



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, 2003

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, 2003 with comparative figures in previous year as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER, 2003

	NOTES	2003 HK\$'000	2002 HK\$'000
Turnover	2	198,934	192,865
Cost of sales		(117,065)	(110,412)
Gross profit		81,869	82,453
Other operating income		584	457
Selling and distribution expenses		(20,225)	(17,034)
Administrative expenses		(26,969)	(22,422)
Profit from operations	3	35,259	43,454
Finance costs		(8,401)	(8,369)
Profit before taxation		26,858	35,085
Taxation	4	(5,516)	(5,246)
Profit before minority interests		21,342	29,839
Minority interests		(1,199)	(812)
Profit for the year		20,143	29,027
Dividends	5	7,000	2,219
Earnings per share – basic	6	11.8 cents	20.7 cents

Notes:

1. GROUP REORGANISATION AND BASIS OF PREPARATION OF 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 Wah Yuen Foods International Limited. 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 have been prepared on merger basis in accordance with Statement of Standard Accounting Practice (“SSAP”) 27 “Accounting for group reconstructions” issued by the Hong Kong Society of Accountants (“HKSA”).

2. 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 different from the location of its customers.

	For the year ended 31 December, 2003			
	Hong Kong HK\$'000	The PRC HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
TURNOVER				
External sales	96,496	102,438	–	198,934
Inter-segment sales	–	25,442	(25,442)	–
Total turnover	96,496	127,880	(25,442)	198,934
SEGMENT RESULTS	9,687	25,169	–	34,856
Unallocated corporate income				403
Profit from operations				35,259
Finance costs				(8,401)
Profit before taxation				26,858
Taxation				(5,516)
Profit before minority interests				21,342
Minority interests				(1,199)
Profit for the year				20,143

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

	For the year ended 31 December, 2002			
	Hong Kong HK\$'000	The PRC HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
TURNOVER				
External sales	76,605	116,260	–	192,865
Inter-segment sales	–	14,693	(14,693)	–
Total turnover	76,605	130,953	(14,693)	192,865
SEGMENT RESULTS	9,484	33,513	–	42,997
Unallocated corporate income				457
Profit from operations				43,454
Finance costs				(8,369)
Profit before taxation				35,085
Taxation				(5,246)
Profit before minority interests				29,839
Minority interests				(812)
Profit for the year				29,027

3. PROFIT FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging:		
Staff costs, including directors’ emoluments	21,212	21,657
Retirement benefits scheme contributions, including contributions to directors	853	741
Total staff costs	22,065	22,398
Allowance for bad and doubtful debts	2,952	1,359
Auditors’ remuneration	580	456
Depreciation		
– owned assets	7,180	5,045
– assets held under finance lease	616	593
Exchange loss	–	8
Loss on disposal of fixed assets	2	141
Operating lease rentals paid in respect of rented premises	2,260	1,479

4. TAXATION

	2003 HK\$'000	2002 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
– current year	–	971
– over provision in prior year	(57)	(17)
PRC income tax		
– current year	5,066	4,490
– under(over) provision in prior year	376	(198)
	5,385	5,246
Deferred tax charge for the year	131	–
	5,516	5,246

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the year. In June 2003, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from 2003/2004 year of assessment. The effect of this increase has been reflected in the calculation of current and deferred tax balance at 31 December, 2003.

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.

5. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Dividends paid by subsidiaries of the Company to the then shareholders prior to the Group Reorganisation	–	2,219
2003 Interim dividend paid HK1.5 cents (2002: Nil) per share	3,000	–
2003 Final dividend proposed – HK2 cents (2002: Nil) per share	4,000	–
	7,000	2,219

The 2003 final dividend of HK2 cents per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

6. EARNINGS PER SHARE

The calculations of the basic earnings per share is based on the Group’s profit for the year of HK\$20,143,000 (2002: HK\$29,027,000) and on the weighted average number of 171,232,877 (2002: 140,000,000) shares in issued during the period. The weighted average number of shares is determined on the assumption that the Group Reorganisation as described in note 1 had been completed on 1 January, 2002.

No dilutive shares were outstanding or deemed to be outstanding throughout the two years ended 31 December, 2003 and accordingly no diluted earnings per share has been presented.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Wah Yuen is the leading food manufacturer, distributor and retailer in the Hong Kong and PRC market, producing and offering 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.

Hong Kong Market

In 2003, the Group’s business development in the Hong Kong market remained stable. Wah Yuen has further extended its range of packaged snack food and convenience frozen food by launching a number of new products, such as Japanese Style Deep Fried Sweet Potatoes, a series of new Chinese dim sum, a series of fried rice and noodles, as well as packaging snack food. According to AC Nielsen’s latest market research reports, Wah Yuen has again become Hong Kong’s market leader and best-seller in packaged snack meat products and gift packaged egg rolls respectively. In addition, Wah Yuen was awarded the “Superbrands” status in January 2004, representing valuable market recognition of its strong brand name equity.

The PRC Market

The Group’s products are mainly sold under the brand names of Wah Yuen, Rocco and 采楓 and have achieved successful market penetration into over 250 cities in 30 provinces. Currently, the Group’s products are supplied to over 500 customers in the PRC, which mainly comprise supermarket chains, independent trading companies, convenience store chains, healthcare store chains and individual grocery stores.

As at 31 December, 2003, the Group opened 50 Wah Yuen specialty stores and the specialty stores are expected to contribute to the Group’s business growth in the PRC in 2004. In addition, the Group is also under negotiation with several major potential customers for launching convenience frozen food products to the PRC market in 2004.

Production Facilities

As at 31 December, 2003, a total of 10 production lines are located in Hong Kong and Huadu District, Guangzhou, Guangdong Province. The Group’s two production facilities in the PRC, namely Wah Yuen (Guangzhou) Foods Co., Ltd. and Rocco Foods Enterprise (Guangzhou) Co., Ltd., were awarded the internationally recognized HACCP certificates in July 2003 as a testimony of the Group’s highest international food hygiene standards, which helped to enhance consumers’ confidence in the Group’s products.

Future Prospects

As a unique one-stop food enterprise, Wah Yuen will continue to bring new tastes and excitement to customers and maximize its market penetration in Hong Kong and the PRC. The Group is committed to heightening its “Superbrands” status and introducing more quality food to the world.

The Group will continue to develop different types of packaged snack food and convenience frozen food products, so as to satisfy consumers’ need for quality food in Hong Kong and the PRC.

The Group endeavors to consolidate its business in Hong Kong and the PRC market while developing sales and distribution network in overseas markets. The Group participated in Foodex, one of the largest food exhibitions in Japan, in March 2004 to promote and market the Wah Yuen’s brandname and its products. The Japanese orders have commenced production and are targeted for shipment to Japan in the first half of 2004. In addition, the Group will also continue to negotiate sales plans with Japanese distributors and speed up its strategic journey in developing the global market.

FINANCIAL REVIEW

The Group’s turnover for the year ended 31 December, 2003 amounted to HK\$198,934,000, representing a slight growth of 3% as compared to HK\$192,865,000 for last year. The Group’s gross profit and profit for the year ended 31 December, 2003 reached HK\$81,869,000 and HK\$20,143,000 respectively.

Sales of dried meat products which accounted for 58% of total turnover were the major source of the Group’s revenue. Sales of convenience frozen food products accounted for about 19%, sales of flour products accounted for about 10%, sales of preserved fruits and nuts products accounted for about 4% and the remaining turnover was attributable to other products. These figures were similar to that of last year.

Liquidity and Financial Resources

As at 31 December, 2003, the Group had total assets of HK\$352,011,000 and its total current assets were HK\$244,821,000. As at that date, the current and non-current liabilities of the Group totaled to HK\$174,734,000 and HK\$49,949,000 respectively. The Group’s bank borrowings amounted to HK\$133,199,000 (2002: HK\$118,281,000). Most of these bank borrowings were denominated in Hong Kong dollars and Renminbi and bearing floating interest rate. As at 31 December, 2003, the gearing ratio of the Group was 49% (2002: 51%), calculated on the basis of total borrowings over total assets at that date.

As at 31 December, 2003, the Group had total trade receivables of HK\$131,306,000. Up to 15 April, 2004, HK\$68,700,000 has been fully settled. The Group granted a long credit period for certain customers with long established relationship and good past repayment histories.

Use of Listing Proceeds

For the year ended 31 December, 2003, the Group had applied part of the listing proceeds as follows:

- Approximately HK\$6,000,000 for expanding its sales and distribution network in the PRC;
- Approximately HK\$6,000,000 for acquiring new equipment and upgrading its production facilities in the PRC;
- Approximately HK\$2,000,000 for financing its research and development on food products;
- Approximately HK\$1,000,000 for setting up a sales and distribution network in Japan;

The unused proceeds are still placed on deposits with banks.

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\$17,542,000 in fixed assets, of which 87% was used for purchase of plant and machinery and the remaining related to other assets.

As at 31 December, 2003, the Group had capital commitments of approximately HK\$9,831,000 in respect of acquisition of new machinery and renovation of a new production line.

Charge on Assets

As at 31 December, 2003, certain assets of the Group with aggregate carrying value of HK\$143,728,000 were pledged to banks to secure banking facilities granted to the Group.

Employees

As at 31 December, 2003, total number of employees of the Group were approximately 85 in Hong Kong (2002: 83), and approximately 821 in the People’s Republic of China (2002: 718). The Group offers a comprehensive remuneration and employees’ 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

The Company’s shares were listed on the Stock Exchange on 25 June, 2003. Save for this, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed shares during the year and up to the date of the approval of this report.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 20 May, 2004 to 27 May, 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the above-mentioned dividend, all transfer of documents accompanied by the relevant share certificates must be lodged with the Company’s share registrars in Hong Kong, Tengis Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wan Chai, Hong Kong not later than 4:00 p.m. on 19 May, 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, 2003. 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, 2003, 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, 2003 containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules 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, 26 April, 2004

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)