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VEDAN INTERNATIONAL (HOLDINGS) LIMITED
味丹國際（控股）有限公司

(Incorporated under the laws of the Cayman Islands with limited liability)

(Stock code: 02317)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

FINANCIAL HIGHLIGHTS

	Unaudited six months ended 30 June		
	2017	2016	**Change**
	US$'000	*US$'000*	
Revenue	**156,648**	163,167	(4.0%)
Gross profit	**33,818**	40,341	(16.2%)
Profit for the period	**9,281**	13,872	(33.1%)
Profit attributable to owners of the Company	**9,361**	13,948	(32.9%)
Basic earnings per share	**0.61 US cents**	0.92 US cents	
Diluted earnings per share	**0.61 US cents**	0.92 US cents	
Interim dividend proposed per share	**0.307 US cents**	0.641 US cents	
Total dividends paid and proposed per share	**0.307 US cents**	0.641 US cents	

INTERIM RESULTS

The board of directors (the "Board") of Vedan International (Holdings) Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2017 together with the comparative figures for the corresponding period in the previous year.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**Unaudited 30 June 2017 *US$'000***	Audited 31 December 2016 *US$'000*
ASSETS			
Non-current assets			
Land use rights		**2,346**	2,321
Property, plant and equipment		**145,535**	143,263
Intangible assets		**8,785**	8,677
Long-term trade receivables	*4*	**106**	168
Long-term loan and other receivables	*8*	**1,918**	90
Investment in an associate		**3,386**	3,350
Total non-current assets		**162,076**	157,869
Current assets			
Inventories		**94,490**	65,282
Trade receivables	*4*	**29,951**	27,825
Amount due from the non-controlling interest of a subsidiary		**843**	823
Short-term loan to an associate		**120**	120
Prepayments and other receivables		**12,435**	13,283
Structured bank deposit		**1,181**	–
Short-term bank deposits		**6,170**	33,287
Cash and cash equivalents		**36,209**	55,210
Total current assets		**181,399**	195,830
Non-current assets held-for-sale		**–**	3,091
Total assets		**343,475**	356,790

	Note	Unaudited 30 June 2017 US$'000	Audited 31 December 2016 US$'000
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**15,228**	15,228
Reserves		**263,789**	266,307
		279,017	281,535
Non-controlling interest		**(2,474)**	(2,329)
Total equity		**276,543**	279,206
LIABILITIES			
Non-current liabilities			
Bank borrowings		**23,005**	24,190
Deferred income tax liabilities		**3,170**	3,416
Retirement benefit obligations		**1,432**	1,386
Long-term environmental provision		**173**	113
Total non-current liabilities		**27,780**	29,105
Current liabilities			
Trade payables	*5*	**10,846**	18,296
Accruals and other payables		**12,656**	15,637
Amount due to related parties		**1,743**	836
Bank borrowings		**13,242**	12,620
Current income tax liabilities		**665**	1,090
Total current liabilities		**39,152**	48,479
Total liabilities		**66,932**	77,584
Total equity and liabilities		**343,475**	356,790

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Six months ended 30 June	
		2017	2016
	Note	***US$'000***	*US$'000*
Revenue	*3*	**156,648**	163,167
Cost of sales	*7*	**(122,830)**	(122,826)
Gross profit		**33,818**	40,341
Other gains – net	*6*	**921**	506
Selling and distribution expenses	*7*	**(10,498)**	(10,845)
Administrative expenses	*7*	**(12,414)**	(12,400)
Operating profit		**11,827**	17,602
Finance income		**356**	281
Finance costs		**(569)**	(485)
Finance costs – net	*8*	**(213)**	(204)
Share of post-tax profit/(loss) of an associate		**36**	(12)
Profit before income tax		**11,650**	17,386
Income tax expense	*9*	**(2,369)**	(3,514)
Profit for the period		**9,281**	13,872
Profit attributable to:			
– Owners of the Company		**9,361**	13,948
– Non-controlling interest		**(80)**	(76)
		9,281	13,872
Earnings per share attributable to the owners of the Company			
– Basic earnings per share (expressed in US cents)	*10*	**0.61**	0.92
– Diluted earnings per share (expressed in US cents)	*10*	**0.61**	0.92

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2017	2016
	US$'000	*US$'000*
Profit for the period	**9,281**	13,872
Other comprehensive income/(loss)		
Item that may be reclassified to profit or loss		
Currency translation differences	**796**	(600)
Total comprehensive income for the period	**10,077**	13,272
Total comprehensive income/(loss) for the period attributable to:		
– Owners of the Company	**10,222**	13,294
– Non-controlling interest	**(145)**	(22)
	10,077	13,272

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 Basis of preparation

This interim condensed consolidated financial information for the six months ended 30 June 2017 has been prepared in accordance with HKAS 34 "Interim Financial Reporting". The interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

2 Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements.

(a) The following new standards, interpretation and amendments to standards are mandatory for the first time for the financial year beginning on or after 1 January 2017, but do not have any significant impact on the preparation of this interim condensed consolidated financial information.

HKAS 7 (Amendments)	Statement of cash flows
HKAS 12 (Amendments)	Income taxes
HKFRS 12 (Amendments)	Disclosure of interest in other entities

(b) The following new standards, interpretation and amendments to standards have been issued, but are not effective for the financial year beginning on 1 January 2017 and have not been early adopted.

		Effective for annual periods beginning on or after
HKFRS 1 and HKAS 28 (Amendments)	Annual Improvements 2014-2016 Cycle	1 January 2018
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions	1 January 2018
HKFRS 4 (Amendments)	Insurance Contracts	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 15 (Amendments)	Clarifications to HKFRS 15	1 January 2018
HKAS 40 (Amendments)	Transfers of Investment Property	1 January 2018
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
HK (IFRIC) – Int 23	Uncertainly over Income Tax Treatments	1 January 2019
HKFRS 16	Leases	1 January 2019
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The directors of the Company are in the process of assessing the financial impact of the adoption of the above new standards and amendments to standards. The directors of the Company will adopt the new standards and amendments to standards when they become effective.

3 Segment information

The chief operating decision-maker has been identified as the Executive Directors collectively. The Executive Directors review the Group's policies and information for the purposes of assessing performance and allocating resources.

The Group presents its operating segment results (below) based on the information reviewed by the chief operating decision-maker, and used to make strategic decision. This information includes segment revenue, segment assets and capital expenditures.

The chief operating decision-maker considers the business from a geographical aspect. In presenting information on the basis of operating 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***

	Unaudited	
	Six months ended 30 June	
	2017	2016
	US$'000	US$'000
Vietnam	**76,476**	78,124
Japan	**31,465**	31,535
The PRC	**13,257**	16,755
America	**9,907**	12,147
Taiwan	**5,289**	5,478
ASEAN member countries (other than Vietnam)	**16,080**	15,237
Other regions	**4,174**	3,891
Consolidated revenue per income statement	**156,648**	163,167

(ii) ***Capital expenditures***

	Unaudited	
	Six months ended 30 June	
	2017	2016
	US$'000	US$'000
Vietnam	**10,851**	2,879
The PRC	**33**	37
	10,884	2,916

Capital expenditures are attributed to segments based on where the assets are located.

Capital expenditures comprise additions of property, plant and equipment and intangible assets.

(iii) Total assets

	Unaudited As at 30 June 2017	Audited As at 31 December 2016
	US$'000	*US$'000*
Vietnam	**270,040**	285,341
The PRC	**45,771**	42,710
Hong Kong	**27,039**	28,211
Taiwan	**462**	384
Singapore	**163**	144
	343,475	356,790

Total assets are attributed to segments based on where the assets are located.

4 Trade receivables

	Unaudited As at 30 June 2017	Audited As at 31 December 2016
	US$'000	*US$'000*
Non-current	**106**	168
Current	**29,951**	27,825
Total trade receivables	**30,057**	27,993

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2017	2016
	US$'000	*US$'000*
Trade receivables from third parties	**30,590**	28,379
Less: provision for impairment of trade receivables	**(533)**	(386)
	30,057	27,993

The credit terms of trade receivables generally range from cash on delivery to 90 days. The Group may grant a longer credit period to certain customers and it is subject to the satisfactory results of credit assessment. At 30 June 2017 and 31 December 2016, the ageing of the trade receivables based on invoice date was as follows:

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2017	2016
	US$'000	*US$'000*
0 – 30 days	**28,466**	26,388
31 – 90 days	**795**	770
91 – 180 days	**473**	271
181 – 365 days	**208**	584
Over 365 days	**648**	366
	30,590	28,379

5 Trade payables

As at 30 June 2017, the ageing of the trade payables based on invoice date was as follows:

	Unaudited As at 30 June 2017 *US$'000*	Audited As at 31 December 2016 *US$'000*
0 – 30 days	**9,851**	17,232
31 – 90 days	**704**	1,026
91 – 180 days	**257**	4
181 – 365 days	**5**	7
Over 365 days	**29**	27
	10,846	18,296

6 Other gains – net

	Unaudited Six months ended 30 June 2017 *US$'000*	2016 *US$'000*
Net exchange gains	**46**	161
Loss on disposal of property, plant and equipment	**(1)**	(46)
Sales of scrap materials	**345**	258
Government grant	**385**	–
Others	**146**	133
Other gains – net	**921**	506

7 Expenses by nature

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

	Unaudited	
	Six months ended 30 June	
	2017	2016
	US$'000	*US$'000*
Changes in inventories and consumables used	**95,246**	97,865
Amortisation of intangible assets	**68**	65
Amortisation of land use rights	**30**	32
Depreciation on property, plant and equipment	**8,810**	9,457
Employee benefit expenses	**17,328**	16,764
Provision/(reversal of provision) for impairment of trade receivables	**147**	(18)
Operating lease rental	**130**	167
Technical support fee	**1,339**	1,400
Travelling expenses	**654**	732
Transportation expenses	**4,845**	4,802
Advertising expenses	**1,006**	1,072
Other expenses	**16,139**	13,733
Total cost of sales, selling and distribution expenses and administrative expenses	**145,742**	146,071

8 Finance costs – net

	Unaudited	
	Six months ended 30 June	
	2017	2016
	US$'000	*US$'000*
Finance income – interest income on short-term bank deposits	**356**	281
Interest expense on bank borrowings	**(358)**	(485)
Discounting effect on non-current other receivable *(Note)*	**(211)**	–
Finance costs	**(569)**	(485)
Finance costs – net	**(213)**	(204)

Note:

On 22 February 2017, Vedan (Vietnam) Enterprise Corporation Limited entered into an agreement with an independent third party, to dispose of its property, plant and equipment of Ha Tinh plant at a consideration of US$3,400,000. The transaction was completed during this period. According to the repayment schedule in the agreement, US$1,360,000, US$680,000, US$680,000 and US$680,000 are repayable in 2017, 2018, 2019 and 2020, respectively. The balance is non-interest bearing and is repayable within 4 years.

9 Income tax expense

Taxation on profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of income tax charged/(credited) to the condensed consolidated income statement represents:

	Unaudited	
	Six months ended 30 June	
	2017	2016
	US$'000	*US$'000*
Enterprise income tax	**2,615**	3,619
Deferred income tax	**(246)**	(105)
	2,369	3,514

10 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of US$9,361,000 (2016: US$13,948,000) by 1,522,742,000 (2016: 1,522,742,000) ordinary shares in issue during the period.

Diluted earnings per share is the same as the basic earnings per share as there are no dilutive instruments for the periods ended 30 June 2017 and 2016.

11 Dividends

A final dividend of US$12,740,000 that relates to the year ended 31 December 2016 was declared on 23 May 2017 and paid in June 2017 (2016: US$4,600,000).

On 29 August 2017, the Board has resolved to declare an interim dividend of 0.307 US cents per share (2016: 0.641 US cents). This interim dividend, amounting to US$4,680,000 (2016: US$9,761,000), has not been recognised as a liability in this interim condensed consolidated financial information.

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS OVERVIEW

In the first half of 2017, the global economy and demand gradually picked up. At the same time, stabilisation of raw material prices and gradual recovery of the economy of developed countries, including European countries and the US in turn drove the economy of emerging countries to grow steadily. In the US, growth of the manufacturing industry has re-gained momentum; the employment market has showed notable improvement and investment confidence of companies remained stable. In the Euro zone, the growth rate of the Industrial Production Index achieved a new record high over the past six years, with the unemployment rate at an eight-year low, indicating a positive recovery of the overall economy. In Japan, the strength of export activities was driven by the rebound of overseas demand. Benefitting from stable raw material prices, increasing domestic demand and progressively active international trade, overall economic momentum in the emerging countries was also building up.

In Vietnam, the growth rate of the gross domestic product (GDP) in the first half of 2017 was 5.73%, slightly higher than 5.52% in the first half of 2016 but lower than its 6.7% target for 2017. However, Vietnam's economy remained stable. In the first half of the year, it still had a trade deficit of US$2.7 billion, but the export trade value recorded substantial growth, while there was a mild increase of 4.15% in the inflation rate. The business environment and the exchange rate of Vietnam Dong to the US dollar maintained relatively stable. The above factors helped Vietnam to sustain solid economic growth in the year.

During the period, the Group's turnover decreased by US$6,519,000 year-on-year to US$156,648,000; gross profit for the period decreased by 16.2% or US$6,523,000 year-on-year to US$33,818,000, with the overall gross profit margin down from 24.7% to 21.6% when compare to the same period of last year. The Group's profit for the period declined by US$4,591,000 year-on-year to US$9,281,000, with net profit margin down from 8.5% in 2016 to 5.9%. Both its revenue and profit dropped during the period. The main reasons accounted for the drop of profit included: (1) Selling prices of major products, particularly MSG and modified starch, decreased due to price wars. (2) A surge of coal prices led to a significant increase in energy costs. In view of the business and competitive environment since the beginning of the year, the Group will focus on enhancing its businesses and controlling production costs and developing new products and new markets in the second half of the year, with the aim to raising its revenue and profitability.

II. BUSINESS ANALYSIS

(1) Sales Analysis by Market

Unit: US$'000

	For the first half of					
Country	**2017**		**2016**		**Difference**	
	Amount	*%*	*Amount*	*%*	*Amount*	*%*
Vietnam	76,476	48.8%	78,124	47.9%	(1,648)	(2.1%)
Japan	31,465	20.1%	31,535	19.3%	(70)	(0.2%)
PRC	13,257	8.5%	16,755	10.3%	(3,498)	(20.9%)
ASEAN	16,080	10.3%	15,237	9.3%	843	5.5%
US	9,907	6.3%	12,147	7.4%	(2,240)	(18.4%)
Others	9,463	6.0%	9,369	5.8%	94	1.0%
Total	**156,648**	**100.0%**	**163,167**	**100.0%**	**(6,519)**	**(4.0%)**

1. Vietnam

During the period under review, revenue from Vietnam amounted to approximately US$76,476,000, a decline of 2.1% or US$1,648,000 from the same period last year. The decline in revenue was mainly because of the selling price and sales volume of MSG and maltose decreased amidst the price wars. In contrast, both sales volume and revenue of soda products and fertilisers and feed products were boosted as the market demand for these products increased. As a result, the share of Vietnam market within the Group's revenue slightly rose from 47.9% of the same period last year to 48.8%.

2. Japan

Revenue from the Japan market maintained at a roughly flat level during the period. The main reasons for a sustained business performance were the Group's efforts to maintain stable customer relationships, commit to product quality and secure new customers. Hence, the proportion of revenue from the Japan market to the Group's total revenue reached 20.1%, higher than 19.3% in the last corresponding period, and the country remained as the second largest geographic sales market. However, sales of modified starch dropped slightly due to the increased competition, hence the revenue from the Japan market decreased slightly by 0.2% or US$70,000 year-on-year to US$31,465,000.

3. The PRC

Revenue from the PRC market amounted to US$13,257,000, a decline of 20.9% or US$3,498,000 from the same period last year. Its contribution to the Group's total revenue was down from 10.3% in the first half of 2016 to 8.5% during the period under review. The PRC market recorded a greater drop in revenue among the Group's markets during the period. This was mainly because the PRC has not recovered from slower economic growth, coupled with sluggish sales, keen competition for MSG and starch and a sharp decrease of product prices. To avoid participating in the price war in the market and to preserve its gross profit margin, the Group has maintained its selling prices and profit at a certain level. As a result, the revenue from starch and MSG products declined significantly. The Group is consolidating its sales network and developing more new high value-added products in a bid to raise and recover its performance and market share.

4. *ASEAN member countries*

During the period, revenue from ASEAN member countries, excluding Vietnam, increased by 5.5% or US$843,000 year-on-year to US$16,080,000 and its contribution to the Group's total revenue rose from 9.3% to 10.3%. The rise in revenue during the period was mainly attributable to the growth of sales pushed up by the increase in the demand for MSG, fertilisers and feed products and modified starch. Besides, the Group reinforced its market channels and actively developed new markets and secured new customers. Through the dedicated efforts of the Group's professionals, the ASEAN market has replaced the PRC market as its third-largest market.

5. *The US*

Revenue from the US market reached US$9,907,000, a decrease of US$2,240,000 or 18.4% from US$12,147,000 in the first half of 2016. This was mainly due to the drop of selling price and sales volume of MSG as a result of the market competition. Sales of maltose slowed down in the first half of the year after a sharp increase of revenue in the past year. Its contribution to total revenue was down from 7.4% to 6.3%.

6. *Other markets*

In other markets, mainly including Taiwan and the European Union, revenue from MSG during the period rose but sales of modified starch decreased. Total revenue was slightly up by 1.0% or US$94,000 from US$9,369,000 in the same period of 2016 to US$9,463,000. Its proportion in the Group's total revenue increased from 5.8% to 6.0%.

(2) Sales Analysis by Product

Unit: US$'000

Item	**For the first half of 2017**		**2016**		**Difference**	
	Amount	*%*	*Amount*	*%*	*Amount*	*%*
MSG and seasonings	109,251	69.7%	115,389	70.7%	(6,138)	(5.3%)
Modified starch and cassava starch	16,110	10.3%	21,017	12.9%	(4,907)	(23.3%)
Amylase	4,614	2.9%	4,802	2.9%	(188)	(3.9%)
Specialty chemicals	13,735	8.8%	10,530	6.5%	3,205	30.4%
Fertilisers and feed products	9,701	6.2%	8,493	5.2%	1,208	14.2%
Others	3,237	2.1%	2,936	1.8%	301	10.3%
Total	156,648	100%	163,167	100%	(6,519)	(4.0%)

1. MSG and seasonings

During the period, revenue from MSG and seasonings-related products amounted to US$109,251,000, a decrease of 5.3% and US$6,138,000 from the corresponding period of 2016. The greater drop in revenue from MSG was mainly because the Group lowered the selling prices and sales volume of the products in some of its markets to respond to the competitive market conditions, given the fierce price competition in Vietnam, the PRC and the US. Generally speaking, the contribution from the MSG and seasoning-related products to the Group's total turnover decreased from 70.7% in the first half of 2016 to 69.7%.

2. Modified starch and cassava starch/Amylase

During the period, the drop of raw materials of starch helped in controlling costs. However, fierce price competition in some of the markets, particularly in the PRC and Taiwan, resulted in a sharp decrease in selling prices, and the revenue dropped accordingly. The Group's revenue from cassava starch and modified starch during the period dropped by 23.3% or US$4,907,000 year-on-year to US$16,110,000 as sales of modified starch decreased in different markets. As a result of the drop in revenue, the contribution from starch products to its total revenue declined from 12.9% to 10.3%.

The amylase product that the Group launched in recent years has become its star product, generating a revenue of US$4,614,000 in the first half year of 2017. The slight decrease of US$188,000 recorded year-on-year is believed to be a short-term adjustment. The Group is highly confident in the potential of this product and its quality gradually gained recognition from our customers. The Group is developing related products, so as to broaden the scope of its business and the source of its profitability.

3. Specialty chemicals/Fertilisers and feed products

Specialty chemicals including hydrochloric acid, soda and bleach are principally sold in the Vietnam market. During the period, driven by steady economic growth in Vietnam, the demand for basic chemicals increased, resulting in a notable surge of sales volume of this product category when compared to the same period of 2016. Revenue from specialty chemicals climbed by 30.4% or US$3,205,000 year-on-year to US$13,735,000. Its contribution to the Group's total revenue rose from 6.5% to 8.8%.

As for fertilisers and feed products, after the drop of short-term demand for fertilisers affected by the climate in 2016, the demand for fertilisers in the first of 2017 gradually picked up, particularly in the Vietnam and ASEAN markets. Although selling prices remained within the low price range of 2016, sales volume surged significantly. The Group's revenue from fertilisers and feed products increased by 14.2% or US$1,208,000 year-on-year to US$9,701,000 and its contribution to the Group's total revenue rose from 5.2% to 6.2%.

4. *Other products*

Other products principally include the trading products business that the Group operates in Vietnam and the PRC. Revenue reached US$3,237,000, remaining flat year-on-year. Due to the decline of the Group's total revenue, the contribution from other products to the Group's total revenue increased from 1.8% to 2.1%.

III. MAJOR RAW MATERIALS/ENERGY OVERVIEW

(1) Cassava

According to the data of the Vietnam Cassava Association, cassava plantations occupy around 550,000 hectares in Vietnam, where around 10 million tonnes are annually produced. The value of cassava exported exceeds US$1 billion a year, making it one of the major agricultural products for export in Vietnam. The PRC is the principal importer of cassava from Vietnam, accounting for around 85% of the tally. In the first half of 2017, the depreciation of the RMB against the US dollar affected the purchasing power, so some PRC customers chose to purchase the materials from local inventory. The import volume of cassava into the PRC declined accordingly, and the price of the product remained at a low level. The decreasing cassava price has benefited the Group's production costs during the period, but the cassava price is generally expected to increase in the second half of the year, mainly because the unseasonably low cassava price in the harvest of 2016/2017 will reduce farmers' incentive to grow cassava in the next season, with a corresponding reduction in production volume. Another reason is that the slight rebound in the demand for cassava starch in the market, which is generally expected to boost the material costs.

(2) Molasses

After suffering from oversupply and a substantial price drop over a few consecutive years in the global sugar manufacturing industry, the global sugar market has recently experienced a supply shortage due to climate change and a subsequent adjustment in the production volume for the industry in 2016. The production volume of major sugar manufacturing countries such as Thailand, Brazil and India has also been reduced. At year-end, prices of raw sugar rose to their highest levels in recent years. The change in the sugar manufacturing industry has also affected the production capacity and price of molasses and amylase. Looking at 2016/2017, the normal weather conditions would see a possible increase in the production volume in a number of countries, and the market will realise a balance in supply and demand. As global oil prices have remained at low levels, the molasses factories in Brazil have reduced ethanol production, and have allocated more sugar cane to produce molasses. Besides, the prices of corn and soybeans remained comparatively low but consumption was high in the feed industry, so less molasses will be used to produce feed. Considering these factors, the supply of molasses may increase in 2017/2018, thus its price may drop. The Group intends to continue with its strategies of securing stable sugar sources, looking for those sources which can be used as raw materials and adopting flexible procurement procedures so as to ensure a stable supply of these raw materials.

(3) Energy

At the beginning of 2016, the global prices of coal and natural gas have decreased, which mostly was a direct result of cheaper fossil fuels, but the underlying reason was more about the oversupply and weak growth of demand in key markets including the US and Europe. In the second half of 2016, some of the global production capacity of coal shut down, which reduced the output. The price of coal rebounded strongly and increased significantly. In Indonesia, months of downpour directly hit the operations of exploitation and transportation, the price of coal has remained at a high level due to the climate change. In the first half of 2017, the average unit price of coal procured by the Group increased by more than 20%, which eroded our profit. In the second half of 2017, the Group is closely monitoring the trend of coal prices.

The cost of electricity in Vietnam remained almost the same in the first half of 2017 as previously. However, under the pressure of rising coal prices, the local electricity tariff is expected to increase in the second half of the year. Since the Group's new energy generation system is now in operation and the proportion of self-generated electricity will increase, the higher electricity charges have only minimally affected the Group.

IV. FINANCIAL REVIEW

(1) Liquidity and Financial Resources

The Group had cash, short-term bank deposits and structured bank deposit of US$43,560,000, US$44,937,000 or around 50.8% less than at the end of 2016. Short-term bank borrowings increased by US$622,000 or around 4.9% to US$13,242,000 compared to the end of 2016, while middle-to-long-term bank borrowings declined by US$1,185,000 or around 4.9% to US$23,005,000. Total bank borrowings amounted to US$36,247,000, US$563,000 or around 1.5% less than at the end of 2016. The borrowings were all denominated in US dollars. The proportions of short-term and medium-to-long-term bank borrowings were 36.5% and 63.5% respectively. Net finance cost during the period increased by about US$9,000 from the corresponding period last year.

Trade receivables were US$30,057,000, representing an increase of US$2,064,000 or around 7.4% when compared with the end of 2016. Around 93.1% of the trade receivables were due within 30 days. As at 30 June 2017, total inventory was US$94,490,000, up by US$29,208,000 or around 44.7% when compared to that in end of 2016. During the period, the Group increased the bulk purchases of agricultural raw materials, so the raw material inventory increased.

As the bank borrowings declined, the gearing ratio (total borrowings to total capital ratio) was 13.1%, lower than 13.2% at the end of 2016. Because cash exceeded borrowings, net gearing ratio (total borrowings less cash and deposits to total capital ratio) was –2.6%, higher than –18.5% at the end of 2016.

Current liabilities decreased sharply because of the decrease in short-term borrowings and payables during the period, so the current ratio rose from 4.04 at the end of 2016 to 4.63. The financial position of the Group has remained sound.

(2) Capital expenditure

During the reporting period, capital expenditure amounted to approximately US$10,884,000, US$7,968,000 more than the capital expenditure of US$2,916,000 in the first half of 2016.

(3) Exchange rate

The economy of Vietnam remained stable in the first half of the year, as the export volume significantly increased and inflation rose only moderately, so the country's foreign exchange reserve surged to a historical high, which can stabilise the exchange rate of the Vietnam Dong. The State Bank of Vietnam announced that the Vietnam Dong depreciated 1.2% in the first half of 2017, but the general bank exchange rate is similar to the end of last year and almost remained the same since the Lunar New Year. Many experts believe that the exchange rate of Vietnam Dong to the US will continue to be stable in the half of the year based on the current conditions in the country. But if the Federal Reserve Banks increases the interest rate in the second half of the year, the trade deficit of Vietnam will steadily widen, so the market consensus is that the Vietnam Dong may depreciate around 2% for the entire year.

The Group's subsidiaries in the PRC are mainly for domestic distribution and the transactions there are denominated in RMB. During 2016, the median exchange rate of the RMB depreciated 6%-6.6%. Stepping into 2017, the global economy has continued its recovery, the international financial market remained relatively stable, and the PRC economy has demonstrated a clear steady upward momentum. The stability, coordination and sustainability of economic development is strengthening, so the RMB will generally appreciate this year. As at 30 June, the exchange rate of the RMB against the US dollar increased by 2.51% in the first half of 2017.

(4) Earnings per share/Dividends

Basic earnings per share were 0.61 US cents during the period. The Board has resolved to declare the payment of an interim dividend of 0.307 US cents per share. The dividend payout ratio was 50%.

V. PROSPECTS

Looking ahead to the second half of 2017, in the face of the changing global backdrop and economic shifts, although most of the projections of global economic growth are cautiously optimistic, there has been no obvious sign of recovery in general economic and trading demand. As excessive capacity still exists in many commodities, the market is expected to be highly competitive with low prices amidst oversupply. Facing the uncertainties from the policies of large countries in the world, the global economic situation would likely become more complicated, which would create uncertainties for our operations as well.

Nevertheless, the Group has reinforced its operational structure in recent years, including securing a stable supply of raw materials, improving production efficiency, stabilising production costs, strengthening marketing and business development, developing new products, new markets and new customers. All of these efforts have brought initial success. Despite facing considerable uncertainty in the future, the Group will continue to adhere to its development strategies and adopt measures to ensure such strategies are well-implemented, including:

– Product lines will be restructured to raise the proportion of high value-added products. The number of low gross profit items will be reduced to maintain reasonable overall profitability of products.

– New products are to be developed while the Group explores new markets. The Group will increase the number of new agents and customers, enhance the existing distribution channels and maximise the branding efforts so as to further reinforce its business development.

– The Group will strengthen the procurement of critical materials in bulk quantity,to obtain a better price.

- The Group will continue to upgrade production technology in order to improve the production efficiency, and implement energy-saving projects at the same time.

- The Group will develop customised production techniques and enhance the production scale of new products by more effectively utilising its resources, collaborating with different industries and customers, conducting regular evaluations on partnership and working closely with customers. More products from third parties will be introduced to fulfill customers' needs in a segmented market and bolster offerings to niche markets.

- Based on the strategy of "co-opetition," the production base in Vietnam will be used to develop markets in ASEAN and FTA nations. This complementary relationship can boost the development of relevant businesses with added value.

- Business footholds will be set up in ASEAN countries to extend its business network from Vietnam, explore business opportunities for the Group's products, broaden its brand influence and eventually expand its business presence across the region.

- By strengthening its financial management, the Group can enhance efficiency and optimise the asset utilisation rate. Steps will also be taken to mitigate the risk of foreign exchange and interest rate fluctuations amidst the increased turbulence in financial markets.

The Group will maintain flexible at the operating level to cope with the rapidly changing business environment. Apart from maintaining fundamental operations, the Group will also devote greater efforts to formulating appropriate strategies for new environments. While the current situation presents many challenges, there are also still many opportunities. The management is confident that by implementing strategies cautiously and prudently based on its solid foundation and proactively capturing opportunities, the Group will achieve further advances and development in its operations and its business.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend for the six months ended 30 June 2017 of 0.307 US cents per share. The interim dividend will be paid on or before 12 October 2017 in HK dollar to shareholders whose names appear on the register of members of the Company on 29 September 2017. The HK$ equivalent of the interim dividend is 2.3926045 HK cents per share, which is based on the exchange rate of US$ against HK$ at US$1.00 to HK$7.7935 as quoted by The Hong Kong Association of Banks on 29 August 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 27 September 2017 to Friday, 29 September 2017 (both days inclusive), during such period no transfer of the Company's shares will be registered. In order to be eligible to receive the interim dividend for the six months ended 30 June 2017, unregistered holders of the Company's shares must lodge all transfer documents accompanied by the relevant share certificates with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Tuesday, 26 September 2017.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased or sold or redeemed any of the Company's shares during the six months ended 30 June 2017.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has made specific enquiries of all Directors to confirm that they have complied with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules of the Hong Kong Stock Exchange") during the reporting period up to 30 June 2017.

COMPLIANCE WITH APPENDIX 14 OF THE LISTING RULES OF THE HONG KONG STOCK EXCHANGE

The Company has complied with the provisions of the Corporate Governance Code ("CG Code") set out in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange during the reporting period up to 30 June 2017, save and except for the below code provision.

In respect of code provision E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting. Mr. YANG, Tou-Hsiung, the Chairman of the Board was not in the position to attend the annual general meeting of the Company held on 23 May 2017 due to business commitments.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited interim condensed consolidated financial information for the six months ended 30 June 2017. The Audit Committee comprises the four Independent Non-executive Directors of the Company.

PUBLICATION OF INTERIM REPORT

The Company's interim report for the six months ended 30 June 2017 containing all the relevant information required by Appendix 16 to the Listing Rules of the Hong Kong Stock Exchange will be dispatched to shareholders and published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.vedaninternational.com) in due course.

APPRECIATION

The Board would like to take this opportunity to express our sincere thanks to our shareholders for their support and to our staff for their commitment and diligence during the period.

By Order of the Board
Vedan International (Holdings) Limited
YANG, Kun-Hsiang
Executive Director and Chief Executive Officer

Hong Kong
29 August 2017

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

Executive Directors:–
Mr. YANG, Tou-Hsiung
Mr. YANG, Cheng
Mr. YANG, Kun-Hsiang
Mr. YANG, Chen-Wen
Mr. YANG, Kun-Chou

Non-executive Directors:–
Mr. HUANG, Ching-Jung
Mr. CHOU, Szu-Cheng

Independent non-executive Directors:–
Mr. CHAO, Pei-Hong
Mr. KO, Jim-Chen
Mr. CHEN, Joen-Ray
Mr. HSIEH, Lung-Fa