectively. As the Chinese economy grows, the need for processed foods will follow, as evidenced by the continuously rising import and usage volume of modified starch in the PRC. With the anticipated support of the improved research and development capabilities of the Vietnam starch factory and stable supply of top quality cassava, the advantageously located Shanghai modified starch factory is expected to commence phase 1 production in the third quarter of this year. Modified starch business is set to join MSG products as another core segment of the Group in the PRC.

4. ASEAN countries

Primarily located and growing consistently, the ASEAN market with a total population of 500 million and tremendous development potential has been the Group's major focus. During the period under review, turnover from the ASEAN market amounted to US\$ 6,158,000, around 53.1% higher than the corresponding period last year, with its MSG business grew 68%. Modified starch has been introduced to the market as well, and its sales during the review period recorded more than 200% growth over that of the same period last year. With the ASEAN free trade zone taking shape, member nations are gradually opening their markets to each other and strengthening trade and economic connections, presenting to the Group substantial room for further business development.

(3) Production capability expansion and construction of new factory

Our production related plans for the second half of this year are summarized as follows:

- (i) The production capability for modified starch of the Vietnam factory reached 60,000 tons per year at the end of June.

其他相關產品，如雞精也將開始推出，將使味精系列產品更加多元化，產品項的增加，將有效地增加業務成長。一旦隨著經濟的高速發展，中國人民對加工食品需求增加快速，在中國市場上，化工澱粉的進口與使用數量，一直呈現成長現象。伴隨著越南廠澱粉研發技術的提升，優良品質的木薯原料，再加上就近在上海生產，上海化工澱粉廠初期將可於今年第三季投入生產，未來化工澱粉業務必能成為集團在中國區，除味精產品外之另一項核心產品。

4. 東盟市場

東盟市場由於地緣關係，隨著東盟國家各國的經濟成長，此擁有5億人口的市場，一直是集團非常重視，極有發展潛力的市場。期內東盟市場營收為6,158,000美元，比去年同期成長約53.1%。其中味精成長約68%，化工澱粉亦開始進入本市場，比去年同期成長逾200%。隨著東盟自由貿易區的實施，各國間逐漸開放市場和加強經貿關係，未來應有極大之成長空間。

(三) 擴產及建廠計劃

集團在下半年的生產相關計劃概述如下：

- (i) 越南廠六月底已完成化工澱粉產能擴充到60,000噸／年。

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|--|---|
| <p>(ii) The construction of the new factory in Vietnam for producing high value-added seasonings was completed at the end of July, and trial production has begun. The Group expects to launch the products in the third quarter and will evaluate the need for further expansion in 2006.</p> | <p>(ii) 越南廠七月底已完成新設風味調味料生產先導工廠，初期先行試驗市場，產品預定將於第三季上市，二零零六年將評估擴廠。</p> |
| <p>(iii) Shanghai modified starch plant will commence production in the third quarter, with annual production of 10,000 tonnes modified starch.</p> | <p>(iii) 上海化工澱粉廠預估初期可於第三季投產，產能為10,000噸／年。</p> |
| <p>(iv) Utilizing enhanced GA fermentation capability, new MSG production facilities are being added to the Vietnam factory and installation will be completed in the fourth quarter.</p> | <p>(iv) 越南廠配合醱酵產能增加，增設味精精製廠設備將於第四季完工。</p> |
| <p>(v) The PGA factory in Vietnam is expected to be completed at the end of 2005 or the first quarter of 2006.</p> | <p>(v) 越南PGA廠預估可於二零零五年底或二零零六年第一季完成。</p> |
| <p>(vi) The starch factory in Ha Tinh Province, Vietnam will start production in the second quarter of 2006, with production capacity of 200 tons/day in the initial stage.</p> | <p>(vi) 越南河靜澱粉廠將於二零零六年第二季加入生產澱粉行列，初期產能為200噸／天。</p> |
| <p>(vii) The production capability of the newly acquired starch factory in Gia Lai Province will be expanded from 60 tons/day to 100 tons/day, and it will start operation in the fourth quarter.</p> | <p>(vii) 新併購嘉萊澱粉廠，將擴充產能從60噸／天至100噸／天，第四季投入生產。</p> |

(4) Mergers and acquisitions, and forging of strategic alliances

- (i) **The acquisition of Ve-Thai Tapioca-Starch Co., Ltd.** We require adequate supply of cassava as fermentation materials to produce MSG, GA and lysine, etc., and for producing modified starch raw materials. To assure access to cassava, which is critical to our long-term development, the Group announced the acquisition of the entire shareholdings of Ve-Thai Tapioca-Starch Co., Ltd. at the end of June. It is the Group's second acquisition in Vietnam after the French MSG plant Orsan in 2001. The Ve-Thai factory is located in Gia Lai Province, Central Vietnam, a key cassava source area, and boasts daily production of 60 tons of

(四) 併購與策略聯盟

- (i) **味泰澱粉廠併購案。** 集團為長期之發展及短期之需要，必須有充足之木薯澱粉來源，作為醱酵生產味精、谷氨酸、賴氨酸的原料，同時也提供集團發展化工澱粉產品的原料來源。故集團於六月下旬，已公告收購味泰澱粉廠全部股權，成為集團在越南境內，自二零零一年收購法國Orsan味精廠後的第二個併購案。該廠位於越南中部嘉萊省，屬

starch. The Group plans to purchase more equipment to increase the plant's production capability to 100 tons/day by the end of the third quarter. It is expected to realize full capability in the harvest season of cassava in the fourth quarter. To meet the Group's future requirement, we will decide in 2006 whether to increase the plant's production capacity to 200 tons/day. The capital for the acquisition was US\$3,300,000, but since the assets acquired comprised around US\$1,000,000 in cash, after deducting that and the around US\$563,000 due from shareholders, the actual purchase price should be around US\$1,750,000.

- (ii) **The acquisition of Shanghai Vedan Foods.** The Group announced the completion of the acquisition of Shanghai Vedan Foods and its fixed assets at the end of July 2005. Following that, the Group proceeded with (1) the establishment of a chicken essence based seasoning processing factory, and (2) the construction of a modified starch factory as planned. Both factories are scheduled to start operation in the third quarter of this year, realizing the anticipated benefits of the acquisition.

- (iii) **Alliance with Shandong Snowflake**

At a total investment of US\$10,000,000, both parties will set up a joint venture company which will have an annual production capacity of 30,000 tons of GA. The Group will hold 70% stake in the company. All due diligence work has been completed and the parties involved are in the final stage of the negotiations.

(5) Costs review

During the period under review, the Group's cost of sales increased by approximately 30.4%. The substantial increase was mainly the result of the rising costs of molasses and cassava. How to cope with the fluctuations of international oil prices which drove up raw material costs will definitely be a major challenge for us in the future.

越南重要之木薯產區，目前澱粉產量約60噸／天，集團預計於第三季前，添置少數設備擴產到100噸／天，預估可於第四季木薯產季正式發揮其產能。二零零六年則將評估規劃提高到200噸／天產能，以因應集團需求。此併購案收購價格為3,300,000美元，惟其中收購資產中，含現金約1,000,000美元，且將由收購價款中扣除股東借款約563,000美元，故實際現金支出約為1,750,000美元左右。

- (ii) **上海味丹食品併購案。** 集團亦已於二零零五年七月底公告完成收購上海味丹食品土地和不動產的收購手續。在完成收購程序後，集團已依原規劃加速進行(1)雞精加工廠之設立工作，及(2)化工澱粉廠之建廠工作。預估初期分別可於今年第三季前正式投產，加速發揮併購效益。

- (iii) **山東雪花合作案**

預計雙方合資成立投資額為10,000,000美元的合資公司，集團佔股份70%，年產為30,000噸谷氨酸。目前已完成審察並進入最後協商階段。

(五) 成本回顧

期內銷貨成本大幅增加約30.4%。銷貨成本大幅的增加，主要是來自糖蜜和木薯原料的上漲。這又和石油價格的大幅上漲，有密切關係。如何因應國際油價變化所產生的影響，是公司未來所面臨的一個很重要課題。

Corresponding measures for rising material costs

1. Molasses

Molasses is one of the major raw materials of MSG, GA and lysine. In the first half of 2005, the price of molasses grew 100% over that in the first half of 2004, squeezing the profits of our two main products, which prompted the adoption of the following measures by the Group in the second half of this year:

- (i) Purchase from diverse sources: In addition to the existing major sources in nearby countries such as Thailand, we started to purchase materials from other sources such as Pakistan and Eastern Europe.
- (ii) Replace molasses with raw sugar: The Group has already started import of raw sugar, which will be used in production in the third quarter.
- (iii) Develop different types of carbohydrates: Since the fourth quarter of 2004, we have been working with the Swiss company Syngenta, a world leading agribusiness company, to cultivate tropical sugar beet in Vietnam. After several months' hard work, satisfactory preliminary results were achieved. We have thus signed an agreement in June 2005 with Mitsui and Co., (Thailand) Ltd., exclusive distributor of Syngenta's tropical sugar beet seeds in Vietnam, to distribute and jointly promote the cultivation of tropical sugar beet seeds in Vietnam. This agreement will enable the Group to expand its sources of carbohydrates.

原料價格上漲之因應措施

1. 糖蜜

糖蜜是集團味精、谷氨酸和賴氨酸之主要原料，二零零五年上半年比二零零四年上半年糖蜜價格上漲一倍以上，造成集團上述兩大核心產品毛利衰退，而集團已自去年下半年開始採取下列因應措施：

- (i) 分散採購地區：由原來鄰近國家泰國為主，擴及其他國家地域，例如巴基斯坦與東歐。
- (ii) 粗糖取代糖蜜：已進口部分粗糖，將於第三季開始投入生產。
- (iii) 多元化糖源：集團於二零零四年第四季即和瑞士Syngenta公司(世界頂尖之種苗公司)合作，嘗試於越南推廣種植熱帶甜菜，經過數月之試種，初步已有不錯之成果。故集團已於今年六月與三井公司及Syngenta公司，簽訂甜菜種子的越南地區獨家代理，共同進行推廣種植，集團未來將可在糖源取得上又多一項選擇。

2. Cassava

During the period under review, the cost of cassava rose approximately 40% above that in the same period last year because of bad weather and a change of its usage as material for alcohol fermentation. To secure a new reliable source of cassava, the Group adopted the following strategies:

- (i) Actively increase the purchase quantity of its two starch factories in Phuoc Long Province and Binh Thuan Province.
- (ii) Expand to the central and northern regions of Vietnam. The newly acquired Ve-Thai starch factory and new starch factory in Ha Tinh Province will commence operation in the fourth quarter of this year and in 2006 respectively.
- (iii) The Group will follow closely the starch supply situations in neighboring countries, and seek to expand cultivation areas.

3. Liquid Ammonia

In the past, the Group had relied entirely on import to meet its need for liquid ammonia. However, as Vietnam is able to start its own supply, the Group will purchase more liquid ammonia in Vietnam to save costs.

(6) Research and Development

The Group undertakes various research and development work, to ensure its ability to cope with changes in the business environment and support future development needs. These include:

1. Study the feasibility of planting tropical sugar beet in Vietnam, conduct relevant promotion activities, and continue large-scale trial cultivation.
2. Study and evaluate the feasibility of using rice as raw materials, produce high value-added products such as rice protein and starch syrup. The development of preliminary stage technology is mature. The Group will continue to conduct larger scale trial production and evaluate the feasibility of constructing new plants.

2. 木薯

由於天候因素減產，移轉作為酒精發酵原料等因素影響，期內木薯原料價格比去年同期比較，亦上漲約40%，集團對木薯穩定取得方面，已採取下列策略：

- (i) 積極增加現有福隆、平順澱粉兩廠木薯採購量。
- (ii) 擴展到中北部產區，例如已收購味泰澱粉廠與新設河靜澱粉廠將分別於今年第四季與二零零六年投產。
- (iii) 密切收集並評估鄰近國家的澱粉資訊與尋找擴充種植面積。

3. 液氨

集團越南廠使用之液氨，過去需全數依賴進口，最近越南本地已有能力開始供應，集團將逐步擴大本地採購，以降低成本。

(六) 研究與開發

集團基於經營環境的變化與未來發展需要，仍應投入各項研發工作，包括：

1. 研究、推廣熱帶甜菜於越南地區種植，持續較大規模試種工作。
2. 研究評估以大米為原料，生產高附加價值的大米蛋白與澱粉糖漿，初期技術已發展成熟。集團將持續進行較大規模試驗生產與建廠評估。

3. Continue to develop modified starch products, in particular, enhance the research and development and application of modified starch for food processing to boost their added values.
4. Improve the production efficiency of starch factories, make the best use of the byproducts in cassava production, and initiate and encourage recycling activities.
5. Continue to improve the production processes of MSG, GA and lysine and enhance production efficiency so as to lower production costs and enhance overall production management efficiency.
6. Continue to develop high quality seasonings to increase products varieties and maximize the integrated benefits of business development.
3. 持續開發化工澱粉品項，尤其加強食品加工用之化工澱粉的開發與應用，提升附加價值。
4. 進行澱粉工廠生產效率改善提升，充分利用木薯生產的副產品，創造與回收資源。
5. 持續味精、谷氨酸與賴氨酸的製程改善與效率提升，致力於使成本降低的各項生產管理效率提昇。
6. 持續開發高級調味料系列產品，增加產品品項、促進業務拓展的綜效發揮。

(7) Corporate Governance

The Group operates in strict compliance with relevant laws and regulations and the Articles of Association, and has established and implemented relevant orders of proceedings and operational procedures under the management system supervised by the AGM, the Board, and the audit committee, etc. Comprising five executive directors, two non-executive directors and three independent non-executive directors, the Board executes and supervises the Group's various operations and management activities.

The independent non-executive directors of the Group attend the Board meetings and audit committee meetings held each quarter, and exercise the power of independent non-executive directors in performing their duties. During the review period, the audit committee comprising the independent directors had reviewed and endorsed the Group's financial reporting procedures and internal control in accordance with related provisions, and also reviewed all connected transactions and guarantees made upon, and conducted strict supervision over the Group's financial risks control.

(七) 公司治理

集團的經營，均嚴格按照相關法規與公司章程規範運作，在股東會、董事會、審核委員會等經營管理督導的管理制度下，建立並執行相關的議事規則與運作程序，目前集團有由五位執行董事、兩位非執行董事與三位獨立非執行董事組成的董事會，執行並督導各項經營管理工作。

集團獨立非執行董事參加每季召開的董事會與審核委員會，依照相關規定行使獨立董事權力與履行其義務。由獨立非執行董事成立的審核委員會，已對集團財務報告與內控制度，依相關規定進行審議與確認，並就集團關聯交易及對外保證等事項展開審查，進行對財務風險管控的嚴謹監督。

The Group will continue to enhance internal control by strengthening the implementation of its “risks management measures” and the review of its ERP system, and the systems and rules of its subsidiaries, the quality certification of products, efforts on safety, hygiene and environmental protection, and the management of suppliers and customers, etc. It will also emphasize on training and recruitment of auditing staff.

(8) Prospects

The two main factors affecting the Group's profitability during the period are: (1) the slipping price of lysine, and (2) the subsisting high material costs. The negative impacts of these factors are expected to persist in the second half of this year. Though we have gone through similar cycles in the past decades, the most recent ups and downs are the most severe and has lasted the longest. And both factors striking at the same time brought even bigger challenges on us. Nonetheless, we have laid down certain combat strategies. By consistently implementing these strategies, we are confident that we will come out of the valley soon. Regarding our development in the second half of 2005 and onwards, we are cautiously optimistic about our overall development with the support of the following strategies:

(i) Increase product prices to reflect rising costs

Following the surge of material costs, the Group has been actively negotiating with dealers and product distributors to raise product prices without affecting their market shares. The Group will continue to increase product prices to reflect the rising costs.

(ii) Realize diverse development of carbohydrate

Develop more carbohydrate sources. Short, medium and long term directions are being planned and pursued.

集團對於強化內控工作持續進行，包括強化「風險管理辦法」的執行，強化ERP系統檢討，持續強化檢討集團各子公司的各項制度與規定，強化產品品質確保的各項認證工作，強化安全、衛生、環保等相關工作，強化供應商與客戶的管理等等。另外，將培訓與增加審計處專責人員事項列為重要的工作項目，持續進行。

(八) 展望

期內影響獲利甚鉅之兩大因素：(1) 賴氨酸售價低迷不振；(2) 主要原料成本高居不下。此兩項目預估下半年內應不至於有太大的逆轉，然集團依過去數十年之經驗，也曾經歷過類似週期性的起伏。但不可諱言的，此次起伏甚大且歷時也較長久，兩大不利因素幾乎同時發生，給集團帶來更多的挑戰和考驗。集團經營層已擬定各種對策，將貫徹執行，有決心跟信心克服困難。對於二零零五年下半年與未來的發展，集團將朝下列方向進行，預期整體發展仍是審慎樂觀。

(i) 提升產品售價，適度反映成本

隨著原料成本節節高昇，集團亦努力協商經銷商、產品通路商，在不衝擊市場佔有率下，逐步調升售價。今年下半年仍將繼續提高售價反映成本。

(ii) 執行多元化糖源發展方向

糖質原料的多元化發展，集團已經規劃並展開執行，此項工作將依短、中、長期方向持續推動，並做好推展規劃，貫徹執行。

(iii) Obtain reliable supply of GA

Reliable supply of GA raw materials at a competitive price is one of the key factors for the success of our MSG business in the PRC. The alliance with Shandong Snowflake is in the final negotiation stage; and the expansion of the GA factory in Vietnam has been completed, these favourable developments plus the PRC lowering its import tariffs and the revaluation of the RMB, GA from Vietnam has become more competitive in the PRC, which will in turn enhance our production efficiency and ultimately benefit our business development in the country.

(iv) Further development of starch business

After the Group established a starch research center in the second half of 2004, apart from enabling it to step up the development of modified starch products, the Group has further successfully developed various types of modified starch for application in food processing. These products are suitable for making different kinds of food products including chili sauce, tomato ketchup, BBQ sauce, frozen meat, prepared dim sum, etc. and have been well received by the market. We have decided to launch the products to the enormous food processing market in China and to other countries.

(v) Expand product mix

Trial production at the new high value added seasonings factory in Vietnam was completed successfully, and products will be introduced to the market in the third quarter. The Shanghai factory is prepared to set up a new high value added seasonings facility, and has begun the trial sales and marketing of chicken essence based seasoning. Increasing products varieties will not only allow us to boost our relationship with dealers, but will also facilitate the expansion of our distribution network and in turn contribute to our profits.

(iii) 取得穩定的谷氨酸原料

穩定和具競爭力的谷氨酸原料，將是集團決心在中國拓展味精事業極具重要的關鍵之一，與山東雪花合作案已進入最後確認階段，且越南谷氨酸廠已擴產完成，再加上中國關稅調降與人民幣升值的條件下，越南供應谷氨酸將更具競爭力，如此將使在中國生產更具效率，對中國業務推廣有極大的效果。

(iv) 逐步落實澱粉事業發展

自二零零四年下半年成立澱粉技術中心後，除已加強開發多項化工澱粉品項外，集團更成功地研發出不同種類的食品加工用之化工澱粉，可作為製造各種調味醬如辣椒醬、蕃薯醬、烤肉醬、冷凍肉品與各項點心生產用的添加物，客戶反應良好，將不僅行銷中國廣大的食品加工市場，並計畫外銷至其他各國。

(v) 強化產品組合，增加產品項目

越南廠新設風味調味料完成試產工作，將於第三季實際推廣到市場。上海廠亦開始籌設複合調味料工廠，並已先行展開雞精的市場試銷推廣工作。產品項目的增加，不僅可加強與經銷商關係，發揮通路極大化效益，更可提高收益。

(vi) Enhance research and development efforts, and increase production efficiency

After our research center and pilot plant are upgraded, we are working on various projects on production process improvement to help us enhance production efficiency, improve product quality and production capacities, and cut costs.

(vii) Bring in contribution by acquiring Shanghai Vedan Foods

The Group completed the acquisition of Shanghai Vedan Foods and related fixed assets at the end of July 2005. Shanghai Vedan Foods will start the production of high value added seasonings and modified starch as soon as practicable, and we believe it will bring synergies to the distribution network and ultimately enhance the Group's profitability.

(9) Financial Review

As at 30 June 2005, our cash and bank savings amounted to US\$20,415,000, decreased by US\$12,777,000 from the amount as at the end of 2004. Our bank loans increased by US\$12,740,000 to US\$79,615,000, mainly due to (1) rising capital expenditure, and (2) substantial surge of material costs leading to a dramatic increase in inventory valued at US\$10,047,000. The current ratio of the Group was maintained at 1.65, slightly lower than the 1.79 level of last year. 99% of our bank loans were denominated in US dollar, the remaining 1% was denominated in RMB. The ratio of medium to long term loans and short-term loans was 37% to 63%. The Group's gearing ratio, based on total bank loans to shareholders' funds, was 34.1%. After deducting cash and bank savings, our net gearing ratio is 25.4%.

The majority of the Group's transactions from its business in the PRC are conducted in RMB, and our RMB loans approximated at only US\$785,000. The exchange rate between the Vietnamese Dong and the US dollar remained stable, the depreciation rate of the Dong for the period between 1 January and 30 June 2005 was about 0.62%. The Group did not record any negative foreign exchange trade, nor did we engage in any exchange rate hedging activities.

The basic earnings per share for the review period were 0.37 US cent. The Board recommended the payment of an interim dividend of 0.201 US cent per share.

(vi) 加強技術研發、提升生產效率

藉由技術研發中心與實驗工廠的提升，試驗各項生產製程的改進，提升生產效率，確保產品品質，增加產能，降低成本。

(vii) 創造併購上海味丹效益

集團已於二零零五年七月底公告完成上海味丹收購不動產與土地手續，將儘速進行複合調味料與化工澱粉生產線的投入工作。進行多項複合調味料與化工澱粉的生產，強化產品組合，發揮通路綜效，提高獲利空間。

(九) 財務回顧

截於二零零五年六月三十日止，本集團現金和銀行存款為20,415,000美元，比二零零四年底減少12,777,000美元。銀行借款為79,615,000美元，比二零零四年底增加12,740,000美元，主要是(1)資本支出增加；及(2)因原料價格大幅上漲，存貨金額隨著劇增10,047,000美元。集團之流動比率為1.65，略低於與去年底1.79之水平。銀行借款中美元借款占99%，人民幣佔1%。中長期與短期借款比例為37%比63%。資本負債比(銀行總借款比股東權益)為34.1%，淨資本負債比(扣除現金和存款)則為25.4%。

集團中國區業務主要以人民幣交易，而人民幣借款僅約785,000美元。而越南盾對美金匯兌穩定，二零零五年初到六月三十日止貶值幅度約0.62%。集團並無不利的外匯活動且無採用任何金融工具進行外幣對沖。

本期每股基本營利為0.37美仙。董事會擬派付股息每股0.201美仙。