

Although our gross profit in the first half of the year suffered because of high raw material costs and suppressed sales price of lysine, our efforts to expand markets and raise the sales price of MSG, and to enhance production efficiency and lower production costs and expenses paid off. The Group was able to achieve notable growth in turnover and a slight increase in net profit in the first half of the year when compared with the last corresponding period.

Our business continued to report overall steady growth in the first half of 2006 and market demand for our core products was strong. Our turnover was 20.6% higher than in the same period last year. The Group's major markets including Vietnam, Japan, the PRC and ASEAN countries recorded 17%, 12%, 19% and 104% growth in turnover respectively when compared with the same period last year, mainly attributable to the increase in sales of MSG products in these markets. Other products such as starch and specialty chemicals also achieved satisfactory growth.

We made good business progress during the review period. However, our gross profit and overall profitability fell short of expectation as a result of surge in the price of molasses. We thus raised the selling price of our products in different markets starting in the second half of last year and continuing in the first half this year to respond to the higher molasses price. This enabled us to maintain a profit level similar to last year's. However, taking into account the keen market competition, price adjustments were made prudently. Another important factor suppressing profit was the continuous slide of lysine price. In combat, we used part of the lysine production facilities to produce MSG products that have higher margin to help us raise overall profit.

At the same time, the Group's effort to secure a more stable supply of carbohydrates, the trial cultivation of tropical sugar beet in Vietnam has borne encouraging preliminary results. However, we have still some way to go before we can reap economy of scale benefits. In addition, the Ve-Yu Starch Factory, which was acquired at the end of last year, and the new starch factory, which is to be built this year in Ha Tinh province in Central Northern of Vietnam, will give the Group better control on sources of carbohydrates. The management believes these pursuits will bring concrete benefits including helping the Group to stabilize production cost and grow profit.

儘管今年上半年的原料成本持續去年的高檔價位與仍處低迷的賴氨酸價格，使得毛利受到影響，但集團一方面積極地開拓市場，另一方面努力調高味精產品售價、提升生產效率、降低生產成本與節省費用，使上半年營業額相較去年同期仍有顯著的增加，淨利也有些許提高。

集團在2006年上半年整體業務狀況尚保持穩健成長，核心產品於市場之需求樂觀，營收較去年同期有20.6%的增長，集團的主要市場在越南、日本、中國與東盟國家都較去年同期約有17%、12%、19%與104%的成長；此等營業額的增加主要仍歸功於味精產品在各地市場銷售的擴增；另外，集團其他產品如澱粉與特用化學品的業務銷售也都有不錯的表現。

雖然集團在業務上有不錯的進展，但毛利仍受到糖質原料價格的居高不下的影響，使盈利狀況不如預期。為反應糖源成本的高漲，集團自去年下半年起至今年上半年均持續於各地市場拉升產品的售價，這也使上半年的純利率得以維持去年同期的水準，但集團亦考慮到市場競爭的狀況，故對調價也格外審慎的進行。另一壓縮獲利的重要因素即賴氨酸之價格不振，此亦明顯地侵蝕集團原應有的獲利，故集團有鑑於此，將部份賴氨酸設備產能彈性地調整到生產獲利較高的味精產品，以增加整體的獲利水平。

同時，為取得更多糖源供應之主導性，集團目前於越南地區試種植的熱帶甜菜進度順利，初步成效不錯，但距實際經濟效益應用，還有一段距離；除此之外，去年底所併購的味友澱粉廠與今年將於中北部新建的河靜澱粉廠，都將對集團掌握糖源有更深的助益。管理層相信此等措施對穩定生產成本與獲利回升均有實質之效益。

In the first half year, the Group focused on securing a stable supply of raw materials and expanding market presence. Shandong Vedan Snowflake Enterprise Co., Ltd., which was set up at the end of last year, commenced operation in April this year. Apart from directly selling its products to customers, the company also supplies MSG and GA to the Group's factories in Shanghai and Xiamen, and as such, it boasts strategic value in the Group's plan to develop and consolidate the China market.

Outlook for the second half year

Facing vigorous challenges in the current operational environment, apart from securing a stable supply of carbohydrates to help reduce production costs and boost production efficiency and overall competitiveness, the Group will also strive to push up profit and market share by continuing to consolidate existing core products. Furthermore, the Group will continue to negotiate and develop high-valued new products and new technology, with the aim of achieving profit breakthrough.

Regarding development of the China market in the second half year, we will pursue in greater depth the development of our MSG business in Shanghai, Xiamen and Shandong. We also expect the Shanghai factory to start producing and selling value-added seasoning and modified starch for food application to add to our product portfolio and enhance our business performance.

The new factory for producing the new product, γ -PGA, was completed in the second quarter this year. The trial run is expected to complete in the third quarter and production to begin in the fourth quarter. We are fully confident of the prospects of this new product and expect it to deliver good return to the Group in the future. Currently, apart from forging on with our in-house R&D efforts, we are negotiating with some international biochemical companies holding advanced technical know-how about collaboration in developing new products or production technology. Our aims are to continuously improve our production technology and efficiency, and to develop more products with high added value.

集團上半年於中國市場仍不斷致力於原料之掌握與市場的精耕。尤其是去年底成立的山東味丹雪花實業有限公司，已在今年的4月份開始營運，除自行銷售外，亦可穩定供應上海廠與廈門廠所需之味精與谷氨酸原料，故山東廠實為集團在中國市場拓展與整合很重要的策略性佈局。

展望下半年

集團在面對目前總體環境所引起的嚴峻挑戰，下半年的營運重點除積極掌握糖源降低成本，發揮生產效率以提升整體競爭力外，也將持續拓展與整合核心產品於主要市場來增高盈利與市佔率，同時進一步洽談與開發高價值之新產品與新技術以期能盡速有突破性的盈利。

而在中國市場下半年之推展，除上海廠、廈門廠與山東廠之味精業務在當地更進一步深耕與佈局外，今年上海廠也將投入風味調味料與食品用變性澱粉之生產與銷售業務，以發展多元化產品，增添更高的營業成果。

集團新產品 γ -PGA建廠計劃，已於今年第二季完成，並將於第三季開始試車，第四季應可投入生產，我們對此項新產品未來的潛力具有相當的信心，相信將來，此產品會為集團獲取更高之盈利。而集團目前除本身研發團隊的全力投入外，也與數家國際性先進之生化公司，洽談開發各項產品或製程的創新技術，以期不斷提升生產技術與效率，並創造更多樣化的高附加價值產品。

Although there are hurdles in front of us, as a team, we are determined to overcome them. We understand that our business has room for improvement, but we also know what our edges are. We will, in the second half year, strive to lower production cost, enhance production efficiency and capacity, and consolidate our business network. We firmly believe with the support of our solid foundation and collective efforts of our staff and by adhering to the aforesaid strategies, Vedan will be able to achieve breakthrough and restore profitability, and ultimately become a stronger company.

By order of the Board

Yang, Tou-Hsiung

Chairman

Hong Kong, 29 August 2006

縱使眼前有重重的挑戰，集團全體同仁仍秉持著堅定的信念來克服此等挑戰。當然，我們知道我們還有一些需要再加強的地方，但是我們同樣也清楚我們本身可以發揮的競爭優勢，透過下半年的降低成本、生產效率與產能的發揮及業務通路的整合，我們深信，以集團穩健的基礎，配合上述各項的因應策略與各級同仁的努力，我們就可以逐步克服現階段所遭遇之瓶頸，恢復應有的獲利水準，屆時集團的成長將更堅強、茁壯。

承董事會命

主席

楊頭雄

香港，二零零六年八月二十九日