1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Company was incorporated in the Cayman Islands on 3rd September, 2002 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Pursuant to a group reorganisation, which was completed on 26th December, 2002 (the "Reorganisation"), the Company became the holding company of the subsidiaries comprising the Group. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 27th June, 2003 (the "Listing"). Further details of the Reorganisation are set out in the prospectus of the Company dated 17th June, 2003 (the "Prospectus").

The Reorganisation has been reflected in these interim accounts by regarding the Group comprising the Company and its subsidiaries as a continuing entity. Accordingly, the interim accounts for the six months ended 30th June, 2003 has been prepared using the merger basis of accounting and the consolidated results include the results of the subsidiaries comprising the Group for the six months ended 30th June, 2002 as if the current structure had been in existence throughout the period presented.

These unaudited condensed consolidated interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants ("HKSA").

The accounting policies and methods of computation used in the preparation of these interim accounts are consistent with those used in the preparation of the Accountants' Report as set out in Appendix I of the Prospectus except that the Group has changed its accounting policy on deferred taxation following the adoption of the revised SSAP 12 "Income Taxes" issued by the HKSA which is effective for accounting period commencing on or after 1st January, 2003. The changes to the Group's accounting policy on deferred taxation are set out below:

Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year/period, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.

The adoption of the SSAP 12 (revised) has had no significant impact to the accounts of the Group.

2. TURNOVER AND REVENUE

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 modified starch, glucose syrup, Monosodium Glutamate ("MSG"), soda and acid, and beverages. Revenues recognised during the period are as follows:

	Six months ended 30th June, 2003 US$'000	Six months ended 30th June, 2002 US$'000
Turnover		
Sale of goods	94,756	88,130
Other revenues		
Net income from sale of electricity	284	548
Interest income	47	58
Sale of scrap materials	120	361
	451	967
Total revenues	95,207	89,097

3. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Six months ended 30th June, 2003 US$'000	Six months ended 30th June, 2002 US$'000
Crediting		
Net exchange gains	40	155
Charging		
Cost of inventories	70,792	66,074
Amortisation of goodwill (included in administrative expenses)	54	54
Depreciation on fixed assets		
— Owned fixed assets	11,574	12,507
— Leased fixed assets	631	591
Operating leases in respect of land and buildings	40	43
Loss on disposal of fixed assets	24	—
Staff costs	3,206	2,728

4. TAXATION

Taxation in the consolidated profit and loss accounts comprised:

	Six months ended	
	30th June, 2003 US$'000	30th June, 2002 US$'000
Enterprise income tax (Note (a))	1,282	1,016
Deferred taxation	456	490
	1,738	1,506

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the applicable taxation rate for Vedan (Vietnam) Enterprise Corporation Limited ("Vietnam Vedan"), which is a major subsidiary of the Group, as follows:

	Six months ended	
	30th June, 2003 US$'000	30th June, 2002 US$'000
Profit before taxation	11,665	10,142
Calculated at taxation rate 15%	1,750	1,521
Expenses not deductible for tax purposes	27	69
Utilisation of previously unrecognised tax losses	(39)	(84)
Taxation charge	1,738	1,506

(a) Enterprise income tax ("EIT")

(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 rates for the Group's operation in Vietnam range from 15% to 20%, as stipulated in the subsidiaries' respective investment licenses.

(ii) *People's Republic of China (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 operations in the PRC is 18%.

4. TAXATION (Continued)

(a) Enterprise income tax ("EIT") (Continued)

(ii) *People's Republic of China (the "PRC") (Continued)*

In accordance with a circular issued by Xiamen local government, the PRC, Mao Tai Foods (Xiamen) Co. Ltd. ("Xiamen Mao Tai") is entitled to full exemption from EIT for the first two years and 50% reduction EIT for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years. Xiamen Mao Tai started to derive taxable income in the year ended 31st December, 2002 which is fully offset by the unexpired tax losses brought forward from previous years. Hence, Xiamen Mao Tai has not triggered its first profitable year for the above EIT exemption and reduction purposes.

(iii) *Singapore/Hong Kong*

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

(b) Value-added tax ("VAT")

The subsidiaries registered and operate in Vietnam and the PRC are subject to output VAT on the sales or transfer of goods. The applicable output VAT rates for the Group's operations in Vietnam range from 5% to 10%. The applicable output VAT rate for the Group's operations in the PRC is 17%. Input VAT paid on purchases of raw materials (excluding fixed assets) can be used to offset the output VAT levied on sales to determine the net VAT payable. VAT on exports is exempt.

5. DIVIDENDS

	Six months ended	
	30th June, 2003 US$'000	30th June, 2002 US$'000
Dividends distributed by Vietnam Vedan to its then shareholders, other than Burghley Enterprise Pte., Ltd.	—	2,345
2002 Final dividend of 0.666 US cents per ordinary share, paid	5,762	—
Preference dividend — redeemable convertible cumulative preference shares ("RCCPS")	344	—
	6,106	2,345
2003 Interim dividend of 0.321 US cents per ordinary share, proposed	4,852	—
	10,958	2,345

6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of US$9,927,000 (2002: US$8,636,000) less preference dividends of US$344,000 (2002: Nil).

The basic earnings per share is based on the weighted average number of 1,017,740,417 (2002: 1,120,747,481 deemed to be in issue) ordinary shares in issue during the period. In determining the weighted average number of ordinary shares in issue, a total of 1,120,747,481 ordinary shares were deemed to be in issue since 1st January, 2002 after taking into consideration of the effect of the capitalisation issue as detailed in note 13(a)(ii).

The calculation of diluted earnings per share for the six months ended 30th June, 2003 is based on the Group's profit attributable to shareholders of US$9,927,000. Diluted earnings per share for the six months ended 30th June, 2003 is based on 1,155,377,724 ordinary shares which is the weighted average number of ordinary shares deemed to be in issue as if all outstanding redeemable convertible cumulative preference shares ("RCCPS") had been converted into ordinary shares and after taking into consideration of the effect of the capitalisation issue as detailed in note 13(a)(ii).

Diluted earnings per share for the six months ended 30th June, 2002 was not presented as there were no dilutive potential ordinary shares.

7. CAPITAL EXPENDITURE

	Intangible assets US$'000	Fixed assets US$'000
Opening net book amount as at 1st January, 2003	946	221,952
Additions	—	740
Disposals	—	(24)
Amortisation/ depreciation charge	(54)	(12,205)
Closing net book amount as at 30th June, 2003	892	210,463

8. TRADE RECEIVABLES

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:

	As at 30th June, 2003 US$'000	As at 31st December, 2002 US$'000
Current	**12,453**	10,135
30 — 90 days	**2,876**	2,360
90 — 180 days	**1,423**	556
180 — 360 days	**918**	29
	17,670	13,080

9. DUE FROM SHAREHOLDERS

The amounts due represented a portion of the underwriting commission, legal and professional fees and other fees incurred in connection with the Listing, which are to be borne and payable by certain shareholders. The balance was settled in July 2003.

10. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	As at 30th June, 2003 US$'000	As at 31st December, 2002 US$'000
Current	8,021	6,558
30 — 90 days	1,235	1,023
90 — 180 days	543	846
180 — 360 days	3,352	2,638
	13,151	11,065

11. LONG-TERM LIABILITIES

	As at 30th June, 2003 US$'000	As at 31st December, 2002 US$'000
Long-term bank loans — secured	27,898	42,695
Obligations under finance leases	1,015	1,191
	28,913	43,886
Current portion of long-term liabilities	(10,204)	(24,386)
	18,709	19,500

At 30th June, 2003, the Group's bank loans were repayable as follows:

	As at 30th June, 2003 US$'000	As at 31st December, 2002 US$'000
Within one year	9,189	23,195
In the second year	8,176	6,560
In the third to fifth year	9,908	12,940
After the fifth year	625	—
	27,898	42,695

11. LONG-TERM LIABILITIES (Continued)

The Group's finance lease liabilities were repayable as follows:

	As at 30th June, 2003 US$'000	As at 31st December, 2002 US$'000
Within one year	1,036	1,271
Future finance charges on finance lease contracts	(21)	(80)
Present value of finance lease contracts	1,015	1,191

The present value of finance lease liabilities is as follows:

	As at 30th June, 2003 US$'000	As at 31st December, 2002 US$'000
Within one year	1,015	1,191

12. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using the principal taxation rates prevailing in the countries in which the Group operates.

The movement on the deferred tax liabilities account is as follows:

	Six months ended 30th June, 2003 US$'000	Year ended 31st December, 2002 US$'000
At 1st January	10,770	9,770
Deferred taxation charged to profit and loss account	456	1,000
At the end of the period/year	11,226	10,770

12. DEFERRED TAXATION (Continued)

Provided for in respect of:

	As at 30th June, 2003 US$'000	As at 31st December, 2002 US$'000
Accelerated depreciation allowances	11,607	11,135
Other temporary differences	(381)	(365)
	11,226	10,770

Deferred taxation has not been provided for any further taxes that would be payable on the remittance of the retained profits of the subsidiaries where there is currently no intention to remit these retained profits from these subsidiaries.

13. SHARE CAPITAL

	As at 30th June, 2003 US$'000	As at 31st December, 2002 US$'000
Authorised:		
10,000,000,000 (2002: 9,000,000,000) ordinary shares of US$0.01 each	100,000	90,000
Nil (2002: 1,000,000,000 RCCPS of US$0.01 each)	—	10,000
	100,000	100,000
Issued:		
1,456,000,000 (2002: 865,000,000) ordinary shares of US$0.01 each	14,560	8,650
Nil (2002: 125,000,000 RCCPS of US$0.01 each)	—	1,250
	14,560	9,900

(a) On 13th June, 2003, 125,000,000 RCCPS of US$0.01 each were redeemed at par for cash and 125,000,000 ordinary shares of US$0.01 each were issued at par for cash. Also on the same date, all the authorised RCCPS of US$0.01 each have been redesignated into ordinary shares of US$0.01 each of the Company.

On 27th June, 2003, 466,000,000 shares were issued and allotted in connection with the following transactions:

(i) 307,416,000 shares of US$0.01 each were issued to the public at a premium of approximately US$0.1041 for cash totalling US$35,077,000. The excess of the issue price over the par value of the shares was credited to the share premium account of the Company.

13. SHARE CAPITAL (Continued)

(ii) 158,584,000 shares of US$0.01 each were issued, alloted at par and credited as fully paid by way of the capitalisation of a sum of US$1,585,840 out of the credit of the share premium account of the Company.

(b) On 13th June, 2003, a share option scheme and a pre-IPO share option plan are approved pursuant to a written resolution of the Company.

(i) Under the share option scheme, the board of directors may at its discretion offer options to any directors, employees, business partners or their trustees of the Group which entitle them to subscribe for shares in aggregate not exceed 10% of the shares in issue from time to time. No share options were granted by the Company under the share option scheme during the period.

(ii) Under the pre-IPO share option plan ("Pre-IPO Share Option Scheme"), the board of directors may at its discretion offer options to any directors or employees of the Company to the Group and its subsidiaries which entitled them to subscribe for shares of the Company. On 13th June, 2003, 29,770,000 options were granted under the Pre-IPO Share Option Scheme. These options are exercisable in accordance with the terms of the Pre-IPO Share Option Scheme commencing on 13th June, 2004 and up to 12th June, 2008.

14. SEGMENT 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, and beverages.

(b) Geographical segments

In presenting information on the basis of geographical segment revenue is based on the geographical presence of customers.

	For the six months ended	
	30th June, 2003 US$'000	30th June, 2002 US$'000
Vietnam	**54,573**	44,930
The PRC	**8,814**	9,748
Japan	**23,102**	20,234
Taiwan	**3,357**	5,513
ASEAN countries (other than Vietnam)	**2,516**	2,101
Other regions	**2,394**	5,604
	94,756	88,130

15. COMMITMENTS

(a) Capital commitments

Capital commitments for fixed assets

	As at 30th June, 2003 US$'000	As at 31st December, 2002 US$'000
Contracted but not provided for	3,542	170

(b) Lease commitments

The Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	As at 30th June, 2003 US$'000	As at 31st December, 2002 US$'000
Not later than one year	80	80
Later than one year and not later than five years	320	320
Later than five years	2,415	2,455
	2,815	2,855

16. RELATED PARTY TRANSACTION

Parties are considered to be related if they have the ability, directly or indirectly, to control the parties or exercise significant influence over the Group in making financial and operating decisions, or vice versa, or where the Group and the parties are subject to common control or common significant influence.

(a) Significant related parties transactions, which were carried out in the normal course of the Group's business are as follows:

	For the six months ended	
	30th June, 2003 US$'000	30th June, 2002 US$'000
Sale of goods to		
— Vedan Enterprise Corporation ("Taiwan Vedan")	26,222	31,129
— Bosen Trading Limited ("Bosen")	—	2,037
— Shanghai Vedan Foods Company Limited ("Shanghai Vedan")	651	1,267
— Eastman Trading Limited ("Eastman")	—	252
Purchase of raw materials, spare parts and plant and machinery from Taiwan Vedan	834	940
Technology transfer fee and trademark license fee paid to Tung Hai Fermentation Industrial Co. Ltd.	855	827

16. RELATED PARTY TRANSACTION (Continued)

In the opinion of the directors of the Company, the above related party transactions were carried out in the ordinary course of business and in accordance with the terms of underlying agreements and/or the invoices issued by the respective parties.

(b) Balances with related parties

Except as disclosed in note 9, other balances with related parties are as follow:

	As at 30 June, 2003 US$'000	As at 31 December, 2002 US$'000
Due from related parties		
— Bosen	—	42
— Capron Group Limited	—	2,196
— Eastman	—	252
— Shanghai Vedan	269	812
— Taiwan Vedan	21,262	23,310
	21,531	26,612
Due to related parties		
— Bianco Trading Limited	—	1,139
— Concord Worldwide Holdings Limited	—	601
— High Capital Investments Limited	—	601
— King International Limited	—	804
— Taiwan Vedan	2,595	5,836
— Tung Hai Fermentation Industrial Co., Limited	—	527
— Mr. YANG Cheng	82	89
— Mr. YANG Tou Hsiung	79	79
— A close family member of certain executive directors of the Company	265	265
	3,021	9,941
Loans from related parties		
— Mr. YANG Cheng	—	1,729
— Close family members of certain executive directors of the Company	—	776
	—	2,505

Except for the amounts due from Shanghai Vedan and Taiwan Vedan, which are trade receivables and are repayable within their trade credit terms, all balances with related parties are unsecured, interests free and have no fixed terms of repayment.

17. SUBSEQUENT EVENTS

On 14th July, 2003, 55,472,000 ordinary shares of US$0.01 each were allotted and issued at a premium of approximately US$0.1041 each for cash totalling US$6,329,000.