VEDAN INTERNATIONAL

# VEDAN INTERNATIONAL (HOLDINGS) LIMITED

# 味丹國際（控股）有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 2317)**

## RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

**RESULTS**

The Board of Directors of Vedan International (Holdings) Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005, together with the comparative figures for the previous year as follows:

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

| | Note | 2005 US$'000 | 2004 US$'000 |
|---|---|---|---|
| Turnover | 2 | **257,904** | 224,976 |
| Cost of sales | | **(213,460)** | (160,204) |
| Gross profit | | **44,444** | 64,772 |
| Other gains – net | 2 | **3,212** | 825 |
| Selling and distribution expenses | | **(15,555)** | (16,575) |
| Administrative expenses | | **(17,584)** | (17,223) |
| Operating profit | 3 | **14,517** | 31,799 |
| Finance costs | 4 | **(4,277)** | (1,912) |
| Profit before taxation | | **10,240** | 29,887 |
| Taxation | 5 | **(2,293)** | (5,553) |
| Profit for the year and attributable to equity holders of the Company | | **7,947** | 24,334 |
| Dividends | 6 | **4,768** | 14,600 |
| Basic earnings per share (US cents) | 7 | **0.52** | 1.61 |
| Diluted earnings per share (US cents) | 7 | **0.52** | 1.58 |

**CONSOLIDATED BALANCE SHEET**
*AS AT 31 DECEMBER 2005*

| | Note | 2005 US$'000 | Restated 2004 US$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Non-current assets | | | |
| Land use rights | | **5,583** | 225 |
| Property, plant and equipment | | **216,187** | 213,849 |
| Intangible assets | | **19,241** | 6,859 |
| Held-to-maturity investments | | **3,361** | – |
| | | **244,372** | 220,933 |
| Current assets | | | |
| Trade receivables | 8 | **35,829** | 31,104 |
| Inventories | | **51,993** | 45,248 |
| Prepayments and other receivables | | **6,287** | 6,792 |
| Tax recoverable | | **1,272** | – |
| Bank balances and cash | | **27,987** | 33,192 |
| Due from a minority shareholder | | **3,600** | – |
| | | **126,968** | 116,336 |
| Total assets | | **371,340** | 337,269 |
| **EQUITY** | | | |
| Capital and reserves attributable to the Company's equity holders | | | |
| Share capital | | **15,228** | 15,228 |
| Reserves | | | |
| – Proposed final dividend | | **1,708** | 6,895 |
| – Others | | **216,119** | 212,398 |
| | | **233,055** | 234,521 |
| Minority interest | | **3,600** | – |
| Total equity | | **236,655** | 234,521 |
| **LIABILITIES** | | | |
| Non-current liabilities | | | |
| Long-term bank borrowings | | **29,706** | 25,743 |
| Deferred taxation | | **12,026** | 12,059 |
| Long-term payable to a related party | | **12,560** | – |
| | | **54,292** | 37,802 |
| Current liabilities | | | |
| Trade payables | 9 | **18,520** | 10,251 |
| Accruals and other payables | | **11,578** | 12,978 |
| Due to related parties | | **274** | 193 |
| Short-term bank borrowings | | | |
| – Secured | | **500** | 9,374 |
| – Unsecured | | **41,101** | 23,523 |
| Current portion of long-term bank borrowings | | **8,346** | 8,235 |
| Taxation payable | | **74** | 392 |
| | | **80,393** | 64,946 |
| Total liabilities | | **134,685** | 102,748 |
| Total equity and liabilities | | **371,340** | 337,269 |
| Net current assets | | **46,575** | 51,390 |
| Total assets less current liabilities | | **290,947** | 272,323 |

*Notes:*

**1 BASIS OF PREPARATION**

The consolidated financial statements of Vedan International (Holdings) Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

In 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The comparatives have been amended as required, in accordance with the relevant requirements.

The adoption of new/revised HKFRS

| | |
|---|---|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 2 | Inventories |
| HKAS 7 | Cash Flow Statement |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date |
| HKAS 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates |
| HKAS 23 | Borrowing Costs |
| HKAS 24 | Related Party Disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements |
| HKAS 32 | Financial Instruments: Disclosures and Presentation |
| HKAS 33 | Earnings per share |
| HKAS 36 | Impairment of Assets |
| HKAS 38 | Intangible Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKFRS 2 | Share-based Payments |
| HKFRS 3 | Business combinations |

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27 and 33 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of the consolidated financial statements.
- HKASs 2, 7, 8, 10, 16, 23, 27 and 33 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKAS 32 and 39 has resulted in the following changes:

- Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. In prior years, they are carried at cost less provision for doubtful debts. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.
- Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings were previously carried at cost.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the income statement. Effective on 1 January 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7 November 2002 and had vested before 1 January 2005 was not expensed retrospectively in the income statement of the respective periods.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

- Amortised on a straight-line basis over the economic useful life; and
- Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- The Group ceased amortisation of goodwill from 1 January 2005;
- Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill; and
- From the year ended 31 December 2005 and onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment has resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards, where applicable. All standards adopted by the Group require retrospective application other than:

- HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and
- HKFRS 3 – prospectively after the adoption date.

The adoption of revised HKAS 17 resulted in:

| | As at 31 December 2005 US$'000 | As at 1 January 2005 US$'000 |
|---|---|---|
| Decrease in property, plant and equipment | **(5,583)** | (225) |
| Increase in land use rights | **5,583** | 225 |

The adoption of revised HKFRS 3 and HKAS 38 resulted in:

| | As at 31 December 2005 US$'000 |
|---|---|
| Increase in intangible assets | **430** |
| Increase in retained earnings | **430** |

| | For the year ended 31 December 2005 US$'000 |
|---|---|
| Decrease in administrative expenses | **(430)** |
| Increase in earnings per share (US cents) | **0.03** |
| Increase in diluted earnings per share (US cents) | **0.03** |

No early adoption of the following new Standards or Interpretations that have been issued but are not yet effective. The adoption of such Standards or Interpretations will not result in substantial changes to the Group's accounting policies.

| | |
|---|---|
| HKAS 19 (Amendment) | Actuarial Gains and Losses, Group Plans and Disclosures |
| HKFRS 6 | Exploration for and Evaluation of Mineral Resources |
| HKFRS-Int 3 | Emission Rights |
| HKFRS-Int 4 | Determining whether an Arrangement contains A Lease |
| HKFRS-Int 5 | Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds |

**2 TURNOVER AND OTHER GAINS – NET**

The Group is principally engaged in the manufacture and sale of fermentation-based food additives and biochemical products and cassava starch-based industrial products including MSG, modified starch, glucose syrup, soda, acid, seasonings and beverages. Turnover recognised for the years ended 31 December 2005 and 2004 is US$257,904,000 and US$224,976,000 respectively.

| **Other gains – net** | 2005 US$'000 | 2004 US$'000 |
|---|---|---|
| Net exchange gains/(loss) | **73** | (329) |
| Net loss from sale of electricity | **(175)** | (247) |
| Loss on disposal of property, plant and equipment | **(395)** | (458) |
| Sale of scrap materials | **406** | 282 |
| Interest income | **494** | 359 |
| Operating lease rental income | **264** | – |
| Gain on waiver of amounts due to related parties | **–** | 291 |
| Tax refund on reinvestment | **1,231** | – |
| Others | **1,314** | 927 |
| | **3,212** | 825 |

**3 EXPENSES BY NATURE**

Expenses included in cost of sales, selling and distribution expenses and administrative expenses are analysed as follows:

| | 2005 US$'000 | 2004 US$'000 |
|---|---|---|
| Cost of inventories | **213,460** | 160,204 |
| Amortisation of goodwill (included in administrative expenses) | **–** | 238 |
| Amortisation of trademark (included in administrative expenses) | **1,007** | – |
| Amortisation of land use rights | **24** | 8 |
| Auditors' remuneration | **208** | 188 |
| Depreciation on property, plant and equipment | **25,267** | 23,416 |
| Operating leases expense in respect of land | **119** | 113 |
| Staff costs (including directors' remuneration) | **11,765** | 12,292 |

**4 FINANCE COSTS**

| | 2005 US$'000 | 2004 US$'000 |
|---|---|---|
| Interest on bank borrowings | **3,806** | 1,912 |
| Amortised cost on long-term payable to a related party | **471** | – |
| | **4,277** | 1,912 |

**5 TAXATION**

The amount of taxation charged to the consolidated income statements represents:

| | 2005 US$'000 | 2004 US$'000 |
|---|---|---|
| Enterprise income tax ("EIT") | **2,326** | 5,074 |
| Deferred income tax | **(33)** | 479 |
| | **2,293** | 5,553 |

(i) Vietnam

EIT is provided on the basis of the statutory profit for financial reporting purposes, adjusted for income and expenses items which are not assessable or deductible for income tax purposes. The applicable EIT rate for the Group's operation in Vietnam range from 10% to 20%, as stipulated in the respective subsidiaries' investment licenses.

(ii) The PRC

EIT is provided on the basis of the statutory profit for financial reporting purposes, adjusted for income and expenses items which are not assessable or deductible for income tax purposes. The applicable EIT rate for the Group's operation in the PRC range from 18% to 27%.

(iii) Singapore/Hong Kong

No Singapore/Hong Kong profits tax has been provided as the Group had no estimated assessable profit arising in or derived from Singapore and Hong Kong during the year.

(iv) Taiwan

EIT is provided on the basis of the statutory profit for financial reporting purposes, adjusted for income and expenses items which are not assessable or deductible for income tax purposes. The applicable EIT rate for the Group's operation in Taiwan is 25%.

**6 DIVIDENDS**

| | 2005 US$'000 | 2004 US$'000 |
|---|---|---|
| 2005 Interim dividend of 0.201 US cents (2004: 0.506 US cents) per ordinary share, paid | **3,060** | 7,705 |
| 2005 Final dividend of 0.112 US cents (2004: 0.453 US cents) per ordinary share, proposed | **1,708** | 6,895 |
| | **4,768** | 14,600 |

**7 EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of US$7,947,000 (2004: US$24,334,000) by 1,522,742,000 (2004: 1,514,746,356) ordinary shares in issue during the year.

Diluted earnings per share is calculated adjusting the number of ordinary shares outstanding to assume conversion of all share options. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the pre-IPO share options.

| | 2005 US$'000 | 2004 US$'000 |
|---|---|---|
| Profit attributable to equity holders of the Company | **7,947** | 24,334 |
| Weighted average number of ordinary shares in issue (thousands) | **1,522,742** | 1,514,746 |
| Adjustments for outstanding share options (thousands) | **5,701** | 26,496 |
| Weighted average number of ordinary shares for diluted earnings per share (thousands) | **1,528,443** | 1,541,242 |
| Diluted earnings per share (US cent per share) | **0.52** | 1.58 |

**8 TRADE RECEIVABLES**

| | 2005 US$'000 | 2004 US$'000 |
|---|---|---|
| Trade receivables from third parties | **34,035** | 27,053 |
| Less: provision for impairment of receivables | **(493)** | (491) |
| Trade receivables from third parties – net | **33,542** | 26,562 |
| Trade receivables from related parties | **2,287** | 4,542 |
| | **35,829** | 31,104 |

The credit terms of trade receivables range from cash on delivery to 120 days and the ageing analysis of the trade receivables is as follows:

| | 2005 US$'000 | 2004 US$'000 |
|---|---|---|
| Current | **23,063** | 16,451 |
| 30 – 90 days | **11,760** | 10,935 |
| 91 – 180 days | **305** | 1,447 |
| 181 – 365 days | **60** | 2,271 |
| Over 365 days | **641** | – |
| | **35,829** | 31,104 |

**9 TRADE PAYABLES**

The ageing analysis of trade payable is as follows:

| | 2005 US$'000 | 2004 US$'000 |
|---|---|---|
| Current | **18,161** | 7,979 |
| 30 – 90 days | **359** | 2,238 |
| 91 – 180 days | **–** | – |
| 181 – 365 days | **–** | 34 |
| | **18,520** | 10,251 |

**10 SEGMENTAL ANALYSIS**

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

**(a) Business segment**

The Group has been operating in one single business segment, i.e. the manufacture and sale of fermentation-based food additives and biochemical products and cassava starch-based industrial products including modified starch, glucose syrup, MSG, soda and acid, seasonings and beverages.

**(b) Geographical segment**

In presenting information on the basis of geographical segments, segment revenue is based on the geographical presence of customers. Segment assets and capital expenditures are based on the geographical location of the assets.

*(i) Segment revenue*

| | 2005 US$'000 | 2004 US$'000 |
|---|---|---|
| Vietnam | **138,842** | 126,712 |
| The PRC | **38,867** | 29,490 |
| Japan | **52,778** | 49,288 |
| Taiwan | **3,353** | 2,826 |
| ASEAN countries (other than Vietnam) | **14,119** | 9,158 |
| Other regions | **9,945** | 7,502 |
| | **257,904** | 224,976 |

*(ii) Capital expenditures*

| | 2005 US$'000 | 2004 US$'000 |
|---|---|---|
| Vietnam | **29,951** | 33,367 |
| The PRC | **10,269** | 7,615 |
| | **40,220** | 40,982 |

Capital expenditures are allocated based on where the assets are located.

Capital expenditures comprise additions to leasehold land and land use rights, property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combinations.

*(iii) Total assets*

| | 2005 US$'000 | 2004 US$'000 |
|---|---|---|
| Vietnam | **298,818** | 293,430 |
| Hong Kong | **12,461** | 2,926 |
| Taiwan | **1,571** | 1,390 |
| The PRC | **58,425** | 38,805 |
| Singapore | **65** | 718 |
| | **371,340** | 337,269 |

Total assets are allocated based on where the assets are located.

## BUSINESS OVERVIEW

The Group's turnover has been growing consistently since 2002 and 2005 was no exception. Total turnover of the Group increased to US$257,904,000, approximately 14.6% higher than in the same period last year. Turnover from the Vietnam operations grew by approximately 11.1% to US$221,620,000, and turnover from the China operations (Xiamen Mao Tai and Shanghai Vedan) surged a remarkable 42.1% to US$36,284,000. Our notable turnover growth had forceful drives – the expanded production capacities of our MSG and modified starch facilities in Vietnam and the completion of the Shanghai Vedan Foods acquisition. As for individual products, MSG, GA and modified starch products delivered growth of 19.4%, 59.5% and 55.9% respectively.

However, affected by rising raw material costs, including that of molasses, cassava and liquid ammonia and the continuous price slip of lysine, which started in the second half of 2004, the Group's profit shrunk in 2005. With raw materials costs persistently high and lysine price suppressed, the Group began to strategically reduce lysine production in the second half of the year and increase GA output. Turnover of our lysine business thus decreased by approximately 37.5%. Also to address the adverse cost situations and mitigate profit slide, the Group gradually adjusted the sales price of its products starting in the middle of the year to reflect the rising costs, lifting prices substantially in the fourth quarter. It is worthy of mention though raising sales price did not affect the Group's turnover growth. Meanwhile, the contribution from hydrochloric acid and caustic soda saw substantial growth of 40.1% and 79.6% respectively after their production capacities were enlarged.

Adhering to the Group's corporate development strategy, which is to make suitable acquisitions and investment that can lead to business expansion, assure stable supply of competitive raw materials and increase the production of high value added products, the Group acquired the Ve-Thai Tapioca-Starch Co., Ltd. in Vietnam in November 2005 and formed a JV Company with Shandong Xue Hua Bio-chemical Co., Ltd. in December to produce GA and MSG. The founding of the JV company in Shandong especially is a major step forward for the Group in expanding its business in China. The Group also launched its high value-added seasoning in Vietnam in September and the market responded with great enthusiasm. The construction of the $\gamma$-PGA plant is well underway and is scheduled to complete in the second quarter of 2006. This new plant will make further contribution to the Group's operating turnover and profit.

**FINANCIAL REVIEW**

**(1) Cash Flow and Financial Resources**

As at 31 December 2005, the Group's cash and bank savings amounted to US$27,987,000, decreased by US$5,205,000 from that as at the end of 2004. Our bank loans increased by US$12,778,000 to US$79,653,000, mainly due to the capital expenditures incurred for the Group's acquisition, strategic alliances and production capacity expansion. As a result, current ratio of the Group was maintained at 1.58, substantially lower than the 1.79 level last year. All of our bank loans were denominated in US dollar. The cost of total bank loans during the year was 4.9%, which was higher than the 3.2% in 2004. This was mainly attributable to the several rounds of interest rate increase announced by the Federal Reserve Bank of the U.S during the year. The ratio of medium- to long-term loans and short-term loans was 37% to 63%. The Group's gearing ratio was 33.7% and net gearing ratio was 21.8%.

**(2) Capital Expenditure**

In 2005, the Group spent about US$16,700,000 in the purchase of new equipment and investment in engineering in Vietnam and about US$3,330,000 in the acquisition of Ve-Thai Tapioca-Starch Co., Ltd. The Group also invested US$8,400,000 in the establishment of Shandong Vedan Snowflake Enterprise Co., Ltd. in the PRC, which is expected to commence operation in April 2006.

The Group has earmarked about US$18,800,000 as capital expenditure for 2006, which will be spent mainly on addition of a new starch factory in Ha Tinh province in Vietnam, additional equipment for PGA plant, purchasing more equipment for the MSG plants, setting up the high value added seasonings factory in Shanghai, purchasing equipment for by-product processing plant and building staff dormitory, etc.

**(3) Exchange Rate**

The majority of the Group's transactions are conducted in US dollar, Vietnamese Dong and RMB. The exchange rate between the Vietnamese Dong and the US dollar remained stable in 2005; the depreciation rate of Dong against US dollar for the year was about 0.85%. The Group watched closely the fluctuation of the Dong and was not affected significantly by it during the year. In addition, after the announcement of the new RMB exchange rate mechanism by the People's Bank of China in July 2005, the RMB appreciated 2% against the US dollar and was allowed to fluctuate within the range of 0.6%. Besides, instead of following the US dollar closely, the exchange rate of RMB will float within a limited range taking reference of various foreign currencies. As operation in the PRC is dominated by domestic sales and the Group will forge ahead with localization of material procurement in the future, appreciation of the RMB is not expected to pose major impact on the Group. However, the Group will continue to watch closely the development of the exchange rate between the US dollar and the RMB.

**(4) Dividend**

The basic earnings per share for the period were 0.52 US cents. The Board recommended the payment of a total dividend of 0.313 US cents per share for the year ended 31 December 2005. Accordingly, dividend ratio for 2005 was about 60%, same as in 2003 and 2004. An interim dividend of 0.201 US cents per share was distributed and the proposed final dividend was 0.112 US cents per share, totaling US$4,768,000.

**PROSPECTS**

Our major production bases and markets – China and Vietnam – have consistently boasted the fastest economic growth among other countries in the world in the past few years. Their GDP growth in 2005 was 9.9% and 8.4% respectively. Despite that global economic growth in 2006 is expected to slow down slightly, China and Vietnam are still forecasted to growth both at a robust 8%. Against this favourable backdrop, the Group expects continuous high turnover growth. As for the price of molasses and lysine, the former has shown signs of stabilizing in 2006 though it is expected to stay high at a level similar to that in 2005, and the latter is not expected to rebound soon. Heeding all the different factors and circumstances, the Group has formulated comprehensive plans to increase profit and support long-term development.

**Short-term plans:**

1. Continue to increase the sales price of products to offset partially higher material costs. Increase sales of MSG retail packs which have higher margin . Adopt different pricing strategies for different regions and enlarge market share in second and third tier cities. As for its modified starch business, the Group will increase the production of product items which require higher technical input but have higher profit margins, especially modified starch for food applications.
2. Adopt flexible production strategies to convert part of the lysine production lines into producing MSG products, with the aim of improving the Group's overall profitability.
3. Continue to improve fermentation technology to enhance the efficiency of productivity, and lower production costs.
4. The establishment of Shandong Vedan Snowflake Enterprise Co., Ltd. will help secure stable supply of GA and MSG for the Group in the PRC, and in turn aid development and increase the profitability of Shanghai Vedan and Xiamen Mao Tai.
5. Further promote the high value-added seasonings business. Expand the scale of production in Vietnam and add new production facilities in Shanghai Vedan to improve the performance of the food seasonings business.
6. Implement strict control on administrative and management expenses and reduce other unnecessary expenses; enhance operational efficiency; reduce capital expenditure and financial costs.
7. Continue to seek acquisition and strategic alliances opportunities. Look for highly complementary strategic alliances and acquisition opportunities in the Southeast Asia and the PRC to expand market distribution channels and enhance brand value.

**Middle- to long-term plans:**

1. Continue to search and develop new sources of carbohydrates such as rice starch, rice protein and tropical sugar beet. The last in particular has already been shown promising preliminary results. The Group will continue to expand the scale of cultivation of tropical sugar beet in the second half of 2006 to mirror the Group's efforts in the area.
2. Expand the source of cassava starch. The acquisition of Ve-Yu starch factory in Gia Lai province in Vietnam is completed and the first phase of the construction of the planned new starch factory in Ha Tinh province is scheduled to complete in later part of 2006 or early part of 2007. These developments plus the expanded purchase of cassava in neighboring Cambodia by the existing factories in Phuoc Long province will see the costs of cassava lower and assure its stable supply for the Group.
3. Develop starch related products as another core business. After the Group established a technical research centre in the second half of 2004, both the unit price and volume of the Group's starch products increased remarkably. The Group will continue to focus on the development of the PRC, Japan and Taiwan markets in the coming years to expand its business.
4. The construction of the $\gamma$-PGA plant is scheduled to complete in the second quarter of 2006. This new plant will mark the breakthrough and advancement of the Group's many years' efforts and achievement in amino acids fermentation technology and product development. It will also help to widen the Group's product mix and add value to the products.

Overall, we are optimistic about the basic market environment and the continued strong demand for the Group's products. As long as we are able to remain competitive in our core business, fully taking advantage of the production capabilities of our core products, improving control on raw material supply, expanding new products business and consolidate our market channels in the PRC, we expect our operational performance will improve steadily in 2006. Supported by our solid foundation and innovation, we are confident that we can triumph over uncertainties in the market and create new and more exciting prospects for our operations.

**EMPLOYEE COMPENSATION AND TRAINING**

As at 31 December 2005, the Group had a total of 3,079 employees (2004: 2,818 employees), of whom 2,429 were employed by Vietnam Vedan, 193 employed by Orsan Complex in Vietnam, and 23 employed by Ve-Yu Starch factory in Vietnam, 252 by Xiamen Mao Tai Company and 167 by Shanghai Vedan in China, and 15 by the Taiwan Branch.

The Group's employees are remunerated in accordance with prevailing industry practices, the financial performance of the Group and the work performance of employees. Other fringe benefits such as residential insurance, medical benefits and provident fund are provided to employees to ensure both their competitiveness and loyalty. To raise work quality and management abilities of its employees, and to accelerate localization and computerization of operation policies, the Group provides job rotation, in-house training and external training courses to employees.

**PURCHASE, SALE OR REDEMPTION OF SHARES**

During the year, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed shares.

**STATEMENT OF CORPORATE GOVERNANCE POLICY**

The Directors is strongly committed to enhancing corporate governance. The Directors aims to continually review and enhance corporate governance practices of the Group.

Throughout the year, the company was in compliance with the applicable code provisions of the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange.

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors of the Company. In the opinion of the Board, the Company has complied with the code and upon specific enquiry of all the directors is not aware of any non-compliance with the Model Code throughout the fiscal year ended 31 December 2005.

The Company has received, from each of the independent non-executive directors, a confirmation of his independence pursuant to Rules 3.13 of the Listing Rules. The Company considers all the independent non-executive directors are independent.

In compliance with Rule 3.21 of the Listing Rules the Company has established an audit committee to review the financial reporting procedures and internal control and provides guidance thereto. The audit committee of the Company comprises four non-executive directors, three of whom are independent. The annual results have been reviewed by the Audit Committee.

**FINAL DIVIDEND**

The Directors have resolved to recommend the payment of a final dividend of 0.112 US cents (2004: 0.453 US cents) per share for the year ended 31 December 2005 at the forthcoming Annual General Meeting to be held on 9 May 2006. The final dividend amounting to US$1,708,000, if approved by shareholders, is expected to be paid on or about 1 June 2006 to those shareholders whose names appear on the Register of Members on 12 May 2006.

**CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 16 May 2006 to 19 May 2006, both days inclusive, during which period no transfer of shares can be registered. To qualify for the final dividend (which will be payable on or about 1 June 2006) to be approved at the forthcoming Annual General meeting, shareholders must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tengis Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong, no later than 4:00 p.m. on 12 May 2006.

**PUBLISHMENT OF RESULTS ON THE STOCK EXCHANGE'S WEBSITE**

The Company's annual report containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website at www.hkex.com.hk and the Company's website at www.vedaninternational.com in due course.

**ACKNOWLEDGEMENT**

The Directors would like to take this opportunity to express our sincere thanks to all customers and shareholders for their support and to our staff for their commitment and diligence during the year.

**GENERAL INFORMATION**

As at the date of this announcement, our Board comprises of the following Directors:–

***Executive Directors:–***
YANG, Tou-Hsiung
YANG, Cheng
YANG, Kun-Hsiang
YANG, Chen-Wen
WANG, Joel J.

***Non-executive Directors:–***
HUANG, Ching-Jung
LAM, Tuan

***Independent non-executive Directors:–***
CHAO, Pei-Hong
CHUANG, Shu-Fen
KO, Jim Chen

By Order of the Board
**YANG, KUN-HSIANG**
*Director and CEO*

Hong Kong, 22 March 2006