



**VEDAN INTERNATIONAL (HOLDINGS) LIMITED**  
**味丹國際（控股）有限公司**  
*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock code: 2317)**

**SUMMARISED INTERIM RESULTS ANNOUNCEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2006**

**FINANCIAL HIGHLIGHTS**

	<b>Unaudited Six months ended 30 June 2006 US\$'000</b>	<b>Unaudited Six months ended 30 June 2005 US\$'000</b>	<b>Change</b>
Turnover	<b>141,473</b>	117,354	20.6%
Profit before taxation	<b>7,886</b>	7,167	10.0%
Profit attributable to shareholders	<b>6,051</b>	5,673	6.7%
Basic earnings per share (US cents)	<b>0.40</b>	0.37	8.1%
Diluted earnings per share (US cents)	<b>0.40</b>	0.37	
Interim dividend declared per share (US cents)	<b>0.200</b>	0.201	
(HK cents)	<b>1.560</b>	1.567	

**INTERIM RESULTS**

The board of directors (the “Directors”) 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 2006 together with the comparative figures for the corresponding period in the previous year.

**CONDENSED CONSOLIDATED INCOME STATEMENT**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2006**

**Unaudited**  
**Six months ended 30 June**

	<i>Note</i>	<b>2006</b> <i>US\$'000</i>	<b>2005</b> <i>US\$'000</i>
Turnover	3	<b>141,473</b>	117,354
Cost of sales		<b>(114,885)</b>	(93,993)
Gross profit		<b>26,588</b>	23,361
Other gains – net	4	<b>565</b>	1,724
Selling and distribution expenses		<b>(7,330)</b>	(7,627)
Administrative expenses		<b>(9,248)</b>	(8,647)
Operating profit	5	<b>10,575</b>	8,811
Finance costs – net	6	<b>(2,689)</b>	(1,644)
Profit before income tax		<b>7,886</b>	7,167
Income tax expense	7	<b>(1,791)</b>	(1,494)
Profit for the period		<b>6,095</b>	5,673
Attributable to:			
– equity holders of the Company		<b>6,051</b>	5,673
– minority interest		<b>44</b>	–
		<b>6,095</b>	5,673
		<i>US cents per share</i>	<i>US cents per share</i>
Earnings per share for profit attributable to equity holders of the Company			
– Basic	8	<b>0.40</b>	0.37
– Diluted	8	<b>0.40</b>	0.37
Dividends	9	<b>3,026</b>	3,060

**CONDENSED CONSOLIDATED BALANCE SHEET**  
*AS AT 30 JUNE 2006*

	<b>30 June</b>	<b>As at</b>
	<b>2006</b>	<b>31 December</b>
	<i>US\$'000</i>	<i>US\$'000</i>
	<b>Unaudited</b>	<b>Audited</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	221,154	216,187
Land use rights	6,106	5,583
Intangible assets	18,694	19,241
Held-to-maturity investments	3,233	3,361
<b>Total non-current assets</b>	<u>249,187</u>	<u>244,372</u>
<b>Current assets</b>		
Inventories	76,070	51,993
Trade receivables	35,445	35,829
Prepayments and other receivables	5,276	6,287
Tax recoverable	483	1,272
Due from a minority shareholder	–	3,600
Cash and cash equivalents	15,966	27,987
<b>Total current assets</b>	<u>133,240</u>	<u>126,968</u>
<b>Total assets</b>	<u>382,427</u>	<u>371,340</u>
<b>EQUITY</b>		
<b>Capital and reserves attributable to equity holders of the Company</b>		
Share capital	15,228	15,228
Retained earnings		
– Proposed dividends	3,026	1,708
– Others	219,421	216,119
	<u>237,675</u>	<u>233,055</u>
<b>Minority interest</b>	3,644	3,600
<b>Total equity</b>	<u>241,319</u>	<u>236,655</u>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Long-term bank loans	26,916	29,706
Deferred taxation	11,885	12,026
Long-term payable to related parties	10,698	12,560
<b>Total non-current liabilities</b>	<u>49,499</u>	<u>54,292</u>

<b>Current liabilities</b>		
Trade payables	13,385	18,520
Accruals and other payables	8,177	11,578
Due to related parties	3,474	274
Short-term bank loans		
– Secured	2,126	500
– Unsecured	54,157	41,101
Current portion of long-term bank loans	10,227	8,346
Taxation payable	63	74
<b>Total current liabilities</b>	<b>91,609</b>	<b>80,393</b>
<b>Total liabilities</b>	<b>141,108</b>	<b>134,685</b>
<b>Total equity and liabilities</b>	<b>382,427</b>	<b>371,340</b>
<b>Net current assets</b>	<b>41,631</b>	<b>46,575</b>
<b>Total assets less current liabilities</b>	<b>290,818</b>	<b>290,947</b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 1. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2006 has been prepared in accordance with HKAS 34 “Interim financial reporting”. The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

### 2. Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2005.

The following new standards, amendments to standards and interpretations are mandatory for annual periods beginning on or after 1 January 2006.

- Amendment to HKAS 19, “Actuarial gains and losses, group plans and disclosures”
- Amendment to HKAS 39, Amendment to “The fair value option”
- Amendment to HKAS 21, Amendment “Net investment in a foreign operation”
- Amendment to HKAS 39, Amendment “Cash flow hedge accounting of forecast intragroup transactions”
- Amendment to IAS/HKAS 39 and IFRS/HKFRS 4, Amendment “Financial guarantee contracts”
- HKFRS 6, “Exploration for and evaluation of mineral resources”
- HK(IFRIC)-Int 4, “Determining whether an arrangement contains a lease”
- IFRIC/HK(IFRIC)-Int 5, “Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds”
- IFRIC/HK(IFRIC)-Int 6, “Liabilities arising from participating in a specific market – waste electrical and electronic equipment”

The adoption of the above new standards, amendments to standards and interpretation have had no significant impact to the accounting policies of the Group.

### 3. 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 segment

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

	Six months ended	
	30 June 2006	30 June 2005
	US\$ '000	US\$ '000
Vietnam	74,765	63,909
The PRC	20,203	16,958
Japan	28,107	25,112
Taiwan	3,380	1,408
ASEAN countries (other than Vietnam)	12,564	6,158
Other regions	2,454	3,809
	<u>141,473</u>	<u>117,354</u>

### 4. Other gains – net

	Six months ended	
	30 June 2006	30 June 2005
	US\$ '000	US\$ '000
Net loss from sales of electricity	(5)	(85)
Sales of scrap materials	192	199
Vietnam tax refund with respect to reinvestment in prior years	–	1,200
Loss on disposal of property, plant and equipment	(19)	(7)
Net exchange gains/(losses)	43	(90)
Others	354	507
	<u>565</u>	<u>1,724</u>

### 5. Operating profit

Operating profit is arrived at after charging the following:

	Six months ended	
	30 June 2006	30 June 2005
	US\$ '000	US\$ '000
Cost of inventories (include depreciation charge and staff costs)	114,885	93,993
Amortisation of trademark (included in administrative expenses)	605	403
Amortisation of land use rights	71	4
Depreciation on property, plant and equipment	13,268	12,824
Operating leases in respect of land and buildings	60	60
Staff costs	7,379	6,632
	<u>146,468</u>	<u>126,216</u>

## 6. Finance costs - net

	Six months ended	
	30 June 2006 US\$'000	30 June 2005 US\$'000
Interest on bank loans and overdraft	2,675	1,656
Amortised cost on long-term payable to a related party	283	188
Interest income	(269)	(200)
	<u>2,689</u>	<u>1,644</u>

## 7. Income tax expense

Income tax expense charged to the consolidated income statement represents:

	Six months ended	
	30 June 2006 US\$'000	30 June 2005 US\$'000
Enterprise income tax	1,932	1,426
Deferred income tax	(141)	68
	<u>1,791</u>	<u>1,494</u>

### (i) Vietnam

Enterprise income tax ("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 10% to 25%, as stipulated in the respective subsidiaries' investment licenses.

### (ii) The PRC

EIT is provided on the basis of the statutory profit for financial reporting purposes, adjusted for income and expenses items which are not assessable or deductible for income tax purposes. The applicable EIT rates for the Group's operation in the PRC range from 15% to 27%.

Mao Tai Foods (Xiamen) Co, Ltd, Shanghai Vedan Enterprise Co., Ltd and Shandong Vedan Snowflake Enterprise Co., Ltd ("Shandong Snowflake") are 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. These entities have 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 estimated assessable profit arising in or derived from Singapore/Hong Kong during the periods.

## 8. Earnings per share

	Six months ended	
	30 June 2006 US cents per share	30 June 2005 US cents per share
Earnings per share for profit attributable to equity holders of the Company		
– Basic	0.40	0.37
– Diluted	0.40	0.37

## 9. Dividends

	Six months ended	
	30 June 2006	30 June 2005
	US\$'000	US\$'000
2005 Final dividend of 0.112 US cents (2004: Final dividend 0.453 US cents) per ordinary share, paid	1,708	6,895
2006 Interim dividend of 0.200 US cents (2005: Interim dividend 0.201 US cents) per ordinary share, proposed	3,026	3,060
	<u>4,734</u>	<u>9,955</u>

### INTERIM DIVIDEND AND CLOSE OF REGISTER

The Board of Directors has resolved to declare an interim dividend of 0.200 US cents (1.560 HK cents) per share for the year ending 31 December 2006.

The share register will be closed from 6 October to 13 October 2006, both days inclusive, during which period no transfer of shares will be registered. Dividend warrants will be dispatched to shareholders on or about 19 October 2006. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Register, Tengis Limited of 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 5 October 2006.

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Business Overview

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

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

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

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

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

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

### **Prospects**

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

### **Business**

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

## **Production and R&D**

1. Strengthen production technology by technical breakthrough to take to another height. Improve quality and add value to the products.
2. Flexible adoption of different carbohydrates as raw material to save production cost.
3. Accelerate the development of application technology of new products to create added value and raise profit.
4. Continue to develop different carbohydrate substitutes to secure stable supply of raw materials.

## **Finance**

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

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

## **Financial Review**

As at 30 June 2006, the Group's cash and bank savings amounted to US\$ 15,966,000, decreased by US\$ 12,021,000 from that as at the end of 2005. The decline was mainly due to the injection of US\$8,400,000 as capital into the Joint Venture Company Shandong Vedan Snowflake in early 2006. Our bank loans increased by US\$13,773,000 to US\$93,426,000 compared with the year-end of last year, mainly due to the substantial inventory kept amounted to US\$24,077,000. Inventory amount surged because the Group harvested and purchased more cassava and the average unit price of molasses was 30% higher than that of the same period last year. Moreover, with the selling price of MSG set to increase on 1 June, wholesalers ordered in advance before the end of May. Therefore, overall inventory increased from comparably 14% of the Group's total assets (US\$ 51,993,000) in late 2005 to 19.9% (US\$ 76,070,000) in the period under review. Account receivable was US\$35,445,000 as at 30 June 2006, a slight 1.07% lower than that as at the end of last year, and falling slightly from a comparable 9.6% of the Group's total assets to 9.3%. Current ratio dropped from 1.65 to 1.45 compared with the same period last year, resulting from the increase in short-term loans.

Most of our bank loans are in US dollars. In the period, total costs of bank loans increased from 4.9% per annum in 2005 to 6.3% per annum, caused mainly by the rising of the US interest rate. The proportion of medium- /long-term loans to short-term loans was 40% to 60%. Gearing ratio (total bank loans/ shareholders fund) as at 30 June 2006 was 38.7%, while net gearing ratio was 32.1%.

## **EMPLOYEE INFORMATION**

At 30 June, 2006, the Group has 3,456 employees of whom 2,711 are based in Vietnam, 730 are based in the PRC, 14 are based in Taiwan and 1 is based in Hong Kong.

The employees are remunerated based on their work performance, professional experiences and prevailing industry practices. The Group's employee remuneration policy and package are periodically reviewed by the management. Apart from pension funds, discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

## **COMPLIANCE OF THE MODEL CODE FOR DIRECTORS' SHARE DEALING**

All Directors have confirmed, following specific enquiry by the Company, that they complied with the required standards set out in the Model Code for Directors' Share Dealing as set out in Appendix 10 to the Listing Rules throughout the review period.

## **CORPORATE GOVERNANCE AND COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company is committed to building and maintaining high standards of corporate governance practices. The Company has complied with all requirements set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules throughout the six months ended on 30 June 2006.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed with 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 financial report for the six months ended 30 June 2006. In addition, the condensed consolidated financial statement of the Company for the six months ended 30 June 2006 have been reviewed by our auditors, Messrs. PricewaterhouseCoopers in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. The Audit Committee comprises the three independent non-executive directors of the Company.

## **PUBLICATION OF FINANCIAL INFORMATION**

The Company's 2006 interim report containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be available on the website of the Stock Exchange (<http://www.hkex.com.hk>) and our website (<http://www.vedaninternational.com>) in due course.

## **APPRECIATION**

The board of directors 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  
**YANG Kun-Hsiang**  
*Director and Chief Executive Officer*

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

*Executive Directors:–*

Mr. YANG, Tou-Hsiung  
Mr. YANG, Cheng  
Mr. YANG, Kun-Hsiang  
Mr. YANG, Chen-Wen  
Mr. WANG, Joel J.

*Non-executive Directors:–*

Mr. HUANG, Ching-Jung  
Mr. CHOU, Szu-cheng

*Independent non-executive Directors:–*

Mr. CHAO, Pei-Hong  
Ms. CHUANG, Shu-Fen  
Mr. KO Jim-Chen

Hong Kong  
29 August 2006

Please also refer to the published version of this announcement in South China Morning Post.