



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 UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2005

INTERIM RESULT

The directors of Wah Yuen Holdings Limited (the “Company”) are pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2005 with comparative figures for the corresponding period in 2004 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2005	2004
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Notes			
Turnover	3	101,633	89,207
Cost of sales		(65,815)	(54,169)
Gross profit		35,818	35,038
Other operating income		333	431
Selling and distribution expenses		(10,334)	(9,912)
Administrative expenses		(11,856)	(11,831)
Profit from operations		13,961	13,726
Finance costs		(4,194)	(4,762)
Profit before taxation		9,767	8,964
Taxation	5	(1,678)	(1,794)
Profit before minority interests		8,089	7,170
Minority interests		-	(400)
Profit attributable to shareholders		8,089	6,770
Dividends	6	-	4,000
Earnings per share	7		
- Basic		4.0 cents	3.4 cents
- Diluted		3.8 cents	-

CONDENSED CONSOLIDATED BALANCE SHEET

	As at 30 June 2005	As at 31 December 2004
	HK\$'000	HK\$'000
	(unaudited)	(Restated) (audited)
NON-CURRENT ASSETS		
Property, plant and equipment	109,762	103,844
Land use rights	1,895	1,979
Deposits for acquisition of property, plant and equipment	-	2,840
	111,657	108,663
CURRENT ASSETS		
Inventories	40,071	45,981
Trade and other receivables	140,160	141,407
Tax recoverable	403	403
Loan receivable	599	599
Pledged bank deposits	21,575	26,560
Bank balances and cash	25,471	24,817
	228,279	239,767
CURRENT LIABILITIES		
Trade and other payables	23,967	32,826
Obligation under finance leases	7,789	7,254
Taxation	1,858	1,374
Borrowings	118,880	128,928
	152,494	170,382
NET CURRENT ASSETS	75,785	69,385
TOTAL ASSETS LESS CURRENT LIABILITIES	187,442	178,048
NON-CURRENT LIABILITIES		
Obligation under finance leases	4,348	4,011
Borrowings	42,564	41,599
Deferred tax liabilities	400	397
	47,312	46,007
	140,130	132,041
CAPITAL AND RESERVES		
Share capital	2,000	2,000
Reserves	138,130	130,041
	140,130	132,041

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Basis of preparation and principal accounting policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and basis of computation used in the preparation of these interim financial statements are the same as those used in the Group’s audited financial statements for the year ended 31 December 2004, except that the Group has changed certain of its accounting policies mentioned in note 2 below following its adoption of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) which have become effective for accounting periods commencing on or after 1 January 2005.

2. Impact of adopting new HKFRSs

The following HKFRSs have been adopted for the first time in the preparation of the current period’s unaudited condensed consolidated interim financial statements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKAS 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 28, 33, 36, 37, 38, 40, HKFRS 2, 3 and HK(SIC)-Int 21 has had no material impact on the Group’s accounting policies. The impact of adopting the other HKFRSs is summarised as follows:

- (i) The adoption of HKAS 17 “Leases” has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously classified as “property, plant and equipment”, and were carried at cost less accumulated depreciation and impairment. Following the adoption of HKAS 17, a lease of land and building is split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The land lease prepayment is stated at cost and amortised over the period of the lease. Whereas the leasehold building is stated at cost less accumulated depreciation and impairment. The land element of the leasehold properties was previously included in “land use rights and buildings in the PRC” and is now disclosed as “land use rights”. The adoption of HKAS 17 resulted in:

	As at 30 June 2005	As at 31 December 2004
	HK\$'000	HK\$'000
Decrease in property, plant and equipment	(1,895)	(1,979)
Increase in land use rights	1,895	1,979

- (ii) The adoption of HKAS 32 “Financial Instruments: Disclosures and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement” has resulted in a change in accounting policy relating to the classification of financial assets and liabilities and their measurement. HKAS 32 requires retrospective application while HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities on a retrospective basis.

Accounts and other receivables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method, less provision for impairment. The amount of the provision is the difference between the asset’s carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate. Accounts and other receivables were previously carried at cost less impairment, if any.

Borrowings are now recognised initially at fair value, net of transaction costs incurred. They are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings were previously carried at cost.

The above changes in accounting policy do not have any material financial effect on the Interim Financial Report.

- (iii) Share-based Payments
HKFRS 2 “Share-based Payment” requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares (“equity-settled transactions”), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (“cash-settled transactions”). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors’ and employees’ share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January, 2005. In accordance with the relevant transitional provision, the Group has not applied HKFRS 2 to those share options granted on or before 7th November, 2002 and those share options that were granted after 7th November, 2002 but were vested before 1st January, 2005. Because there were no unvested share options at 1st January, 2005, comparative figures for 2004 need not be restated.

3. Segment information

In accordance with the Group’s internal financial reporting, the Group has determined that geographical segments are its primary reporting format.

(a) Business segment

The Group is principally engaged in the production and distribution of snack food and convenience frozen food products which constitute one single business segment throughout the period.

(b) Geographical segment

The Group’s operations and assets are located in Hong Kong and elsewhere in the People’s Republic of China (the “PRC”). Geographical segment information is based on the location of its assets, and the location of its assets is not different from the location of its customers.

	For the six months ended 30 June 2005			
	Hong Kong	The PRC	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER				
External sales	55,994	45,639	-	101,633
Inter-segment sales	-	8,163	(8,163)	-
Total turnover	55,994	53,802	(8,163)	101,633
SEGMENT RESULTS	3,702	9,926	-	13,628
Unallocated corporate income				333
Finance costs				(4,194)
Taxation				(1,678)
Profit attributable to shareholders				8,089

	For the six months ended 30 June 2004			
	Hong Kong	The PRC	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER				
External sales	46,070	43,137	-	89,207
Inter-segment sales	-	4,842	(4,842)	-
Total turnover	46,070	47,979	(4,842)	89,207
SEGMENT RESULTS	3,248	10,047	-	13,295
Unallocated corporate income				431
Finance costs				(4,762)
Taxation				(1,794)
Minority interests				(400)
Profit attributable to shareholders				6,770

4. Depreciation and amortisation

During the period, charged against profit from operations was depreciation and amortisation of approximately HK\$2,862,000 (2004: approximately HK\$2,911,000) in respect of the Group’s property, plant and equipment.

5. Taxation

	For the six months ended 30 June	
	2005	2004
	HK'000	HK'000
The charge comprises:		
Hong Kong profits tax	130	241
PRC income tax		
- current period	1,472	1,119
- under provision in prior year	73	278
	1,675	1,638
Deferred taxation	3	156
	1,678	1,794

Hong Kong profits tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profit during the period.

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 are eligible for a 50% relief of the PRC enterprise income tax for the following three years.

6. Dividends

	For the six months ended 30 June	
	2005	2004
	HK'000	HK'000
2004 final dividend of Nil (2003 final: HK2 cents) per share	-	4,000
	-	4,000

Notes:

- (a) The final dividends of the year ended 31 December 2004 and 31 December 2003 of Nil and HK\$4,000,000 respectively, were approved after the balance sheet date. Under the Group’s accounting policy, they were charged in the periods in which they were proposed and approved.
- (b) The board of directors has resolved not to declare any interim dividend for the six months ended 30 June 2005 (2004 interim dividend: Nil).

7. **Earnings per share**

The calculation of basic earnings per share and diluted earnings per share are based on the consolidated profit attributable to shareholders of the Company for the period of approximately HK\$8,089,000 (2004: approximately HK\$6,770,000).

The basic earnings per share is based on the weighted average of 200,000,000 shares (2004: 200,000,000 shares) in issue during the six months ended June 30, 2005.

The diluted earnings per share is based on the weighted average of 212,000,000 shares (2004: 200,591,781 shares) deemed to be issued if all outstanding share option granted under the share option scheme of the Company had been exercised.

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2005, the Group’s turnover amounted to approximately HK\$101,633,000, representing an encouraging growth of 13.93% as compared with that for the corresponding period in the previous year. Gross profit margin was 35.24%, a slight increase when compared with 33.93% at the end of 2004, which is mainly attributable to the implementation of effective and stringent cost control measures. Net profit posted a significant increase of approximately 19.50% to HK\$8,089,000 as compared to HK\$6,770,000 for the corresponding period in the previous year. Basic earnings per share was HK4.0 cents (2004: HK 3.4 cents).

Operation Review

Wah Yuen is a renowned household brand and the leading food manufacturer, distributor and retailer in the Hong Kong and PRC markets, producing and distributing over 200 types of supreme quality snack products with a unique Asian flavour under the brand names of “Wah Yuen”, “Rocco” and “采楓”.

Hong Kong Market

During the period under review, sales in Hong Kong market amounted to approximately HK\$56,146,000, accounting for approximately 55.24% of the Group’s total turnover and representing a remarkable growth of 22% as compared to the corresponding period in 2004.

The Group’s satisfactory performance was mainly attributable to stable raw material prices, the successful launch of new products and the exploration of new distribution and sales channels.

In the first half of 2005, the Group launched its “味之誘惑” series of quality food products with brand new packaging and design through diversified distribution channels. In addition, to broaden revenue bases, the Group successfully introduced a number of new frozen food products with overwhelming market response.

The PRC Market

As for the PRC market, sales for the first half of 2005 totaled to approximately HK\$45,487,000, accounting for approximately 44.76% of the Group’s total turnover. With stable raw material prices, the Group successfully maintained robust business growth despite intense market competition. During the reviewed period, the Group continued to consolidate its well-established distribution network spanning over 250 cities in 30 provinces.

Wah Yuen fully embraces the importance of product quality in expanding client base and maintaining high level of customer satisfaction. During the first half of 2005, the Group’s was accredited the highest level of China Quality Credit Appraise Certificate by the authoritative China Quality Credit Appraisal Centre, recognizing Wah Yuen’s continuous efforts in enhancing product quality.

Overseas Market

Through our good relationship with the distributors, the Group successfully tapped into the Japanese market and its frozen food products were well-received by the market. Wah Yuen continued to strengthen its market presence and introduce more new product while exploring new distribution channels, with the view of establishing a strong foothold in the Japanese market for future growth.

Production Facilities

As at 30 June 2005, the Group owns and manages three production facilities in Hong Kong and Huadu District, Guangzhou, Guangdong Province, China. Utilising 10 advanced and sophisticated production lines, the Group manufactures diversified range of products, including preserved meats, convenience frozen food products, flour, preserved fruits and nuts, seasonings and other products.

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 dedicated to attain unrivalled product quality and expedite business expansion.

Future Prospects

Looking ahead, the Group endeavors to further strengthen its leading market position by consolidating business development and developing more new products.

In addition to its core snack food products, the Group will also launch a variety of new convenient frozen food products, such as fried rice, fried noodles and dim sum, to enhance the market penetration. Currently, the Group has over 20 new products under development and targets to launch several series of new snack and frozen food products in the second half of the year.

While diversifying and enhancing its product portfolio, the Group will strengthen its marketing and promotion efforts and maintain amicable relationships with major distributors and retail chains. Besides, the Group will seek appropriate collaboration opportunities with local distributors and business co-operators in Japan in order to extend its sales network and expedite the Group’s presence in oversea markets.

By capitalizing on its comprehensive and diversified product portfolio, extensive distribution network, strong production capabilities, stringent cost control and effective marketing strategy, Wah Yuen is confident of riding on the favourable market condition and is committed to becoming a leading unique one-stop food enterprise, offering its quality products to food lovers worldwide.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated resources and banking facilities provided by its bankers in Hong Kong and the PRC.

As at 30 June 2005, the Group had total assets of approximately HK\$339,936,000 (31 December 2004: approximately HK\$348,430,000) which were financed by current liabilities of approximately HK\$152,494,000, long term liabilities of approximately HK\$47,312,000 and shareholders’ equity of approximately HK\$140,130,000.

The cash and bank balance including pledged bank deposits is approximately HK\$47,046,000 and total borrowing of approximately HK\$173,581,000. Most of these borrowings were denominated in Hong Kong dollars and Renminbi and bearing floating interest rate. The gearing ratio of the Group as at 30 June 2004 was approximately 37.22% (31 December 2004: approximately 37.43%), calculated on the basis of total borrowings less cash over total asset.

The Group has very limited exposure to movements in exchange rate. The majority of the Group’s purchases were denominated in Hong Kong dollars and Renminbi.

CHARGES ON ASSETS

As at 30 June 2005, certain assets of the Group with aggregate carrying value of approximately HK\$115 million (31 December 2004: approximately HK\$145 million) were pledged to banks to secure banking facilities granted to the Group.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2005, the Group had a total of 819 full-time staff. The total staff costs for the period under review were approximately HK\$10,314,000. The Group offers comprehensive remuneration and employees’ benefits package to its employees. In addition, share options 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

There was no purchase, sale or redemption of the Company’s listed shares by the Company or any of its subsidiaries during the six months ended 30 June 2005.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) with deviation from code provisions A.4.1 and A.4.2 in respect of the appointment of non-executive directors and the rotation of directors.

CODE PROVISION A.4.1

Under the code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election.

All of the non-executive directors of the Company are not appointed for a specific term but are subject to retirement and rotation and re-election at the Company’s annual general meeting.

CODE PROVISION A.4.2

Under the code provision A.4.2, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to Bye-law 87 of the Bye-laws of the Company, the chairman or the managing director of the Board shall hold officer and not subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year.

To comply with code provision A.4.2 of the Code, the Board of directors will propose relevant amendments to be made to the Bye-laws of the Company for approval by the shareholders at the forthcoming special general meeting or annual general meeting of the Company, whichever comes first.

The Company is committed to high standards of corporate governance practices. In September 2005, the Company has set up a remuneration committee responsible for formulating and making recommendation to the Board on the Group’s policy and structure for all the remunerations of the directors and senior management and on the establishment of formal and transparent procedures for developing policy on such remuneration.

At the same time, the Company has also set up a nomination committee responsible for nominating and affirming candidates approved by the Board, reviewing the structure and composition of the Board on a regular basis, ensuring the competitive position of the organization, evaluating the leadership abilities of executive and non-executive directors and ensuring fair and transparent procedures for the appointment of directors to the Board.

AUDIT COMMITTEE

In accordance with Appendix 14 of the Listing Rules, the board of directors established an audit committee on 3 June 2003 to review and supervise the Company’s financial reporting and internal control systems. The audit committee now consists of two independent non-executive directors and one non-executive director.

MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules as its own Code of Conduct regarding securities transaction by the directors. Having made specific enquiry of all directors, all directors declared that they have complied with the Model Code throughout the period.

PUBLICATION OF DETAILED INTERIM RESULTS

A detailed version of the Company’s interim results containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange (<http://www.hkex.com.hk>) in due course.

By order of the Board
But Ka Wai
Chairman

Hong Kong, 27 September 2005

As at the date of this announcement, the executive directors are Mr. But Ching Pui, Mr. But Ka Wai, Mr. But Chai Tong and Mr. Chu Kin Wah, the non-executive directors are Ms. Leung Wai Ling and Mr. Ngai Chun Kong, Stephen, and the independent non-executive directors are Mr. Cheung Yu Yan, Tommy, Mr. Ip Shing Tong, Francis and Mr. Ku Siu Fung, Stephen.