



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, 2005

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, 2005 with comparative figures in previous year as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
Turnover	2	207,551	210,454
Cost of sales		(143,154)	(139,040)
Gross profit		64,397	71,414
Other operating income and net gain	2	8,951	1,472
Selling and distribution expenses		(22,254)	(21,678)
Administrative expenses		(21,998)	(24,748)
Profit from operations		29,096	26,460
Finance costs	4	(11,021)	(9,803)
Profit before taxation		18,075	16,657
Income tax expense	5	(7,859)	(3,598)
Profit for the year attributable to the equity holders of the Company		10,216	13,059
Dividends	6	–	4,000
Earnings per share	7		
Basic		5.04 cents	6.53 cents
Diluted		N/A	6.51 cents

CONSOLIDATED BALANCE SHEET

As at 31 December 2005

	2005 HK\$'000	2004 HK\$'000 (Restated)
Non-current assets		
Land use rights and leasehold land	2,227	2,335
Property, plant and equipment	106,244	103,157
Deposit paid for acquisition of property, plant and equipment	–	2,840
	108,471	108,332
Current assets		
Inventories	47,680	45,981
Trade and other receivables	177,286	141,407
Tax recoverable	–	403
Loan receivable	–	599
Pledged bank deposits	16,805	26,560
Bank balances and cash	15,072	24,817
	256,843	239,767
Less: Current liabilities		
Trade and other payables	28,863	32,826
Obligations under finance leases	6,623	7,254
Tax payable	1,758	1,374
Borrowings	132,779	128,928
	170,023	170,382
Net current assets	86,820	69,385
Total assets less current liabilities	195,291	177,717
Less: Non-current liabilities		
Obligations under finance leases	3,305	4,011
Borrowings	42,047	41,599
Deferred tax liabilities	400	397
	45,752	46,007
Net assets	149,539	131,710
Capital and reserves		
Share capital	2,140	2,000
Reserves	147,399	129,710
	149,539	131,710

1. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards, which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention, except for certain financial instruments which are measured at fair values.

In the current year, the Group has applied, for the first time, a number of new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet, Company’s balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the Group’s financial position and/or results are prepared and presented:

(a) Leasehold land

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 held under medium term lease” and “land and buildings held under medium term lease” and is now disclosed as “land use rights and leasehold land”.

The change in accounting policy has been adopted retrospectively, and the Group applied a prior year adjustment to separate land use rights of HK\$2,335,000 from property, plant and equipment on the balance sheet as at 31 December 2004.

The up-front prepayments made for the land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement.

The adoption of HKAS 17 resulted in a decrease in opening reserves at 1 January 2004 by HK\$304,000.

	2005 HK\$'000	2004 HK\$'000
Decrease in property, plant and equipment	–	(3,178)
Increase in land use rights and leasehold land	–	3,178
Increase in accumulated amortisation	–	111
Increase in accumulated depreciation	–	193
Increase in administrative expenses	27	27
Decrease in basic earnings per share (in cents)	(0.01)	(0.01)
Decrease in diluted earnings per share (in cents)	N/A	(0.01)

(b) Financial instruments

In the current year, the Group has applied HKAS 32 “Financial Instruments: Disclosures and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement”. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 and HKAS 39 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods.

(c) Share-based payments

In the current year, the Group has applied HKFRS 2 “Share-based Payments” which 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 those share options granted on or before 7 November 2002 and those share options that were granted after 7 November 2002 but were vested before 1 January 2005. Because there were no unvested share options at 1 January 2005, comparative figures for 2004 need not be restated.

The HKICPA has issued the following standards and interpretations that are not yet effective. The Group has considered the following standards and interpretations but does not expect they will have a material effect on how the results of operations and financial position of the Group are prepared and presented.

	Notes
HKAS 1 (Amendment)	Capital Disclosures 1
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures 2
HKAS 21 (Amendment)	Net Investment in a Foreign Operation 2
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions 2
HKAS 39 (Amendment)	The Fair Value Option 2
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts 2
HKFRS 6	Exploration for and Evaluation of Mineral Resources 2
HKFRS 7	Financial Instruments: Disclosures 1
HKFRS – Int 4	Determining whether an Arrangement Contains a Lease 2
HKFRS – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds 2
HK (IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment 3

HK (IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies 4
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Notes:

- Effective for annual periods beginning on or after 1 January 2007.
- Effective for annual periods beginning on or after 1 January 2006.
- Effective for annual periods beginning on or after 1 December 2005.
- Effective for annual periods beginning on or after 1 March 2006.

2. TURNOVER, OTHER OPERATING INCOME AND NET GAIN

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

An analysis of turnover, other operating income and net gain is as follows:

	2005 HK\$'000	2004 HK\$'000
Sales of goods to outside customers	207,551	210,454
Other operating income and net gain:		
Interest income from bank deposits	1,174	513
Sundry income	7,777	959
	8,951	1,472
Total income	216,502	211,926

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 segments

The Group is principally engaged in the production and distribution of snack food and convenience frozen food products. No business segment analysis is presented as management considers this as one single business segment.

(b) Geographical segments

The Group’s operations and assets are located in Hong Kong and elsewhere in the PRC. Geographical segment information are based on location of its assets, and the location of its assets is not significantly different from the location of its customers.

Year ended 31 December 2005

	Hong Kong HK\$'000	The PRC HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
TURNOVER				
External sales	118,862	88,689	–	207,551
Inter-segment sales	–	36,656	(36,656)	–
Total turnover	118,862	125,345	(36,656)	207,551
SEGMENT RESULTS	6,015	20,090	–	26,105
Unallocated corporate income				2,991
Profit from operations				29,096
Finance costs				(11,021)
Profit before taxation				18,075
Income tax expense				(7,859)
Profit for the year attributable to the equity holders of the Company				10,216

As at 31 December 2005

	Hong Kong HK\$'000	The PRC HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
ASSETS				
Segment assets	53,885	279,552	–	333,437
Unallocated corporate assets	–	–	–	31,877
Consolidated total assets				365,314
LIABILITIES				
Segment liabilities	6,020	24,703	–	30,723
Unallocated corporate liabilities	–	–	–	185,052
Consolidated total liabilities				215,775
OTHER INFORMATION				
Capital additions	32	9,048	–	9,080
Depreciation and amortisation	956	7,564	–	8,520

Inter-segment sales are charged at terms agreed between the relevant parties.

Year ended 31 December 2004 (Restated)

	Hong Kong HK\$'000	The PRC HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
TURNOVER				
External sales	115,785	94,669	–	210,454
Inter-segment sales	–	31,021	(31,021)	–
Total turnover	115,785	125,690	(31,021)	210,454
SEGMENT RESULTS	4,958	20,771	–	25,729
Unallocated corporate income				731
Profit from operations				26,460
Finance costs				(9,803)
Profit before taxation				16,657
Income tax expense				(3,598)
Profit for the year attributable to the equity holders of the Company				13,059

As at 31 December 2004 (Restated)

	Hong Kong <i>HK\$'000</i>	The PRC <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS			
Segment assets	46,246	250,356	296,602
Unallocated corporate assets	–	–	51,497
			<u>348,099</u>
Consolidated total assets			
LIABILITIES			
Segment liabilities	5,915	28,276	34,191
Unallocated corporate liabilities	–	–	182,198
			<u>216,389</u>
Consolidated total liabilities			
OTHER INFORMATION			
Capital additions	592	11,159	11,751
Depreciation and amortisation	<u>1,218</u>	<u>7,617</u>	<u>8,835</u>

Inter-segment sales are charged at terms agreed between the relevant parties.

4. FINANCE COSTS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interest expense on bank and other borrowings wholly repayable within five years	10,361	9,229
Interest expense on obligations under finance leases	<u>660</u>	<u>574</u>
	<u>11,021</u>	<u>9,803</u>

5. INCOME TAX EXPENSE

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax		
– current year	1,292	561
– under-provision in prior year	<u>3,576</u>	<u>–</u>
PRC Enterprise Income Tax		
– current year	2,848	2,501
– under-provision in prior year	<u>140</u>	<u>270</u>
Current tax charge for the year	7,856	3,332
Deferred tax (credit)/charge for the year	<u>3</u>	<u>266</u>
	<u>7,859</u>	<u>3,598</u>

Hong Kong Profits Tax is calculated at 17.5% (2004: 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:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)
Profit before taxation	<u>18,075</u>	<u>16,657</u>
Tax at PRC Enterprise Income		
Tax rate of 33% (2004: 33%)	5,964	5,497
Tax effect of expenses not deductible for tax purpose	<u>2,471</u>	<u>1,990</u>
Tax effect of income not taxable for tax purpose	(3,338)	(200)
Under-provision in respect of prior year	<u>3,716</u>	<u>270</u>
Tax effect of tax losses not recognised	170	151
Utilisation of losses not previously recognised	6	(288)
Effect of tax exemption granted to PRC subsidiaries	–	(3,530)
Effect of different tax rates of subsidiaries operating in other jurisdictions	<u>(1,130)</u>	<u>(292)</u>
Tax expense for the year	<u>7,859</u>	<u>3,598</u>

6. DIVIDENDS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Final dividend of HK2 cents per share in respect of the year ended 31 December 2003 paid in 2004	<u>–</u>	<u>4,000</u>

The directors do not recommend the payment of a dividend for the years ended 31 December 2004 and 2005.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to the equity holders of approximately HK\$10,216,000 (2004 (restated): HK\$13,059,000) and on the weighted average of 202,531,506 ordinary shares (2004: 200,000,000) deemed to be in issue during the year.

No diluted earnings per share has been presented for the year ended 31 December 2005 as there are no dilutive potential ordinary shares in issue.

During the year ended 31 December 2004, diluted earnings per share was based on 200,590,164 which is the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of the vested options outstanding during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Results Summary

For the year ended 31 December, 2005, the Company reported a turnover and gross profit of approximately HK\$207,551,000 and HK\$64,397,000 respectively. Profit attributable to the equity holders of the company amounted to HK\$10,216,000, a decrease of 22% over the same period last year. However, profit from operations for 2005 increased by 10% to HK\$29,096,000, as compared to HK\$26,460,000 in the previous year. Basis earnings per share were HK\$5.04 cents.

BUSINESS REVIEW

Wah Yuen is the market leader of food manufacture, distribution and retail in Hong Kong and the PRC. With a diversified range of over 200 types of supreme quality snack products with a unique Asian flavour, the Group produces and offers its products under three brands, namely “Wah Yuen”, “Rocco” and “采楓”, and the OEM model. In addition, the Group also engages in the manufacture of convenience frozen food products under the brand name Wah Yuen and the OEM model.

Hong Kong Market

Benefited from encouraging economic development and the strengthening of consumption power, the Group achieved satisfactory growth in the Hong Kong market in spite of keen market competition.

During the year under review, the Group extended its network coverage and further expanded its sales and distribution channels. With an extensive retail network of a total of 2,300 outlets, Wah Yuen fortified its unrivalled position as one of the most popular packaged food brands in Hong Kong by leveraging on its established and renowned brand equity as well as diversified products with outstanding quality.

For the year ended 31 December 2005, sales in the Hong Kong market amounted to approximately HK\$118,862,000, representing an increase of 3% over that of 2004, and accounted for 57% of the Group’s total turnover. The sales performance in Hong Kong was mainly attributable to the remarkable progress in product development and effective product promotion.

In 2005, the Group attained impressive progress in new product development. While launching different series of preserved fruits and nuts, as well as new convenience frozen food products such as fried rice, fried noodles and Chinese dim sum, the Group successfully developed new sales channels and set up concessionaires in supermarkets, which also further reinforced the Group’s collaboration with key distributors and retail chains.

The PRC Market

For the PRC market, Wah Yuen mainly sells its products under the brand names of “Wah Yuen”, “Rocco” and “采楓” through its extensive distribution network spanning across 250 cities in 30 provinces.

Amidst unfavourable market condition with increasing entrants, the Group enhanced its exertions in strengthening the sales and marketing promotion of its products. As such, the Group’s marketing and distribution expenses significantly increased. Coupled with severe market competition, the Group’s business performance in the PRC was adversely affected.

As a result, the Group’s sales in the PRC dropped by 6% and amounted to approximately HK\$88,689,000, accounting for approximately 43% of the Group’s total turnover for the year ended 31 December 2005.

Despite the decrease in product sales, the Group endeavoured to consolidate its distribution channels and establish intimate relationship with local supermarkets and convenience stores, so as to pave a way for the Group to expedite future growth.

In addition, the Group’s persistence in pursuing meticulous quality was accredited the highest level of China Quality Credit Appraise Certificate by the authoritative China Quality Credit Appraisal Centre, which further equipped the Group with unparalleled strength to excel in the PRC market.

Overseas Market

Since its successful development into the Japanese market in the fourth quarter of 2004, the Group has achieved astonishing progress with remarkable growth.

During the year, the Group continued to strengthen the marketing and promotion of diversified convenience frozen food products sold in the Japanese market, including fried rice and a series of Chinese dim sum.

Meanwhile, the Group established a partnership and entered into an agreement with one of the largest conglomerates listed in Japan. In 2005, the representatives of this Japanese conglomerate visited the Group’s production facilities in the PRC and accredited an “A Grade Certificate”, which demonstrated the Group’s production technology has attained the quality standard in Japan.

With the solid foundation established over the past year, Wah Yuen is confident that the Japanese market will become a future growth driver, further fortifying its core competencies and solidify market presence in the region.

PRODUCTION FACILITIES

As at 31 December 2005, the Group has three production facilities in Hong Kong and the Huadu District, Guangzhou, Guangdong Province. Capitalizing on the 10 state-of-the-art and highly 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 upgraded its existing equipment and machinery to enhance production capabilities.

In addition to the accreditation of the Hazard Analysis and Critical Control Point certificate (HACCP) as well as the ISO 9001 and ISO 9002 certificates, the Group also successfully obtained the highest level of China Quality Credit Appraise Certificate by the authoritative China Quality Credit Appraisal Centre, enabling the Group to further ameliorate product quality.

FUTURE PROSPECTS

The Group has formulated different business strategies, with an aim of cementing its leading market position, boosting product sales and propelling profit growth.

Looking forward, the Group will allocate abundant resources in developing new products, including both core snack food products and convenience frozen food products, so as to capture arising opportunities brought forth by market changes.

While diversifying and enhancing product portfolio, the Group will expand its sales and distribution channels and consolidate amicable relationships with major distributors as well as retail chains. As such, the Group is capable of further penetrating into the Hong Kong, PRC and Japanese market, and extending its business reach to overseas markets.

By securing the collaboration agreement with a renowned conglomerate listed in Japan, the Group is optimistic towards its business development in this market, which is poised to become the Group’s future growth momentum.

In view of the upcoming 2006 World Cup and other major events in the region, the Group will proactively seek for joint promotion opportunities and utilising specially designed new packaging to expedite product sales, creating significant profit contribution to the Group.

Capitalising on its well-established sales and distribution network, comprehensive business foundation, focused marketing strategy and impeccable quality control, Wah Yuen is dedicated to become a leading one-stop food enterprise with a unique market position and to continue to offer a wide range of quality products to food lovers worldwide.

FINANCIAL REVIEW

The Group’s turnover for the year ended 31 December 2005 amounted to HK\$207,551,000, representing a decrease of 1% as compared to HK\$210,454,000 for the previous year. The Group’s gross profit and profit attributable to the equity holders for the year ended 31 December 2005 recorded HK\$64,397,000 and HK\$10,216,000 respectively.

Sales of dried meat products which accounted for 44% 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 20%, 8% and 4% respectively of the total turnover, while the remaining was attributable to other products.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, the Group had total assets of HK\$365,314,000 and its total current assets were HK\$256,843,000. As at that date, the current and non-current liabilities of the Group totaled to HK\$170,023,000 and HK\$45,752,000 respectively. The Group’s bank borrowings amounted to HK\$168,576,000 (2004: HK\$164,441,000). Most of these bank borrowings were denominated in Hong Kong dollars and bearing floating interest rates. As at 31 December 2005, the gearing ratio of the Group was 42% (2004: 37%), 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\$9,080,000 in fixed assets, of which 74% was used for purchasing production machinery and the remaining related to other assets.

As at 31 December 2005, the Group had capital commitments of approximately HK\$4,909,000 in respect of acquisition of new machinery and renovation of a new production line.

CHARGE ON ASSETS

As at 31 December 2005, certain assets of the Group with aggregate carrying value of approximately HK\$112,365,000 were pledged to banks to secure banking facilities granted to the Group.

EMPLOYEES

As at 31 December 2005, total number of employees of the Group were approximately 71 in Hong Kong (2004: 72), and approximately 590 in the PRC (2004: 865). 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, 2005.

CORPORATE GOVERNANCE

The Company is committed to ensuring a high standard of corporate governance in the interests of the shareholders and devotes considerable effort to maintaining high level of business ethics and corporate governance practices. The board of directors of the Company is of the view that the Company has met the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules except that the current Articles of Association of the Company does not require the chairman of the Board to be subject to rotation at the annual general meeting. In this regard, resolutions will be proposed at the coming annual general meeting to amend the Articles of Association of the Company to bring it in line with new requirements under the Listing Rules.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the financial reporting matters and the financial statements of the Group for the year ended 31 December, 2005 before submitting to the board for approval. 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.

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

Hong Kong, 24 April, 2006

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

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