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WAH YUEN HOLDINGS LIMITED

華園控股有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 2349)

DISCLOSEABLE AND CONNECTED TRANSACTION

Introduction

The Group currently holds 64.81% of the registered capital of Rocco Foods Enterprise Company (Guangzhou) Limited (廣州樂高食品企業有限公司) (“**Rocco**”), a sino-foreign co-operative joint venture between the Group and 花都市天誠實業有限公司 (Huadu City Tian Cheng Industry Limited) (“**Huadu**”) which holds the remaining 35.19% of the registered capital of Rocco. ‘Rocco’, along with ‘Wah Yuen’ and ‘采楓’, are the brand names under which the products of the Group are marketed in the PRC.

As part of the Group’s plan for consolidation of its business in the PRC, the Directors are pleased to announce that on 19 May 2004, the Group has agreed to purchase and Huadu has agreed to sell, on certain terms and conditions, Huadu’s remaining 35.19% interest in the registered capital of Rocco, thereby upon the completion of which, Rocco will become a wholly owned foreign enterprise of the Group.

The Acquisition

On 19 May 2004, the Group and Huadu entered into the Acquisition Agreement for the purpose of acquiring from Huadu its interest in 35.19% of the registered capital of Rocco at a cash consideration of RMB4,670,000 (which is equivalent to approximately HK\$4,405,660). The Consideration is determined on an arm’s length basis following negotiations in good faith with Huadu.

Implications under the Listing Rules

Huadu, being a substantial shareholder holding 35.19% of the registered capital of Rocco, a subsidiary of the Group, is a connected person (as defined under the Listing Rules) of the Company. Huadu is in turn owned as to 68.8% by Mr Lai Jin Zhong, one of the directors of Rocco. The Acquisition therefore also constitutes a connected transaction on the part of the Company. However, as the Consideration is under HK\$10,000,000.00 and as each of the relevant percentage ratios as referred to in Chapter 14A of the Listing Rules exceeds 2.5% but is less than 25%, the Acquisition is exempt from the independent Shareholders’ approval requirement under the Listing Rules.

The Directors consider that the terms of the Acquisition were negotiated in good faith and on an arm’s length basis. The Directors believe that the terms and conditions of the Acquisition are fair and reasonable so far as the Shareholders are concerned. In particular, the independent non-executive Directors have also reviewed the terms and conditions of the Acquisition and are of the opinion that they are fair and reasonable and are in the interests of the Shareholders as a whole.

Despatch of Shareholders’ circular

A circular containing the information required under rules 14.63 to 14.65 of the Listing Rules (to the extent applicable), including among other things, the details of the Acquisition Agreement, will be despatched to Shareholders on or before 11 June 2004.

INTRODUCTION

Background information on the Acquisition Agreement

The Group currently holds 64.81% of the registered capital of Rocco and Huadu holds the remaining 35.19% of the registered capital of Rocco. ‘Rocco’, along with ‘Wah Yuen’ and ‘采楓’, are the major brand names under which the products of the Group are marketed in the PRC.

As part of the Group’s plan for consolidation of its business in the PRC, the Directors are pleased to announce that on 19 May 2004, the Group has agreed to purchase and Huadu has agreed to sell, on certain terms and conditions, Huadu’s remaining 35.19% interest in Rocco, thereby upon the completion of which, Rocco will become a wholly owned foreign enterprise of the Group.

Background information on Rocco

Rocco was initially established on 24 March 1989 as a Chinese-foreign equity joint venture with the Group holding 51% of the registered capital and Huadu the remaining 49% of the registered capital, which totalled US\$2,810,000. Pursuant to a supplemental agreement dated 8 December 1993, the capital contribution ratio was adjusted to 64.81% by the Group and 35.19% by Huadu. On 7 October 1999, Rocco was converted to a Chinese-foreign co-operative joint venture pursuant to another supplemental agreement dated 26 June 1999 signed between the parties and approved by Huadu COFTEC. The manner as regards profit sharing was later varied following approval from Huadu COFTEC on 21 February 2003. Further details in relation to the re-composition and history of capital contribution of Rocco are set out in the Prospectus.

Rocco is principally engaged in the manufacture and processing of ice-cream, marine and livestock meat products, candies, nuts, peas, dried fruit, flour in the PRC and is a valuable operating arm of the Group. As at 31 December 2003, Rocco had a net asset value of approximately HK\$27,311,316. The net asset value attributable to the subject matter of the Acquisition was approximately HK\$9,610,852.

For the years 2002 and 2003, the aggregate net profits (before taxation and extraordinary items) of Rocco were approximately HK\$5,788,897 and approximately HK\$6,955,660 respectively whereas the aggregate net profits (after taxation and extraordinary items) of Rocco for the same periods were approximately HK\$4,225,895 and approximately HK\$5,077,658 respectively.

Accordingly, for the years 2002 and 2003, the net profits (before taxation and extraordinary items) of Rocco attributable to the subject matter of the Acquisition were approximately HK\$2,037,113 and approximately HK\$2,447,697 respectively whereas the net profits (after taxation and extraordinary items) of Rocco attributable to the subject matter of the Acquisition for the same periods were approximately HK\$1,487,092 and approximately HK\$1,786,828 respectively.

As disclosed in the Prospectus, the Purchaser had, on 20 November 2002, entered into certain profit sharing arrangements with Huadu which is to continue until the expiry of the term of the co-operative joint venture of Rocco, namely 24 March 2019, unless otherwise agreed by the parties. Further details of the profit sharing arrangements are set out in the Prospectus. Following the completion of the Acquisition, the profit sharing arrangements will automatically lapse and the parties’ rights and obligations thereunder shall cease and determine.

Further, as disclosed in the Prospectus, Wah Yuen (Guangzhou) Foods Company Limited, a wholly-owned subsidiary of the Company, has provided guarantees and pledged its property interests in favour of a bank in respect of bank loans granted to Rocco. During the 2003 financial year, such loans amounted to approximately HK\$7,400,000. Huadu has provided a pro-rata counter indemnity

in proportion to its interests in the registered capital Rocco, i.e. 35.19%. The above financial assistance provided by the Group to Rocco constituted an ongoing connected transaction which would normally be subject to disclosure and Shareholders’ approval requirements under the Listing Rules. However, the Group has obtained a waiver from strict compliance with the Listing Rules from the Stock Exchange in that regard. As a result of and following the Acquisition, Rocco will become a wholly owned subsidiary of the Company, the counter indemnity provided by Huadu will lapse and the above financial assistance will no longer constitute a connection transaction under the Listing Rules.

The Consideration

The Consideration of RMB4,670,000 (which is equivalent to approximately HK\$4,405,660) was determined on an arm’s length basis following negotiations in good faith with Huadu and will be satisfied by internal resources of the Group. Based on the audited accounts of Rocco for the year ended 31 December 2003, the price earnings ratio of the Consideration to the earnings of Rocco attributable to the subject matter of the Acquisition is approximately 2.47 whereas the price per book value attributable to the subject matter of the Acquisition is approximately 0.458. The Consideration was determined by reference to the registered capital of Rocco and the price earnings ratio of Rocco attributable to the subject matter of the Acquisition.

THE ACQUISITION AGREEMENT

The principal terms of the Acquisition Agreement are as follows:

Date:	19 May 2004
Parties:	(1) The Purchaser (2) Huadu as vendor
Subject matter:	35.19% of the registered capital of Rocco
Consideration:	RMB4,670,000 (which is equivalent to approximately HK\$4,405,660)
Payment terms:	In cash on completion
Conditions precedent:	Completion of the Acquisition Agreement is conditional upon the granting of the requisite approval(s) from the relevant PRC authorities.

The Company expects to obtain all requisite approval(s) from the relevant PRC authorities within 1 month. Huadu has agreed to render the necessary assistance.

REASONS FOR THE ACQUISITION

The Acquisition falls in line with the Group’s plan to consolidate its business in the PRC. Further, the Directors consider the Acquisition as an attractive opportunity in light of the anticipated growth in the PRC market, especially the increasing demand for convenience foods as a result of the changing lifestyles of PRC residents and the increasing pace at which they carry on life.

Immediately after the completion of the Acquisition, Rocco will have three directors, all of whom will be appointed by the Purchaser. The Directors believe that full control of the board of directors of Rocco after completion of the Acquisition Agreement is in the interests of the Group. The Acquisition, following which Rocco will become a wholly-owned subsidiary of the Company, will also improve administrative efficiency and overall management control of both Rocco and the Group.

IMPLICATIONS UNDER THE LISTING RULES

Huadu, being a substantial shareholder holding 35.19% of the registered capital of Rocco, a subsidiary of the Group, is a connected person (as defined under the Listing Rules) of the Company. Huadu is in turn owned as to 68.8% by Mr Lai Jin Zhong, one of the directors of Rocco. The Acquisition therefore also constitutes a connected transaction on the part of the Company. However, as the Consideration is under HK\$10,000,000.00 and as each of the relevant percentage ratios as referred to in Chapter 14A of the Listing Rules exceeds 2.5% but is less than 25%, the Acquisition is exempt from the independent Shareholders’ approval requirement under the Listing Rules.

The Directors consider that the terms of the Acquisition were negotiated in good faith and on an arm’s length basis. The Directors further believe that the terms and conditions of the Acquisition are fair and reasonable and are in the interests of the Shareholders. In particular, the independent non-executive Directors have also reviewed the terms and conditions of the Acquisition and are of the opinion that they are fair and reasonable and are in the interests of the Shareholders as a whole.

DESPATCH OF SHAREHOLDERS’ CIRCULAR

A circular containing the information required under rules 14.63 to 14.65 of the Listing Rules (to the extent applicable), including among other things, the details of the Acquisition Agreement, will be despatched to Shareholders on or before 11 June 2004.

GENERAL INFORMATION

The Group is principally engaged in the manufacture, distribution and retail of snack food products in the Hong Kong and PRC market. The Group produces and offers over 200 types of top quality snack food products with a unique Asian flavour under three brands, namely ‘Wah Yuen’, ‘Rocco’ and ‘采楓’. The Group also produces convenience frozen food under the brand name ‘Wah Yuen’ and the OEM model.

Huadu is a limited liability company incorporated in the PRC and is principally engaged in the general trading (both wholesale and retailing) of various consumer goods, including the operation of variety shops at local PRC shopping centres.

As at the date of this announcement, the executive Directors are Mr. But Ching Pui, Mr. But Ka Wai, Mr. But Chai Tong, Mr. Lai Wing Kuen 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.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words shall have the meanings ascribed to them respectively below:

“Acquisition”	means the acquisition by the Group of 35.19% of the registered capital of Rocco from Huadu
“Acquisition Agreement”	means the acquisition agreement entered into by the Purchaser as purchaser and Huadu as vendor on 19 May 2004 in relation to the Acquisition
“Company”	means Wah Yuen Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the main board of the Stock Exchange
“Consideration”	means RMB4,670,000
“Directors”	means the directors of the Company
“Group”	means the Company and its subsidiaries
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“Huadu”	means 花都市天誠實業有限公司 (Huadu City Tian Cheng Industry Limited)
“Huadu COFTEC”	means 廣州市花都區對外貿易經濟合作局 (the Commission of Foreign Trade and Economic Co-operation of Huadu District, Guangzhou)
“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	means the People’s Republic of China (which for the purpose of this announcement, excludes Hong Kong, Taiwan and the Macau Special Administrative Region of the People’s Republic of China)
“Prospectus”	means the prospectus of the Company dated 12 June 2003
“Purchaser”	means Wah Yuen Foods Company Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“Rocco”	means 廣州樂高食品企業有限公司 (Rocco Foods Enterprise Company (Guangzhou) Limited)
“Shareholders”	means holders of shares of HK\$0.01 in the issued share capital of the Company
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	means Renminbi, the lawful currency of the PRC
“%”	means per cent.

For the purpose of this announcement, conversion of RMB into HK\$ or vice versa has been calculated using the exchange rate of RMB1.00 = HK\$1.06 as illustration.

By order of the board of Directors of
Wah Yuen Holdings Limited
But Ka Wai
Chairman