



Wah Yuen Holdings Limited

華園控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2349)

Announcement of Annual Results for the year ended 31 December, 2004

The Directors of Wah Yuen Holdings Limited (the “Company”) are pleased to announce the audited results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December, 2004 with comparative figures in previous year as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER, 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
Turnover	2	210,454	198,934
Cost of sales		(139,040)	(117,065)
Gross profit		71,414	81,869
Other operating income	2	1,472	584
Selling and distribution expenses		(21,678)	(20,225)
Administrative expenses		(24,721)	(26,969)
Profit from operations	3	26,487	35,259
Finance costs	4	(9,803)	(8,401)
Profit before taxation		16,684	26,858
Income tax expense	5	(3,598)	(5,516)
Profit before minority interests		13,086	21,342
Minority interests		–	(1,199)
Profit for the year		13,086	20,143
Dividends	6	4,000	3,000
Earnings per share	7		
– Basic		6.54 cents	11.76 cents
– Diluted		6.52 cents	N/A

Notes:

1. GROUP REORGANISATION AND BASIS OF PREPARATION OF COMPARATIVE FINANCIAL STATEMENTS

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 9 October, 2002.

Pursuant to a group reorganisation (the “Group Reorganisation”) to rationalise the group structure in preparation for the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the group (the “Group”) on 3 June, 2003.

The Group Reorganisation principally involved the exchange of fully-paid shares of the Company with all the issued shares of WYFI. Details of the Group Reorganisation are set out in the prospectus (the “Prospectus”) issued by the Company dated 12 June, 2003.

The shares of the Company were listed on the Stock Exchange on 25 June, 2003.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group for the year ended 31 December, 2003 were prepared on a merger basis in accordance with Statement of Standard Accounting Practice 27 “Accounting for group reconstructions” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The Company is an investment holding company. The Company’s subsidiaries are principally engaged in the production and distribution of snack food and convenience frozen food products.

2. TURNOVER AND OTHER OPERATING INCOME

Turnover represents the amount received and receivable for goods sold, less returns and allowances.

	2004 HK\$'000	2003 HK\$'000
Sales of goods to outside customers	210,454	198,934
Other operating income:		
Interest income from bank deposits	513	258
Sundry income	959	326
	1,472	584
Total income	211,926	199,518

3. PROFIT FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Staff costs, including directors’ emoluments	22,204	21,212
Retirement benefits scheme contributions, including contributions for directors	1,326	853
Total staff costs	23,530	22,065
Allowance for bad and doubtful debts	–	2,952
Auditors’ remuneration	636	580
Depreciation		
– owned assets	8,270	7,180
– assets held under finance lease	538	616
Loss on disposal of property, plant and equipment	48	2
Operating lease rentals paid in respect of rented premises	1,916	2,260

4. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest expense on bank and other borrowings wholly repayable within five years	9,229	7,792
Interest expense on obligations under finance leases	574	609
	9,803	8,401

5. INCOME TAX EXPENSE

	2004 HK\$'000	2003 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
– current year	561	–
– overprovision in prior year	–	(57)
PRC Enterprise Income Tax		
– current year	2,501	5,066
– underprovision in prior year	270	376
	3,332	5,385
Deferred tax charge for the year	266	131
	3,598	5,516

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the year.

In accordance with the relevant tax laws and regulations of the PRC, certain of the Group’s PRC subsidiaries are exempted from PRC Enterprise Income Tax for two years starting from the first profit making year after utilisation of the carried forward tax losses and eligible for a 50% relief of the PRC Enterprise Income Tax for the following three years.

The tax charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	16,684	26,858
Tax at PRC Enterprise Income Tax rate of 33% (2003: 33%)	5,506	8,863
Tax effect of expenses not deductible for tax purpose	1,981	1,929
Tax effect of income not taxable for tax purpose	(200)	–
Underprovision in respect of prior year	270	319
Tax effect of tax losses not recognised	151	635
Utilisation of losses not previously recognised	(288)	–
Effect of tax exemption granted to PRC subsidiaries	(3,530)	(6,114)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(292)	(116)
Tax expense for the year	3,598	5,516

6. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
2003 interim dividend of HK1.5 cents per share	–	3,000
2003 final dividend of HK2 cents per share	4,000	–
	4,000	3,000

The directors of the Company have declared and paid a 2003 final dividend of HK2 cents per share amounting to HK\$4,000,000 to the shareholders of the Company whose names appeared in the register of members on 27 May, 2004.

The directors do not recommend the payment of a dividend for the year.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the year is based on the following data:

	2004 HK\$	2003 HK\$
Earnings:		
Net profit for the year and earnings for the purpose of basic and diluted earnings per share	13,086,000	20,143,000
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	200,000,000	171,232,877
Effect of dilutive potential ordinary shares in respect of share options	590,164	N/A
Weighted average number of ordinary shares for the purpose of dilutive earnings per share	200,590,164	N/A

The weighted average number of shares for the year ended 31 December, 2003 was determined on the assumption that the Group Reorganisation as described in note 1 had been completed on 1 January, 2003.

MANAGEMENT DISCUSSION & ANALYSIS

INDUSTRY OVERVIEW

Rapid economic development and continuously improving living standards have expedited the demand for quality, diversified and value-for-money packaged food products that suit the needs of urban lifestyle. In 2004, the continued rising inflation led to the rise in raw material prices. As such, the unfavourable market conditions brought forth by increasing production costs imposed immense pressure on product pricing and affected the development of the industry.

BUSINESS REVIEW

Wah Yuen is the leading food manufacturer, distributor and retailer in the Hong Kong and PRC markets, producing and offering over 200 types of top quality snack products with a unique Asian flavour under three brands, namely Wah Yuen, Rocco and 采楓, and the OEM model. The Group also produces convenience frozen food products under the brand name Wah Yuen and under the OEM model.

Hong Kong Market

In 2004, despite keen market competition, the Group’s business development in the Hong Kong market maintained sustainable growth, amidst Hong Kong’s favourable economic conditions, increasing numbers of Mainland tourists, as well as strengthening of our marketing and promotional efforts.

By leveraging on its extensive sales and distribution network spanning 2,300 retail outlets in Hong Kong, long-established and renowned brand identity and diversified quality products, Wah Yuen continued to be one of the most popular packaged food brands in Hong Kong.

During the year under review, sales in the Hong Kong market amounted to approximately HK\$115,785,000, representing a growth of 20% and accounting for approximately 55% of the Group’s total turnover. The encouraging growth in sales was mainly attributable to the successful market launch of various new products and the development of existing and new sales channels.

In 2004, the Group further extended its comprehensive range of packaged snack food and convenience frozen food products by launching a number of innovative products, such as cookies, Chinese sausages, moon cakes with new creative designs and a series of new Chinese dim sum, all of which received positive market response. In 2004, Wah Yuen also participated in the 39th Hong Kong Brands & Products Expo and obtained a satisfactory result.

In addition, with the view of strengthening its market presence and enhancing sales performance, Wah Yuen proactively extended our existing network while developing potential sales channels and achieved impressive progress. The Group successfully expanded its sales network for convenience frozen food products, which established an ideal platform for business growth.

The PRC Market

Wah Yuen’s products are mainly sold under the brand names of “Wah Yuen”, “Rocco” and “采楓” through its well-established distribution network spanning over 250 cities in 30 provinces. As at 31 December 2004, the Group’s branch offices were strategically located in Beijing, Shenyang, Changchun, Wuhan, Changsha and Nanning.

In 2004, the further opening of the PRC market upon its entry into the WTO, lower production costs and abundant work force attracted numerous new market entrants, which further intensified the already keen market competition there, thus triggering an intense price war. Together with the increasing prices for raw materials, the Group experienced different challenges during the year.

As a result of the difficult business environment, the Group’s sales in the PRC for the year ended 31 December 2004 amounted to approximately HK\$94,669,000, accounting for approximately 45% of the Group’s total turnover. Sales of snacks under all three brand names recorded a decrease of approximately 8% due to severe market competition.

Despite the drop in sales of snacks, the Group’s introduction of its convenience frozen food products to the PRC market during the first half of the year maintained stable progress. The Group endeavoured to consolidate its relationship with local supermarkets and convenience stores and stepped-up its sales promotion, with the view of establishing an extensive distribution network for future growth.

By leveraging on its prominent strengths, unrivalled product quality and reputable brand awareness, Wah Yuen was accredited as one of the Top 100 Private Enterprises in Guangzhou in 2004, demonstrating the Group’s accomplishments in extending its business reach to the PRC market.

Overseas Market

While consolidating its business foundation and propelling product development, the Group successfully tapped into the Japanese market during the fourth quarter of 2004 and achieved substantial growth.

During the year under review, Wah Yuen introduced several types of convenience frozen food products, namely Hong Kong Style Fried Rice and Curry Fried Rice, and a series of Chinese dim sum into the Japanese market. For the period between October and December, sales of the convenience frozen food products recorded satisfactory performance and it is expected that the Japanese market will become a new business growth driver, expediting the Group’s profitability.

Production Facilities

As at 31 December 2004, the Group has three production facilities in Hong Kong and the Huadu District, Guangzhou, Guangdong Province. Utilising 10 efficient production lines, the Group manufactures preserved meats, convenience frozen food products, flour, preserved fruits and nuts, seasonings and other products. During the year under review, the Group’s production facilities maintained smooth operation.

With the accreditation of the Hazard Analysis and Critical Control Point certificate (HACCP) as well as the ISO 9001 and ISO 9002 certificates, the Group is well equipped in its continual efforts to maintain excellent quality.

Future Prospects

Looking ahead, the Group is dedicated to fortifying its leading market position and increasing its market share by implementing a series of business strategies.

With the overwhelming response received, the Group expects that sales of new snack food products, such as cookies and the different tastes of fried dough, will further increase, generating remarkable contribution to the Group. Meanwhile, Wah Yuen plans to introduce two brand new series of preserved fruits and nuts, namely “Healthy Series” and “Sweet’n Sour Series”, in 2005.

In addition to snack food products, the Group will also launch a number of new convenience frozen food products, such as fried rice, dim sum and packaged convenience food (饅菜包)。Upon the Group’s success in extending its business reach to the Japanese market, Wah Yuen is confident of the Japanese market’s immense growth potential. The Group will continue to develop new products to cater to ever-changing customer tastes and needs, so as to capture any arising business opportunities.

Along with diversifying and enhancing its product portfolio, the Group will continue to strengthen its marketing and promotion efforts while maintaining intimate relationships with major distributors and retail chains to further broaden its business reach in Hong Kong, the PRC and Japan.

By leveraging on its extensive sales and distribution network, long established business foundation, comprehensive product mix, effective marketing strategy and stringent quality control, Wah Yuen is committed to becoming a leading unique one-stop food enterprise and introducing more quality products to food lovers worldwide.

FINANCIAL REVIEW

The Group’s turnover for the year ended 31 December 2004 amounted to HK\$210,454,000, representing a slight growth of 6% as compared to HK\$198,934,000 for the previous year. The Group’s gross profit and profit attributable to shareholders for the year ended 31 December 2004 reached HK\$71,414,000 and HK\$13,086,000 respectively.

Sales of dried meat products which accounted for 51% of total turnover were the major source of the Group’s revenue. Sales of convenience frozen food products, flour products and preserved fruits and nuts products accounted for approximately 19%, 8% and 4% respectively of the total turnover, while the remaining was attributable to other products. These figures were similar to that of the previous year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2004, the Group had total assets of HK\$348,430,000 and its total current assets were HK\$239,767,000. As at that date, the current and non-current liabilities of the Group totaled to HK\$170,382,000 and HK\$46,007,000 respectively. The Group’s bank borrowings amounted to HK\$164,441,000 (2003: HK\$154,386,000). Most of these bank borrowings were denominated in Hong Kong dollars and Renminbi and bearing floating interest rates. As at 31 December 2004, the gearing ratio of the Group was 37% (2003: 34%), calculated on the basis of total borrowings less cash over total assets at that date.

EXPOSURE TO FLUCTUATION IN FOREIGN EXCHANGE

The Group’s monetary assets and liabilities are denominated in Hong Kong dollars and Renminbi which were relatively stable during the year. The Group is not exposed to any other significant exchange risk.

CAPITAL EXPENDITURE

During the year, the Group invested approximately HK\$11,751,000 in fixed assets, of which 23% was used for purchasing production plant and machinery, 44% for renovation of production facilities and the remaining related to other assets.

As at 31 December 2004, the Group had capital commitments of approximately HK\$6,627,000 in respect of acquisition of new machinery and renovation of a new production line.

CHARGE ON ASSETS

As at 31 December 2004, certain assets of the Group with aggregate carrying value of HK\$145,204,000 were pledged to banks to secure banking facilities granted to the Group.

EMPLOYEES

As at 31 December 2004, total number of employees of the Group were approximately 72 in Hong Kong (2003: 85), and approximately 865 in the PRC (2003: 821). The Group offers a comprehensive remuneration and benefit package to its employees. In addition, share option and discretionary bonuses are also granted to eligible staff based on the performance of the individual as well as the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries, purchased, sold or redeemed any of the Company’s listed securities for the year ended 31 December, 2004.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the financial reporting matters, including the audited financial statements, relating to the preparation of the financial statements for the year ended 31 December, 2004. The audit committee comprises three members, Mr. Ip Shing Tong, Francis and Mr. Ku Siu Fung, Stephen, who are independent non-executive directors of the Company and Mr. Ngai Chun Kong, Stephen who is non-executive director of the Company.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the year ended 31 December, 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. With the exception that all non-executive directors of the Company were not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company’s Articles of Association.

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE’S WEBSITE

The annual report of the Group for the year ended 31 December, 2004 containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules, which was in force prior to 31 March 2004 and remain applicable to results announcements in respect of accounting periods commencing before 1 July 2004 under the transitional arrangement, will be published on the Stock Exchange’s website (<http://www.hkex.com.hk>) in due course.

By Order of the Board
Wah Yuen Holdings Limited
But Ka Wai
Chairman

Hong Kong, 28 April, 2005

As at the date of this announcement, the directors of the Company are as follows:

Mr. But Ching Pui (Honourary Chairman), Mr. But Ka Wai (Chairman), Mr. But Chai Tong (Vice Chairman), Mr. Lai Wing Kuen (Director), Mr. Chu Kin Wah (Director), Ms. Leung Wai Ling (Non-executive Director), Mr. Ngai Chun Kong, Stephen (Non-executive Director), Mr. Cheung Yu Yan, Tommy (Independent Non-executive Director), Mr. Ip Shing Tong, Francis (Independent Non-executive Director), and Mr. Ku Siu Fung, Stephen (Independent Non-executive Director)