

Business Overview

In the light of rising raw material costs and sliding lysine prices, which started in the second half of 2004, the Group's profit declined in three consecutive half year. Since 2005, the Group has flexibly purchased raw materials and gradually raised selling prices of products, exercising strict cost control, the Group has turned around in the difficult market. The net profit recorded in the first half of 2006 was US\$6,051,000, representing 166% surge when compared with US\$2,274,000 in the second half of 2005, and an increase of 6.7% when compared with US\$5,673,000 in the corresponding period last year. Total turnover was US\$141,473,000, 20.6% more than the corresponding period last year. 84.9% of the Group's total turnover was generated from the Vietnam operations, amounting to US\$120,187,000, 18% higher than the same period last year, and that from the China operations rose 37.4% to US\$21,286,000. The growth of turnover from the Vietnam operations was mainly the result of lifted price of MSG and GA, and expanded GA sales accounted for the turnover growth from the China operations.

As lysine price is still in the slump, while raw material costs, including that for molasses, cassava and liquid ammonia continued to rise when compared with same period of the last year, although the price of MSG and GA were increased, overall gross profit margin still fell from 19.9% to 18.8%. However, total gross profit rose from US\$23,361,000 to US\$26,588,000. Net profit margin dropped to 4.3% from 4.8% in the first half of 2005, but total net profit slightly increased from US\$5,673,000 to US\$6,051,000.

Raw material prices have significant bearing on the Group's profit. The Group acquired Ve-Yu Starch Factory in November last year, and more cassava was harvested than last year. Therefore, the costs of starch and cassava were relatively lower than that of molasses. The Group used more starch and cassava in production in the second quarter to lower cost and the result has been fairly satisfactory. The Group invested in Shandong Vedan Snowflake Enterprise Co., Ltd., in December last year. The plant commenced operation in April and has benefited growth of the Group's China operations.

業務總覽

鑒於自2004年下半年，因原料價格高漲，賴氨酸售價滑落，造成集團連續三個半年度，獲利衰退。集團自2005年開始採取靈活採購原料，逐步調升售價，嚴格控管費用策略下已扭轉困境。2006年上半年淨利為6,051,000美元，比2005年下半年2,274,000美元成長166%，並比去年同期5,673,000美元增加6.7%。營業總額為141,473,000美元，比去年同期增加20.6%。其中越南區總營業額為120,187,000美元，佔84.9%，比去年同期成長18%，中國地區為21,286,000美元，比去年同期增加37.4%。營業額之增長，越南區主要來自味精及谷氨酸售價的調升，而中國區則是谷氨酸銷售量的增加。

由於賴氨酸售價依然低迷不振，主要原料如糖蜜、木薯、液氨價格與去年同期比較，依然持續上揚，縱使味精與谷氨酸價格亦有調升，然整體毛利率仍略受影響，由19.9%下滑為18.8%，但毛利總額則由23,361,000美元增加到26,588,000美元，純利率由2005年上半年4.8%，下跌為4.3%，純利總額則略有上升，由5,673,000美元增加為6,051,000美元。

原料價格影響集團獲利甚大，故集團已經去年11月併購味友澱粉廠，再加上收購2005/2006產季木薯較上期增加，因此木薯澱粉成本相對於糖蜜為低，集團在生產方面，已於今年第2季開始調升木薯澱粉使用比率以降低成本。目前已有不錯之成果。本集團於去年12月投資山東味丹雪花實業廠已於4月正式生產，對中國區業務的成長亦帶來助益。

To raise profit, the Group effectively lowered management cost from comparably 7.4% of its total operating turnover (US\$8,647,000) in the same period last year to 6.5% (US\$9,248,000) this period. Sales cost was also down from 6.5% of its total operating turnover (US\$7,627,000) in the same period last year to 5.2% (US\$7,330,000), despite that operating turnover had grown 20.6% during the period. This showed that the Group had been successful in controlling cost without affecting growth of its operating turnover. Finance cost, however, increased by US\$1,045,000 in the period, approximately 63.6% higher than that of last year, due to increase borrowing by the Group and rising US interest rates. Finance cost increased from comparably 1.4% of the total operating turnover (US\$1,644,000) to 1.9% (US\$2,689,000).

2006 is a significant year for the Group in overcoming the tough business environment. The implementation of the Group's strategy in the first half year had allowed it to combat raw material price hikes and low lysine price, and stopped the profit slide. Some of the achievements made by the Group during the period are as follows:

1. Secured raw material resources, namely cassava and molasses, to stabilize production cost.
2. Adjustment of flexible production including switching part of the lysine production line to producing GA. For the raw materials, increase the usage of cassava starch, at the same time, also increase production capacity and yield, resulted in cost reduction.
3. Gradually pushed for the increase of market share of modified starch for food applications to raise added-value and profit.
4. Continued to advance leavening technology to sharpen competitive strengths. Actively launch and promote new brand of seasonings.
5. Expanded the marketing activities in the ASEAN markets and strengthened China market by establishing the production base of GA fermentation.
6. Carried out BPR to prepare for launching ERP in the future.

為致力於獲利之提高，期內管理費用由去年同期佔總營收7.4% (8,647,000美元) 下降為6.5% (9,248,000美元)。銷售費用則不因營收成長20.6%而增加，反而由去年同期佔總營收之6.5% (7,627,000美元)，減少為5.2% (7,330,000美元)。顯現出集團在不影響營收成長下，控管管銷費用，有不錯之成果。但期內財務費用因受美元借款利率持續上揚，借款金額增加下，比去年同期增加1,045,000美元 (約63.6%)，財務費用淨值佔總營收比由1.4% (1,644,000美元) 增加到1.9% (2,689,000美元)。

整體而言2006年為集團突破艱難經營環境極為重要之一年，上半年集團在穩健策略下，克服原料高漲，賴氨酸價格低迷之不利因素，將獲利連續下滑之頹勢扭轉為上升之趨勢，同時集團在期內依既定的策略，努力執行之下已獲得部份之成果與進展如下：

1. 掌握木薯及糖蜜原料，穩定製造成本。
2. 靈活機動的生產調整，如將部份賴氨酸生產設備轉為生產谷氨酸，在主要原料使用方面，增加木薯澱粉使用比率，同時增加產能與收率，以減少成本。
3. 逐步將食品用變性澱粉轉成澱粉事業之主力產品，以提高附加價值，增加利潤。
4. 持續提高發酵技術，提升競爭力，積極開發推廣風味調味料品項。
5. 強化東南亞國協市場推廣，紮根中國市場，建立谷氨酸發酵生產基地。
6. 進行內部作業流程改造 (BPR) 以為將來導入ERP作準備。

Business Analysis

Table 1: Comparison of sales of various products

| | | First half of 2006 二零零六年上半年 | | First half of 2005 二零零五年上半年 | | Change(%) 增/減(%) | |
|-----------------------------------|-------|--------------------------------|--------|--------------------------------|--------|---------------------|----------|
| MSG | 味精 | 96,300 | 68.07% | 84,243 | 71.79% | 12,057 | 14.31% |
| GA | 谷氨酸 | 16,008 | 11.32% | 6,347 | 5.41% | 9,661 | 152.21% |
| Lysine | 賴氨酸 | 9,212 | 6.51% | 10,450 | 8.90% | (1,238) | (11.85%) |
| Native Starch | 天然澱粉 | 1,363 | 0.96% | 138 | 0.12% | 1,225 | 887.68% |
| Modified Starch | 變性澱粉 | 7,314 | 5.17% | 7,027 | 5.99% | 287 | 4.08% |
| Seasoning | 風味調味料 | 169 | 0.12% | - | - | 169 | - |
| Specialty Chemicals | 特用化學品 | 5,977 | 4.22% | 5,457 | 4.65% | 520 | 9.53% |
| Fertilizer and feed-use additives | 肥料及飼料 | 2,185 | 1.54% | 1,292 | 1.10% | 893 | 69.12% |
| Beverage | 飲料 | 2,315 | 1.64% | 1,996 | 1.70% | 319 | 15.98% |
| Others | 其他 | 630 | 0.45% | 404 | 0.34% | 226 | 55.94% |
| Total | 合計 | 141,473 | 100% | 117,354 | 100% | 24,119 | 20.55% |

Unit: US\$'000

單位：千美元

經營分析

表一：各項產品銷售額的比較

(1) Sales Analysis by Product

MSG and GA

The turnover of MSG and GA grew by 14.3% and 152.2% to US\$96,300,000 and US\$16,008,000 respectively. The growth in turnover was attributable to the rising of sales prices, while the remarkable surge in turnover of GA revenue was the results of the Group freeing some of the lysine facilities to produce GA and Shandong Vedan Snowflake Enterprise Co. Ltd. starting to produce GA. The proportion of contribution of MSG and GA in the Group's total turnover slightly increased from 77.2% in the same period last year to 79.4% this year.

Vedan Vietnam completed expansion of its MSG and GA plants in 2004 and 2005 respectively, resulting in increased production capacities for GA and MSG to 168,000 tonnes and more than 200,000 tonnes per annum respectively. With the economic growth in Vietnam, the demand of food consumptions increases. With the growing market demand and growing competition, the Group will continue to strengthen its position by expanding its distribution channels and add warehouses in major regions to boost the

(一) 產品銷售分析

味精及谷氨酸業務

味精與谷氨酸，營業額分別為96,300,000美元及16,008,000美元，分別成長14.3%及152.2%。營業額的增長，主要是來自售價的調升和谷氨酸營收大幅度的增加，這是公司策略上運用，將部份賴氨酸設備轉為生產谷氨酸，同時山東味丹雪花實業有限公司也開始生產谷氨酸。而味精和谷氨酸佔總營業額的比例，則由去年同期77.2%小幅增加到79.4%。

越南廠之味精和谷氨酸擴廠已分別於2004年及2005年間完成。谷氨酸產能可達到168,000噸/年，若以味精計算可超過200,000噸/年，在越南國內，隨著經濟發展，食品使用需求增加，市場數量成長，但各項競爭亦增強的環境下，除持續密切注意市場變化，同時強化行銷通路，

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efficiency of products delivery. Regarding export sales, we capitalized on the geographical advantage of Vietnam and its ASEAN status to actively expand in the ASEAN market.

In the PRC market, Shandong Vedan Snowflake commenced operation in April. In addition to domestic sales, it also helped secure supply of GA and MSG for Xiamen Mao Tai and Shanghai Vedan. During the period, turnover of MSG and GA businesses in the PRC market grew 22.8% compared with the last corresponding year.

Starch

Helped by the good weather and increasing in purchase price, the farmers expanded cultivation of cassava. More cassava was harvested in 2005/2006 season than in the harvest period of 2004/2005 season. This plus the acquisition of Ve-Yu Starch Factory in November last year, the Group was able to secure more cassava supply substantially. Part of the purchase was used for converting into raw materials for MSG fermentation and the remaining was used to produce modified starch and native starch. The total turnover of modified starch and native starch grew 4.1% and 887.7% to US\$7,314,000 and US\$1,363,000 respectively. The relatively meager rate of the former was mainly due to the Group's strategies to focus on producing modified starch for food applications that has higher added-value. However, as the product has more complicated specifications and requires more technical support to the customers, it will take longer time for the customers to adapt to their production system. The contribution from this business was not obvious during the review period. The Group expects the starch business to achieve more satisfactory growth in the fourth quarter this year, especially in Japan and the PRC markets. The surge in sales of native starch came from the newly acquired Ve-Yu starch factory.

Lysine

The price of lysine remains depressed. The Group thus freed some of the lysine facilities to produce GA and MSG to enhance the Group's gross profit and turnover. During the period, turnover of lysine amounted to US\$9,212,000, a decrease of 11.9% compared with the same period last year. The average unit sales price of lysine only slightly reduced by 2.2% compared with the last corresponding period and unlike the sharp plunge in the previous, indicating that the price of the lysine may stop falling and head back on the up

於各主要地區增設發貨倉庫，提高供貨效率，在外銷市場方面，利用越南地利及東盟成員國之一員，積極拓展東盟市場。

在中國地區，山東味丹雪花自4月已開始運作自行銷售外，尚可部分提供廈門茂泰，及上海味丹谷氨酸及味精之來源。期內中國區味精及谷氨酸營業額比去年成長22.8%。

澱粉業務

因氣候關係及收購價格上升，農民種植面積擴大，2005/2006產季木薯產量，比2004/2005產季增加，加上去年11月併購味友澱粉廠，木薯收購量大幅增加。除將部份作為味精發酵用之原料外。其餘轉為生產變性澱粉及天然澱粉，和去年同期比較，變性及天然澱粉分別成長4.1%及887.7%，總營業額為7,314,000美元及1,363,000美元。其中，變性澱粉僅成長4.1%，主要仍是自去年下半年開始集團策略上將主力產品，放在附加價值較高之食品級變性澱粉，然因規格較多，且須較長時間研究改進，同時配合客戶使用習慣，進行推廣，以符合客戶特殊需要。故未能於今年上半年及時顯現出效果，預期自今年第4季開始將有不錯之成長，特別是日本及大陸市場將會有顯著之增長，天然澱粉之增長主要來自味友澱粉廠併購之效應。

賴氨酸業務

國際賴氨酸價格仍然處於低檔，集團已將部分設備轉為生產谷氨酸及味精以提高毛利和營業額。期內賴氨酸營業額為9,212,000美元比去年同期下跌11.9%，平均銷售單價比去年同期略為下滑2.2%左右。已不像2004年/2005年之間之價格大幅下調，顯示未來止跌回升的可能性大為增加。由於越南經濟持續高度的成長，對

trend. The booming Vietnamese economy has seen demand for poultry products in the country grows steadily. Seeing this trend, the Group has been consolidating its distribution system and working to penetrate the market for long-term gains.

Specialty Chemicals

As the economic development in Vietnam accelerates, the country's demand for basic chemicals such as caustic soda and hydrochloric acid has been rising rapidly. During the period, the turnover of specialty chemicals amounted to US\$5,977,000, up 9.5% (US\$520,000) when compared with the corresponding period last year. It is expected that the demand in the future will increase steadily.

畜產品需求有穩定的增長，集團正致力整合行銷系統，深耕市場，就長期而言，仍極有發展前景。

特用化學品業務

隨著越南工業的發展，工業的基本化學品蘇打與鹽酸之需求也穩定成長，期內特用化學品較去年同期成長9.5%增加520,000美元，營業額為5,977,000美元。預計未來需求亦將持續增加。

(2) Market Analysis

Table 2: Comparison of sales in major markets

| | | First half of 2006 二零零六年上半年 | | First half of 2005 二零零五年上半年 | | Change(%) 增/減(%) | |
|---------|------|--------------------------------|-------|--------------------------------|-------|--------------------------|---------|
| | | | | | | Unit: US\$'000 單位：千美元 | |
| Vietnam | 越南 | 74,765 | 52.8% | 63,909 | 54.5% | 10,856 | 17.0% |
| The PRC | 中國 | 20,203 | 14.3% | 16,958 | 14.5% | 3,245 | 19.1% |
| Japan | 日本 | 28,107 | 19.9% | 25,112 | 21.4% | 2,995 | 11.9% |
| Taiwan | 台灣 | 3,380 | 2.4% | 1,408 | 1.2% | 1,972 | 140.1% |
| ASEAN | 東盟國家 | 12,564 | 8.9% | 6,158 | 5.2% | 6,406 | 104.0% |
| Europe | 歐洲 | 2,151 | 1.5% | 2,499 | 2.1% | (348) | (13.9%) |
| Others | 其他地區 | 303 | 0.2% | 1,310 | 1.1% | (1,007) | (76.9%) |
| Total | 合計 | 141,473 | 100% | 117,354 | 100% | 24,119 | 20.6% |

– Vietnam

In the first half of 2006, turnover from sales in this market amounted to US\$74,765,000, accounting for 52.8% of the Group's total turnover. It represented an increase of US\$10,856,000 when compared with the last corresponding period, at US\$63,909,000 (54.5%). The 17% growth was mainly attributable to the 8.2% and 78.7% growth sales of MSG and GA to US\$50,315,000 and US\$11,043,000 respectively, accounting for 67.3% and 14.8% of the total turnover from the Vietnamese market. Turnover of specialty

– 越南市場

2006年上半年越南地區總營收佔整體營收52.8%為74,765,000美元，比去年同期63,909,000美元(54.5%)增加10,856,000美元，增加17%主要的增長來自味精成長8.2%及谷氨酸78.7%，營業額分別為50,315,000美元及11,043,000美元，分別佔越南區營收67.3%及14.8%，另外特用化學品金額為5,977,000美元佔越南區

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chemicals was recorded at US\$5,977,000, constituting 8.0% of the total turnover from the market. As the Group strategically reduced lysine production and increased GA output, turnover of lysine business decreased by 28.4% from US\$3,837,000 to US\$2,748,000.

- Japan

Total turnover from sales in Japan for the year reached US\$28,107,000, US\$2,995,000 or 11.9% higher than the corresponding period last year. Japan is the second largest market of the Group, accounting for 19.9% of the total turnover. The price of lysine continued to drop while the sales of MSG, on the other hand, reported notable growth because of rise in sales quantity as well as the sales price. With Japanese customers becoming more receptive of modified starch for food application, the market is expected to deliver more satisfactory results in the second half of the year.

- The PRC

The PRC market continued to grow robustly. It grew 31.8% last year and 19.1% in the first half of 2006. Turnover was US\$20,203,000, an increase of US\$3,245,000 when compared with the same period last year. The growth mainly came from the acquisition and commencement of operation of Shandong Vedan Snowflake. Since Shandong Vedan Snowflake has been operating for 3 months only, the synergy from the acquisition has not yet been fully realized. The Group expects better results in the second half. The intense competition in the PRC's MSG market, increase in energy costs and corn price, all posed pressure on the Group's profit and business expansion. Despite that, the management actively raised the operational efficiency of the joint venture company in Shandong and strengthened relationship with suppliers so as to improve the competitiveness of its MSG products. The Group will set up chicken essence production line in Shanghai in the third quarter this year. This plus the expected wider acceptance of the modified starch for food processing in the PRC will help to widen the Group's product mix and increase its profitability.

營收8.0%，賴氨酸因集團策略性減產轉生產谷氨酸，營收由3,837,000美元減少為2,748,000美元下跌28.4%。

- 日本市場

期內日本市場營業額增加2,995,000美元(11.9%)總金額為28,107,000美元，為集團第二大市場佔總營收19.9%，雖然賴氨酸銷售略有下跌，但在味精則有顯著成長，主要是數量與價格均有提升。變性澱粉在日本市場亦逐漸被接受預期下半年將有更好的表現。

- 中國市場

延續2005年中國市場成長31.8%，今年上半年仍有19.1%增長，營收金額為20,203,000美元，比去年同期增加3,245,000美元。主要的增長來自山東味丹雪花之併入營運。由於山東味丹雪花才剛運轉3個月。效益未能全部發揮，預計在下半年將有較佳之表現。中國味精市場依然競爭激烈，再加上能源成本上揚，玉米價格亦上漲，壓縮獲利及業務之推展，但集團除積極提升山東合資公司效益外，並強化供應商之緊密關係，以提升味精產品競爭力。集團將於今年第三季於上海設立雞精生產線，且預計食品變性澱粉於中國市場上已逐漸被用戶接受與肯定，將有助於集團在中國區產品之多元化及營收獲利之提升。

- ASEAN countries

ASEAN countries have been the Group's major focus. Continuing the 54.2% growth in turnover in 2005, the Group recorded a remarkable increase of 104% in turnover from the market in the first half of this year from US\$6,158,000 in the last corresponding period to US\$12,564,000. The impressive growth was mainly the result of increased sales of MSG. Leveraging on its integrated modern production system in Vietnam, the Group expects this state-of-art facility will help boost the continuous penetration of the vast ASEAN market

(3) Securing Raw Material Resources

In the period under review, cost of molasses, cassava and liquid ammonia continued on the up trend that started in 2004 and increased markedly between 13% and 37%. The phenomenon led to a rise in production cost of MSG and lysine and the increase in selling prices was not enough for generating higher profit. Cost of raw material has remained high since the second half of last year, so the Group does not anticipate further sharp rise in raw material prices. Also, the Group has stocked up on raw materials to shield its production cost from impact of possible material costs fluctuation.

- Molasses

The high price of molasses has persisted but remained stable for about a year. In addition to expanding molasses sources, the Group has been lowering usage of molasses and lessening its dependence on the material by replacing it with starch carbohydrates. With bigger harvests of cane sugar expected in Thailand and Vietnam this coming season and the price of molasses in Vietnam dropping, the Group is optimistic about keeping costs under control in the future.

- Cassava

The harvest season of cassava in 2005-2006 was longer than usual and more cassava was harvested because of favourable weather. As a result, cassava starch cost has remained stable. However, increased cassava harvest is expected for 2006-2007, meaning its price may decline. This will help to stabilize and possibly reduce cost and support the expansion of the Group's starch business.

- 東盟市場

東盟市場一直為集團所極為重視之市場，延續2005年54.2%之營業額成長，今年上半年更是鉅幅增長104%，由去年同期6,158,000美元激增到12,564,000美元，主要的增長來自味精銷售的增加。集團在越南已經完成的生產基地，將有助於集團在東盟市場的持續發展。

(三) 原料掌握

期內由於原料成本，不管是糖蜜、木薯、液氮延續2004年已大幅成長之外，與去年同期比較，也大幅增加13%到37%不等，造成味精及賴氨酸平均生產成本上漲。也因而售價之提升未能相對增加集團之獲利。但自去年下半年以來原料價格已維持在高水平，未來原料應不至於大幅度增漲，有關原料取得，集團已作好準備，原料價格變動造成製造成本之衝擊應可大幅減少。

- 糖蜜

高檔價格已持穩約一年，公司除擴大採購來源外，並積極降低糖蜜使用比率，改用澱粉糖源，降低對糖蜜之依賴。預估今年，泰、越地區甘蔗產量將比去年產季增加，目前越南地區糖蜜價格已有下滑跡象，將有利於未來成本之控制。

- 木薯

2005-2006產季較往年為長，且因天候因素產量較多。因而目前木薯澱粉原料穩定變化不大，但現在跡象顯示2006-2007產季，木薯將豐收，價格將很可能下跌，將對穩定進而有助於未來降低成本及供應澱粉業務之拓展。

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- Liquid ammonia

The price of liquid ammonia is closely related to the supply of natural gas. The persistently high energy costs in the first half of 2006 also saw the cost of liquid ammonia standing notably higher than that in the same period last year. However, thanks to suppliers expanding production capacities to increase supply, the international price of liquid ammonia has started to show sign of softening in the third quarter of 2006.

- New sources of carbohydrates

The Group continued to develop more carbohydrate sources to address rising raw material costs in the middle to long term.

+ Tropical sugar beet: After 1.5 year of trial cultivation, the Group's farming experts have mastered critical cultivation conditions for the crop and have enlarged cultivation scope. The current plan is to transfer experience gained at the experimental farm to farmers in around October this year after the rainy season. If the farmers are able to achieve the same results as those managed in the experimental farm, massive cultivation can begin in 2007.

+ Corn starch and rice starch: Rice is the major raw material for export among agricultural raw material produced by Vietnam and the country also produces a lot of corn. To make the best use of these materials has always been a focus of the Group's R&D effort. Along with production of the two starches, we will see the birth of other by-products which application will in turn give rise to high value adding products. As these developments will allow it to boost overall investment return, the Group is actively assessing their feasibility.

(4) Plant Expansion and Construction Plans

With raw material prices started to rise since second half of 2004, the Group adopted forceful yet prudent raw material control strategy. In Vietnam in particular, apart from strengthening working relationship with farmers and suppliers, the Group also added new plants and

- 液氨

液氨價格與天然氣有密切關係，由於能源價格高漲，故2006年上半年液氨價格，亦比去年同期高出甚多。但因供應商擴充產能供應量增加，在2006年第三季開始液氨國際行情已有明顯下跌。

- 多元化糖源

集團持續進行多元化糖源方案，以解決中長期原料成本高漲之問題。

+ 熱帶甜菜：歷經一年半的試種栽培，集團農業技術人員已能掌握到關鍵的種植條件，並逐步的擴大試驗種植面積，目前計劃是等雨季結束，約在今年10月份左右，將以實驗農場經驗，直接移轉給農民，如果在農民的農場也可獲得實驗農場的再現性結果，預計在2007年將可開始大規模推廣。

+ 玉米與米澱粉：越南國內的農產品原料中，大米是主要的出口原料，同時，越南也生產大量的玉米，如何利用此類農產品，一直是集團研究開發的題目。伴隨著此兩種澱粉的生產，會有大量副產品產生，這些副產品的利用，創造成附加價值高的產品，將有助於整體投資的效益，集團持續積極進行評估中。

(四) 擴廠及建廠計劃

由於2004年下半年開始的原料價格逐步上升至高檔水平，集團針對主要原料的掌握，也採取較為穩健且加強的策略，尤其在越南地區，除加強與農民及供應商的配

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embarked on expanding its production capacities. In addition to actively ascertaining raw material sources and seeking to lower cost, it has also hastened steps of new products introduction into the market. Related plans are as stated below:

- Vietnam

- (1) The newly acquired Ve-Yu Starch Factory in Gia Lai province has expanded daily production capacity from 60 tonnes to 100 tonnes. Depending on cassava supply situation, daily production capacity will be raised gradually to 150 tonnes then 200 tonnes.
- (2) Phase one of the starch factory in Ha Tinh province has secured investment license and investment has commenced and it is expected to start operation in the first half of 2007.
- (3) Trial run of the γ -PGA plant is expected to complete in the third quarter of this year and production to begin in the fourth quarter.

- China

- (1) A value-added seasoning production line is being built in Shanghai and will be ready for operation in the fourth quarter.
- (2) Actively pursue addition of MSG production line at Shandong Vedan Snowflake Enterprise Co. Ltd. targeting for completion early next year.
- (3) Actively seek to forge strategic alliance with other manufacturers to build a supply chain platform.

(5) Research and Development

The Group's emphasis on R&D has been reflected in the R&D activities undertaken and their results in the past two years. During the period under review, it had spent 16% more on R&D than the same period last year. The Group's different short-term and long-term R&D projects have been in good progress.

合外，也增加工廠設立與產能提升計劃。集團除了積極尋找原料，降低成本之外，增加生產新產品項目的腳步也持續展開，整體的計劃略述如下：

- 越南區

- (1) 新購併味友(嘉萊)澱粉廠的產能由60噸/天擴充至100噸/天，未來將視木薯的取得情況，再逐步提高為150噸/天到200噸/天。
- (2) 河靜澱粉廠第一期投資執照已經取得，正積極展開，預計於2007年上半年開始投入生產。
- (3) γ -PGA廠預計於第三季試車完成，第4季可開始投入生產。

- 中國區

- (1) 上海增設風味調味料生產線，將於第4季完成並開始生產。
- (2) 積極進行山東味丹雪花實業有限公司增設味精生產線，預期於明年初完成。
- (3) 積極尋找策略聯盟合作廠商，建立供應鏈供應平台。

(五) 研究與開發

集團對研究與開發的重視，已顯現於過去2年來的積極活動和成效。今年上半年研發活動與研發經費的增加，已超出去年同期16%。各種短期和中長期研發專案繼續順利推動中。

Major focuses of the Group include improving fermentative technology with the aim of lowering cost and developing new products including value-added seasonings of new flavours and new modified starch products. Pork and seafood flavour value-added seasonings have already been launched to market and in the pipeline are chicken, beef and mushroom flavours. As for modified starch, in addition to the existing 80 items, the Group's R&D team has developed 16 new items for use in food processing and other industrial applications. The Group now has near 100-strong modified starch portfolio and with that it can expect to achieve yet deeper penetration of the market. At the same time, the Group plans to use the by-products in production to create value-added products and related R&D efforts have borne preliminary fruits.

In the medium to long run, the Group will focus on the R&D of application of γ -PGA in agriculture, aquaculture and livestock farming, development of new fermentation strains and pursuit of cooperation in different technology areas with the aim of achieving breakthroughs in creating new products, sustaining long-term growth and optimizing the Group's production cost structure.

(6) Financial Review

Cash flow and financial resources

As at 30 June 2006, the Group's cash and bank savings amounted to US\$15,966,000, decreased by US\$12,021,000 from that as at the end of 2005. The decline was mainly due to the injection of US\$8,400,000 as capital into the joint venture company Shandong Vedan Snowflake in early 2006. Our bank loans increased by US\$13,773,000 to US\$93,426,000 compared with the year-end of last year, mainly due to the substantial inventory kept amounted to US\$24,077,000. Inventory amount surged because the Group harvested and purchased more cassava and the average unit price of molasses was 30% higher than that of the same period last year. Moreover, with the selling price of MSG set to increase on 1 June, wholesalers ordered in advance before the end of May. Therefore, overall inventory increased from comparably 14% of the Group's total turnover (US\$51,993,000) in late 2005 to 19.9% (US\$76,070,000) in the period under review. Account receivable was US\$35,445,000 as at 30 June 2006, a slight 1.07% lower than that as at the end of last year, and falling slightly from a comparable 9.6% of the Group's total turnover to 9.3%. Current ratio dropped from 1.58 to 1.45 compared with the same period last year, resulting from the increase in short-term loans.

目前的主要工作仍集中發酵研究以降低生產成本，以及新產品的開發，包括不同口味的風味調味料，以及變性澱粉新品項，在風味調味料方面，豬肉和海鮮口味已推出市場，目前準備再推動雞肉、牛肉和蘑菇風味的產品。至於變性澱粉方面，除了既有的80種品項外，研發技術中心已再開發出16種新品項，主要應用於食品加工和其他工業應用方面，集團已可以生產將近100種左右的變性澱粉，預計市場的銷售滲透，可再登上一層樓。同時，對於生產過程中產生的副產品利用，集團也朝提升附加價值的產品，進行開發與研究，也已有些許成果。

中長期目標方面，集團也正致力於 γ -PGA在農產、水產、畜產方面的應用領域研發，新發酵菌種的開發和各項領域的應用技術合作。期能在新產品事業的長期發展以及生產成本結構方面取得重要突破。

(六) 財務回顧

流動資金及財政資源

截至2006年6月30日止，集團現金和銀行存款為15,966,000美元，比2005年底減少12,021,000美元，存款減少主因為2006年年初支付山東味丹雪花聯營公司資本額8,400,000美元。銀行借款為93,426,000美元，比去年年底增加13,773,000美元，主要是存貨大幅增加24,077,000美元，原料因木薯豐收，增加採購量及糖蜜平均單價比去年同期高出約30%。另外由於味精於6月1日起調升價格，經銷商因而提前於五月底前落訂單，致使6月底成品存貨亦隨之增加，故整體存貨佔營收之百分比由2005年底之14% (51,993,000美元) 增加到19.9% (76,070,000美元)，應收帳款於截至2006年6月30日止為35,445,000美元，較去年底略低1.07%，佔總營收比例由9.6%略降為9.3%，流動比率因短期借款增加由1.58降為1.45。

Bank loans are all in US dollars. In the period, total costs of bank loans increased from 4.9% in 2005 to 6.3%, a result of mainly the rising US interest rate. The proportion of medium-/long-term loans to short-term loans was 40% to 60%. Gearing ratio (total bank loans/shareholders fund) was 38.7%, while net gearing ratio was 32.1%.

(7) Prospects

The next half of the year will be challenging to the Group, mainly due to remaining-high raw materials costs and the international sales price of lysine still suppressed. Achieving growth in the Group's core business, such as MSG and GA, is the most important issue. To face the challenges in operation, enhance the Group's competitiveness and profitability, the management will focus on:

Business

1. Strengthen the Group's brand and establish the brand leadership.
2. Develop and promote new products, including value-added seasonings and modified starch for food applications.
3. Strengthen sales system. Set up more distribution warehouses. Enhance penetration of second and third tier cities and towns to enlarge market share.
4. Integrate the Group's resources and strengthen supply chain system.
5. Strengthen the Group's presence in the ASEAN and China market. Consolidate sales network.

Production and R&D

1. Strengthen production technology by technical breakthrough to take to another height. Improve quality and add value to the products.

銀行借款全部為美元借款，期內借款總成本約6.3%，比2005年度借款成本4.9%為高，主要是美元利率上漲所影響。中長期與短期借款比例為40%比60%，資本負債比(銀行總借款／股東權益)為38.7%，淨資本負債比則為32.1%。

(七) 展望

展望今年下半年，集團仍然處於挑戰的時期，主要存在的問題，仍以主要原料處於高檔徘徊，賴氨酸的國際市場售價仍位於谷底。相對而言，集團的核心產品，包括味精與谷氨酸的業務確保成長，成為集團最重要的課題，對於經營層面所面對的挑戰，管理層將再專注於下列各主要項目，以期提高競爭力，再確保獲利能力。

業務方面

1. 強化品牌，確立各市場中領導品牌地位。
2. 推廣新產品市場的開發，包括風味調味料與食品變性澱粉。
3. 強化行銷體系，增設發貨倉庫，精耕都市、二級及三級城市與鄉鎮市場。
4. 積極整合集團資源，強化供應鏈體系。
5. 積極強化東盟與中國市場的佈局，建立行銷網路。

生產與研發

1. 強化生產技術再突破，提升產品品質與附加價值。

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2. Flexible adoption of different carbohydrates as raw material to save production cost.
3. Accelerate the development of application technology of new products to create added value and raise profit.
4. Continue to develop different carbohydrate substitutes to secure stable supply of raw materials.

Finance

1. Implement strict cash flow control. Strengthen inventory management. Focus on effectiveness of CAPEX, and increase assets utility efficiency and current ratio.
2. Improve account payable/receivable efficiency. Enhance effectiveness of capital utilization. Diversify capital sources to reduce loans and capital costs.
3. Purchase of raw materials with greater flexibility and from more diverse sources to lower costs. Continue to control costs of sales. Management and financial expenses and reduce non-essential expenditures.

Although the Group is facing great challenges and tough competition, it has managed to overcome the pressures from hefty raw material costs, price competition by enacting carefully thought of its short-/mid- to long-term business strategies. The Group will also actively pursue new products research and new markets penetration to remain competitive and continues to raise profit.

2. 彈性調整糖源作為生產原料，降低生產成本。
3. 加速新產品的應用技術開發，創造附加價值，提升銷售量。
4. 繼續各項糖源替代案的開發，掌握生產原料的穩定供應。

財務

1. 嚴格控制現金流量，加強存貨管理，注意資本支出效益，提高資產運用效率及流動比率。
2. 改進應付／應收帳款效率，提高資金運用效益。多元化資金來源，降低借款金額及資金成本。
3. 原料採購更加靈活、多元化，以降低原材料成本，繼續管制行銷、管理及財務費用，減少不必要支出。

雖然面臨挑戰和競爭，但在集團短中長期靈活策略下，管理層將穩健地逐步克服原料高漲，價格競爭。同時對於新產品，新市場開拓將更積極投入，以確保集團競爭優勢，並提高獲利。