

# Standing Out in a Specialized Industry

投注於專門產業中的佼佼者





As a successful long-term player in a market with significant entry barriers, Vedan International has distinct competitive advantages that add real value to its products. With advanced expertise in large-scale fermentation technology, starch processing conversion technology and chemical and electro-chemical technology, Vedan International is developing new products which represent the latest breakthroughs in industrial science and look set to be major profit drivers in the future.

味丹國際所從事的產業入行屏障高，而集團能長期屹立其中，是因為本身獨特的競爭優勢能附加真正的價值於產品中。擁有大規模之醱酵、澱粉加工轉換、化學和電解化學等先進技術，味丹國際能不斷發展突破產業科學的新產品，為未來盈利創造強勁的動力。



# Management Discussion and Analysis

## 管理層討論與分析

### Business Overview

To most enterprises, 2004 was a year ridden with challenges. Price hikes prompted by escalating oil price cast a shadow over the global economy. The domestic price index in Vietnam rose an overall 9.5% during the year, but for certain agricultural and industrial raw materials, prices soared at least 30%, some even over 50%. Rises of such magnitude have been rare in the past decade. In the first half of 2004, bird flu broke out in certain regions in Vietnam, seriously affecting some industries. However, thanks to the appropriate measures taken by the government and the Group's stringent controls, our operations had not been seriously affected.

In PRC, to curb the overheated economy, the government implemented a series of macro-economic control measures, which aims were to slow down growth of inappropriate investments on the one hand and step up production of food and agricultural production on the other. Economic growth was effectively maintained at about 9.5%, and inflation was cramped. However, due to the strong demand for food and agricultural products, their prices surged, resulting in persistent high price levels of certain agricultural raw materials, including rice and corn. Prices of other raw materials, including some chemicals, coal and oil, also rose 20% to 40%, as a result of the higher oil price. This precipitated in substantial rise in the overall production costs of our Xiamen plant.

As for the performance of the Group in 2004, its operating revenue reached US\$224,976,000, up 10.4% from the total turnover of US\$203,797,000 in 2003. Gross profit was US\$64,772,000, a 18.6% growth over that of 2003. Gross profit margin increased from 26.8% in 2003 to 28.8% in 2004. Net profit rose from US\$22,079,000 in 2003 to US\$24,334,000, up 10.2%, while net profit margin was maintained at 10.8%, same as 2003. Basic earnings per share was US1.61 cents.

The growth in total turnover benefited mainly from the acquisition of the MSG business of Shanghai Vedan Foods and the growth in sales of Vietnam Vedan. The plant expansion works carried out in 2004, which increased the Group's capital expenditure, was mostly completed in December 2004, about one month behind schedule. The escalating prices and limited supplies of construction materials were responsible for the delay. Some of the works had to be postponed to 2005. As a result, related contribution to operating revenue is not fully reflected in the 2004 results.

### 業務總覽

對大部份企業來說，二零零四年是充滿挑戰的一年，全球經濟籠罩在國際油價高漲所帶動的物價上漲陰影中。越南的國內物價指數全年上升了約9.5%，但一些農工業原料方面，價格上漲卻超過了至少30%，有些甚至超過50%，這是近十年來所少見的現象。二零零四年上半年，在越南部份地區更爆發禽流感事件，使部份產業受到嚴重影響。但因政府的適當政策措施以及集團本身的嚴密管制，事件對集團的營運並沒有造成太大傷害。

在中國方面，由於經濟過熱，政府採取了一系列宏觀調控的措施，一方面防止投資過快增長，另一方面則加強糧食和農業生產，終將經濟成長抑制在9.5%左右，達到一定程度的效果，並且通貨膨脹也受到控制。但由於農產米糧需求，致使價格突升，造成部份生產所需的農產品原料，包括大米和玉米價格居高不下。其他原料包括一些化學品以及燃油和燃煤方面的價格，也受到油價上漲影響而上升了20至40%，造成集團廈門廠的整體生產成本也大幅度上揚。

綜合二零零四年的業績表現，集團營收達到224,976,000美元，較二零零三年的203,797,000美元總營業額增加了10.4%，毛利是64,772,000美元，比二零零三年增加了18.6%，毛利率則由二零零三年的26.8%，提升到二零零四年的28.8%。純利方面則由二零零三年的22,079,000美元，提升到24,334,000美元，也增加了10.2%，純利率則維持在10.8%，和二零零三年比較，沒有太大變化。每股基本盈利為1.61美仙。

在總營業額的成長方面，主要來自上海味丹食品的味精業務併購以及越南味丹本身的銷售成長，集團在二零零四年增加資本財支出所進行的擴廠工程，由於建材等價格高漲，供應緊張，在二零零四年十二月才陸續完成，進度比預期慢了約一個月，部份工程更要到二零零五年才能完成，因此有關的營收貢獻並未能反映於二零零四年的業績。至於盈利方面，由於受到幾個大因素的影響，並沒有如預期的理想，這些不利因



As for profit, it was lower than anticipated as a result of factors including the rapid price slip of lysine in the second half year; the overhaul of the co-generation power plant which led to a month-long suspension; the rise in prices of raw materials; packaging materials and transportation costs; the fluctuation of commodity prices and the increase in administrative costs.

素包括：下半年賴氨酸價格的急速下滑，汽電廠停廠約一個月進行大修，原料、包材、運費上漲以及物價波動影響和行政費用增加等。

## Business Analysis

### (1) Sales Analysis

- Geographically, all the major markets recorded growth in 2004 except Taiwan. The most notable growth was seen at 36.3% in the PRC, 61.1% in the ASEAN countries (excluding Vietnam), and 67.8% in European regions. The Taiwan market however recorded a 51.8% drop.

## 經營分析

### (一) 業務銷售分析

- 二零零四年的業務銷售，以地區來說，除台灣以外，其餘主要市場均錄得增長。其中成長最快的地區，包括中國市場成長了36.3%，東盟國家市場(越南除外)成長了61.1%，而歐洲地區更成長了67.8%，台灣則下降51.8%。

Table 1: Comparison of Sales In Various Regions

表一：各地區銷售的比較

		2004		2003		Change 增減
Vietnam	越南	126,712	56.3%	119,041	58.4%	6.4%
PRC	中國	29,490	13.1%	21,644	10.6%	36.3%
Japan	日本	49,288	21.9%	46,627	22.9%	5.7%
Taiwan	台灣	2,826	1.2%	5,857	2.9%	-51.8%
ASEAN	東盟國家	9,158	4.1%	5,686	2.8%	61.1%
Europe	歐洲	5,330	2.4%	3,176	1.5%	67.8%
Others	其他地區	2,172	1.0%	1,766	0.9%	23.0%

Unit: US\$'000

單位：千美元

The PRC market grew primarily as a result of the acquisition of the MSG business of Shanghai Vedan Foods. The Group acquired Shanghai Vedan's MSG business in July 2004, by setting up Shanghai Vedan Enterprise Company Limited.

中國市場成長的主要原因，來自於上海味丹食品的味精業務併購。集團於二零零四年七月設立上海味丹企業有限公司以併購上海味丹食品有限公司的味精業務。

As for the ASEAN market with a total population of near 500 million, it has been a key focus of the Group in the past two years. The Group's hard work in 2003 bore fruit with a turnover growth of 22%. In 2004, growth continued to soar reaching 61.1%. The Group hopes to maintain this high rate of growth in the market in future. Meanwhile, Europe also registered a remarkable 67.8% growth in turnover, from increased sales of both MSG and modified starch.

Vietnam and Japan are the Group's two major markets. In 2004, they also maintained steady growth. In Vietnam, both sales volume and turnover increased. In Japan, the turnover grew mainly due to the increase in the price of lysine while the sales volume was maintained at a good level.

Turnover in the Taiwan market dropped 51.8%, due mainly to the lowering of connected transaction as required by the Stock Exchange of Hong Kong. The result was in line with the Group's policy.

2. In terms of product categories, all products saw growth in 2004, except GA. MSG, the Group's core product, grew 11.2%; lysine 18.6%, starch products 12.9%, and specialty chemicals also grew 25.2%.

東盟國家是集團在近兩年來積極開發、擁有將近5億人口的重要市場。集團在二零零三年的努力已有成果，營業額成長了22%，而在二零零四年，更大幅度成長了61.1%。未來，集團希望能於此市場繼續保持高幅度的成長。歐洲地區方面，也有相當不錯的成長，增加幅度達67.8%，不只味精銷售有成長，化工澱粉方面也有很大的成長。

越南和日本是集團的兩大重要市場，在二零零四年，也維持穩定的小幅度成長。在越南方面，銷售量和營業額都有成長。在日本方面，成長主要是因為賴氨酸價格的增加，銷售數量方面則維持一定水平。

台灣市場營業額降低51.8%，則是因應香港聯交所規定降低關連交易之要求，其結果符合集團政策。

2. 如以集團的產品項目來做分析，集團各產品除了谷氨酸之外，在二零零四年都有成長。集團的核心產品味精，成長了11.2%，賴氨酸成長了18.6%，澱粉產品成長了12.9%，而特用化學產品方面，也增加了25.2%。

Table 2: Comparison of Sales In Various Products

表二：各項產品銷售額的比較

		2004		2003		Change 增減
		Unit: US\$'000 單位：千美元				
MSG	味精	156,320	69.5%	140,585	69.0%	11.2%
GA	谷氨酸	9,471	4.2%	12,689	6.2%	-25.4%
Lysine	賴氨酸	32,533	14.4%	27,423	13.5%	18.6%
Starch products	澱粉產品	14,736	6.6%	13,053	6.4%	12.9%
Raw starch	生澱粉	4,906		8,819		-44.4%
Modified starch	化工澱粉	9,830		4,234		132.2%
Specialty chemicals	特用化學品	6,837	3.0%	5,460	2.7%	25.2%
Beverage	飲料	2,141	1.0%	2,165	1.0%	-1.1%
Others	其他	2,938	1.3%	2,422	1.2%	21.3%
Total	總計	224,976		203,797		10.4%



Sales of MSG grew 6% in the Vietnamese market, with a population of over 80 million. The rising standard of living in the country prompting growth of its food processing industry explained the growth. The PRC market registered a significant 22% growth of MSG sales as a result of the acquisition of MSG business from Shanghai Vedan Foods Company Limited. The lysine business grew 18.6%, mainly because the price of the product peaked in first half 2004, driving up the average unit price and thus the turnover. The turnover of starch products grew 12.9%. As the gross profit margin of raw starch was relatively low, the Group strategically reduced its sales and directed its focus on the modified starch market, which commands a higher gross profit margin. As a result, while the turnover of raw starch dropped 44.4%, that of modified starch soared 132.2%. The Group has plans to further enhance the production and sale of modified starch so as to maintain the remarkable growth of the product segment. With the progressive industrialization and modernization of Vietnam, the demand for specialty chemicals has been growing consistently, fuelling the steady growth in the sales of the products. This segment grew 25.2% in 2004. The turnover of GA, agreeing with the Group's strategy, continued to decline. As the gross profit for GA was lower than that for MSG, and the MSG market is expanding continuously, other than catering for the demand of some important clients, the Group has been reducing GA production and increasing MSG production to meet market demand and boost profit.

## (2) Production Operations Analysis

### 1 Progress of the production expansion project

To meet the strong demands for its various products, the Group started in late 2003 to plan the expansion of its production facilities, and related works started in early 2004. Although a global shortage of steel plates in 2004 led to soaring prices which in turn affected the progress of the works and adding slightly to the Group's capital expenditure, however, with the hard work of the project team, the expansion works were completed and successfully started-up in December 2004. Works undertaken included:

- (1) Installing an additional 20,000-ton production line for 100% soda and hydrochloric acid: Apart from meeting increased internal demand for GA and MSG productions, the Group sold all remainder to the Vietnamese domestic market.

在味精銷售方面，越南市場由於生活水平提升，食品加工產業增加，致使此擁有8,000多萬人口的市場成長了6%。中國市場則因併購上海味丹食品有限公司之味精業務，而有較大幅度成長，約增加了22%的味精銷售。賴氨酸業務方面則成長了18.6%，主要由於二零零四年上半年的售價是幾年來最高水準，致使平均單價比二零零三年高，而使營業額提升。澱粉產品的營業額則成長了12.9%，其中生澱粉部份，因其毛利率較低，集團策略性地減少銷售量，轉而集中搶攻毛利率較高的化工澱粉市場，因此，雖然生澱粉的營業額下降了44.4%，但化工澱粉的營業額卻大幅上升了132.2%。目前，集團已有計劃繼續在化工澱粉方面，加強生產與投入行銷工作，以保持大幅度成長。特用化學品方面，隨著越南國內逐漸工業化與現代化，需求量持續有所增長，致使集團的特用化學品銷售每年維持成長，二零零四年再成長了25.2%。另一方面，谷氨酸的營業額持續下降，這完全符合集團的政策，由於谷氨酸的毛利率比味精低，而味精的市場需求也不斷的增加，因此，除一些重要客戶外，集團盡量降低谷氨酸的生產量，轉而提升味精的生產量，一方面應付市場的需求，另一方面也可提高利潤。

## (二) 生產經營分析

### 1 生產擴建工程的進度

由於集團各項產品的市場需求強勁，因此在二零零三年底，集團即著手規劃各項工程的擴建計劃，並於二零零四年初開始施工。雖然二零零四年出現國際性的鋼板貨源短缺，價格飛漲，導致部份工程進度受到影響，也使資本支出略為增加。然而，經過經營團隊的努力，這些擴建工程都在二零零四年十二月陸續順利試車完成，投入生產。工程包括：

- (1) 增加20,000噸的100%蘇打與鹽酸生產線：除供應谷氨酸和味精量增加所需，集團內部自行使用外，其餘全部銷售越南本地市場。

- (2) Fermentation and recovery facilities of 40,000 tons of GA: Apart from meeting the demand of the local MSG factory in Vietnam, we also supply to our Xiamen and Shanghai plants. After the crystallization process equipments are fully installed in 2005, we will be able to shift to the production of MSG.
- (3) In Binh Thuan Province in Vietnam, the third production base for starch raw material was completed and commenced operation in December last year. At the initial stage, the production capacity of this plant is relatively small. It produces wet starch for fermentation at 200 tons a day.
- (4) A new technology research and development centre.

#### 2. Maintenance of the co-generation plant

The Group's two co-generation plants were modified to operate on natural gas instead of crude oil in December 2003. At present, the Group's co-generation plants have the flexibility of using either natural gas or crude oil as fuel, hence will have an important positive effect on the production cost of the Group's future operation.

The original co-generation plant was scheduled for maintenance in 2005. However, since the natural gas supplier needed to suspend its operations for repairs, after a review with the company and a consultation with experts from the original equipment manufacturer, we advanced the maintenance of the plant to December 2004. During the period when the plant's operation was suspended, the Group had to turn to outside sources for electricity and also shifted to using crude oil for the production of steam. This led to an increase in production and maintenance costs for December.

#### 3. The supply of production raw materials

To the Group, the cost of raw materials for production, especially agricultural raw materials (cassava and molasses) account for over half of the production cost for MSG. Hence, right from the start of construction of the plant, the Group had paid attention to the control of raw materials sources, and established a vertically integrated production system. In the last decade, riding on its unique production and raw material supply system, the Group has boasted production advantages and rapid growth. However, as the scale of the Group's operations boom, its demand for raw materials also surged rapidly. In light of this, the Group has been actively planning to secure new supplies of new agricultural raw materials.

- (2) 40,000噸的谷氨酸發酵和回收工程：除供應越南本地味精製造廠外，也可供應集團廈門廠和上海廠。在二零零五年，當精製工程的結晶設備安裝完成，則可轉為生產味精。
- (3) 在越南平順省的第三個澱粉原料生產基地，也於十二月份完成並投入生產。這座生產工廠初期生產規模不大，主要是生產發酵所需的粗製澱粉，每天產能約200噸。
- (4) 一座新的技術研發中心。

#### 2. 汽電廠的維修

集團的兩座汽電廠自二零零三年十二月起已改成以天然氣為燃料進行運轉，而不再使用重油。目前，集團的汽電廠是可以彈性使用天然氣或重油作為燃料，將為未來集團營運運作的生產成本產生重大正面作用。

原汽電廠的維修排訂在二零零五年，但因天然氣供應商需停機檢修設備，經與公司檢討並和原設備廠商專家討論後，為配合其工程，集團在二零零四年十二月提前停機以進行汽電廠維修工作。停工期間，集團需向電力公司購買外電，並改以重油生產供應蒸氣，致使十二月份生產成本提升與維修費用增加。

#### 3. 生產原料的供應問題

對集團來說，生產原料尤其是一些農產品原料(木薯與糖蜜)，佔味精生產成本的比率超過50%以上。因此，從建廠開始，集團即很重視生產原料的來源掌控，並建立了一套垂直整合的生產體系。過去十年來，集團也藉由這種獨特的生產與原料供應體系，取得生產優勢，快速成長。但因集團的規模增加迅速，所需原料使用數量也跟著快速增加。有鑑於此，集團已積極增加規劃新的農產品原料供應管道。



A. *Cassava starch processing base:*

- (1) Apart from above mentioned third processing plant in Binh Thuan Province completed last December, the Group plans to set up two more cassava processing plants in central and north central Vietnam.
- (2) Plan for the central region: It will be achieved through merger and acquisition. Although the present production scale of this factory is small, after the merger and acquisition, the Group will expand its production capacity. The administrative procedures of the merger and acquisition are expected to be completed in the first quarter of 2005, and plant expansion will be completed by end of this year or early next year.
- (3) Plan for the north central region: This is a brand new investment plan and has been proceeding for some time. We expect to complete the investment application in the second quarter, and start building the plant in the third quarter. We hope to complete construction of the plant and start production in the second quarter of 2006.

B. *Molasses:*

As the surging demand of the Group could no longer be met by the supply from Vietnam, reliance on imports has grown. The supply of molasses from Vietnam or neighbouring Thailand has been quite steady in the past few years. However, the supply and demand situation saw drastic change in latter half of 2004. Drought in Thailand, the largest sugar-producing country in Southeast Asia, affected the harvest of sugar cane and as a result production of molasses dropped by over 20%. Moreover, a move prompted by the February 2005 election, the Thai government implemented a high food price policy to boost farmers' income. As a result, prices of molasses and starch shot up starting the second half of 2004, especially in the fourth quarter. That had seriously affected the Group's production costs and profits. Also, responding to high oil prices in 2004, some producers shifted from producing molasses to producing alcohol, creating additional pressure and chaos in molasses supply.

C. *Raw material supply situation in the PRC operation:*

According to the original Letter of Intent between the Group and Shangdong Snowflake Biochemistry Co., Inc., 30,000 tons of GA would be produced in Phase 1. However, momentous changes in the production of GA and MSG in the PRC in the second half of 2004 posted significant impacts on both costs and sales. In light of the changes, Shangdong

A. *木薯澱粉的加工生產基地：*

- (1) 除了前面所提及，於去年十二月完工的平順省第三處加工生產基地外，集團已經展開計劃，在越南中部和中北部地區，增加兩個木薯澱粉加工廠。
- (2) 中部地區的計劃：以併購方式來進行，雖然此廠目前規模不大，但併購後，集團準備加以擴充產能。預期二零零五年第一季可完成併購行政手續，在年底前或明年初完成擴廠工程。
- (3) 中北部地區：是一項全新的投資計劃，已進行一段時間，預計投資申請手續可在第二季完成，建廠工作可在第三季展開，希望二零零六年第二季之前可完成建廠並投入生產。

B. *糖蜜：*

因集團需求量越來越大，越南國內可供應數量已不敷集團需求，所以仰賴進口的數量比重也增加。過去幾年糖蜜的供應，不管是越南本地或鄰近的泰國都相當穩定，但在二零零四年下半年，供需情形卻發生相當大的變化。泰國是東南亞地區最大的糖生產國家，二零零四年由於甘蔗收穫量受到旱災影響，減少20%以上；加上泰國政府因應二零零五年二月選舉實施了高糧價政策，以提高農民收入，導致二零零四年下半年開始，尤其是在第四季，糖蜜和澱粉價格急驟上揚，嚴重影響到集團的生產成本和獲利。另外，也由於二零零四年油價高漲，有部份的糖蜜轉而生產酒精，致使數量更形減少，已造成糖蜜市場供應混亂現象。

C. *中國市場原料供應：*

原先與山東雪花集團所簽署的合作意向書是雙方合作第一期先生產30,000噸的谷氨酸，但由於二零零四年下半年，中國的谷氨酸與味精生產方面，在成本與銷售都產生極度變化，雪花集團另提出一個新的合作生產計劃方案。因為這項新提案與集團原先的計劃不



Snowflake Biochemistry came up with an alternative production proposal. As the new proposal departed from the Group's original plans, assessment of the new proposal was deemed necessary. The Group is currently assessing the proposal in detail. Currently, the GA raw material requirement by the Group's Xiamen and Shanghai operations are supplied partly from Vietnam Vedan and partly from the domestic producers.

#### 4. Progress of building new plants to manufacture new products

New plants are under construction to facilitate the launch of two new products this year – r-PGA and high value added seasonings – by the Group. The construction of the r-PGA plant was delayed due to construction materials shortage. However, having set clear direction of development of r-PGA which promises huge potential, the Group is optimistic about the product's future. The Group has been actively working with clients in different application areas in pursuits including application for various usage and vending permits, drafting of vending plans for various regions, and planning for promotion to potential downstream customers. The Group hopes to finish preparatory works before the plant is completed in 2005, and contribution would start flowing in when production starts. The Group has completed the development of high value added seasonings. The Group's R&D team conducted a market survey on consumer's taste to gauge the preference and demands of the local populace. Mass production could begin after the plant is completed, and the product launch is expected in the second quarter.

#### (3) Establishment of a technology research and development centre

When it was listed in 2003, the Group indicated that part of the funds raised would be used to boost the Group's R&D capabilities, improving its laboratory facilities and technical expertise, which will give the Group greater technical competitiveness to ensure continuous growth of the enterprise. Apart from running the existing fermentation pilot plant, the Group also allotted funds to set up a brand new technology development laboratory, which will initially focus on the research and development of starch and food related areas. We have recruited a professional specialist as Vice President of R&D to oversee all research and development projects of new products and new production processes.

This technology research and development centre is up and running. The efficacy of the centre will soon be evident, and it will bring the Group to new heights ensuring sustained development.

同，必須再重新評估，因此集團仍在謹慎的進行深入了解和評估。目前，集團廈門與上海廠的谷氨酸原料仍由越南廠供應與當地購入為主。

#### 4. 新產品生產建廠進度

集團計劃今年推出的兩項新產品r-PGA(聚谷氨酸)和風味調味料，尚在積極施工建廠中。r-PGA的建廠也因建材供應而有所延後，然而集團已經明確肯定r-PGA的發展方向與潛力，並且對產品的未來感到樂觀，目前正積極與各項應用領域的客戶展開各項相關工作，包括申請各項使用與販賣認證許可、各地區販售計劃擬定、潛在下游客戶推廣計劃等等工作。集團希望二零零五年建廠完成前充份規劃此事業的推動準備，期望正式生產後，得以為集團的業務作出貢獻。風味調味料的產品開發工作已經完成，尤其在配合當地口味與需求方面，集團研發團隊已完成市場口味調查，目前正待建廠工作完成後，進入量產，預定產品可於第二季推出市場。

#### (3) 技術研發中心的成立

集團於二零零三年上市時，即已聲明，部份所得資金將用於加強集團的研發能力，改善實驗設備，提升技術層次，使集團在長期發展過程中，更有技術競爭能力，更能夠讓企業體不斷的壯大。除了現有的發酵實驗工廠外，集團另撥經費，建設了一個全新的技術開發實驗室，並先行專注於澱粉相關與食品相關兩大領域的研發，並新聘請專業的技術研發副總經理，統籌集團內各項新產品和新製程的研發工作。

目前，技術研發中心已成立，並已投入運作，相信在一時間後，它的功能會充份發揮出來，帶動集團向另一高峰的持續經營發展。



#### (4) Overview of Operations and Development in the PRC

##### 1. The acquisition of the MSG business and assets of Shanghai Vedan Foods

In June last year, the Group completed the acquisition of the MSG business of Shanghai Vedan Foods Company Limited and started integrating the MSG businesses in July last year. We forged ahead with building an effective distribution network and expanded our markets and have started to see results. Our monthly turnover increased from US\$860,000 in July to US\$1.1 million in December, up 28%. We expect the business to grow at an even higher rate in 2005.

Another important objective of acquiring assets of Shanghai Vedan Foods was to boost the production and sale of the Group's products. However, with the transfer of land use right procedures were affected by the Central Government's macro-economic control policies, and the Shanghai Municipal Government re-zoning plan in the Xong Jiang District, we were unable to complete our plans by the end of last year. After actively follow up with the Shanghai Municipal Government and based on current progress, we are confident that the transfer of land use right can be completed by the first quarter of 2005. On the other hand, the Group plans to set up two plants – for the processing of modified starch and high value added seasonings respectively – at the site of Shanghai Vedan Enterprise's factory. If land use right transfer can be completed by end of March this year, then the new plant can be completed in the second half of this year and production of new products can commence.

According to the Group's plan, Shanghai Vedan Enterprise will spearhead its operations in the PRC market, and will progressively implement plans for production, sales, human resources development, research and development and forging of strategic alliances. In fact, at an ideal geographical location, Shanghai Vedan Enterprise enjoys essential advantages for success. It will contribute significantly to the Group's development in the PRC and bring breakthrough results to our business.

#### (4) 中國區的經營發展概況

##### 1. 上海味丹食品味精業務及資產的併購

去年六月，集團已完成上海味丹食品有限公司的味精業務併購程序，味精業務方面已於去年七月開始合併整合，並積極朝行銷通路的佈局和市場拓展方向推展。業務方面已慢慢呈顯效果，月份營業額自七月份的860,000美元至年底時已達1,100,000美元，成長幅度達28%，預計二零零五年，業務擴展應會有更大幅度的成長。

集團併購上海味丹食品資產的另一重要目的是增加產品項目的生產與銷售。但是因為土地使用權移轉手續受到中央政府宏觀調控政策的影響以及上海市政府希望重新規劃松江區的土地，導致土地使用權移轉無法按原計劃時間在去年年底完成。經積極和市政府跟進，依目前的工作進度，預定在二零零五年第一季前，應可完成土地使用權移轉手續。集團已規劃好，在上海味丹企業的廠地內，建設化工澱粉加工廠和風味調味料加工廠。如果土地使用權移轉手續能夠順利在三月份完成，則在今年下半年，新的產品項目將可建廠完成並投入生產。

集團已規劃上海味丹企業，未來將成為中國市場推展的營運總部，將對生產、銷售、人才、研發、策盟等各大工作領域逐步展開推動。以目前上海味丹企業的所在位置，正集合天時、地利、人和等各項要件，對於集團未來在中國的發展將逐步展現其貢獻度，經營業績也可望有突破性的發展。

#### 2. Operation of Xiamen Mao Tai

Last year, affected by the macro-economic control measures implemented by the Chinese Government, the surge in the global oil price and also the poor agricultural harvests pushing up staple food prices in the PRC, the costs of certain raw materials required by Xiamen Mao Tai increased by 20% to 40%. This caused chaos and shortages in the raw material supplies. In the mean time, there were also fake products in the market which hindered the functioning of the distribution network. Production and the Group's operations were further affected by the erratic supply of electricity, high transportation charges and strained transportation services. As a result, turnover declined by 13% in 2004 as compared with 2003, resulting in an operational loss of US\$1.3 million.

Since late 2004, the prices of raw materials have stabilized, plus the Group has identified alternative sources of raw materials. In particular, it has secured a stable supply of GA of reliable quality and at reasonable prices. The Group's Vietnam plant has also built up adequate production capacity of GA to meet the demand of Xiamen Mao Tai. To date, the problem of GA supply shortage has been solved. We believe we will turn around in 2005.

#### (5) Financial Review

For the third consecutive year, the Group recorded the highest turnover and net profit. In 2004, the Group's turnover and net profit stood at US\$224,976,000 and US\$24,334,000 respectively, both over 10% higher than the corresponding figure for 2003.

##### 1. Cash flow and financial resources

The Group maintained a sound financial status. As at 31 December, 2004, our cash and bank savings totalled at about US\$33,192,000, 63% in US dollars, 21% in Dong, 12% in Renminbi, and 4% in other currencies. On top of this, the Group's total available credit facilities amounted to US\$82 million.

The Group maintained a healthy current ratio at 1.79. Total bank loans amounted to US\$66,875,000, (US dollars accounted for 97.56% and Renminbi loans 2.44%). The ratio of long-term and short-term loans was 37.4%: 62.6%. The Group's gearing ratio, based on total bank liabilities to shareholders' funds of US\$234,521,000 was 28.52%. After deduction of cash and bank balances, the net gearing ratio will be 14.36%.

#### 2. 廈門茂泰廠的經營狀況

去年，由於中國政府實施宏觀調控的政策以及國際石油價格高漲，再加上國內農產品短收以及高糧價的市場環境，造成廈門茂泰廠所需的一些原料也跟著以20至40%大幅上揚。此等現象，致使原料供應秩序混亂，供應短缺，加上市場上仿冒品層出不窮，也使行銷通路造成阻礙。而生產供電不穩定、運費高漲、運輸緊張等等因素，也導致生產與經營的困難。比較二零零四年和二零零三年的業績，營業額下降了約13%，並造成經營呈現1,300,000美元的虧損。

二零零四年年底以來，原料價格已趨於穩定，同時集團已更多方面尋找原料來源，尤其是穩定供應、價格合理、品質安定的谷氨酸原料。另外，集團的越南廠也已有足夠的谷氨酸生產數量可供廈門茂泰所需。目前，谷氨酸供應的問題已經解決，相信經營方面，在二零零五年會再站回到有盈利的狀況。

#### (5) 財務回顧

集團已經連續三年錄得歷年來最高的營業額和純利，在二零零四年分別為約224,976,000美元及24,334,000美元，較二零零三年均有10%以上之增長。

##### 1. 流動資金及財政資源

集團維持穩健的財務狀況，截至二零零四年十二月三十一日止，現金與銀行存款合共約33,192,000美元，其中美元佔63%，越盾21%，人民幣12%，其他貨幣4%。此外，集團尚有未動用銀行總信用額度為82,000,000美元。

集團之流動比率1.79維持穩健水平，銀行總借款為66,875,000美元（其中美元借款佔97.56%及人民幣借款2.44%），中長期及短期借款比例為37.4%：62.6%，依銀行借款總額對比股東權益234,521,000美元計算之資本負債比率為28.52%，若扣除現金和銀行結餘，則淨負債對比股東權益為14.36%。



## 2. Capital expenditure

In 2004, the Group invested about US\$10.5 million in the construction of a new plant and on-going projects in Vietnam, and about US\$22 million in installing additional equipment to expand production facilities. During the year, the Group also spent US\$7.3 million on the acquisition of Shanghai Vedan Food of which, US\$6.3 million is for acquiring MSG businesses and US\$1 million for MSG-related facilities. Additional US\$10,100,000 for acquiring plant facilities and land which will be paid in first half 2005 as the land ownership transfer procedures has not been completed.

The Group earmarked about US\$31 million as capital expenditure for 2005, which will be spent mainly on expanding its production capacities and sources of raw materials, developing new products, research and development and general capital expenditure. The required funds will come mainly from the Group's own cash flow.

## 3. Dividends

The cash flow for the Group's operating businesses remains healthy. The Group adheres to its current policy for dividend payout, and the dividend ratio for 2004 was about 60%, similar to that of 2003. During the year, an interim dividend of 0.506 US cent per share was distributed and the total dividends distributed were US\$7.705 million. The directors recommend the payment of a final dividend of 0.453 US cent per share, totalling US\$6,895,000.

## 4. Exchange rate

The majority of the Group's transactions are conducted in US dollars, Vietnamese Dong or Renminbi. Although the exchange rate between Dong and the US dollar remained stable (the depreciation rate during 2004 was about 0.61%), the Group still closely monitors the movements of the Dong. During the year, the Group had not been seriously affected by fluctuations in exchange rates, and had not engaged in any exchange rate hedging activities.

5. Contingent liabilities: As at 31 December, 2004, the Group had no significant contingent liabilities.

## 2. 資本開支

二零零四年內集團投資於越南新建廠房和在建工程約10,500,000美元，增加機械設備約22,000,000美元，用以擴充生產設施，同時年內亦動用7,300,000美元用於收購上海味丹食品，其中含全部味精業務約6,300,000美元及相關味精生產設備約1,000,000美元，其餘購置廠房及土地約10,100,000美元，因土地移轉手續尚未完成，預計於二零零五年上半年完成後支付。

集團預計二零零五年動用約31,000,000美元作為資本支出，主要用於擴充產能、原料來源、新產品建廠、研發及一般資本開支，所需資金主要將源自現有業務。

## 3. 股息

集團經營業務之現金流量依然穩健，集團採取一貫的股息分派政策，二零零四年之派息率約為60%，與二零零三年相同。年內已派付中期股息每股0.506美仙，總金額為7,705,000美元，而擬派末期股息每股0.453美仙，總金額為6,895,000美元。

## 4. 匯率

集團大部份交易以美元、越盾與人民幣結算，雖然越盾兌美元匯率穩定（二零零四年全年貶值幅度約0.61%），然集團仍然對越盾升貶值密切注意，年內集團內並未因匯率波動而受到重大影響，且無進行任何外幣對沖活動。

5. 或然負債：截至二零零四年十二月三十一日，本集團並無重大或然負債。

#### Prospects for 2005

Although the results in 2004 were not as good as originally envisaged, we are still gratified by the double-digit growth both in turnover and profit, given the unfavourable operating environment characterized by high oil and raw material prices. Looking ahead, we see both uncertainties and favourable situations in 2005:

1. Further growth driven by increased production capacity  
The expansion works completed in late 2004 are expected to contribute to the results in 2005. In 2004, the aggregate growth in the turnover of MSG and GA was only about 8%, limited by our production capacity falling short of market demand. This year, the situation will change. Although the MSG crystallization section will not be completed until the second half, there will be significant increase in MSG and GA supply. On the modified starch front, the current production capacity is saturated, but with the Vietnam plant completing expansion in the middle of the second quarter, further growth in business can be expected.
2. The ASEAN market is a free trade zone covering 10 countries (including Vietnam) with a total population of 500 million. It is one of the important markets in the Group's future development. The results of the development strategies implemented over the past two years have borne fruit. ASEAN countries, except Singapore, can be categorized into developing countries and undeveloped countries (such as Cambodia, Laos and Myanmar). The potentials for economic development in the region are tremendous. As economic development continues and living standards improve, the demand for various consumer products will rise rapidly.

In the past, the Group has focused on developing the Cambodian, Indonesian and Malaysian markets. Last year, Thailand and Laos were added to the list. The trans-Asia highway when completed will span the entire Southeast Asian peninsula and reach as far as the southern Chinese provinces of Yunnan and Guangxi. This year, the Group will actively expand into new strategic points. Armed with various competitive advantages, the Group expects to maintain high growth rate in 2005.

#### 二零零五年展望

綜觀二零零四年的業績表現，雖然沒有集團預期的理想，但在油價和原料高漲等不利營運環境下，營業額和盈利方面，仍保持有兩位數的成長，值得欣慰。展望二零零五年，仍存在有一些不確定的因素以及一些有利的條件：

1. 產能增長帶動業績的再成長  
二零零四年底所完成的一些擴建工程，在二零零五年將發揮其應有的貢獻。二零零四年味精和谷氨酸的綜合營業額成長約8%，主要是受限於產能不夠，雖然市場需求強勁，生產卻無法充份滿足業務出貨的要求。今年，這種情形將會有所改變。雖然精製結晶部份要到下半年才能完成，但味精和谷氨酸供應量將會有可觀的成長。化工澱粉方面，目前產能也已達飽和狀態，從第二季的中期開始，在越南廠區的擴廠計劃也將完成，業績的再成長應可預期。
2. 東盟市場是一個自由貿易區，涵蓋10個國家（包括越南），共約5億的人口，是集團未來發展很重要的一個市場。過去兩年的發展策略已有明顯的成果。東盟國家除新加坡外，一部份屬開發中國家，另有一部份屬未開發國家，例如柬埔寨、寮國和緬甸，整個區域尚有很大的經濟發展潛力。隨著經濟發展，人民生活水平提升，對各種消費品的需求將快速增加。

過去，集團的市場開發重點主要在柬埔寨、印尼和馬來西亞，去年則加入泰國和寮國。未來亞洲高速公路網完成，將貫通整個東南亞半島，並直通中國的南部邊陲省份雲南和廣西。集團今年將更積極加強並擴充新據點，以集團擁有的各種優勢，相信在二零零五年仍能維持高水準的成長。



- In latter half of 2004, the PRC market reaped significant benefits from the integration of our strategic presence in Shanghai and the Xiamen Mao Tai establishment. In 2005, Xiamen and Shanghai will be our hub in southern PRC and central PRC respectively. Complementing each other, they will serve the Group as springboards into second and third-tier cities, further boosting our business growth. With the GA plant in Vietnam completed expansion, we can now flexibly adjust supply of material to our production lines in the PRC, thus can more effectively control costs. Moreover, with the launch of modified starch and high value added seasonings, the Group's business development in the PRC market will grow steadily.
  - The construction of the production plant in Vietnam for our new product r-PGA and high value added seasonings were affected by the global shortage of stainless steel plates. We are currently pushing ahead to complete the project as soon as possible. As r-PGA falls under a new application category, we expect it to gain popularity in the market only after a period of trials. Hence, the Group does not expect the product to make an immediate profit contribution in the first year of launch. It will probably take two to three years before we will see significant contributions. The Group however is more optimistic and confident that its high value added seasonings will gain quick market acceptance and start contributing to the Group's results soon.
  - Plans of mergers and acquisitions as well as establishing strategic alliances are still in progress in the PRC, and at the same time the Group is assessing several other targets for future mergers and acquisitions. The Group will first establish initial cooperative relationships, and in due course, further explore the feasibility of mergers and acquisitions or strategic alliance.
- 中國市場方面，由於增加上海營運據點與廈門茂泰的行銷整合，在二零零四年下半年已初步顯現效果。二零零五年，南部地區以廈門為中心，中部地區以上海為中心，互相呼應，擴大市場範圍到二級甚至三級城市的行銷策略，應會促進業績有更大幅度的成長。尤其越南谷氨酸廠的擴增已經完成，對於中國生產所需原料，已具有調節的絕對功能，將使成本掌控更為穩定。再加上化工澱粉和風味調味料的陸續推出，集團在中國市場的經營發展，應會漸入佳境。
  - 新產品r-PGA和風味調味料在越南的建廠進度，因國際性不銹鋼板供應短缺的影響，受到延誤，目前正積極趕工中。r-PGA因屬於新的應用領域，在短期內可能市場不能夠立即接納使用，必須經過一段時間的試用期。因此，第一年集團不期望會對營收和盈利有即時的貢獻，也許要到第二年或第三年才會有較顯見的業績成長。至於風味調味料，集團是抱著較樂觀的看法，也較有信心被市場立即接受而對業績有貢獻。
  - 中國的併購和策略聯盟計劃仍持續在進行。集團也同時在評估其他幾個對象，有些列為未來併購對象，集團已先和他們初步建立合作關係，等待一段時間，再深入評估併購或策略聯盟的可行性。

6. Regarding the market trend for lysine, the Group does not see room for upward price adjustment in a short period of time as soy bean and corn are in abundant supply. As a result, the price of lysine continues to face downward pressure. In the long term, however, the Group believes the living standard of developing countries will rise gradually which will push up the demand for meats, and in turn the demand for feedstock and lysine. Thus the Group is optimistic about the outlook for lysine and is studying the feasibility of expanding our production capacity for the product.

7. The control of raw materials for production will be a critical task for the Group in 2005. Since the latter half of 2004, especially the last quarter, there have been unanticipated drastic changes in the raw material supply-demand situation. As the Group's scale of production expanded, its reliance on imported raw materials will grow and it would be more susceptible to the volatility of international prices. This may be further complicated by political factors.

To minimize the impact of international price fluctuations on its operations, the Group has long-term plans, including stepping up investment in cassava starch processing plants and promoting new sources of carbohydrates. Two more cassava starch plants will be built in central Vietnam and north central Vietnam. If the plans progress smoothly, these plants will commence operation in the second quarter and by the end of this year respectively.

As far as the new sources of carbohydrates are concerned, the Group is currently carrying out several development projects aimed at the utilization of different agricultural products. When successfully completed, the initiative will bring a major breakthrough to the supply of raw materials for the Group.

8. Future uncertainties the Group has to face include the downward price pressure on lysine and the fluctuations of raw material prices. The Group is closely monitoring these developments and has mapped out long-term and short-term measures to address them. In fact, price volatility is a global issue, not an exclusive problem for

6. 在賴氨酸的市場趨勢方面，集團認為短時間內，因為大豆和玉米等的供應量充裕，價格沒有上漲的空間，因此，賴氨酸的價格仍會有下滑的壓力。但長期來看，集團認為發展中國家的人民生活水平慢慢提升，肉類需求量會增加，飼料和賴氨酸的需求量也會跟著增加，對賴氨酸的發展前景是被看好的。因此集團已著手進行評估擴大產能的可行性。

7. 生產原料的掌控也是集團在二零零五年很重要的一項工作。自二零零四年下半年開始，尤其是在第四季，集團所需的原料供需，產生急驟變化，遠超過集團所預期。隨著集團生產規模擴大，依賴進口原料數量增加，較容易受到國際價格波動的影響。更難掌握的是受到一些政治因素的影響。

為了使國際價格波動的影響降到最低，集團已有長期的規劃方案，包括增加木薯澱粉加工廠的投資以及推廣新種類的糖源。在增加木薯加工廠方面，目前規劃的有兩個地區，都在越南的中部和中北部地區。如進行順利，將分別在今年第二季與今年年底前可完成投入生產。

另外，對於木薯與糖蜜以外的糖源，集團已著手進行多元化的安排，朝向不同作物農產品的利用方向展開規劃。對於未來集團所需原料的供應，將會有很大的突破。

8. 未來一些不確定的因素，主要包括賴氨酸的價格跌勢以及原料的價格波動，集團已在密切注意和觀察中，並已擬定長短期對策。事實上，價格波動是一個國際性的問題，非集團單獨面對的問題。但以集團長期以來的經驗，集團有信心能夠



the Group. However, with rich experience, we are confident that we will rise above these uncertainties and achieve even better results. While continuing to pursue mergers and acquisitions and forge strategic alliances, heeding the different uncertain factors, the Group will act with prudence. Time will tell whether our strategies will prove to be effective, but the Group is confident of accomplishing a few of its planned projects.

### Employee Compensation and Training

As at 31 December, 2004, the Group had a total of 2,818 employees (2003: 2,438 employees), of whom 2,243 were employed by Vietnam Vedan, 192 employed by Orsan Complex in Vietnam, 252 by Xiamen Mao Tai Company and 122 by Shanghai Vedan in China, and 9 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. Share options are also available to certain senior staff and staff who perform well.

### Use of proceeds from the New Issue

As at 31 December 2004, approximately US\$2,000,000 of the US\$41,400,000 net proceeds from the Group's listing has been used for the modification of co-generation power plants in Vietnam; US\$15,000,000 for expanding MSG and specialty chemicals production capacity; US\$1,000,000 for expanding starch factory equipment; US\$1,300,000 for research and development; US\$2,000,000 for marketing and promotional activities; US\$7,700,000 for general working capital; and the remaining approximately US\$12,400,000 for the construction of cassava starch factory and r-PGA factory, and related R&D, marketing, and promotional activities. All cash on hand has been placed as bank deposits, while the above plans are being implemented.

突破各種不明朗因素，再創佳績。至於併購與策盟方面，集團持續積極進行，然因仍存在多項不確定因素，集團以謹慎評估做法推動，此部份仍有待時間考驗，但集團有信心可以有機會完成幾項方案。

### 僱員薪酬及培訓資料

於二零零四年十二月三十一日，集團僱有員工2,818名（二零零三年：2,438名），包括受僱於味丹越南廠2,243名，越南歐桑廠192名，廈門茂泰廠252名，上海味丹廠122名，台灣分公司：9名員工。

集團一般根據行業慣例、集團業績及個別員工表現釐定僱員薪酬。其他員工福利包括住宿、保險、醫療及退休金等，以確保競爭力及員工之忠誠度。為增進員工專業素質及管理能力，落實本土化政策及加快電子化營運，集團亦為員工提供職務輪換，並積極規畫各類內部培訓，外部培訓課程及研討會。集團並設有一套員工購股權計劃，並選定若干表現優秀及高級員工給予購股權。

### 首次公開招股資金用途

截至二零零四年十二月三十一日，集資額約41,400,000美元中，約2,000,000美元用於越南汽電廠天然氣更改工程；15,000,000美元用於味精廠和酸鹼廠產能之擴充；1,000,000美元用於擴充澱粉廠之生產設備；1,300,000美元用於研發項目；2,000,000美元用於市場行銷推廣；7,700,000美元用於週轉金；餘額約12,400,000美元依原計劃於二零零五年內新建木薯澱粉廠、r-PGA廠及相關的研發以及市場行銷推廣等項目，集團在持續執行上述計劃同時已將手持現金轉作銀行存款。