



# 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 2006

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 2006 with comparative figures in previous year as follows:

#### CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
Turnover	2	202,130	207,551
Cost of sales		(131,307)	(143,154)
Gross profit		70,823	64,397
Other operating income and net gain	2	3,675	8,951
Selling and distribution expenses		(25,268)	(22,254)
Administrative expenses		(18,093)	(21,998)
Profit from operations		31,137	29,096
Finance costs	4	(12,242)	(11,021)
Profit before tax		18,895	18,075
Income tax expenses	5	(5,865)	(7,859)
Profit for the year attributable to the equity holders of the Company		13,030	10,216
Dividends	6	—	—
Earnings per share	7		
Basic		3.52 Cents	5.04 Cents
Diluted		N/A	N/A

#### CONSOLIDATED BALANCE SHEET

At 31 December 2006

	2006 HK\$'000	2005 HK\$'000
<b>NON-CURRENT ASSETS</b>		
Prepaid lease payments	2,140	2,227
Property, plant and equipment	111,607	106,244
	113,747	108,471
<b>CURRENT ASSETS</b>		
Inventories	57,720	47,680
Trade and other receivables	178,487	177,286
Pledged bank deposits	21,459	16,805
Bank balances and cash	36,366	15,072
	294,032	256,843
<b>CURRENT LIABILITIES</b>		
Trade and other payables	28,326	28,863
Obligations under finance leases	5,092	6,623
Tax payable	3,121	1,758
Borrowings	138,674	132,779
	175,213	170,023
<b>NET CURRENT ASSETS</b>	118,819	86,820
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	232,566	195,291
<b>NON-CURRENT LIABILITIES</b>		
Obligations under finance leases	5,903	3,305
Borrowings	32,030	42,047
Deferred tax liabilities	90	400
	38,023	45,752
<b>NET ASSETS</b>	194,543	149,539
<b>CAPITAL AND RESERVES</b>		
Share capital	5,350	2,140
Reserves	189,193	147,399
Equity attributable to equity holders of the Company	194,543	149,539

#### 1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

##### Financial guarantee contracts

In the current year, the Group has applied Hong Kong Accounting Standard (“HKAS”) 39 and HKFRS 4 (Amendments) Financial Guarantee Contracts which is effective for annual periods beginning on or after 1 January 2006.

A financial guarantee contract is defined by HKAS 39 Financial Instruments: Recognition and Measurement as “a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument”.

Prior to 1 January 2006, financial guarantee contracts were not accounted for in accordance with HKFRS 4 Insurance Contract and those contracts were disclosed as contingent liabilities. A provision for financial guarantee was only recognised when it was probable that an outflow of resources would be required to settle the financial guarantee obligation and the amount can be estimated reliably.

Upon the application of these amendments, a financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount recognised, recognised less, when applicable, revenue amortisation recognised in accordance with HKAS 18 Revenue.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) – Int 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC) – Int 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives <sup>4</sup>
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment <sup>5</sup>
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions <sup>6</sup>
HK(IFRIC) – Int 12	Service Concession Arrangements <sup>7</sup>

- <sup>1</sup> Effective for annual periods beginning on or after 1 January 2007
- <sup>2</sup> Effective for annual periods beginning on or after 1 March 2006
- <sup>3</sup> Effective for annual periods beginning on or after 1 May 2006
- <sup>4</sup> Effective for annual periods beginning on or after 1 June 2006
- <sup>5</sup> Effective for annual periods beginning on or after 1 November 2006
- <sup>6</sup> Effective for annual periods beginning on or after 1 March 2007
- <sup>7</sup> Effective for annual periods beginning on or after 1 January 2008

#### 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:

	2006 HK\$'000	2005 HK\$'000
Sales of goods to outside customers	202,130	207,551
Other operating income and net gain:		
Interest income from bank deposits	1,310	1,174
Sundry income	2,365	7,777
	3,675	8,951
<b>Total income</b>	<b>205,805</b>	<b>216,502</b>

#### 3. SEGMENT INFORMATION

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

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 2006

	Hong Kong HK\$'000	The PRC HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>REVENUE</b>				
External sales	108,576	93,554	—	202,130
Inter-segment sales	—	26,566	(26,566)	—
<b>Total revenue</b>	<b>108,576</b>	<b>120,120</b>	<b>(26,566)</b>	<b>202,130</b>
<b>SEGMENT RESULTS</b>	<b>4,970</b>	<b>22,492</b>		<b>27,462</b>
Unallocated corporate income				3,675
Profit from operations				31,137
Finance costs				(12,242)
Profit before tax				18,895
Income tax expense				(5,865)
Profit for the year attributable to the equity holders of the Company				13,030

##### BALANCE SHEET

As at 31 December 2006

	Hong Kong HK\$'000	The PRC HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>			
Segment assets	41,021	308,933	349,954
Unallocated corporate assets	—	—	57,825
<b>Consolidated total assets</b>			<b>407,779</b>
<b>LIABILITIES</b>			
Segment liabilities	9,148	22,402	31,550
Unallocated corporate liabilities	—	—	181,686
<b>Consolidated total liabilities</b>			<b>213,236</b>
<b>OTHER INFORMATION</b>			
Capital additions	1,107	9,462	10,569
Depreciation	585	8,129	8,714
Amortisation of prepaid lease payments	6	147	153

##### Year ended 31 December 2005

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

##### BALANCE SHEET

As at 31 December 2005

	Hong Kong HK\$'000	The PRC HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>			
Segment assets	53,885	279,552	333,437
Unallocated corporate assets	—	—	31,877
<b>Consolidated total assets</b>			<b>365,314</b>
<b>LIABILITIES</b>			
Segment liabilities	6,020	24,703	30,723
Unallocated corporate liabilities	—	—	185,052
<b>Consolidated total liabilities</b>			<b>215,775</b>
<b>OTHER INFORMATION</b>			
Capital additions	32	9,048	9,080
Depreciation	950	7,406	8,356
Amortisation of prepaid lease payments	6	158	164

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

<b>4. FINANCE COSTS</b>		
	<b>2006</b>	2005
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Interest expense on bank and other borrowings wholly repayable within five years	<b>11,552</b>	10,361
Interest expense on obligations under finance leases	<b>690</b>	660
	<b><u>12,242</u></b>	<b><u>11,021</u></b>
<b>5. INCOME TAX EXPENSE</b>		
	<b>2006</b>	2005
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
The charge comprises:		
Current tax:		
Hong Kong Profits Tax		
Current year	<b>558</b>	1,292
(Over)underprovision in prior years	<b>(10)</b>	3,576
PRC Enterprise Income Tax		
Current year	<b>5,373</b>	2,848
Underprovision in prior years	<b>254</b>	140
Current tax charge for the year	<b>6,175</b>	7,856
Deferred tax (credit) charge for the year	<b>(310)</b>	3
	<b><u>5,865</u></b>	<b><u>7,859</u></b>

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit arising in Hong Kong 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 tax per the consolidated income statement as follows:

	<b>2006</b>	2005
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Profit before tax	<b><u>18,895</u></b>	<u>18,075</u>
Tax at PRC Enterprise Income		
Tax rate of 27% (2005: 33%)	<b>5,102</b>	5,964
Tax effect of expenses not deductible for tax purposes	<b>1,815</b>	2,471
Tax effect of income not taxable for tax purposes	<b>(578)</b>	(3,338)
Under-provision in respect of prior year	<b>244</b>	3,716
Tax effect on tax losses not recognised	<b>3</b>	170
Utilisation of tax losses not previously recognised	<b>15</b>	6
Effect of different tax rates of subsidiaries operating in other jurisdictions	<b>(736)</b>	(1,130)
Tax charge for the year	<b><u>5,865</u></b>	<b><u>7,859</u></b>

**6. DIVIDENDS**  
The directors do not recommend the payment of a dividend for the years ended 31 December 2005 and 2006.

**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\$13,030,000 (2005: HK\$10,216,000) and on the weighted average of 370,542,466 ordinary share (2005: 202,531,506) deemed to be in issue during the year.

No diluted earnings per share has been presented for the year ended 31 December 2006 as the exercise policies of outstanding options are higher than the market price of shares.

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.

**MANAGEMENT DISCUSSION AND ANALYSIS**

The Group’s turnover for the year ended 31 December 2006 amounted to HK\$202,130,000, representing a slightly decrease of 3% as compared to HK\$207,551,000 for the previous year. The Group’s gross profit and profit attributable to the equity holders for the year ended 31 December 2006 increased by 10% to HK\$70,823,000 and inflated substantially by 28% to HK\$13,030,000 respectively.

Sales of dried meat products which accounted for 53% 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 22%, 5% and 4% respectively of the total turnover, while the remaining was attributable to other products.

**Business Review**

Wah Yuen is the market leader of food manufacture, distribution and retail in both Hong Kong and the PRC, offering a diverse range of over 200 types of supreme quality snack products with a unique Asian

flavour. The Group produces and markets its quality products under three brands, namely “Wah Yuen”, “Rocco” and “采楓”, as well as the OEM model. Additionally, the Group also engages in the manufacturing and marketing of convenience frozen food products under the Wah Yuen brand and the OEM model.

**Hong Kong Market**

On the back of encouraging economic development and increased consumption power in the local market, the Group maintained satisfactory performance in Hong Kong despite keen competition, while the production and sale of Wah Yuen snack food products and convenience frozen food products remain the core business of the Company.

During the year under review, the Group successfully extended its network coverage and further expanded its sales and distribution channels. With an extensive retail network comprising a total of 2,000 outlets, Wah Yuen cemented its unrivalled position as one of the leading packaged food brands most favoured by Hong Kong consumers, leveraging on its renowned brand equity and diverse range of quality products.

For the year ended 31 December 2006, sales in the Hong Kong market amounted to approximately HK\$108,576,000 and accounted for 54% of the Group’s total turnover. The slightly decline of turnover was mainly due to the drop of low-margin trading business.

In 2006, the Group stepped up its new product development initiatives to cater to customers’ preferences and attained encouraging results. Stepping up efforts to enhance its product portfolio, the Group launched a number of new products this year, namely Chinese packaged dim sum, fried rice and snack products. Additionally, the Group consolidated marketing efforts in a number of key sales channels. Wah Yuen has particularly focused on strengthening its cooperation with key supermarket chain stores and convenience stores via concessionaries and joint promotion programmes. Boosting an extensive retail network covering all major supermarkets and convenience chain stores, the Group has cemented its market position as one of the most popular packaged food brands in Hong Kong.

**The PRC Market**

The Group markets its products in the PRC market under the brand names of “Wah Yuen”, “Rocco” and “采楓”, via its comprehensive mainland distribution network spanning 250 cities in 30 provinces.

During the year under review, the Group’s sales in the PRC slightly increased by 6% and amounted to approximately HK\$93,554,000 which accounted for approximately 46% of the Group’s total turnover for the year ended 31 December 2006.

Despite unfavorable market conditions and competition from increase entrants in the market, the Group maintained its strength in the sales and marketing promotion of its products. As a result, the Group’s marketing and distribution expenses increased as it paved the way to facilitate future growth.

**Overseas Market**

The Group attained the “A Grade Certificate” this year in recognition of its production facilities, which demonstrated the Group’s longstanding commitment to hygiene standards and quality control. Significantly, Wah Yuen successfully established a strategic partnership with Sojitz Corporation (“Sojitz”; a merger between Nichimen Corporation and Nissho Iwai Corporation), a large listed conglomerate in Japan and a leading international corporation with businesses spanning the globe. Operations of Sojitz consists of five core businesses - machinery and aerospace; energy and mineral resources; chemicals and plastics; real estate development and forestry products; as well as consumer lifestyle business.

Under the aforementioned partnership, Wah Yuen will provide manufacturing services to Sojitz and its subsidiaries for a period of 15 years commencing in 2006, exporting its premium fried rice, dim sum and convenience frozen food products to Japan through the distribution and retail network of Sojitz. Wah Yuen is confident that under this long-term strategic agreement, the Japanese market will become the Group’s future growth driver, cultivating immense potential to enhance its profitability and business scope.

**PRODUCTION FACILITIES**

The Group currently owns and operates three production facilities in Hong Kong and the Huadu District, Guangzhou, Guangdong Province. The Company was granted the internationally recognized HACCP certificate, acknowledging the compliance of its production lines with the strictest hygiene standards throughout the entire food production process, from the procurement of raw materials, to packaging, processing and distribution.

During the year, the Group has continued to upgrade its manufacturing and production facilities to enhance its capacities, while capitalizing on its 10 state-of-the-art and highly efficient production lines to deliver its renowned quality products.

**FUTURE PROSPECTS**

Looking forward, the Group aims to strengthen its market presence and consolidate its image as a reputable household brand, as well as to boost product sales and profit growth. This will be achieved through the continued delivery of quality products to consumers and the strengthening of its brand position via effective marketing and joint promotion campaigns with various supermarkets and convenience store chains.

Wah Yuen will also enhance its core competencies with the introduction of various new products, continuous improvements in its product mix as well as further expansion of its product distribution channels in Hong Kong and the PRC markets.

Meanwhile, the Group’s strategic partnership with Sojitz fully demonstrates its confidence in the quality products and manufacturing facilities of Wah Yuen. The Group will work closely with Sojitz to explore more cooperative opportunities in Japan. Under the long-term partnership, the Group is optimistic towards its business development in Japan, which is poised to become a significant growth driver for the Group in future.

**CORPORATE TRANSACTION**

On 4 May 2006, the Company announced a Right issue and intended to raise approximately HK\$32.1 million, before expenses, to finance its operations and activities for expanding its business to overseas market, by issuing 321,000,000 Rights Shares at a price of HK\$0.1 per Rights Share on the basis of three Rights Shares for every two existing Company shares. The Right issue was completed on 7 July 2006 and net proceeds of approximately HK\$30.7 million was received.

**LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2006, the Group had total assets of HK\$407,779,000 and its total current assets were HK\$294,032,000. As at that date, the current and non-current liabilities of the Group totaled to HK\$175,213,000 and HK\$38,023,000 respectively. The Group’s bank borrowings amounted to HK\$170,704,000 (2005: HK\$174,826,000). Most of these bank borrowings were denominated in Hong Kong dollars and bearing floating interest rates. As at 31 December 2006, the gearing ratio of the Group improved at 30% (2005: 42%), calculated on the basis of total borrowings less cash over total assets at that date.

**EXPOSURE TO FLUCTUATION IN FOREIGN EXCHANGE**

As at 31 December 2006, the Group had no foreign exchange exposure and related hedge.

**CAPITAL EXPENDITURE**

During the year, the Group invested approximately HK\$10,569,000 in fixed assets, of which 89% was used for purchasing production machinery and the remaining related to other assets.

As at 31 December 2006, the Company and the Group did not have any significant capital commitments.

**CHARGE ON ASSETS**

As at 31 December 2006, certain assets of the Group with aggregate carrying value of approximately HK\$127,699,000 were pledged to banks to secure banking facilities granted to the Group.

**EMPLOYEES**

As at 31 December 2006, the Group’s total number of employees stood at approximately 650. Total staff costs for the year under review were approximately HK\$18,837,000. Wah Yuen offers its workforce comprehensive remuneration and employees’ benefits packages. Additionally, share options and discretionary bonuses were also granted to eligible staff members based on their performance and the results of 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 2006.

**CORPORATE GOVERNANCE**

During the year, the Company has complied with all code provisions set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”).

**AUDIT COMMITTEE**

The Audit Committee comprises two independent non-executive Directors, Mr. Ip Shing Tong, Francis (Chairman of the Audit Committee) and Mr. Ku Siu Fung, Stephen and one non-executive Director, Mr. Ngai Chun Kong, Stephen.

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

Hong Kong, 24 April, 2007

*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 and Mr. But Ka Wai, Mr. But Chai Tong 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.*