



# Wah Yuen Holdings Limited

華園控股有限公司

(Incorporated in the Cayman Islands with limited liability)

## Announcement of unaudited interim results for the six months ended 30 June 2003

### INTERIM RESULTS

The Directors of Wah Yuen Holdings Limited (the “Company”) are pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2003 with comparative figures for the corresponding period in 2002 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2003	2002
		Notes	
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Turnover	2	88,592	86,629
Cost of sales		(54,742)	(53,969)
Gross profit		33,850	32,660
Other operating income		152	69
Selling and distribution expenses		(8,628)	(8,097)
Administrative expenses		(12,111)	(11,974)
Profit from operations		13,263	12,658
Finance costs		(3,975)	(4,569)
Profit before taxation		9,288	8,089
Taxation	4	(1,939)	(1,133)
Profit before minority interests		7,349	6,956
Minority interests		(599)	(599)
Profit attributable to shareholders		6,750	6,357
Dividends	5	3,000	2,219
Earnings per share	6		
– Basic		4.8 cents	4.5 cents

Notes:

#### 1. BACKGROUND AND BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on 9 October 2002 as an exempted Company with limited liability under the Companies Law (Revised) of Cayman Islands. Pursuant to a reorganisation scheme to rationalise the Group in preparation for listing of the Company's Shares on the Main Board of the Stock Exchange of Hong Kong Limited (the “SEHK”) in June 2003, the Company became the holding company of the Companies now comprising the Group on 3 June 2003. This was accomplished by the Company acquiring the entire issued share capital of Wah Yuen Foods International Limited, then became holding company of other subsidiaries, in consideration of and in exchange for the issue and allotment of 20,000,000 Shares to ASG Limited, NCI Limited, Mr. But Ching Pui and Ms. Leung Wai Ling. Further details of the reorganisation are set out in the Company's prospectus dated 12 June 2003.

The first interim financial report is unaudited, and has been prepared in accordance with the requirements of the Main Board Listing Rules of the SEHK, including Compliance with Statement of Standard Accounting Practice 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants.

The condensed financial statements have been prepared under the historical cost convention.

The condensed financial statements have been prepared in accordance with the accounting policies consistent with those adopted by the Group in its financial statements for the year ended 31 December 2002.

#### 2. SEGMENT INFORMATION

##### (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 Relevant Periods.

##### (b) Geographical segment

Geographical segment is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions. In presenting information on the basis of geographical segment, segment revenue is based on the geographical presence of customers.

The Group's business is principally managed in Hong Kong and the People's Republic of China (the “PRC”) while the principal markets for the Group's products are consumers and retailers in Hong Kong and PRC.

		For the six months ended 30 June 2003			Consolidated HK\$'000
		Hong Kong HK\$'000	The PRC HK\$'000	Eliminations HK\$'000	
TURNOVER					88,592
External sales		40,572	48,020	–	88,592
Inter-segment sales		–	8,985	(8,985)	–
Total turnover		40,572	57,005	(8,985)	88,592
SEGMENT RESULTS		2,585	10,526	–	13,111
Unallocated corporate income					152
Profit from operations					13,263
Finance costs					(3,975)
Profit before taxation					9,288
Taxation					(1,939)
Profit before minority interests					7,349
		For the six months ended 30 June 2002			Consolidated HK\$'000
		Hong Kong HK\$'000	The PRC HK\$'000	Eliminations HK\$'000	
TURNOVER					86,629
External sales		33,873	52,756	–	86,629
Inter-segment sales		–	5,253	(5,253)	–
Total turnover		33,873	58,009	(5,253)	86,629
SEGMENT RESULTS		3,068	9,521	–	12,589
Unallocated corporate income					69
Profit from operations					12,658
Finance costs					(4,569)
Profit before taxation					8,089
Taxation					(1,133)
Profit before minority interests					6,956

#### 3. DEPRECIATION AND AMORTISATION

During the period, charged against profit from operations was depreciation and amortisation of approximately HK\$3,309,000 (2002: approximately HK\$3,524,000) in respect of the Group's property, plant and equipment.

#### 4. TAXATION

		For the six months ended 30 June	
		2003	2002
		HK'000	HK'000
The charge comprises:			
Hong Kong Profits Tax		–	137
PRC income tax			
– current period		1,537	996
– under provision in prior year		402	–
		1,939	1,133

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit during the Relevant Periods.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are entitled to an exemption from PRC income tax for two years starting from its first profit-making year, followed by a 50% reduction for the next three years, as follows:

- the full PRC income tax rate applicable to Wah Yuen (Guangzhou) Foods Company Limited (“Wah Yuen (Guangzhou)”) is 27% and the reduced rate for the relief period is 12%. The first profit-making year of Wah Yuen (Guangzhou) is 2000.
- Rocco Foods Enterprise Company (Guangzhou) Limited is subject to PRC income tax at the full rate of 27%.

The charge of PRC income tax for the Relevant Periods has been provided for after taking into account the above-mentioned tax incentives.

The Group had no significant unprovided deferred taxation for the period.

#### 5. DIVIDENDS

		For the six months ended 30 June	
		2003	2002
		HK'000	HK'000
Interim dividend declared of HK cents 1.5 per share		3,000	–
Dividend declared and paid to the shareholders prior to the reorganisation		–	2,219
		3,000	2,219

At a meeting on 24 September 2003, the Directors of the Company declared an interim dividend of HK cents 1.5 per share for the six months ended 30 June 2003. The interim dividends will be payable on 27 October 2003 to shareholders whose names appear on the Register of Members of the Company on 20 October 2003. The interim dividend proposed after 30 June 2003 has not been recognised as a liability at that date.

#### 6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders for the period of approximately HK\$6,750,000 (2002: approximately HK\$6,357,000) and on the weighted average number of 141,988,950 Shares (2002: 140,000,000 Shares) in issue and issuable.

### MANAGEMENT DISCUSSION AND ANALYSIS

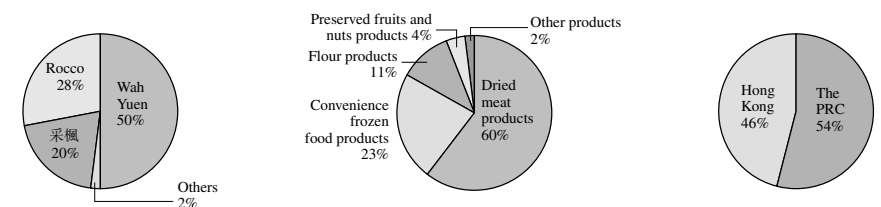
Listed on the Main Board of the SEHK in year 2003 is one of the major corporate milestone for the Group. During the period under review, the Group performed satisfactorily for its first interim results since listing.

The Group's turnover for the period ended 30 June 2003 amounted to HK\$88,592,000, representing a slightly growth of 2.3% as compared to HK\$86,629,000 for the corresponding period of last year. The Group's gross profit and profit attributable to shareholders for the period ended 30 June 2003 reached HK\$33,850,000 and HK\$6,750,000 respectively. Basic earnings per share was HK cents 4.8.

The Board of Directors have resolved that an interim dividend of HK cents 1.5 for the six months ended 30 June, 2003, will be declared.

#### Operations Review

As a leading food manufacturer, distributor and retailer in the Hong Kong and PRC market, the Group is renowned for its quality snack food products with a unique Asian accent under the brand names of “Wah Yuen”, “Rocco” and “采楓” and its convenience frozen foods that is distributed under the “Wah Yuen” brand name and by OEM in Hong Kong. The Group caters to almost everyone in the market, regardless of age, gender or lifestyle. It has produced and distributed over 200 product varieties under five major categories. Breakdown of turnover by brands, product categories and geographical areas are as follows:



#### Hong Kong Market

During the period under review, sales from the Hong Kong market amounted to HK\$40,572,000 which accounted for approximately 46% of the total turnover.

The Group has achieved such market popularity thanks to its comprehensive coverage spanning across over 2,300 major customer outlets in Hong Kong, including supermarkets and convenience store chains, healthcare store chains, schools, restaurants, cinemas, gas stations, hotels and other individual grocery stores.

#### The PRC Market

As the Group's largest market, sales from the PRC market amounted to HK\$48,020,000 which accounted for approximately 54% of the total turnover.

The Group's snack food products under all three of its brand names enjoy successful market penetration into over 250 cities in 30 provinces. As at 30 June 2003, the Group had branch offices in seven cities in the PRC, namely Beijing, Shenyang, Changchun, Dalian, Wuhan, Changsha and Nanning and a sales representative office in Guangzhou to co-ordinate and manage its sales and distribution channels in the PRC.

As at 30 June 2003, the Group has already opened seven specialty stores under joint ventures with a local distribution partner, so as to increase the awareness of its brandname as well as to further capture opportunities in retail sector.

#### Production Facilities

At present, the Group has three production facilities in both Hong Kong and PRC with total gross floor area of approximately 44,000 m<sup>2</sup>. The facility in Hong Kong is principally engaged in manufacturing freshly cooked and ready-to-serve convenience frozen food products to Hong Kong market. The first Huadu Plant in Huadu District, Guangzhou, Guangdong Province, the PRC has five production lines that manufacture preserved meats, flour, preserved fruits and nuts, seasoning and other products at close to full production capacity. The new Second Huadu Plant established in 2001 with a total of four production lines. The production lines were installed to serve the purpose of producing preserved meats, flour and convenience frozen food products.

#### Future Prospects

In the coming future, the Group will continue to consolidate its leading market position in the packaged food industry by maintaining an amicable relationship with major distributors and retail chains and focus on launching new products, particularly in convenience frozen food.

For the PRC market, due to the growing demand on premium foods, the Group aims to introduce more new products to cater to the changing food culture in the PRC, as well as developing and executing comprehensive sales and marketing strategies to promote “Wah Yuen”, “Rocco” and “采楓” in the PRC market. In addition, the Group will introduce its convenience frozen food products in the second half of 2003. It will also set up more specialty stores for the PRC market to embellish its brand recognition and to capture more market shares by strengthening its sales and marketing capabilities. As at the latest practicable date, the Group has already opened 21 specialty stores in Guangzhou and targeted to open over 50 specialty stores at the end of 2003.

Other than manufacturing and distributing its products in Hong Kong and the PRC, the Group is also developing the sales and distribution network in the overseas market, with its first market being Japan. The Group is under negotiation with several Japanese distributors to launch and export a series of products in Japan. Under the leadership of the highly experienced management team, the Group looks forward to solidifying its business in Hong Kong and the PRC, and creating marketing strategies to further its market expansion into Japan and other consumer markets with food lovers from around the world.

#### LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated resources and banking facilities provided by its principal bankers in Hong Kong and the PRC. As at 30 June 2003, the Group had current assets of approximately HK\$220,293,000. Current assets comprised cash and bank balances of HK\$46,339,000, trade and other receivables of HK\$114,854,000, inventories of HK\$44,685,000 and pledged bank deposits of HK\$12,268,000. Current liabilities comprised bank borrowings of HK\$100,852,000, trade and other payables of HK\$43,124,000 obligations under finance leases of HK\$5,866,000 and taxation of HK\$2,323,000.

The inventory turnover for the six months ended 30 June 2003 was 148 days compared to 130 days for the year ended 31 December 2002. The increase in inventory turnover days was primarily attributable to the rise in stock level in anticipation of the increasing demand for the Group's products in the second half of the year.

The average debtors turnover for the six months ended 30 June 2003 was 203 days, compared to 205 days for the year ended 31 December 2002. This was mainly because the Group granted a longer credit period for certain customers with long-established relationship and good past repayment histories.

Most of the revenue generated from the sale of products and payment for purchase of materials, equipment and salaries are either in HK Dollars, US Dollars and Renminbi. The Directors consider that the Group is not exposed to any significant foreign exchange risk.

#### USE OF PROCEEDS

The placing and initial public offer of the Company has raised net proceeds of approximately HK\$36 million after deducting related expenses. The Group did not utilize any part of new proceeds up to the date of this report. The net proceeds will be used in accordance with the plan as described in the Prospectus dated 12 June 2003.

#### EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2003, the Group had a total of 762 full-time staff. The total staff costs for the period under review were HK\$8,340,000. The Group offers a 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

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 securities during the Interim Period and up to the date of the approval of this report

#### AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed interim accounts for the six months ended 30 June 2003.

#### 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 six months ended 30 June, 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.

#### PUBLICATION OF DETAILED INTERIM RESULTS ANNOUNCEMENT ON THE WEBSITE OF THE STOCK EXCHANGE

A detailed interim results announcement containing all information requested by paragraphs 46(1) to 46(6) 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, 24 September 2003