THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares (the "**Shares**") of HK$0.01 each in the capital of Wah Yuen Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

Dealings in the Shares (as defined herein) and, the Rights Shares (as defined herein) in their nil-paid form and fully-paid form, may be settled through CCASS (as defined herein) and you should consult your stockbroker or other registered securities dealer, bank manager, solicitor, professional accountant or other professional adviser for details of those settlement arrangements and how such arrangements may affect your rights and interests.

WAH YUEN HOLDINGS LIMITED
華園控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2349)

PROPOSED RIGHTS ISSUE IN THE PROPORTION OF THREE RIGHTS SHARES FOR EVERY TWO SHARES HELD ON THE RECORD DATE

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

REXCAPITAL (Hong Kong) Limited

The letter from RexCapital (as defined herein), the independent financial adviser, is set out on pages 22 to 36 of this circular. The letter from the Independent Board Committee (as defined herein) is set out on page 21 of this circular.

To qualify for the Rights Issue (as defined herein), Shareholders (as defined herein) must be registered as members of the Company on the Record Date (as defined herein) and must not be Excluded Shareholders (as defined herein). In order to be registered as members of the Company on the Record Date, Shareholders must lodge any transfers of the Shares (with the relevant share certificate(s)) with the Company's branch share registrar in Hong Kong. Tengis Limited at 26th Floor., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by no later than the Latest Lodging Date (as defined herein). The last day of dealings in Shares on a cum-rights basis is therefore expected to be Wednesday, 7 June 2006. The Shares will be dealt with on an ex-rights basis on Thursday, 8 June 2006.

A notice convening an EGM (as defined herein) of the Company to be held at 2nd Floor, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong on Monday, 5 June 2006 at 9:30 a.m. is set out on pages 91 to 92 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk.

Whether or not you are able to attend the EGM, you are requested to complete the form of proxy, in accordance with the instructions printed thereon and deposit the same at the offices of the Company's branch share registrar and transfer office in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

It should be noted that the Underwriting Agreement (as defined herein) contains provisions granting the Underwriter (as defined herein), by notice in writing, the right to terminate its obligations thereunder on the occurrence of certain events. These events are set out in the paragraph headed "Termination of the Underwriting Agreement" on page 13 of this circular. If the Underwriting Agreement is terminated by the Underwriter or does not become unconditional, the Rights Issue will not proceed.

The Shares will be dealt in on an ex-rights basis from Thursday, 8 June 2006. Dealing in the Rights Shares in the nil-paid form will take place from Tuesday, 20 June 2006 to Wednesday, 28 June 2006 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled and/or, in respect of conditions that are waivable, waived (as the case may be) on or before Thursday, 6 July 2006 (or such later time and/or date as the Company and the Underwriter may agree in writing), or the Underwriting Agreement is terminated, the Rights Issue will not proceed and the Rights Issue will lapse.

Any person contemplating buying or selling the Shares from the date of the Announcement (as defined herein) up to the date on which all the conditions of the Rights Issue are fulfilled, and any dealings in the Rights Shares in their nil-paid form between Tuesday, 20 June 2006 to Wednesday, 28 June 2006 (both dates inclusive), bear the risk that the Rights Issue may not become unconditional or may not proceed.

Any Shareholder or other persons contemplating dealings in the Shares or nil-paid Rights Shares, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional advisers.

17 May 2006

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Set out below is an indicative timetable for the implementation of the Rights Issue. The timetable is subject to the results of the EGM and other changes in accordance with any agreement to be made between the Company, the Underwriter, Mr. KW But and Mr. CT But. The Company will notify the Shareholders of any changes to the expected timetable by way of announcement(s) as and when appropriate.

	2006
Despatch of Company's circular with notice of EGM	17 May
Latest time for lodging forms of proxy for the purpose of the EGM	9:30 a.m. on 3 June
EGM	9:30 a.m. on 5 June
Announcement of results of EGM to be published on the Stock Exchange website	6 June
Last day of dealings in Shares on a cum-rights basis	7 June
First day of dealings in Shares on an ex-rights basis	8 June
Latest time for lodging transfer of Shares in order to be qualified for the Rights Issue	4:00 p.m. on 9 June
Latest time for holders of the Share Options to exercise their respective Share Options in order to be qualified for the Rights Issue	4:00 p.m. on 9 June
Register of members of the Company closed (both dates inclusive)	12 June to 15 June
Record Date	15 June
Register of members of the Company re-opens	16 June
Despatch of the Prospectus Documents (in case of the Excluded Shareholders, the Prospectus only)	16 June
First day of dealings in nil-paid Rights Shares	20 June
Latest time for splitting of nil-paid Rights Shares	4:00 p.m. on 23 June
Last day of trading in nil-paid Rights Shares	28 June
Latest time for acceptance of, and payment of Rights Shares and application for excess Rights Shares	4:00 p.m. on 3 July

Latest time for the Rights Issue to become unconditional (being the third Business Days following the Latest Acceptance Date)	4:00 p.m. on 6 July
Announcement of results of acceptance of and excess application for the Rights Shares to be published on the Stock Exchange	7 July
Despatch of refund cheques in respect of unsuccessfully or partially unsuccessful excess applications for excess Rights Shares	7 July
Despatch of share certificates for fully-paid Rights Shares	7 July
Dealings in fully-paid Rights Shares commence	9:30 a.m. on 11 July

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR RIGHTS SHARES

The latest time for acceptance of and payment for Rights Shares will not take place if there is:

- a tropical cyclone warning signal number 8 or above, or
- a "black" rainstorm warning:

  (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Latest Acceptance Date. Instead the latest time of acceptance of and payment for the Rights Shares will be extended to 5:00 p.m. on the same Business Day;

  (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Latest Acceptance Date. Instead the latest time of acceptance of and payment for the Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m..

If the latest time for acceptance of and payment for the Rights Shares does not take place on Latest Acceptance Date, the date mentioned in the section headed "Expected timetable" in this circular may be affected. A press announcement will be made by the Company in such event.

TERMINATION OF THE UNDERWRITING AGREEMENT

It should be noted that the Underwriting Agreement contains provisions granting the Underwriter, by notice in writing, the right to terminate its obligations thereunder on the occurrence of certain events. These events are set out in the paragraph headed "Termination of the Underwriting Agreements" on page 13 of this circular. If the Underwriting Agreement is terminated by the Underwriter or does not become unconditional, the Rights Issue will not proceed.

In this circular, unless the context otherwise requires, the following words and expressions shall have the following meanings when used herein:

"Announcement"	the announcement of the Company dated 7 April 2006 relating to, among other things, the proposed Rights Issue
"associates"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"Business Day"	any day on which the Stock Exchange is open for the business in dealing securities
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Company"	Wah Yuen Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Stock Exchange
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve the Rights Issue and the transactions contemplated thereunder
"Excluded Shareholders"	Overseas Shareholders, to whom the Directors, based on legal opinions provided by legal advisers and on account either of legal restrictions under the laws of relevant place or the requirements of the relevant regulatory body or stock exchange in that place, consider it necessary or expedient not to offer the Rights Shares
"Group"	the Company and its subsidiaries
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee comprising two independent non-executive Directors which was established for the purpose of considering and advising the Independent Shareholders in connection with the Rights Issue and the transaction contemplated thereunder

"Independent Shareholders"	Shareholders other than Mr. KW But and Mr. CT But and their respective associates who are required by the Listing Rules or the Stock Exchange to abstain from voting in respect of the resolution to approve the Rights Issue
"Latest Acceptance Date"	being 4:00 p.m. 3 July 2006 or such other date and/or time as the Underwriter and the Company may agree as the latest date for acceptance and payment in respect of provisional allotments and applications for excess under the Rights Issue
"Latest Lodging Date"	being 4:00 p.m. 9 June 2006 or such other date and/or time as the Underwriter and the Company may agree as the latest time for lodging transfer of Shares and/or exercising Share Options in order to be qualified for the Rights Issue
"Latest Practicable Date"	16 May 2006, being the latest practicable date prior to the printing of this circular for inclusion of certain information in this circular
"Last Trading Date"	4 April 2006, being the last trading day of the Shares prior to the release of the Announcement
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Mr. CT But"	Mr. But Chai Tong, the vice-chairman, executive Director and a substantial shareholder of the Company, who indirectly interested in 57,000,000 Shares by his entire beneficial shareholding in National Chain International Limited
"Mr. KW But"	Mr. But Ka Wai, the chairman, executive Director and a substantial shareholder of the Company, who indirectly interested in 60,500,000 Shares by his entire beneficial shareholding in Able Success Group Limited
"Overseas Shareholder(s)"	the Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date and whose registered address(es) as shown on such register is(are) outside Hong Kong
"PRC"	The People's Republic of China
"Prospectus"	the prospectus to be issued by the Company in relation to the Rights Issue
"Prospectus Documents"	the Prospectus, the provisional allotment letter and the form of application for excess Rights Shares
"Prospectus Posting Date"	16 June 2006 or such later date as the Underwriter may agree in writing with the Company

"Qualifying Shareholder(s)"	the Shareholder(s), other than the Excluded Shareholder(s), whose name(s) appear(s) on the register of members of the Company on the Record Date
"Record Date"	15 June 2006, being the date by reference to which entitlements to the Rights Issue will be determined
"Registrar"	Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, being the Company's Hong Kong branch share registrar
"RexCapital"	RexCapital (Hong Kong) Limited, a licensed corporation under the SFO to conduct type 6 (advising on corporate finance) regulated activity, the independent financial adviser being appointed by the Company to advise the Independent Board Committee and the Independent Shareholders
"Rights Issue"	the proposed issue of Rights Shares on the basis of three Rights Shares for every two Shares to Qualifying Shareholders by way of rights or to holders of nil-paid Rights Shares at the Subscription Price, pursuant to the terms and conditions of the Rights Issue
"Rights Share(s)"	not less than 321,000,000 Shares and not more than 339,000,000 Shares to be issued pursuant to Rights Issue
"SFO"	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholder(s)"	holder(s) of the Shares
"Share(s)"	ordinary share(s) of HK$0.01 each in the issued and unissued share capital of the Company
"Share Option(s)"	the share option(s) granted under the Share Option Scheme
"Share Option Scheme"	a share option scheme adopted by the Company pursuant to a written resolution passed on 3 June 2003
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Price"	subscription price of HK$0.10 per Rights Share
"Underwriter"	TIS Securities (HK) Limited, an independent third party not connected with the Company and its connected persons (as defined under the Listing Rules)
"Underwriting Agreement"	the underwriting agreement dated 4 April 2006 entered into among the Company, the Underwriter, Mr. KW But and Mr. CT But in relation to the Rights Issue
"%"	per cent.

WAH YUEN HOLDINGS LIMITED
華園控股有限公司

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

Executive Directors:
Mr But Ching Pui *(Honorary Chairman)*
Mr But Ka Wai *(Chairman)*
Mr But Chai Tong *(Vice Chairman)*
Mr Chu Kin Wah

Non-executive Directors:
Ms Leung Wai Ling
Mr Ngai Chun Kong, Stephen

Independent non-executive Directors:
Mr Cheung Yu Yan, Tommy
Mr Ip Shing Tong, Francis
Mr Ku Siu Fung, Stephen

Registered office:
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

Head office and principal place of business in Hong Kong:
2nd Floor
On Shing Industrial Building
Nos. 2-16 Wo Liu Hang Road
Fo Tan, Shatin
New Territories
Hong Kong

17 May 2006

To the Shareholders

Dear Sir or Madam

PROPOSED RIGHTS ISSUE IN THE PROPORTION OF THREE RIGHTS SHARES FOR EVERY TWO SHARES HELD ON THE RECORD DATE

INTRODUCTION

On 7 April 2006, the Company announced that the Board proposed to raise not less than approximately HK$32.1 million and not more than approximately HK$33.9 million respectively before expenses by issuing not less than 321,000,000 Rights Shares (assuming no Share Options would have been exercised on or before the Latest Lodging Date) and not more than 339,000,000 Rights Shares (assuming full exercise of the 12,000,000 Share Options on or before the Latest Lodging Date) at the Subscription Price of HK$0.10 per Rights Share on the basis of three Rights Shares for every two Shares held on the Record Date.

As at the Latest Practicable Date, 12,000,000 Share Options have been granted by the Company under the Share Option Scheme entitling the holders thereof to subscribe for up to an aggregate of 12,000,000 Shares at a subscription price of HK$0.316 per Share. Save for the Share Options mentioned above, there are no outstanding warrants or share options or securities that are convertible or exchangeable into Shares or confer any rights to subscribe for Shares as at the Latest Practicable Date.

Pursuant to the Underwriting Agreement, Mr. KW But and Mr. CT But, collectively the controlling Shareholders, who are indirectly interested in 117,500,000 Shares in aggregate, representing approximately 54.91% of the total issued share capital of the Company as at the Latest Practicable Date, has given an irrevocable undertaking to accept or procure acceptance of all the Rights Shares to be provisionally allotted to them, or their nominee(s) as the holder of such Rights Shares pursuant to the Rights Issue. Assuming all the Rights Shares subject to the above undertakings have been fully allotted and issued to Mr. KW But and Mr. CT But, their total shareholdings after the Rights Issue would amount to 293,750,000 Shares, representing approximately 54.91% (assuming no Share Options would have been exercised on or before the Latest Lodging Date) and approximately 51.99% (assuming full exercise of the 12,000,000 Share Options on or before the Latest Lodging Date) of the total issued share capital of the Company as enlarged by the Rights Issue.

Assuming all the Share Options have been exercised on or before the Latest Lodging Date, in the event that no Qualifying Shareholder takes up any Rights Shares, except that Mr. KW But and Mr. CT But take up all their entitlements (being 176,250,000 Rights Shares in aggregate) under the Rights Issue, the Underwriter will be required to subscribe for and take up all the Rights Shares (other than the Rights Shares undertaken to be taken up by Mr. KW But and Mr. CT But) that have not been subscribed for under the Rights Issue pursuant to its obligations under the Underwriting Agreement. Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite not less than 144,750,000 Rights Shares (assuming no Share Options would have been exercised on or before the Latest Lodging Date) and not more than 162,750,000 Rights Shares (assuming full exercise of the 12,000,000 Share Options on or before the Latest Lodging Date), representing approximately 27.06% and 28.81% respectively of the total issued share capital of the Company as enlarged by the issue of the Rights Shares, on the terms and subject to the conditions set out in the Underwriting Agreement.

The Independent Shareholders will be advised by the Independent Board Committee regarding the Rights Issue. RexCapital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the Rights Issue are fair and reasonable and whether the Rights Issue is in the interests of the Company and the Shareholders as a whole.

The purpose of this circular is to give you further information on details of the Rights Issue. This circular also contains the recommendation of the Independent Board Committee and the advice of RexCapital in respect of the Rights Issue and the notice of EGM.

PROPOSED RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue:	Three Rights Shares for every two Shares held on the Record Date
Number of Shares in issue:	214,000,000 Shares as at the Latest Practicable Date
Number of outstanding Share Options:	12,000,000 Share Options to subscribe for an aggregate of 12,000,000 Shares as at the Latest Practicable Date
Number of Rights Shares:	Not less than 321,000,000 and not more than 339,000,000 Rights Shares
Number of Rights Shares undertaken to be taken up by Mr. KW But and Mr. CT But:	Pursuant to the Underwriting Agreement, Mr. KW But and Mr. CT But have irrevocably undertaken to accept or procure acceptance of their entitlements under the Rights Issue for 90,750,000 Rights Shares and 85,500,000 Rights Shares respectively
Number of Rights Shares undertaken by the Underwriter:	Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite not less than 144,750,000 Rights Shares, (and not more than 162,750,000 Rights Shares if all the Share Options have been exercised) representing approximately 27.06% (and 28.81%) of the total issued share capital of the Company as enlarged by the issue of the Rights Shares, on the terms and subject to the conditions set out in the Underwriting Agreement. The Rights Issue (other than the Rights Shares undertaken to be taken up by Mr. KW But and Mr. CT But) will be fully underwritten by the Underwriter on the terms and subject to the conditions set out in the Underwriting Agreement.

Of the 12,000,000 Share Options mentioned above, 10,000,000 Share Options are being held by the employees of the Company and the remaining 2,000,000 Share Options are being held by other consultants of the Company. Among the holders of the Share Options, all employees and other consultants of the Company are independent third parties not connected with the Company and its connected persons (as defined under the Listing Rules). The exercise period of the Share Options is from 3 June 2003 to 2 June 2013.

Save for the Share Options mentioned above, there are no outstanding warrants or share options or securities that are convertible or exchangeable into Shares or confer any right to subscribe for Shares as at the Latest Practicable Date.

Subscription Price

The Subscription Price for the Rights Shares is HK$0.10 per Rights Share, payable in full when a Qualifying Shareholder accepts his/her/its provisional allotment under the Rights Issue or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares subscribes for the Rights Shares.

The Subscription Price represents:

(i) a discount of approximately 50.74% to the closing price of HK$0.203 per Share on 4 April 2006, being the Last Trading Date (based on the closing price of HK$0.203 as quoted on the Stock Exchange on 4 April 2006, being the Last Trading Date);

(ii) a discount of approximately 51.22% to the average closing price of HK$0.205 per Share for the 10 consecutive trading days up to and including 4 April 2006, being the Last Trading Date (based on the average closing price as quoted on the Stock Exchange for the 10 consecutive trading days up to and including 4 April 2006, being the Last Trading Date);

(iii) a discount of approximately 49.75% to the average closing price of HK$0.199 per Share for the 20 consecutive trading days up to and including 4 April 2006, being the Last Trading Date (based on the average closing price as quoted on the Stock Exchange for the 20 consecutive trading days up to and including 4 April 2006, being the Last Trading Date);

(iv) a discount of approximately 49.50% to the average closing price of HK$0.198 per Share for the 30 consecutive trading days up to and including 4 April 2006, being the Last Trading Date (based on the average closing price as quoted on the Stock Exchange for the 30 consecutive trading days up to and including 4 April 2006, being the Last Trading Date);

(v) a discount of approximately 29.08% to the theoretical ex-rights price of HK$0.141 per Share based on the closing price of HK$0.203 as quoted on the Stock Exchange on 4 April 2006, being the Last Trading Date; and

(vi) a discount of approximately 85.71% to the net tangible assets per Share of approximately HK$0.70 based on the audited consolidated net asset value of the Group as at 31 December 2005.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to, among other things, the generally decreasing trend of the price of the Shares and generally discounts for the subscription prices of recent rights issue of other listed issuers. The Group needs additional funds to finance its operations and business activities. In view of the recent financial conditions of the Group as mentioned above and taking into consideration of the theoretical ex – rights price per Share, in order to increase the attractiveness of the Rights Issues to the Qualifying Shareholders the Directors consider that the proposed discount of the Subscription Price is appropriate. Each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the same price in proportion to his/her/its existing shareholding in the Company. The Directors consider the Subscription Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions of the Rights Issue

The Rights Issue is conditional upon the following conditions being fulfilled:

(a) the passing by the Independent Shareholders at the EGM of an ordinary resolution (such vote shall be taken by way of poll) to approve the Rights Issue;

(b) the delivery to the Stock Exchange and registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) not later than the Prospectus Posting Date and otherwise in compliance with the Listing Rules and the Companies Ordinance;

(c) the posting of the Prospectus Documents to Qualifying Shareholders on the Prospectus Posting Date;

(d) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in all the Rights Shares (in their nil-paid and fully-paid forms);

(e) compliance with and performance of all the undertakings and obligations of the Company under the Underwriting Agreement; and

(f) compliance with and performance of all the undertakings and obligations of the Mr. KW But and Mr. CT But under the Underwriting Agreement.

All the above conditions are not waivable. If any of the conditions of the Rights Issue are not fulfilled on or before 6 July 2006 (or such later time and/or date as the Company and the Underwriter may determine), neither the Company nor the Underwriter shall have any rights or be subject to any obligations arising from the Underwriting Agreement and the Rights Issue will not proceed.

Status of the Rights Issue

The Rights Shares, when allotted, issued and fully-paid, will rank pari passu with the Shares in issue in all respects. Holders of such Rights Shares will be entitled to receive full future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Rights Shares in their fully-paid form. The Rights Shares in both their nil-paid and fully-paid forms will be traded in board lot of 4,000 Shares which is the same as the board lot size for trading in Shares on the Stock Exchange. Dealings in nil-paid and fully-paid Rights Shares will be subject to the payment of stamp duty in Hong Kong.

Qualifying Shareholders

The Rights Issue is only available to the Qualifying Shareholders. The Company will send (i) the Prospectus Documents to Qualifying Shareholders and (ii) the Prospectus, for information only, to the Excluded Shareholders and the holders of the Share Options.

To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company on the Record Date and must not be an Excluded Shareholder. As at the Latest Practicable Date, save for National Chain International Limited and Able Success Group Limited, the Company does not have any Overseas Shareholder.

In order to be registered as a member of the Company on the Record Date, Shareholders must lodge any transfers of the Shares (with the relevant share certificate(s)) with the Registrar, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by no later than 4:00 p.m. on the Latest Lodging Date. Holders of Share Options who wish to participate in the Rights Issue should exercise their Share Options in accordance with their respective terms no later than the Latest Lodging Date. The last day of dealings in Shares on a cum-rights basis is therefore expected to be 7 June 2006. The Shares will be dealt with on an ex-rights basis from 8 June 2006.

Closure of register of members

The Company's register of members will be closed from 12 June 2006 to 15 June 2006, both dates inclusive, for the purpose of, among other things, establishing entitlements to the Rights Issue. No transfer of Shares will be registered during this period.

Rights of Overseas Shareholders and Excluded Shareholders

If at the close of business on the Record Date, a Shareholder's address on the Company's register of members is in a place outside of Hong Kong, that Shareholder may not be eligible to take part in the Rights Issue. The Prospectus Documents will not be registered or filed under the applicable securities or equivalent legislation of any jurisdiction other than that in Hong Kong.

In compliance with Rule 13.36(2) of the Listing Rules, the Directors will make enquiries as to whether the issue of Rights Shares to the Overseas Shareholder may contravene the applicable securities legislation of the relevant overseas places or the requirements of the relevant regulatory body or stock exchange. If, after making such enquiry, the Directors are of the opinion that it would be necessary or expedient, on account either of the legal restrictions under the laws of the relevant place or any requirement of the relevant regulatory body or stock exchange in that place, not to offer the Rights Shares to such Overseas Shareholders, no provisional allotment of nil-paid Rights Shares or allotment of fully-paid Rights Shares will be made to such Overseas Shareholders. Accordingly, the Rights Issue will not be extended to the Excluded Shareholders.

The Company will send the circular including, among other things, details of (i) the Rights Issue, (ii) the recommendation of the Independent Board Committee of the Company in relation to the Rights Issue, (iii) a letter of advice from RexCapital to the Independent Board Committee of the Company and the Independent Shareholders in relation to the Rights Issue together with (iv) a notice convening the EGM to all Shareholders and the holders of Share Options. The Excluded Shareholders will be entitled to vote at the EGM to consider and, if thought fit, for the resolution approving, among other things, the Rights Issue.

Arrangements will be made for the Rights Shares, which would otherwise have been provisionally allotted to the Excluded Shareholders in nil-paid form, to be sold as soon as practicable after dealings in nil-paid Rights Shares commence, if a premium, net of expenses, can be obtained. The proceeds of each sale, less expenses, of HK$100 or more will be paid to the relevant Excluded Shareholders in Hong Kong dollars pro rata to their respective shareholdings. The Company will keep individual amounts of less than HK$100 for its own benefit. Any unsold Rights Shares will be available for excess application under the Rights Issue.

Fractional entitlement to the Rights Shares

No fractional entitlements or allotments are expected to arise as a result of the Rights Issue.

Application for excess Rights Shares

Qualifying Shareholders are entitled to apply for any unsold entitlements of the Excluded Shareholders and any nil-paid Rights Shares provisionally allotted but not accepted by completing the form of application for excess Rights Shares and lodging the same with a separate remittance for the excess Rights Shares being applied for.

The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis on the suggestions given by the Registrar, but will give preference to topping-up odd lots to whole board lots of Shares. The same basis of allocation of the excess Rights Shares will be applied to all Qualifying Shareholders including Mr. KW But and Mr. CT But. Shareholders with their Shares held by a nominee company should note that the Directors will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, Shareholders should note that the aforesaid arrangement in relation to the topping-up of odd lots for allocation of excess Rights Shares will not be extended to the ultimate beneficial owners individually. Shareholders with their Shares held by a nominee company are advised to consider whether they would like to arrange for the registration of the relevant Shares in the name of the beneficial owner(s) to increase their chances of allotment of the excess Rights Shares prior to the Record Date.

Share certificates for the fully-paid Rights Shares and refund cheques

Subject to the fulfillment of the conditions of the Rights Issue, share certificates for all fully-paid Rights Shares are expected to be posted to the Qualifying Shareholders who have accepted and applied for (where appropriate), and paid for the Rights Shares on or before 7 July 2006 at ordinary post at their own risk. Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares are also expected to be posted on or before 7 July 2006 by ordinary post at their own risk.

Application for listing of the Rights Shares on the Stock Exchange

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms.

None of the securities of the Company is listed or dealt in on any other stock exchange other than the Stock Exchange and no such listing or permission to deal is being or is proposed to be sought.

Subject to the granting of listing of, and permission to deal in, the Right Shares in both their nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Right Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Right Shares in their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operation Procedures in effect from time to time.

Reasons for the Rights Issue and the use of proceeds

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 'Cai Feng', and the original equipment manufacturing model. The Group also produces convenience frozen food under the brand name 'Wah Yuen' and the original equipment manufacturing model.

Upon the full subscription of the Rights Shares, the Company will receive net proceeds of approximately HK$30.6 million after the estimated expenditures amounted to approximately HK$1.5 million. The Group needs additional funds to finance its operations and activities for expanding its businesses to overseas market. While the Group intends to continue to pursue its principal business, the Directors intend to apply the net proceeds of the Rights Issue towards general working capital of the Group. With reference to the announcement dated 7 April 2006, the funds from Rights Issue are mainly applied in the Group's operations and activities for extending its business to overseas market.

As at the Latest Practicable Date, the Group has not identified any transactions which will fall within the disclosure requirement under Chapter 14 and/or 14A of the Listing Rules. Should any of such transactions arise, the Group undertakes to make disclosure and announcement pursuant to the relevant Listing Rules requirement.

The Directors have considered that other alternative fund raising methods such as debt financing and bank borrowing. In view of the fact that the debt financing will further increase the interest expenses to the Group and expose the Group to a higher gearing position, the Directors considered that the Rights Issue are better alternative to strengthen its financial position as well as to enlarge its capital base as compared with debt financing.

The Directors also considered other alternatives such as placing of new Shares to third parties or open offer would result in excessive dilution of shareholding of and per Share value to the exist Shareholders without first offering them the opportunity to participate in the Company's equity raising exercise and that the Rights Issue represented as a better alternative to provide funding to the Group which will enable the Shareholders to maintain their respective proportionate interests in the Company and participate in the enlargement of the capital base of the Company.

As such, the Directors consider that the Rights Issue has the benefits of allowing the Qualifying Shareholders to maintain their respective pro rata shareholdings if they take up their entitled Rights Shares and participate in the future growth of the Group. Moreover, should Shareholders decide not to take up their entitlements under the Rights Issue, they can sell the nil-paid Right Shares in the market for economic benefit, if any.

The Directors believe that the Rights Issue is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

UNDERWRITING ARRANGEMENT

Undertakings from Mr. KW But and Mr. CT But

Pursuant to the Underwriting Agreement, Mr. KW But and Mr. CT But, who are indirectly interested in 117,500,000 Shares, representing approximately 54.90% of the total issued share capital of the Company as at the Latest Practicable Date. Mr. KW But and Mr. CT But have undertaken to the Underwriter not to (without prior written consent of the Underwriter) transfer or otherwise dispose or acquire any Shares between the date of the Underwriting Agreement and the Latest Acceptance Date save for (i) the taking up of the Rights Shares provisionally allotted to him pursuant to the Rights Issue or acquiring nil-paid rights or submitting excess application for excess Rights Shares or (ii) the acquisition of Shares in circumstances which do not contravene the Listing Rules.

Underwriting Agreement

Date:	4 April 2006
Underwriter:	TIS Securities (HK) Limited, an independent third party not connected with the Company and its connected persons (as defined under the Listing Rules)
Number of Rights Shares underwritten:	Not less than 144,750,000 Rights Shares and not more than 162,750,000 Rights Shares upon full exercise of the Share Options.
Commission:	3% of the aggregate Subscription Price of the maximum number of Underwritten Shares, being 162,750,000 Rights Shares, for which the Underwriter has agreed to subscribe or procure subscription. The total underwriting commission to be received by the Underwriter will be approximately HK$490,000. The Directors considered that underwriting commission of 3% is comparable with market rate and is fair and reasonable and in the interests of the Group and the Shareholders as a whole.

Assuming all the Share Options have been exercised on or before the Latest Lodging Date, in the event that no Qualifying Shareholder takes up any Rights Shares, the Underwriter, will be required to subscribe for and take up all the Rights Shares (other than the Rights Shares undertaken to be taken up by Mr. KW But and Mr. CT But) that have not been subscribed for under the Rights Issue pursuant to their respective obligations under the Underwriting Agreement, which will result in the Underwriter holding 162,750,000 Rights Shares, representing approximately 28.81% of the total issued share capital of the Company as enlarged by the issue of the Rights Shares. Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite not more than 162,750,000 Rights Shares representing approximately 28.81% of the total issued share capital of the Company as enlarged by the issue of the Rights Shares, on the terms and subject to the conditions set out in the Underwriting Agreement. The Rights Issue (other than the Rights Shares undertaken to be taken up by Mr. KW But and Mr. CT But) will be fully underwritten by the Underwriter on the terms and subject to the conditions set out in the Underwriting Agreement.

The Directors consider that the terms and conditions of the Underwriting Agreement are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

Termination of the Underwriting Agreement

If at any time, prior to 4:00 p.m. on the third Business Day following the Latest Acceptance Date, which is expected to be Thursday, 6 July 2006:

(1) in the sole and absolute discretion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:

(a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the sole and absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or

(b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the sole and absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or

(c) any material adverse change in the business or in the financial or trading position of the Group as a whole; or

(2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the sole and absolute opinion of the Underwriter is likely to materially or adversely affect the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or

(3) there is any change in the circumstances of the Company or any member of the Group which in the sole and absolute opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or

(4) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of this circular or the Prospectus Documents or other announcements or circulars in connection with the Rights Issue, or

(5) the circular, prospectus or announcements of the Company published since the date of the Underwriting Agreement when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date hereof been publicly announced or published by the Company and which may in the sole and absolute opinion of the Underwriter is material to the Group as a whole and is likely to affect materially and adversely the success of the Rights Issue or might cause a prudent investor not to accept the Rights Shares provisionally allotted to it,

The Underwriter shall at its sole and absolute discretion be entitled by notice in writing to the Company, served prior to 4:00 p.m. on the third Business Day **after the Latest Acceptance Date**, which is expected to be Thursday, 6 July 2006, to terminate the Underwriting Agreement.

The Underwriting Agreement further contains provisions that the Underwriter may terminate its commitment under the Underwriting Agreement if prior to 4:00 p.m. on the third Business Day **following the Latest Acceptance Date**, which is expected to be Thursday, 6 July 2006 there is:

(a) any material breach of any of the warranties or undertakings under the Underwriting Agreement; or

(b) any specified event described in the Underwriting Agreement comes to the knowledge of the Underwriter.

If the Underwriting Agreement is terminated by the Underwriter on or before the aforesaid deadline or does not become unconditional, the Rights Issue will not proceed.

WARNING OF THE RISK OF DEALING IN SHARES AND NIL-PAID RIGHTS SHARES

The Shares will be dealt in on an ex-rights basis from 8 June 2006. Dealing in the Rights Shares in the nil-paid form will take place from 20 June 2006 to 28 June 2006 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled and/or, in respect of conditions that are waivable, waived (as the case may be) on or before 6 July 2006 (or such later time and/or date as the Company and the Underwriter may agree in writing), or the Underwriting Agreement is terminated, the Rights Issue will not proceed and the Rights Issue will lapse.

Any persons contemplating buying or selling Shares from the date of this circular up to the date on which all the conditions of the Rights Issue are fulfilled, and any dealings in the Rights Shares in their nil-paid form between 20 June 2006 and 28 June 2006 (both dates inclusive), bear the risk that the Rights Issue may not become unconditional or may not proceed.

Any Shareholder or other persons contemplating dealings in the Shares or nil-paid Rights Shares, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional advisers.

Shareholders and potential investors are advised to exercise caution when dealings in the Shares and the nil-paid Rights Shares up to the date when the conditions of the Rights Issue are fulfilled.

CHANGES IN SHAREHOLDING STRUCTURE

The following is the shareholding structure of the Company immediately before and after completion of the Rights Issue, assuming no Share Options have been exercised:

Shareholders	Immediately before completion of the Rights Issue		Immediately after completion of the Rights Issue (assuming no Qualifying Shareholders shall take up his/her/its entitlements under the Rights Issue)		Immediately after completion of the Rights Issue (assuming all Qualifying Shareholders shall take up his/her/its entitlements under the Rights Issue)	
	No. of Shares	*Approximate %*	*No. of Shares*	*Approximate %*	*No. of Shares*	*Approximate %*
Able Success Group Limited *(Note 1)*	60,500,000	28.27	151,250,000	28.27	151,250,000	28.27
National Chain International Limited *(Note 2)*	57,000,000	26.63	142,500,000	26.63	142,500,000	26.63
The Underwriter	–	–	144,750,000	27.06	–	–
Other Shareholders	96,500,000	45.10	96,500,000	18.04	241,250,000	45.10
Total	214,000,000	100.00	535,000,000	100.00	535,000,000	100.00

The following is the shareholding structure of the Company immediately before and after completion of the Rights Issue, assuming all Share Options have been exercised:

Shareholders	Immediately before completion of the Rights Issue		Immediately after completion of the Rights Issue (assuming no Qualifying Shareholders shall take up his/her/its entitlements under the Rights Issue)		Immediately after completion of the Rights Issue (assuming all Qualifying Shareholders shall take up his/her/its entitlements under the Rights Issue)	
	No. of Shares	*Approximate %*	*No. of Shares*	*Approximate %*	*No. of Shares*	*Approximate %*
Able Success Group Limited *(Note 1)*	60,500,000	26.77	151,250,000	26.77	151,250,000	26.77
National Chain International Limited *(Note 2)*	57,000,000	25.22	142,500,000	25.22	142,500,000	25.22
The Underwriter	–	–	162,750,000	28.81	–	–
Other Shareholders	108,500,000	48.01	108,500,000	19.20	271,250,000	48.01
Total	226,000,000	100.00	565,000,000	100.00	565,000,000	100.00

Note:

1. These Shares are wholly and beneficially owned by Mr. KW But, a younger brother of Mr. CT But, an executive Director and a substantial Shareholder.

2. These Shares are wholly and beneficially owned by Mr. CT But, an elder brother of Mr. KW But, an executive Director and a substantial Shareholder.

The Company undertakes to take all appropriate steps to ensure that sufficient public float be maintained prior and after the completion of the Rights Issue.

EFFECT OF BAD WEATHER ON THE LATEST ACCEPTANCE DATE

The Latest Acceptance Date will be postponed if there is:

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning

in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on 3 July 2006. Instead, the Latest Acceptance Date will be rescheduled to 12:00 noon on the next Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 12:00 noon. If the Latest Acceptance Date is postponed in accordance with the foregoing, the dates mentioned in the section headed "EXPECTED TIMETABLE" in this circular may be affected. A press announcement will be made by the Company in such event.

ADJUSTMENTS IN RELATION TO THE SHARE OPTIONS

The Company adopted the Share Option Scheme approved by way of written resolution on 3 June 2003. Up to the Latest Practicable Date, 12,000,000 Share Options have been granted by the Company under the Share Option Scheme entitling the holders thereof to subscribe for up to an aggregate of 12,000,000 Shares at a subscription price of HK$0.316 per Share.

The issue of the Rights Shares will cause adjustments to the subscription price of the Share Options. As to the adjustments to the number of Shares to be issued and the subscription price in respect of the Share Options, the Company will instruct its auditors to review and certify the basis of such adjustments as soon as possible. The Company will inform the holders of the Share Options of the adjustment accordingly. Further announcement will be made by the Company in respect of such adjustment as and when appropriate. The Company will comply with the letter issued by the Stock Exchange dated 5 September 2005 and the respective supplementary guidance in adjusting the subscription price of the share options.

FUNDS RAISING ACTIVITIES OF THE COMPANY IN THE PAST TWELVE MONTHS

The Company has not performed any fund raising activities (including debt financing other than bank borrowing for the ordinary operation of business) in the past twelve months from the date of the Announcement.

FINANCIAL AND TRADING PROSPECTS

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.

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.

Upon the completion of the Rights Issues, the Company will receive net proceeds of approximately HK$30.6 millions, with such additional funding obtained from the Rights Issues, the Group's capital base will be strengthen and thus enhance flexibility in the Group's expansion its sales and distribution channels and its further penetrating into overseas market.

EGM

There is set out on pages 91 and 92 of this circular a notice convening the EGM to be held at 9:30 a.m. on Monday, 5 June 2006 at 2nd Floor, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong, at which ordinary resolution will be proposed to consider and, if thought fit, by the Independent Shareholders to approve the Rights Issue.

Pursuant to Rule 7.19(6)(a) of the Listing Rules, any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding independent non-executive Directors), the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution relating to the Rights Issue. As at the Latest Practicable Date, Mr. KW But and Mr. CT But, being the controlling Shareholders, and their respective associates will abstain from voting in favour of the resolution relating to the Rights Issue. The Rights Issue is conditional on, among other things, the approval by the Independent Shareholders. The EGM will be held for the Independent Shareholders to consider and, if thought appropriate, approve the Rights Issue on votes to be taken by way of poll.

The Company will establish an independent board committee to advise the Independent Shareholders as to whether the terms of the Rights Issue are fair and reasonable and whether the Rights Issue is in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote, taking into account the recommendations of the independent financial adviser. In this connection, the Company will appoint an independent financial adviser to advise the independent board committee and the Independent Shareholders as to whether the terms of the Rights Issue are fair and reasonable and whether the Rights Issue is in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote.

Application will be made to the Listing Committee for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms.

A form of proxy for use at the EGM is enclosed. If you are not able to attend the EGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

PROCEDURES FOR DEMANDING A POLL AT GENERAL MEETING

The procedures by which the Shareholders may demand a poll at the EGM are set out in this Letter from the Board.

According to Article 72, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded. A poll may be demanded by:

(a) the chairman of the meeting; or

(b) at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

(c) any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

(d) any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 21 in this circular which contains its recommendation to the Independent Shareholders as to voting at the EGM in relation to the Rights Issue.

Your attention is also drawn to the letter from RexCapital set out on pages 22 to 36 in this circular which contains its advice to the Independent Board Committee and the Independent Shareholders as regards the Rights Issue and the principal factors and reasons considered by it in arriving thereat.

The Independent Board Committee has considered the terms of the Rights Issue and the advice given by RexCapital and recommends the Independent Shareholders to vote in favour of the ordinary resolution set out in the notice of EGM in relation to the Rights Issues.

The Directors consider that the Rights Issue are in the best interests of the Company and its Shareholders and the terms of the Rights Issue are fair and reasonable and recommended the Shareholders to vote in favour of the ordinary resolution to be proposed to the EGM.

Yours faithfully,
By order of the Board
Wah Yuen Holdings Limited
But Ka Wai
Chairman

WAH YUEN HOLDINGS LIMITED
華園控股有限公司

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

17 May 2006

To the Independent Shareholders

Dear Sir or Madam,

We refer to the Letter from the Board set out in the circular dated 17 May (the "**Circular**") of which this letter forms part. Capitalised terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider the Rights Issue and to advise the Independent Shareholders as to the fairness and reasonableness of the Rights Issue and to recommend whether or not the Independent Shareholders should vote for the resolution to be proposed at the EGM to approve the Rights Issue. RexCapital has been appointed as the independent financial adviser to advise the Independent Board Committee in relation to the terms of the Rights Issue.

We wish to draw your attention to the letter from RexCapital to the Independent Board Committee and the Independent Shareholders which contains its advice to us in relation to the Rights Issue as set out in the Circular. We also draw your attention to the Letter from the Board.

Having taken into account principal factors and reasons considered by and the opinion of RexCapital as stated in its letter of advice, we consider the terms of the Rights Issue are fair and reasonable so far as the interests of the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the resolution approving the Rights Issue to be proposed at the EGM.

Yours faithfully,
for and on behalf of
the Independent Board Committee
Mr. Ip Shing Tong, Francis   Mr. Ku Siu Fung, Stephen
Independent Non-Executive Directors

The following is the text of a letter of advice from RexCapital to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue, and is prepared for inclusion in this circular.

REXCAPITAL (Hong Kong) Limited
34th Floor, COSCO Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

17 May 2006

To the Independent Board Committee and
the Independent Shareholders of the Company

Dear Sirs,

PROPOSED RIGHTS ISSUE IN THE PROPORTION OF THREE RIGHTS SHARES FOR EVERY TWO SHARES HELD ON THE RECORD DATE

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Rights Issue, details of which are contained in the Letter from the Board in the circular dated 17 May 2006 (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same respective meanings as defined in the Circular unless the context requires otherwise.

The Board proposes to raise not less than approximately HK$32.1 million and not more than approximately HK$33.9 million respectively before expenses by issuing not less than 321,000,000 Rights Shares (assuming no Share Options would have been exercised on or before the Latest Lodging Date) and not more than 339,000,000 Rights Shares (assuming full exercise of the 12,000,000 Share Options on or before the Latest Lodging Date) at the Subscription Price of HK$0.10 per Rights Share on the basis of three Rights Shares for every two Shares held on the Record Date.

The Independent Board Committee, comprising Mr. Ip Shing Tong, Francis and Mr. Ku Siu Fung, Stephen, all of whom are independent non-executive Directors, has been established to advise the Independent Shareholders as to whether the terms of the Rights Issue is fair and reasonable so far as the Independent Shareholders are concerned and whether the Rights Issue is in the interests of the Company and the Shareholders as a whole.

In formulating our opinions, we have relied on the information and representations contained in the Circular, which have been provided by the Company and the Directors and we have assumed that all information and representations contained or referred to in the Circular are true and accurate in all material respects. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company and the Directors and have been advised by the

Company and the Directors that no material facts have been omitted from the information provided and referred to in the Circular. We believe that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have not, however, conducted an independent verification of the information provided by the Company and the Directors nor have we carried out any independent investigation into the business and affairs or the future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders relating to the fairness and reasonableness of the terms of the Rights Issue, we have taken into consideration, inter alia, the following principal factors and reasons:

1. Reasons for the Rights Issue

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 good products with a unique Asian flavour under three brands, namely 'Wah Yuen', 'Rocco' and 'Cai Feng', as well as manufactures customised snack food products for other corporate customers on an original equipment manufacturer ("OEM") basis. The Group also produces convenience frozen food under the brand name 'Wah Yuen' and manufactures customised convenience frozen food products for other corporate customers on an OEM basis.

Upon the full subscription of the Rights Shares, the Company will receive net proceeds of approximately HK$30.6 million. The Directors intend to apply the net proceeds of the Rights Issue towards general working capital of the Group which may include, in particular, for financing its operations and activities for expanding its businesses to overseas market in the future should the suitable opportunities arise. With reference to the announcement dated 7 April 2006, the fund from Rights Issue are mainly applied in the Group's operations and activities for extending its business to overseas market. As at the Latest Practicable Date, the Group has not identified any transactions, which will fall within the disclosure requirement under Chapter 14 and/or 14A of the Listing Rules. Should any of such transactions arise, the Group undertakes to make disclosure and announcement pursuant to the relevant Listing Rules requirements.

The Directors consider that the Rights Issue has the benefits of allowing the Qualifying Shareholders to maintain their respective pro rata shareholdings if they take up their entitled Rights Shares and participate in the future growth of the Group. Moreover, should Shareholders decide not to take up their entitlements under the Rights Issue, they can sell the nil-paid Right Shares in the market for economic benefit, if any.

Having considered that (i) the Rights Issue will strengthen the Group's capital base whereas to enhance its financial and working capital position, so as to allow the Group to grasp good business opportunities with immediately available fund should appropriate chance arise, and (ii) the Rights Issue will allow the Qualified Shareholders to maintain their respective pro rata shareholding interest and to participate in the growth of the Company, we concur with the Directors' view that raising fund by means of a rights issue is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Rights Issue

Basis

As stated in the Letter from the Board, the Rights Issue is on the basis of provisional allotment of three Rights Shares for every two Shares held by the Qualifying Shareholders on the Record Date at the subscription price of HK$0.10 per Rights Share. The Rights Shares (when allotted, fully paid and issued) will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Rights Shares. Holders of the Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Rights Shares in their fully-paid form.

Subscription Price

As stated in the Letter from the Board, HK$0.10 per Rights Share shall be payable in full when a Qualifying Shareholder accepts the relevant provisional allotment of Rights Shares or applies for excess Rights Shares.

The Subscription Price represents:

(i) a discount of approximately 50.74% to the closing price of HK$0.203 per Share on 4 April 2006, being the Last Trading Date (based on the closing price of HK$0.203 as quoted on the Stock Exchange on 4 April 2006);

(ii) a discount of approximately 51.22% to the average closing price of HK$0.205 per Share for the 10 consecutive trading days up to and including 4 April 2006, being the Last Trading Date (based on the average closing price as quoted on the Stock Exchange for the 10 consecutive trading days up to and including 4 April 2006);

(iii) a discount of approximately 49.75% to the average closing price of HK$0.199 per Share for the 20 consecutive trading days up to and including 4 April 2006, being the Last Trading Date (based on the average closing price as quoted on the Stock Exchange for the 20 consecutive trading days up to and including 4 April 2006);

(iv) a discount of approximately 49.50% to the average closing price of HK$0.198 per Share for the 30 consecutive trading days up to and including 4 April 2006, being the Last Trading Date (based on the average closing price as quoted on the Stock Exchange for the 30 consecutive trading days up to and including 4 April 2006);

(v) a discount of approximately 29.08% to the theoretical ex-rights price of HK$0.141 per Share based on the closing price of HK$0.203 as quoted on the Stock Exchange on 4 April 2006, being the Last Trading Date; and

(vi) a discount of approximately 85.71% to the net asset value per Share of approximately HK$0.70 based on the audited consolidated net asset value of the Group as at 31 December 2005.

As stated in the Letter from the Board, the Subscription Price was arrived at after arm's-length negotiation between the Company and the Underwriter with reference to, among other things, the generally decreasing trend of the price of the Shares and generally discounts for the subscription prices of recent rights issue of other listed issuers. The Group needs additional funds to finance its operations and business activities. In view of the recent financial conditions of the Groups and taking into consideration of the theoretical ex-right price per Share, in order to increase the attractiveness of the Rights Issue to the Qualifying Shareholders, the Directors consider that the proposed discount of the Subscription Price is appropriate. The Directors consider the Subscription Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(i) Share price performance

The average daily closing prices, the monthly highest recorded price and the monthly lowest recorded price of the Shares traded on the Stock Exchange in each of the twelve calendar months commencing from 1 June 2005 up to and including the Latest Practicable Date (the "Review Period") are shown below:

Period	**Average daily closing price per Share** (approximately *HK$*)	**The Subscription Price of HK$0.10 per Rights Share being premium/ (discount) to the average daily closing price per Share**	**Highest price per Share** *(HK$)*	**Lowest price per Share** *(HK$)*
2005				
June	0.305	(67.2)%	0.335	0.260
July	0.292	(65.8)%	0.310	0.255
August	0.251	(60.1)%	0.295	0.229
September	0.232	(56.9)%	0.250	0.215
October	0.248	(59.7)%	0.280	0.223
November	0.208	(52.0)%	0.260	0.188
December	0.195	(48.6)%	0.212	0.186
2006				
January	0.185	(45.9)%	0.221	0.163
February	0.201	(50.2)%	0.214	0.175
March	0.196	(49.1)%	0.220	0.186
April	0.183	(45.4)%	0.220	0.161
May *(up to and including the Latest Practicable Date)*	0.189	(47.1)%	0.195	0.178

Source: Reuters

As shown in the table above, the average daily closing price of the Shares has experienced a downward trend between the period from June 2005 to January 2006 and, since then, remained relatively stable within the range from HK$0.183 to HK$0.201. The price per Share recorded a high of HK$0.335 on 7 June 2005 and reached its low of HK$0.161 on 11 April 2006 during the Review Period. The closing price of the Share on 4 April 2006, being the Last Trading Date, was quoted at HK$0.203.

The Directors have advised that given the decreasing trend of the price of the Share, the Subscription Price was intentionally set at a deep discount to the closing price on the Last Trading Day so as to induce the Independent Shareholders to participate in the Rights Issue. Our assessment on the fairness and reasonableness of the Subscription Price and the discount of the Subscription Price to the prevailing Share price is set out in the following section.

(ii) Comparison with recent open offers and rights issues by listed companies in Hong Kong

To the best of our knowledge and based on the information from the Stock Exchange website, we understand that there is no company listed on the Main Board of the Stock Exchange that has offered Rights Issue recently and engages in business identical to the existing business of the Company, therefore, we have reviewed and included, so far as we are aware of, all the companies listed on the Stock Exchange which have announced open offers and rights issues during the period from 1 January 2005 up to and including 4 April 2006, being the Last Trading Date (the "Period"). We consider that offer mechanism and structure of open offers are materially similar to that of rights issues and thus statistics of both open offers and rights issues are included in our analysis as shown in the table below. We also consider that using the reference within 2005 is appropriate for assessing the reasonableness of the pricing of the Rights Issue. Based on the publicly available information, the open offers and rights issues of listed companies on the mainboard of the Stock Exchange and GEM (the "Comparable Companies") announced during the Period, is summarized in the table below:

Company *(Stock code)*	**Date of announcement** *(dd/mm/yy)*	**Basis of allotment for the open offer/ rights issue**	**Premium/ (discount) to the closing price per share on the last trading day prior to the press announcement**	**Premium/ (discount) to the closing price per share on 10 trading days prior to the press announcement**	**Premium/ (discount) to theoretical ex-rights/ ex-entitlements price per share on the last trading day prior to the press announcement**	**Underwriting commission**
Open offer						
Maxx Bioscience Holdings Limited (512)	06/01/05	2 for 1	(41.5)%	(37.5)%	(19.1)%	1.25%
Northern International Holdings Limited (736)	28/01/05	1 for 1	(33.3)%	(31.3)%	(20.0)%	2%
Haywood Investments Limited (905)	07/02/05	1 for 1	(52.9)%	(54.5)%	(35.6)%	2%

Company *(Stock code)*	Date of announcement *(dd/mm/yy)*	Basis of allotment for the open offer/ rights issue	Premium/ (discount) to the closing price per share on the last trading day prior to the press announcement	Premium/ (discount) to the closing price per share on 10 trading days prior to the press announcement	Premium/ (discount) to theoretical ex-rights/ ex-entitlements price per share on the last trading day prior to the press announcement	Underwriting commission
Shang Hua Holdings Limited (371)	07/07/05	1 for 2	(83)%	(84)%	(77)%	2.5%
Garient (Holdings) Limited (729)	05/08/05	3 for 1	(60.0)%	(67.0)%	(27.54)%	3%
United Power Investment Limited (674)	29/08/05	1 for 1	(67.39)%	(69.01)%	(32.74)%	1.5%
Earnest Investments Holdings Limited (339)	12/10/05	8 for 1	(90.7)%	(91.7)%	(52.4)%	1.5%
Foundation Group Limited (1182)	18/10/05	3 for 1	(77.0)%	(76.5)%	(45.6)%	1%
ePro Limited (8086)	17/11/05	1 for 2	(18.75)%	(12.16)%	(13.33)%	Fixed sum of HK$1,000
Satellite Device Ltd (8172)	25/11/05	3 for 1	(13.3)%	(19.8)%	(3.7)%	2.5%
TCL Communication Technology Holdings Limited (2618)	22/12/05	1 for 1	(18.4)%	(19.9)%	(10.1)%	2.5%
South Sea Petroleum Holdings Limited (76)	27/01/06	1 for 2	(41.2)%	(39.4)%	(31.0)%	2.5%
Fortuna International Holdings Limited (530)	27/01/06	2 for 1	(90)%	(90)%	(75)%	1%
Uni-Bio Science Group Limited (690)	15/02/06	2 for 1	(18.0)%	(18.2)%	(6.9)%	2%
Heng Tai Consumable Group Limited (197)	01/03/06	2 for 5	(47.6)%	(47.25)%	(39.5)%	2.5%
Syscan Technology Holdings Limited (8083)	01/03/06	3 for 1	(58.9)%	(59.2)%	(26.83)%	1%
Tomorrow International Holdings Limited (760)	09/03/06	5 for 4	(13.4)%	(20.1)%	30.7%	2.5%

Company *(Stock code)*	Date of announcement *(dd/mm/yy)*	Basis of allotment for the open offer/ rights issue	Premium/ (discount) to the closing price per share on the last trading day prior to the press announcement	Premium/ (discount) to the closing price per share on 10 trading days prior to the press announcement	Premium/ (discount) to theoretical ex-rights/ ex-entitlements price per share on the last trading day prior to the press announcement	Underwriting commission
Rights issue						
New World China Land Limited (917)	18/02/05	3 for 2	(30.0)%	(26.3)%	(14.6)%	1%
Lai Sun Garment (International) Limited (191)	18/05/05	1 for 8	(5.7)%	(9.1)%	(5.1)%	4.3%
Hualing Holdings Limited (382)	19/05/05	3 for 2	(56.5)%	(57.5)%	(34.2)%	2%
SNP Leefung Holdings Limited (623)	25/05/05	1 for 4	(14.3)%	(15.5)%	(11.8)%	2%
Wealthmark International (Holdings) Limited (39)	08/07/05	1 for 2	(14.29)%	(19.62)%	(10)%	2.5%
Zhong Hua International Holdings Limited (1064)	19/07/05	1 for 2	(65.8)%	(59.06)%	(26.9)%	2%
Asia Alliance Holdings Limited (616)	22/07/05	10 for 1	(53.5)%	(55.1)%	(9.5)%	1%
Unity Investments Holdings Limited (913)	26/07/05	10 for 1	(62.96)%	(65.52)%	(13.04)%	2.5%
Symphony Holdings Limited (1223)	27/07/05	1 for 2	(61.8)%	(61.9)%	(51.9)%	2.5%
Garron International Limited (1226)	09/08/05	4 for 1	(90.48)%	(90.83)%	(61.54)%	3%

Company *(Stock code)*	**Date of announcement** *(dd/mm/yy)*	**Basis of allotment for the open offer/ rights issue**	**Premium/ (discount) to the closing price per share on the last trading day prior to the press announcement**	**Premium/ (discount) to the closing price per share on 10 trading days prior to the press announcement**	**Premium/ (discount) to theoretical ex-rights/ ex-entitlements price per share on the last trading day prior to the press announcement**	**Underwriting commission**
Capital Estate Limited (193)	11/08/05	4 for 1	(60.0)%	(55.9)%	(23.1)%	1.5%
Century Legend (Holdings) Limited (79)	16/08/05	1 for 5	(30.8)%	(31.2)%	(27.1)%	2.5%
Renren Holdings Limited (59)	05/10/05	6 for 1	(45.5)%	(44.4)%	(11.8)%	2.5%
Wonson International Holdings Limited (651)	06/10/05	4 for 1	(54.95)%	(56.52)%	(19.35)%	2.5%
Heritage International Holdings Limited (412)	07/10/05	5 for 2	(46.2)%	(53.0)%	(19.7)%	2%
B&S Entertainment Holdings Limited (8167)	07/10/05	4 for 1	(65.5)%	(68.8)%	(28.6)%	2.5%
Wai Yuen Tong Medicine Holdings Limited (897)	10/10/05	3 for 1	(49.15)%	(50.08)%	(19.48)%	2.5%
Annex International Holdings Limited (723)	27/10/05	2 for 5	8.7%	7.9%	6.1%	2.5%
QPL International Holdings Limited (243)	1/11/2005	1 for 5	(13.89)%	(22.50)%	(11.43)%	2.5%
HKR International Limited (480)	03/11/05	1 for 6	2.7%	0.8%	2.4%	Higher of HK$10,000,000 or 2.5%
Far East Technology International Limited (36)	09/11/2005	1 for 2	(25.0)%	(24.9)%	(18.2)%	2.5%
New World Cyberbase Limited (276)	14/11/05	2 for 1	(35.6)%	(35.6)%	(15.7)%	1.5%
UDL Holdings Limited (620)	29/12/05	12 for 5	0%	(24.3)%	0%	2.25%
Kanhan Technologies Group Limited (8175)	24/01/06	3 for 1	(89.4)%	(85.6)%	(67.9)%	2.5%
Fintronics Holdings Company Limited (706)	11/01/06	1 for 1	(55.6)%	(40.5)%	(38.7)%	1.5%
Climax International Company Limited (439)	03/02/06	1 for 2	(41.1)%	(47.1)%	(31.0)%	2.5%

Company *(Stock code)*	Date of announcement *(dd/mm/yy)*	Basis of allotment for the open offer/ rights issue	Premium/ (discount) to the closing price per share on the last trading day prior to the press announcement	Premium/ (discount) to the closing price per share on 10 trading days prior to the press announcement	Premium/ (discount) to theoretical ex-rights/ ex-entitlements price per share on the last trading day prior to the press announcement	Underwriting commission
Asia Orient Holdings Limited (214)	10/02/06	1 for 2	(38.8)%	(37.6)%	(29.7)%	2%
Grandy Corporation (8143)	02/03/06	1 for 2	(68.4)%	(67.9)%	(59.2)%	2.5%
Chuang's China Investment Limited (298)	06/03/06	1 for 4	(10.1)%	(11.4)%	(8.3)%	2%
Easyknit International Holdings Limited (1218)	09/03/06	1 for 2	(15.5)%	(14.9)%	(11.1)%	1%
Asia Standard Hotel Group Limited (292)	23/03/06	1 for 2	(42.7)%	(43.4)%	(33.3)%	1%
Results of the Comparables of open offers and rights issues:						
Minimum			8.7%	7.9%	30.7%	1%
Maximum			(90.7)%	(91.7)%	(77.0)%	4.3%
Mean/Average			(43.1)%	(44.2)%	(25.0)%	2.1%
The Company	**7 April 2006**	**3 for 2**	**(50.7)%**	**(51.2)%**	**(29.2)%**	**3%**

Source: The Stock Exchange of Hong Kong Limited

We are mindful of the fact that the pricing of an open offer and rights issue may vary under different stock market conditions as well as for companies with different financial standing and business performance. Nevertheless, we consider that a broader comparison of open offers and rights issues announced during the Period (as defined above, being the period from 1 January 2005 up to and including the Last Trading Date) would provide a more general and objective reference for assessing the reasonableness of the pricing of the Rights Issue.

The Directors advised that, in order to attract Qualifying Shareholders to participate in the Rights Issue, the Subscription Price is preferably set at a discount to the closing price. We note from result of the above table that the majority of the Comparable Companies had set their subscription prices of an open offer and a rights issue at a discount (instead of a premium) to the prevailing market prices of the relevant shares before the announcement in respect of the open offer and rights issue is made. We consider, therefore, it is not unusual, but rather common, for companies to set their subscription prices at a discount to the prevailing market prices of the relevant shares in respect of an open offer or a rights issue.

In view of that (1) the premium/discount of the Comparable Companies' subscription prices to their respective closing price on the last trading day prior to the press announcement range from a premium of approximately 8.7% to a discount of approximately 90.7%; (2) the premium/discount of the Comparable Companies' subscription prices to their respective closing price on 10 trading days prior to the press announcement range from a premium of approximately 7.9% to a discount of approximately 91.7%; and (3) the premium/discount of the Comparable Companies' subscription prices to their respective theoretical ex-rights or ex-entitlements price on the last trading day prior to the press announcement range from a premium of approximately 30.7% to a discount of approximately 77.0%, we consider that the discount of the Subscription Price falls within all the premium/discount ranges as mentioned in the table above.

In addition, a slightly deeper discount of the Subscription Price is noted when compared with respectively (1) the mean discount of the Comparable Companies' subscription prices to their closing price on the last trading day prior to the press announcement of approximately 43.1%; (2) the mean discount of the Comparable Companies' subscription prices to their closing price on 10 trading days prior to the press announcement of approximately 44.2%; and (3) the mean discount of the Comparable Companies' subscription prices to their theoretical ex-rights or ex-entitlements price on the last trading day prior to the press announcement of approximately 25.0%.

The Directors proposed to adopt a deeper discount rate so as to encourage the Independent Shareholders to participate in the Rights Issue given the generally decreasing trend of the price of the Share during substantial period of time over Review Period. As such, we note that the basis of determining the Subscription Price by making a relatively deeper discount to the closing price of the Shares before the publication of the Announcement is acceptable. We consider that the pricing of the Rights Issue is fair and reasonable.

Dilution effect on the Shareholders

Attributable equity interest in the Company of those Qualifying Shareholders who do not subscribe in full their provisional allotments under the Rights Issue will be diluted after the completion of the Rights Issue up to a maximum 60% dilution. However, the Independent Shareholders who are Qualifying Shareholders should note that, unlike other equity fund raising exercise involving the enlargement of capital base such as placing of new Shares to third parties, an issue of Shares under the Rights Issue offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company should they wish to. As such, we would like the Qualifying Shareholders to pay attention to the fact that should they decide to subscribe for their full provisional allotment entitlements of the Rights Shares, there would not be any dilution effect on their interest in the Company. In addition, Qualifying Shareholders who wish to increase their shareholdings in the Company through the Rights Issue can, subject to availability, acquire additional nil-paid Rights Shares or apply for excess Rights Shares.

3. Underwriting arrangements

From the table as set out above, we note that the commission rate of the respective commercial underwriters range from 1% to 4.3% among the Comparable Companies and the mean commission rate calculated from the Comparable Companies are 2.1%. In view of this, we consider the commission rate to be charged to the Company by the Underwriter of 3% is within the range of normal commissions charged by commercial underwriters and is comparable to the market practice. The Directors are of the opinion that, as compared to the mean commission rate indicated above, a slightly higher commission rate as requested by the Underwriter is justified given the decreasing trend of the Share price and the relatively thin trading volume of the Shares during substantial time of the Review Period which may cause the Underwriter to require a higher underwriting commission so as to compensate its additional effort, if any, in underwriting the Rights Issue.

Subject to the fulfillment of the conditions contained in the Underwriting Agreement, it should also be noted that the Rights Issue would not be proceeded if the Underwriter exercise their termination rights under the Underwriting Agreement, details of the provisions granting the Underwriters such termination rights are included in the section headed "Termination of the Underwriting Agreement" in the Letter from the Board. In the view that it is common to have termination clause incorporated in underwriting agreements, we consider such provisions are in normal commercial terms and in line with the normal market practice.

Hence, we are of the view that the terms of the underwriting arrangement is fair and reasonable and in the interest of the Company and Shareholders as a whole.

4. Fund raising activities in the 12 months immediately prior to the Announcement

There is no fund raising activity of the Company in the 12 months immediately prior to the Announcement.

5. Alternatives to the Rights Issue

Debt financing or bank borrowings

The Directors advised that they have considered other methods of funds raising such as debt financing and bank borrowing. In view of the fact that as disclosed in the 2005 annual report of the Company, the gearing ratio of the Group, which is calculated by dividing the total liabilities by the total assets of the Group, was about 0.59 as at 31 December 2005. Any further debt financing or bank borrowings will further increase the interest expense of the Group and expose the Group to a higher gearing position. As compared with debt financing, the Rights Issue enables the Group to strengthen its financial position as well as to enlarge its capital base without having to incur additional interest costs and to increase the Group's gearing ratio. In addition, the Directors consider that the Rights Issue represents a good opportunity for the Shareholders to participate in to the growth of the Company, which is considered a more appropriate means of financing for the Group. On such basis, we concur with the Directors' view that in light of the current financial position of the Company, the Company will be better off by avoiding the interest burden resulted from the debt financing and bank borrowing and instead, by raising funds by way of the Rights Issue.

Equity funding

The Directors had considered other alternatives such as placing of new Shares to third parties or open offer, but have finally decided to raise funds by means of a rights issue since it is considered as a better alternative because it will allow Shareholders to maintain their respective proportionate interests in the Company and participate in the enlargement of the capital base of the Company. We concur with the Directors' view that any placing of new Shares without first offering the existing Shareholders the opportunity to participate in the Company's equity raising exercise would result in excessive dilution of the shareholding of and per Share value to the existing Shareholders, and that the Rights Issue represents a better fund raising alternative to provide funding to the Group which will enable the Shareholders to maintain their proportionate interests in the Company should they so wish and thus, we are of the view that the fund raising by way of a rights issue is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

6. Risks associated with the Rights Issue

Shareholders should note that, as stated in the Letter from the Board, the Rights Issue is conditional upon, among other things, the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the sub-paragraph headed "Termination of the Underwriting Agreement" in the Letter of the Board). As such, the Rights Issue may or may not proceed. The Shareholders and potential investors should exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

7. Use of Proceeds

The estimated net proceeds from the Rights Issue will be approximately HK$30.6 million which is intended to be applied as general working capital of the Group which may include, in particular, for financing its operations and activities for expanding its businesses to overseas market in the future should the suitable opportunities arise. With reference to the announcement dated 4 April 2006, the fund from Rights Issue are mainly applied in the Group's operations and activities for extending its business to overseas market. As at the Latest Practicable Date, the Group has not identified any transactions, which will fall within the disclosure requirement under Chapter 14 and/or 14A of the Listing Rules. Should any of such transactions arise, the Group undertakes to make disclosure and announcement pursuant to the relevant Listing Rules requirements.

After considering the increased general working capital will increase the cash position of the Group, as a result the improvement in liquidity will strengthen the financial position, we conclude that the use of proceeds undertaken by the Group is in the interest to the Company and its Shareholders as a whole.

8. Financial effects of the Rights Issue

We have made reference to the section headed "Unaudited pro forma adjusted consolidated net tangible assets" as set out in Appendix II to the Circular for the following analysis on the effects of the Rights Issue.

Net asset value

The unaudited pro forma adjusted consolidated net tangible asset of the Enlarged Group amounts to approximately HK$180.1 million upon completion of the Rights Issue, representing an increase of HK$30.6 million as compared to the audited consolidated net tangible asset value of the Group of approximately HK$149.5 million as at 31 December 2005.

As stated in the Appendix II to the Circular, the unaudited pro forma adjusted consolidated net tangible asset per Share will be reduced from approximately HK$0.70 to approximately HK$0.34 immediately after the completion of the Rights Issue. In view of the fact that the terms of the Rights Issue are dilutive to the underlying consolidated net tangible assets per Share, the Rights Issue will therefore give rise to a reduction in the consolidated net tangible assets value per Share as a result of the increase in total issued share capital of the Company pursuant to the issue of the Rights Shares. However, this dilution should not affect Shareholders who take up their entire entitlement of the Rights Shares as the dilution in net asset per Share value will be offset by the then increased number of Shares held. On the contrary, Shareholders who do not take up their entire entitlement of the Rights Shares will be adversely affected.

On such basis, we consider that the Rights Issue presents a valuable opportunity for Qualifying Shareholders to take part in the long term growth of the Company and to provide the Group with necessary funding to enlarge the capital base of the Group as well as to increase the working capital of the Group.

Gearing Ratio

On the basis that the audited total liabilities of the Group and the audited total asset of the Group as at 31 December 2005 were approximately HK$215.8 million and HK$365.3 million respectively, the gearing ratio, which is calculated by dividing the total liabilities by the total assets of the Group, was about 0.59 as at 31 December 2005. Immediately following the Rights Issue, the total asset of the Group will be increased by the net proceeds of the Rights Issue of approximately HK$30.6 million. Accordingly, the gearing ratio of the Group will be improved as a result of the Rights Issue.

Based on the above analysis, given that both the net asset value and the gearing ratio of the Group are improved after the Rights Issue, we are of the view that the Rights Issue is in the interest to the Company and its Shareholders as a whole.

9. RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the Rights Issue is in the interests of the Company and the Independent Shareholders as a whole, and that the terms of the Underwriting Agreement are fair and reasonable as far as the Company and the Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favor of the ordinary resolution approving the Rights Issue at the EGM.

Yours faithfully,
For and on behalf of
REXCAPITAL (Hong Kong) Limited
Sam Lum
Associate Director

1. SUMMARY OF AUDITED FINANCIAL STATEMENTS

The following is a summary of the results and financial position of the Group for each of the three years ended 31 December 2005 as extracted from the relevant annual reports of the Group for the years presented.

Results

	Year ended 31 December		
	2005	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	
Turnover	207,551	210,454	198,934
Profit before taxation	18,075	16,657	26,858
Income tax expense	(7,859)	(3,598)	(5,516)
Profit after taxation	10,216	13,059	21,342
Minority interest	–	–	(1,199)
Profit for the year attributable to the equity holders of the Company	10,216	13,059	20,143

Financial position

	As at 31 December		
	2005	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	
Total assets	365,314	348,099	352,011
Total liabilities	(215,775)	(216,389)	(224,683)
Minority interests	–	–	(4,373)
	149,539	131,710	122,955

Notes:

(a) The financial statements of the Group for the years ended 31 December 2003 and 2004 were audited by Deloitte Touche Tohmatsu and the financial statements of the Group for the year ended 31 December 2005 were audited by HLB Hodgson Impey Cheng. The auditors' reports on the financial statements of the Group for each of the three years ended 31 December 2005 did not contain any qualifications or disclaimers.

(b) There were no extraordinary or exceptional items for each of the three years ended 31 December 2005.

(c) The audited financial statements of the Group for the years ended 31 December 2003 and 2004 were prepared in accordance with the Statement of Standard Accounting Practices then in effect. The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively the "new HKFRS") which are effective for accounting periods beginning on or after 1 January 2005 and which have been adopted by the Group in the preparation of its financial statements for the year ended 31 December 2005. The key changes have been set out in Note 2 to the audited financial statements of the Group for the year ended 31 December 2005 as set out under the section headed "Audited financial statements for the year ended 31 December 2005" in this appendix. The summaries of results and assets and liabilities as at and for the year ended 31 December 2003 as disclosed above have not been restated for the adoption of the new HKFRS.

2. AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

The following is the audited financial statements of the Group for the year ended 31 December 2005 as extracted from the annual report of the Company for the year ended 31 December 2005:

Consolidated Income Statement
For the year ended 31 December 2005

	Notes	**2005** *HK$'000*	**2004** *HK$'000* (Restated)
Turnover	*7*	207,551	210,454
Cost of sales		(143,154)	(139,040)
Gross profit		64,397	71,414
Other operating income and net gain	*7*	8,951	1,472
Selling and distribution expenses		(22,254)	(21,678)
Administrative expenses		(21,998)	(24,748)
Profit from operations	*8*	29,096	26,460
Finance costs	*9*	(11,021)	(9,803)
Profit before taxation		18,075	16,657
Income tax expense	*11*	(7,859)	(3,598)
Profit for the year attributable to the equity holders of the Company		10,216	13,059
Dividends	*12*	–	4,000
Earnings per share	*13*		
Basic		5.04 cents	6.53 cents
Diluted		N/A	6.51 cents

Consolidated Balance Sheet
As at 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Non-current assets			
Land use rights and leasehold land	14	2,227	2,335
Property, plant and equipment	15	106,244	103,157
Deposit paid for acquisition of property, plant and equipment		–	2,840
		108,471	108,332
Current assets			
Inventories	17	47,680	45,981
Trade and other receivables	18	177,286	141,407
Tax recoverable		–	403
Loan receivable	19	–	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	20	28,863	32,826
Obligations under finance leases	21	6,623	7,254
Tax payable		1,758	1,374
Borrowings	22	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	21	3,305	4,011
Borrowings	22	42,047	41,599
Deferred tax liabilities	26	400	397
		45,752	46,007
Net assets		149,539	131,710
Capital and reserves			
Share capital	23	2,140	2,000
Reserves		147,399	129,710
Equity attributable to the equity holders of the Company		149,539	131,710

Balance Sheet
As at 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000
Non-current assets			
Interests in subsidiaries	*16*	150,667	108,959
Current assets			
Prepayments		–	120
Bank balances		18	29
		18	149
Less: Current liabilities			
Other creditors and accruals		832	–
Net current (liabilities)/assets		(814)	149
Total assets less current liabilities		149,853	109,108
Less: Non-current liabilities			
Borrowings	*22*	38,000	–
Net assets		111,853	109,108
Capital and reserves			
Share capital	*23*	2,140	2,000
Reserves	*25*	109,713	107,108
		111,853	109,108

Consolidated Statement of Changes in Equity
For the year ended 31 December 2005

	Share capital	Share premium	Special reserve	PRC statutory reserves	Translation reserve	Accumulated profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP							
As at 1 January 2004							
– As previously reported	2,000	35,645	10,816	19,533	(6,264)	61,225	122,955
– Effect of adopting HKAS 17	–	–	–	–	–	(304)	(304)
– As restated	2,000	35,645	10,816	19,533	(6,264)	60,921	122,651
Profit for the year							
– As previously reported	–	–	–	–	–	13,086	13,086
– Effect of adopting HKAS 17	–	–	–	–	–	(27)	(27)
– As restated	–	–	–	–	–	13,059	13,059
Transfers	–	–	–	1,911	–	(1,911)	–
Dividends *(note 12)*	–	–	–	–	–	(4,000)	(4,000)
	–	–	–	1,911	–	7,148	9,059
As at 31 December 2004 and 1 January 2005 (as restated)	2,000	35,645	10,816	21,444	(6,264)	68,069	131,710
Issue of shares *(note 23)*	140	5,460	–	–	–	–	5,600
Profit for the year	–	–	–	–	–	10,216	10,216
Transfers	–	–	–	1,607	–	(1,607)	–
Translation exchange differences	–	–	–	–	2,013	–	2,013
As at 31 December 2005	2,140	41,105	10,816	23,051	(4,251)	76,678	149,539

The special reserve represents:

(i) the difference between the nominal value of the share capital issued by Wah Yuen Foods International Limited and the nominal value of the share capital of the subsidiaries acquired in a previous group reorganisation; and

(ii) the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of the subsidiaries acquired in a previous group reorganisation.

The People's Republic of China (the "PRC") statutory reserves consist of a reserve fund and an expansion fund provided in accordance with the articles of association of the PRC subsidiaries. Laws and regulations in the PRC allow foreign investment enterprises to appropriate from profit after taxation, prepared in accordance with the PRC rules and regulations, an annual amount to the reserve fund and the expansion fund according to the decision of the board or the articles of association.

The reserve fund is to be used to expand the working capital of the PRC subsidiaries. When the PRC subsidiaries suffer losses, the reserve fund may be used to make up accumulated losses under special circumstances.

The expansion fund is to be used for business expansion and, if approved, can also be used to increase the capital of the PRC subsidiaries.

Consolidated Cash Flow Statement
For the year ended 31 December 2005

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Cash flows from operating activities		
Profit before taxation	18,075	16,657
Adjustments for:		
Interest expenses	11,021	9,803
Interest income	(1,174)	(513)
Depreciation and amortisation	8,520	8,835
Loss on disposal on property, plant and equipment	155	48
Write-off of goodwill from acquisition of additional interest in a subsidiary	–	33
Operating profit before working capital changes	36,597	34,863
Changes in working capital:		
Inventories	(1,699)	(12,507)
Trade and other receivables	(35,879)	10,979
Trade and other payables	(3,963)	(14,034)
Cash (used in)/generated from operations	(4,944)	19,301
Interest paid	(11,021)	(9,803)
Hong Kong Profits Tax paid	(3,576)	(206)
PRC Enterprise Income Tax paid	(3,493)	(6,071)
Net cash (used in)/generated from operating activities	(23,034)	3,221
Cash flows from investing activities		
Decrease/(increase) in pledged bank deposits	9,755	(9,182)
Purchase of property, plant and equipment	(640)	(3,741)
Acquisition of additional interest in a subsidiary	–	(4,406)
Dividend paid	–	(4,000)
Repayment to a minority shareholder of a subsidiary	–	(1,163)
Decrease in loan receivable	599	5,487
Interest received	1,174	513
Proceeds from disposal of property, plant and equipment	230	49
Net cash generated from/(used in) investing activities	11,118	(16,443)

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Cash flows from financing activities		
Borrowings raised	138,236	185,237
Repayment of borrowings	(138,497)	(160,183)
Capital element of finance leases	(1,337)	(6,287)
Net cash (used in)/generated from financing activities	(1,598)	18,767
Net (decrease)/increase in cash and cash equivalents	(13,514)	5,545
Effect of foreign exchange rate changes	(791)	–
Cash and cash equivalents at beginning of the year	24,721	19,176
Cash and cash equivalents at end of the year	10,416	24,721
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	15,072	24,817
Bank overdrafts	(4,656)	(96)
	10,416	24,721

NOTES TO THE ACCOUNTS

1. CORPORATE INFORMATION

Wah Yuen Holdings Limited (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.

The shares of the Company were listed on The Stock Exchange of Hong Kong Limited on 25 June 2003. The addresses of its registered office and principal place of business are disclosed in the section headed "Corporate information" of the Group's Annual Report.

The financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

The Company is an investment holding company. The Company's subsidiaries are principally engaged in the production and distribution of snack food and convenience frozen food products. Details of the principal subsidiaries are set out in note 35.

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

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), 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") 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	**2004**
	HK$'000	*HK$'000*
Decrease in property, plant and equipment	–	(3,178)
Increase in land use rights and leasehold land	–	3,178
Increase in accumulated amortisation *(note 14)*	–	111
Increase in accumulated depreciation *(note 15)*	–	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: Disclosure 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 adoption of HKFRS 2 has had no material impact on how the results for prior accounting periods are prepared and presented as all share options were granted after 7 November 2002 but were vested before 1 January 2005.

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*

Notes:

1. Effective for annual periods beginning on or after 1 January 2007.

2. Effective for annual periods beginning on or after 1 January 2006.

3. Effective for annual periods beginning on or after 1 December 2005.

4. Effective for annual periods beginning on or after 1 March 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

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.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

(b) Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses. Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

(c) Investments in subsidiaries

A subsidiary is a company that is controlled by the Company, where the Company has the power to govern the financial and operating policies of such company so as to obtain benefits from its activities.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Construction in progress for production or administrative purpose are carried at cost less any identified impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Buildings	Over the relevant lease terms, or 20 years, whichever is the shorter
Furniture and equipment	20%
Motor vehicles	20%
Plant and machinery	10%
Loose tools and moulds	20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

(e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Cost includes cost of purchases and where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated costs to completion and selling expenses.

(f) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(g) Financial assets

The Group's financial assets are classified into one of the two categories, including financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

– *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

– *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(h) Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

– *Financial liabilities*

Financial liabilities including trade and other payables, bank and other borrowings and obligations under finance leases are subsequently measured at amortised cost, using the effective interest rate method.

– *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

– *Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

(i) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

(j) Equity settled share-based payment transactions

– *Share options granted to directors and employees of the Company*

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits.

(k) Impairment losses (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(l) Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(m) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(n) Retirement benefits costs

Payments to Mandatory Provident Fund Scheme and state-managed retirement benefits schemes are charged as expenses as they fall due. The Group's obligations under state-managed retirement benefits schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

(o) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

(p) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, short-term, highly liquid investments that are readily convertible to cash and with a maturity of three months or less from date of investment, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(q) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet dates, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Depreciation and amortisation

The Group depreciates the property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method. The estimated useful lives reflect the director's estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual values reflect the directors' estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life.

(b) Allowance for bad and doubtful debts

The Group's provision policy for bad and doubtful debts is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

5. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include borrowings, trade and other receivables and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain trade receivables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade debt to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significantly reduced. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Interest rate risk

The Group's fair value interest rate risk relates to its fixed-rate borrowings. However, the management considers the risk is insignificant to the Group.

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

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

7. 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	**2004**
	HK$'000	*HK$'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

8. PROFIT FROM OPERATIONS

	2005	**2004**
	HK$'000	*HK$'000*
		(Restated)
Profit from operations has been arrived at after charging:		
Staff costs, including directors' emoluments *(note 10)*	19,069	22,204
Retirement benefits scheme contributions, including contributions for directors *(note 27)*	1,446	1,326
Total staff costs	20,515	23,530
Auditors' remuneration	380	636
Amortisation of land use rights and leasehold land	164	134
Depreciation		
– owned assets	7,355	8,163
– assets held under finance leases	1,001	538
Loss on disposal of property, plant and equipment	155	48
Operating lease rentals paid in respect of rented premises	1,882	1,916

9. FINANCE COSTS

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

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

For the year ended 31 December 2005
(all expressed in HK$)

	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Total
Executive directors				
Mr. But Ching Pui	–	360,000	–	360,000
Mr. But Ka Wai	–	360,000	18,000	378,000
Mr. But Chai Tong	–	360,000	18,000	378,000
Mr. Chu Kin Wah	–	360,000	18,000	378,000
Mr. Lai Wing Kuen (resigned on 7 June 2005)	–	150,000	7,500	157,500
Non-executive directors				
Ms. Leung Wai Ling	50,000	–	–	50,000
Mr. Ngai Chun Kong, Stephen	50,000	–	–	50,000
Independent non-executive directors				
Mr. Cheung Yu Yan, Tommy	100,000	–	–	100,000
Mr. Ip Shing Tong, Francis	50,000	–	–	50,000
Mr. Ku Siu Fung, Stephen	50,000	–	–	50,000
Total	300,000	1,590,000	61,500	1,951,500

For the year ended 31 December 2004
(all expressed in HK$)

	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Total
Executive directors				
Mr. But Ching Pui	–	360,000	–	360,000
Mr. But Ka Wai	–	360,000	18,000	378,000
Mr. But Chai Tong	–	360,000	18,000	378,000
Mr. Chu Kin Wah	–	360,000	18,000	378,000
Mr. Lai Wing Kuen	–	360,000	18,000	378,000
Non-executive directors				
Ms. Leung Wai Ling	50,000	–	–	50,000
Mr. Ngai Chun Kong, Stephen	50,000	–	–	50,000
Independent non-executive directors				
Mr. Cheung Yu Yan, Tommy	100,000	–	–	100,000
Mr. Ip Shing Tong, Francis	50,000	–	–	50,000
Mr. Ku Siu Fung, Stephen	50,000	–	–	50,000
Total	300,000	1,800,000	72,000	2,172,000

(b) Employees' emoluments

The five highest paid individuals for the year ended 31 December 2005 included three (2004: one) executive directors of the Company. The emoluments of the remaining two (2004: four) individuals are as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Salaries and other benefits	864	1,358
Retirement benefits scheme contributions	45	65
	909	1,423

The emoluments of each of the two (2004: four) highest paid individuals were less than HK$1,000,000.

(c) During the year, no emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals of the Group (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any emoluments during the year.

11. INCOME TAX EXPENSE

	2005	**2004**
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax		
– current year	1,292	561
– under-provision in prior years	3,576	–
PRC Enterprise Income Tax		
– current year	2,848	2,501
– under-provision in prior year	140	270
Current tax charge for the year	7,856	3,332
Deferred tax charge for the year *(note 26)*	3	266
	7,859	3,598

Hong Kong Profits Tax is calculated at 17.5% (2004: 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 taxation per the consolidated income statement as follows:

	2005 *HK$'000*	2004 *HK$'000* (Restated)
Profit before taxation	18,075	16,657
Tax at PRC Enterprise Income Tax rate of 33% (2004: 33%)	5,964	5,497
Tax effect of expenses not deductible for tax purpose	2,471	1,990
Tax effect of income not taxable for tax purpose	(3,338)	(200)
Under-provision in respect of prior year	3,716	270
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	(1,130)	(292)
Tax expense for the year	7,859	3,598

12. DIVIDENDS

	2005 *HK$'000*	2004 *HK$'000*
Final dividend of HK2 cents per share in respect of the year ended 31 December 2003 paid in 2004	–	4,000

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

13. 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.

14. LAND USE RIGHTS AND LEASEHOLD LAND

The Group's interests in land use rights and leasehold land represented prepaid operating lease payments and their net book values are analysed as follows:

	2005	2004
	HK$'000	*HK$'000*
At cost:		
As at 1 January 2005/2004		
As previously reported	2,803	2,803
Effect of adopting HKAS 17	375	375
Exchange difference	75	–
As restated and as at 31 December 2005/2004	3,253	3,178
Accumulated amortisation:		
As at 1 January 2005/2004		
As previously reported	726	598
Effect of adopting HKAS 17 *(note 2a)*	117	111
As restated	843	709
Amortisation for the year	164	134
Exchange difference	19	–
As restated and as at 31 December 2005/2004	1,026	843
Net book values:		
As at 31 December 2005/2004	2,227	2,335

Note: The land use rights and leasehold land of the Group as at 31 December 2005 are held on medium term leases and situated in the PRC and Hong Kong respectively.

15. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Buildings	Furniture and equipment	Motor vehicles	Plant and machinery	Construction in progress	Loose tools and moulds	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST							
As at 1 January 2004							
As previously reported	46,206	18,387	10,069	76,030	–	189	150,881
Effect of adopting HKAS 17	(375)	–	–	–	–	–	(375)
As restated	45,831	18,387	10,069	76,030	–	189	150,506
Additions	5,166	3,340	533	1,231	1,481	–	11,751
Transfer in/(out)	–	–	–	1,315	(1,315)	–	–
Disposals	–	(37)	(787)	–	–	–	(824)
As at 1 January 2005	50,997	21,690	9,815	78,576	166	189	161,433
Additions	–	2,361	–	618	6,101	–	9,080
Disposals	–	(130)	(472)	–	–	–	(602)
Exchange difference	1,325	330	65	1,947	5	–	3,672
As at 31 December 2005	52,322	24,251	9,408	81,141	6,272	189	173,583
ACCUMULATED DEPRECIATION							
As at 1 January 2004							
As previously reported	5,979	14,179	8,611	21,205	–	135	50,109
Effect of adopting HKAS 17 *(note 2a)*	193	–	–	–	–	–	193
As restated	6,172	14,179	8,611	21,205	–	135	50,302
Provided for the year	1,089	1,084	535	5,988	–	5	8,701
Eliminated on disposals	–	(30)	(697)	–	–	–	(727)
As at 1 January 2005	7,261	15,233	8,449	27,193	–	140	58,276
Provided for the year	1,204	1,274	400	5,473	–	5	8,356
Eliminated on disposals	–	(69)	(148)	–	–	–	(217)
Exchange difference	161	119	59	585	–	–	924
As at 31 December 2005	8,626	16,557	8,760	33,251	–	145	67,339
NET BOOK VALUES							
As at 31 December 2005	43,696	7,694	648	47,890	6,272	44	106,244
As at 31 December 2004	43,736	6,457	1,366	51,383	166	49	103,157

The net book value of property, plant and equipment of the Group held under finance leases included above is as follows:

	2005 *HK$'000*	2004 *HK$'000*
Motor vehicles	467	787
Plant and machinery	23,570	15,903
	24,037	16,690

The net book value of the Group's land and buildings, including land use rights and leasehold land, held under leases terms are as follows:

	2005 *HK$'000*	2004 *HK$'000* (Restated)
Medium term leases situated in Hong Kong	602	695
Medium term leases situated in the PRC	45,321	45,376
	45,923	46,071

16. INTERESTS IN SUBSIDIARIES

	The Company	
	2005 *HK$'000*	**2004** *HK$'000*
Unlisted shares, at cost	73,992	73,992
Amounts due from subsidiaries	76,675	34,967
	150,667	108,959

The carrying value of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the ultimate holding company of the Group pursuant to the group reorganisation undertaken in preparation for the listing of the Company's shares on the Stock Exchange in 2003 (the "Group Reorganisation").

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of the directors, the amounts will not be repayable within one year from the balance sheet date. Accordingly, such amounts have been classified as non-current. The directors consider that the amounts due from subsidiaries approximate their fair value.

Particulars of the Company's principal subsidiaries as at 31 December 2005 are set out in note 35.

17. INVENTORIES

	The Group	
	2005 *HK$'000*	**2004** *HK$'000*
Raw materials	15,236	12,184
Work in progress	5,792	7,982
Finished goods	26,652	25,815
	47,680	45,981

18. TRADE AND OTHER RECEIVABLES

The Group adopts a general policy of allowing average credit periods ranging from 90 days to 180 days to its trade customers. However, for certain customers with long-established relationship and good past repayment histories, a longer credit period may be granted up to one year.

An aged analysis of trade receivables (net of allowance for bad and doubtful debts) is as follows:

	The Group	
	2005	**2004**
	HK$'000	*HK$'000*
Within 90 days	101,275	82,562
91 to 180 days	15,186	13,256
Over 180 days	32,982	20,861
Trade receivables	149,443	116,679
Deposits, prepayments and other receivables	27,843	24,728
	177,286	141,407

The directors consider that the carrying amount of trade and other receivables approximate their fair value.

19. LOAN RECEIVABLE

The amount was interest-free and repayable within one year. Should the borrower be unable to repay the amount, the Group could exercise the right, on the expiry of the loan period, to acquire the speciality stores operated by the borrower.

20. TRADE AND OTHER PAYABLES

An aged analysis of trade payables is as follows:

	The Group	
	2005	**2004**
	HK$'000	*HK$'000*
Within 90 days	12,860	13,374
91 to 180 days	1,594	885
Over 180 days	4,739	3,157
Trade payables	19,193	17,416
Other payables	9,670	15,410
	28,863	32,826

The directors consider that the carrying amount of trade and other payables approximate their fair value.

21. OBLIGATIONS UNDER FINANCE LEASES

THE GROUP

	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases:				
Within one year	7,072	7,677	6,623	7,254
In the second to fifth year inclusive	3,438	4,362	3,305	4,011
	10,510	12,039	9,928	11,265
Less: Future finance charges	(582)	(774)	N/A	N/A
Present value of lease obligations	9,928	11,265	9,928	11,265
Less: Amount due for settlement within 12 months (shown under current liabilities)			(6,623)	(7,254)
Amount due for settlement after 12 months			3,305	4,011

It is the Group's policy to lease certain of its plant and machinery and motor vehicles under finance leases. The average lease term is 3 years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

22. BORROWINGS

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Trust receipts loans	43,752	31,460
Bank overdrafts	4,656	96
Bank loans	120,168	132,885
Other loan	6,250	6,086
	174,826	170,527
Analysis as:		
Secured	125,920	150,602
Unsecured	48,906	19,925
	174,826	170,527

The maturity profile of the above borrowings is as follows:

	The Group	
	2005	**2004**
	HK$'000	*HK$'000*
On demand or within one year	132,779	128,928
More than one year, but not exceeding two years	42,047	41,319
More than two years, but not exceeding five years	–	280
	174,826	170,527
Less: amount due within one year shown under current liabilities	(132,779)	(128,928)
	42,047	41,599

The trust receipts loans, bank overdrafts and bank loans carry interest at the prevailing market rates.

The other loan is unsecured, bears interest at a fixed rate of 9% and is repayable within one year.

The directors consider that the carrying amount of borrowings approximate their fair value.

The bank loans of the Company in the amount of HK$38,000,000 are guaranteed by two wholly-owned subsidiaries on a joint and several basis.

23. SHARE CAPITAL

	Number of ordinary shares	**Amount**
		HK$'000
Ordinary share of HK$0.01 each		
Authorised:		
As at 1 January 2004, 31 December 2004 and 31 December 2005	4,000,000,000	40,000
Issued and fully paid:		
As at 1 January 2004 and 31 December 2004	200,000,000	2,000
Issue of shares on 27 October 2005	14,000,000	140
As at 31 December 2005	214,000,000	2,140

Share-based payment transaction

On 27 October 2005, the Company issued 14 million new shares of HK$0.01 each to a contractor at the subscription price of HK$0.40 each in satisfaction of the contractual sum of HK$5,600,000 for the construction work carried out by the contractor for the Group. The excess over the nominal value of the shares issued amounting to HK$5,460,000 was credited to the share premium account of the Company. The subscription price was arrived at after arm's length negotiation between the Company and the subscriber and was considered fair and reasonable in view of the then market condition.

24. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 3 June 2003 for the primary purpose of providing incentives to encourage its participants to perform their best in achieving the goals of the Company and enjoy its result. The participants are any director and eligible employee of the Group; any entity in which any member of the Group holds any equity interest (the "Invested Entity"); any supplier of goods or services and customers to any member of the Group or any Invested Entity; any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; any adviser or consultant to any area of business or business development of any member of the Group or any Invested Entity; any shareholders of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group, as absolutely determined by the board.

The maximum number of securities which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the share capital of the Company in issue from time to time. The total number of shares which may be allotted and issued upon the exercise of all options to be granted under the Scheme of the Group must not in aggregate exceed 10% of the shares in issue on 25 June 2003, being the date on which the Company's shares were listed on the Stock Exchange. For the purpose of calculating the above, options lapsed in accordance with the Scheme shall not be counted.

The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

The period within which the shares must be taken up under an option of the Scheme shall not be later than 10 years from the date the option is granted. There is no minimum period for which an option must be held before it can be exercised. HK$1 is payable on acceptable of the options within 21 days from the date of grant. The subscription price is the highest of (i) the closing price of the shares quoted in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the shares on the date of the offer for the grant which must be a business day; (ii) the average closing price of the shares as quoted in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a share. The Scheme is valid for 10 years from 3 June 2003. No further options may be granted pursuant to the Scheme after 2 June 2013.

The following table discloses details of the Company's options under the Scheme held by employees and consultant and the movement during the years ended 31 December 2004 and 2005:

Category	Date of grant	Exercise price	Weighted average remaining contractual life	Exercisable period	Granted during the year 2004	Exercised during the year 2005	Outstanding as at 31.12.2005
		HK cents	*(years)*				
Employees	14 December 2004	31.6	1.95	14.12.2004 to 13.12.2007	10,000,000	–	10,000,000
Consultant	14 December 2004	31.6	1.95	14.12.2004 to 13.12.2007	2,000,000	–	2,000,000

On 14 December 2004, the Company granted share options under the Scheme to certain employees of the Group and a consultant, which entitle them to subscribe for a total of 10,000,000 shares and 2,000,000 shares respectively at HK31.6 cents per share. The total amount of consideration received from the participants for taking up the options granted was HK$7. No share options were granted during the year ended 31 December 2005. No share options were exercised, cancelled and lapsed during the years ended 31 December 2004 and 2005.

25. RESERVES

THE COMPANY	Share premium	Contributed surplus	Accumulated profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2004	35,645	73,792	3,615	113,052
Loss for the year	–	–	(1,944)	(1,944)
Dividends *(note 12)*	–	(2,329)	(1,671)	(4,000)
As at 31 December 2004	35,645	71,463	–	107,108
Issue of shares *(note 23)*	5,460	–	–	5,460
Loss for the year	–	–	(2,855)	(2,855)
As at 31 December 2005	41,105	71,463	(2,855)	109,713

The contributed surplus represents the difference between the book values of the underlying net assets of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the Company's shares issued under the Group Reorganisation.

The Company's reserves available for distribution to its shareholders comprise share premium, contributed surplus and accumulated profits which in aggregate amounted to approximately HK$110 million as at 31 December 2005 (2004: HK$107 million). Under the Companies Law (Revised) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the payment of distributions or dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be payable out of the profits or other reserves, including the share premium account, of the Company.

26. DEFERRED TAX LIABILITIES

The followings are the Group's major deferred tax liabilities/(assets) recognised and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
As at 1 January 2004	317	(186)	131
Charged to the income statement for the year *(note 11)*	178	88	266
As at 1 January 2005	495	(98)	397
(Credited)/charged to the income statement for the year *(note 11)*	(6)	9	3
As at 31 December 2005	489	(89)	400

As at 31 December 2005, the Group had unused tax losses of HK$2,504,000 (2004: HK$2,817,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$509,000 (2004: HK$560,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$1,995,000 (2004: HK$2,257,000) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

27. RETIREMENT BENEFITS SCHEME

When the Mandatory Provident Fund Schemes Ordinance ("MPFO") came into effect in Hong Kong on 1 December 2000, the Group established a mandatory provident fund scheme with voluntary contributions (the "MPF Scheme") for its employees in Hong Kong.

Prior to the introduction of the MPF Scheme, the Group had operated a defined contribution scheme registered under the Occupational Retirement Schemes Ordinance (the "ORSO Scheme") for its qualified employees in Hong Kong. The ORSO Scheme discontinued in 2001 and the benefits of the employees were transferred to the MPF Scheme. The assets held under the ORSO Scheme which were held separately from those of the Group were also transferred directly to the MPF Scheme. For MPF Scheme, the Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by the employee.

The amounts charged to the consolidated income statements represent contributions payable to the schemes by the Group at rates specified in the rules of the schemes less forfeiture, if any, arising from employees leaving the Group prior to completion of their qualifying service period.

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

As at the balance sheet date, there was no significant amount of forfeited contributions available to reduce future contributions.

28. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance lease arrangements in respect of the acquisition of assets with a total capital value at the inception of the leases of HK$8,176,000 (2004: HK$6,637,000)

On 27 October 2005, the Company issued 14 million new shares of HK$0.01 each to a contractor at the subscription price of HK$0.40 each in satisfaction of the contractual sum of HK$5,600,000 for the construction work carried out by the contractor for the Group.

29. PLEDGE OF ASSETS

As at the balance sheet date, the following assets were pledged by the Group to banks in order to secure general banking facilities granted to the Group, and their respective net book values are as follows:

	2005	**2004**
	HK$'000	*HK$'000*
		(Restated)
Land and buildings together with relevant land use rights situated in the PRC	45,321	41,460
Land and buildings situated in Hong Kong	602	641
Plant and machinery	46,655	49,761
Trade receivables of subsidiaries	2,982	26,782
Bank deposits	16,805	26,560
	112,365	145,204

The Company did not have any assets pledged as at the balance sheet date.

30. OPERATING LEASE COMMITMENTS

As at the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases in respect of rented premises, which fall due as follows:

	The Group	
	2005	**2004**
	HK$'000	*HK$'000*
Within one year	182	1,867
In the second to fifth year inclusive	–	168
	182	2,035

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

31. CAPITAL COMMITMENTS

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	4,909	6,627
Capital contribution to the registered capital of the PRC subsidiaries *(Note)*	1,554	–

Note: The capital commitment represents the outstanding registered capital to be contributed to the subsidiaries in the PRC by the Group as at 31 December 2005.

The Company did not have any significant capital commitments as at the balance sheet date.

32. CONTINGENT LIABILITIES

	The Group		The Company	
	2005	2004	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Guarantees given to banks, in respect of banking facilities utilised by subsidiaries	–	–	129,285	169,096

33. CONNECTED AND RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties, some of which are also deemed to be connected persons pursuant to the Listing Rules:

		2005	2004
	Notes	*HK$'000*	*HK$'000*
Rentals paid to:			
– Lucky Fair Investment Limited	*(i) & (ii)*	180	180
– Profit Horn Development Limited	*(i) & (ii)*	156	156
– Tai Tung Supermarket Limited	*(i) & (ii)*	288	288
– Mr. But Ching Pui	*(ii)*	72	72
– The But's Family and Mr. But Chai Leung	*(ii)*	144	144
– Mr. But Ka Wai and Mr. But Chai Leung	*(ii)*	156	156
– Mr. But Ching Pui and Ms. Leung Wai Ling	*(ii)*	156	156

Compensation to key management personnel:

The directors of the Group considered that they are the only key management personnel of the Group and their remuneration are set out in note 10.

Notes:

(i) Mr. But Ching Pui, Ms. Leung Wai Ling, Mr. But Ka Wai and Mr. But Chai Tong, all of whom are directors and beneficial shareholders of the Company, are collectively referred to as the "But's Family". The But's Family has 100% beneficial interests in these companies.

(ii) Rental for premises were determined in accordance with the leases entered into between the Group and the related parties, on the basis of estimated market value.

34. POST BALANCE SHEET EVENT

On 7 April 2006, the Company announced a proposed rights issue ("Rights Issue") to raise not less than approximately HK$32.1 million and not more than approximately HK$33.9 million respectively before expenses by issuing not less than 321,000,000 rights shares ("Rights Shares") and not more than 339,000,000 Rights Shares at the subscription price of HK$0.10 per Rights Share on the basis of three Rights Shares for every two shares of the Company held on the record date. The Rights Issue is subject to, inter alia, the approval by the shareholders other than Mr. But Ka Wai and Mr. But Chai Tong, at an extraordinary general meeting proposed to be held.

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2005 are as follows:

Name of company	**Place of incorporation/ establishment**	**Issued and fully paid share capital/ registered capital**	**Percentage of issued capital/ registered capital held by the Company** *(note (i))*	**Principal activities**
Wah Yuen Foods International Limited 華園食品國際有限公司	British Virgin Islands/ Hong Kong	Ordinary shares USD1,000	100%	Investment holding
Wah Yuen Foods (China) Limited 華園食品(中國)有限公司	British Virgin Islands/ Hong Kong	Ordinary shares USD1,000	100%	Investment holding
Hong Kong Wah Yuen Foods Company Limited 香港華園食品廠有限公司	British Virgin Islands/ Hong Kong	Ordinary shares HK$1	100%	Investment holding
Wah Yuen Investment Limited 華園投資有限公司	British Virgin Islands/ Hong Kong	Ordinary shares USD1,000	100%	Investment holding
Wah Yuen Licensing Company Limited 華園商標有限公司	Cook Islands/ Hong Kong	Ordinary shares HK$10	100%	Holding of trademarks
Honfine Company Limited 朗耀有限公司	Hong Kong	Ordinary shares HK$10 Non-voting deferred shares HK$2 *(note (iii))*	100%	Distribution and marketing of snack food products

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of issued capital/ registered capital held by the Company *(note (i))*	Principal activities
Wah Yuen Foods (Hong Kong) Company Limited 華園食品(香港)有限公司	Hong Kong	Ordinary shares HK$1,000 Non-voting deferred shares HK$10,000,000	100%	Manufacturing, distribution and marketing of snack food products and convenience frozen food products
Million Riches Development Limited 裕億發展有限公司	Hong Kong	Ordinary shares HK$100 Non-voting deferred shares HK$1,000,000 *(note (iii))*	100%	Distribution and marketing of snack food products
Wah Yuen Foods Company Limited 華園食品廠有限公司	Hong Kong	Ordinary shares HK$20	100%	Investment holding
Wah Yuen (Guangzhou) Foods Company Limited 華園(廣州)食品有限公司 *(note (ii))*	PRC	Registered and contributed capital USD4,500,000	100%	Manufacturing, distribution and marketing of snack food products
Rocco Foods Enterprises Company (Guangzhou) Limited 廣州樂高食品企業有限公司 *(note (ii))*	PRC	Registered and contributed capital USD2,810,000	100%	Manufacturing, distribution and marketing of snack food products

Notes:

(i) All the above subsidiaries, except for Wah Yuen Foods International Limited which is directly held, are indirectly held by the Company and operate principally in their places of incorporation/ establishment.

(ii) Wah Yuen (Guangzhou) Foods Company Limited and Rocco Foods Enterprises Company (Guangzhou) Limited are wholly foreign owned enterprises established in the PRC.

(iii) The deferred shares, which are not held by the Group, practically carry no rights to dividends or to receive notice of or to attend or vote at any of the respective companies' general meetings or to participate in any distribution on their winding up.

(iv) None of the subsidiaries had any debt securities outstanding as at 31 December 2005 or at any time during the year.

(v) The above list contains only the particulars of subsidiaries which principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

3. INDEBTEDNESS

(a) Borrowings

As at the close of business on 31 March 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately HK$200.0 million, comprising short-term bank borrowings of approximately HK$144.0 million, long-term secured bank loans of approximately HK$41.2 million, obligations under finance leases of approximately HK$8.6 million, and other unsecured loan of approximately HK$6.2 million.

The short-term bank borrowings of approximately HK$144.0 million comprised unsecured bank overdrafts of approximately HK$18 million, secured trust receipts loans of approximately HK$33.5 million, and short-term secured bank loans of approximately HK$92.5 million.

(b) Security and guarantees

As at 31 March 2006, the Group's bank borrowings were secured by the following:

(i) Charges on certain land and buildings held by the Group with a carrying value of approximately HK$45.6 million;

(ii) Charges on certain plant and machinery of the Group with a carrying value of approximately HK$45.4 million;

(iii) Assignment of certain trade receivables of the Group with a carrying value of approximately HK$2.7 million;

(iv) Charges on certain bank deposits of the Group with a carrying value of approximately HK$16.9 million; and

(v) Corporate guarantees executed by certain members of the Group.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

(c) Commitments and contingent liabilities

As at 31 March 2006, the Group had total future minimum lease payments under non-cancelable operating leases in respect of rented premises amounting to approximately HK$3.5 million. None of the leases will expire within one year.

As at 31 March 2006, the Group had capital commitment in relation to the acquisition of property, plant and equipment of approximately HK$4.9 million and contribution to the registered capital of certain PRC subsidiaries of the Company of approximately HK$1.6 million.

As at 31 March 2006, the Group had no significant contingent liabilities.

(d) Disclaimer

Save as disclosed in the preceding paragraphs and apart from intra-group liabilities and normal trade payables, at the close of business on 31 March 2006, the Group did not have any loan capital issued and outstanding or agreed to be issued, debt securities, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, obligations under hire purchases contracts or finance leases, guarantees, or other material contingent liabilities.

The Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 31 March 2006.

4. WORKING CAPITAL

The Directors are of the opinion that, taking into account the Group's internal resources, the presently available banking and other facilities and the estimated net proceeds from the Rights Issue, and in the absence of unforeseen circumstances, the Group will have sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

5. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors confirm that there were no material change in the financial or trading position or prospects of the Group since 31 December 2005, being the date to which the last published audited accounts of the Group were made up.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is the unaudited pro forma statement of adjusted consolidated net tangible assets (the "Unaudited Pro Forma Financial Information") of the Group which has been prepared in accordance with Rule 4.29 of the Listing Rules to illustrate the effects of the Rights Issue on the consolidated net tangible assets of the Group as if the Rights Issue had taken place on 31 December 2005.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2005 or any future date.

	Consolidated net tangible assets of the Group as at 31 December 2005 (Audited) *HK$'000* *(Note 1)*	**Add: Estimated net proceeds from the Rights Issue** *HK$'000* *(Note 2)*	**Pro forma adjusted consolidated net tangible assets of the Group as at 31 December 2005** (Unaudited) *HK$'000*
	149,539	30,600	180,139
Consolidated net tangible assets per Share immediately before completion of the Rights Issue *(Note 3)*			HK$0.70
Unaudited pro forma adjusted consolidated net tangible assets per Share immediately after completion of the Rights Issue *(Note 4)*			HK$0.34

Notes:

1. The figure is based on the audited consolidated balance sheet of the Group as at 31 December 2005 as extracted from the published annual report of the Company for the year ended 31 December 2005.

2. The estimated net proceeds from the Rights Issue are based on 321,000,000 Rights Shares issued at the Subscription Price of HK$0.10 per Rights Share after deduction of share issue expenses of approximately HK$1,500,000, and takes no account of any additional Rights Shares to be issued upon the exercise of any outstanding Share Options on or before the Latest Lodging Date.

3. Based on 214,000,000 Shares in issue immediately before completion of the Rights Issue, assuming that no outstanding Share Options had been exercised on or before the Latest Lodging Date.

4. Based on 535,000,000 Shares, on the basis that 214,000,000 Shares were in issue as at 31 December 2005 and 321,000,000 Rights Shares were issued (assuming the Rights Issue had been completed on 31 December 2005 and without taking account of any additional Rights Shares to be issued upon the exercise of any outstanding Share Options on or before the Latest Lodging Date).

5. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2005.

B. ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is the text of a report received from the auditors of the Company, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong, addressed to the directors of the Company and prepared for the sole purpose of inclusion in this circular.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

17 May 2006

The Directors
Wah Yuen Holdings Limited

Dear Sirs,

ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

Introduction

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets (the "Unaudited Pro Forma Financial Information") of Wah Yuen Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the Rights Issue (as defined in the Circular) might have affected the net tangible assets of the Group as if the Rights Issue had taken place at 31 December 2005, for inclusion in the Company's circular dated 17 May 2006 (the "Circular"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Section A of Appendix II of the Circular.

Respective responsibilities of the directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 13 of Appendix 1B and Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by Rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2005 or any future date.

Opinion

In our opinion:

a. the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

b. such basis is consistent with the accounting policies of the Group; and

c. the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully,
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were, and immediately following completion of the Rights Issue will be, as follows:

As at the Latest Practicable Date

The issued and paid up share capital if no Share Options have been exercised:

Ordinary shares:

Authorised:		*HK$*
4,000,000,000	ordinary Shares of HK$0.01 each	40,000,000.00
Issued and fully paid:		
214,000,000	Shares in issue	2,140,000.00

Upon completion of the Rights Issue

The issued and paid up share capital if no Share Options have been exercised, inclusive of the proposed Rights Issue:

Ordinary shares:

Authorised:		*HK$*
4,000,000,000	ordinary Shares of HK$0.01 each	40,000,000.00
Issued and fully paid:		
214,000,000	Shares in issue	2,140,000.00
90,750,000	Rights Shares to be issued to Able Success Group Limited or its nominee(s) on the Latest Acceptance Date	907,500.00
85,500,000	Rights Shares to be issued to National Chain International Limited or its nominee(s) on the Latest Acceptance Date	855,000.00
144,750,000	Rights Shares to be issued to the Underwriter should all the Share Options have not been exercised	1,447,500.00
535,000,000		5,350,000.00

The issued and paid up share capital if all Share Options have been exercised, inclusive of the proposed Rights Issue (for which this application is now made):

Ordinary shares:

Authorised:		*HK$*
4,000,000,000	ordinary Shares of HK$0.01 each	40,000,000.00
Issued and fully paid:		
214,000,000	Shares in issue	2,140,000.00
90,750,000	Rights Shares to be issued to Able Success Group Limited or its nominee(s) on the Latest Acceptance Date	907,500.00
85,500,000	Rights Shares to be issued to National Chain International Limited or its nominee(s) on the Latest Acceptance Date	855,000.00
162,750,000	Rights Shares to be issued to the Underwriter should all the Share Options have been exercised	1,627,500.00
553,000,000		5,530,000.00

3. DISCLOSURE OF INTERESTS

(a) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

Name of Directors	Number or attributable number of Shares held or short positions	Nature of interests	Approximate percentage or attributable percentage of shareholding *(%)*
Mr. KW But	60,500,000	Held by controlled corporation *(Note 1)*	28.30%
Mr. CT But	57,000,000	Held by controlled corporation *(Note 2)*	26.60%

L: Long Position

Notes:

1. These shares were held by Able Success Group Limited ("**ASG Limited**") which is wholly-owned by Mr. KW But, a younger brother of Mr. CT But.

2. These shares were held by National Chain International Limited ("**NCI Limited**") which is wholly-owned by Mr. CT But, an elder brother of Mr. KW But.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Number or attributable number of Shares held or short positions	Nature of interests	Approximate percentage or attributable percentage of shareholding
ASG Limited	60,500,000	Beneficial owner	28.30%
NCI Limited	57,000,000	Beneficial owner	26.60%
Mr. KW But *(Note 1)*	60,500,000	Held by controlled corporation	28.30%
Mr. CT But *(Note 2)*	57,000,000	Held by controlled corporation	26.60%
Ms. Chan Yuk Ha *(Note 3)*	60,500,000	Deemed interest	28.30%
Ms. Chang Tei Wah, Teresa *(Note 4)*	57,000,000	Deemed interest	26.60%
Ms. See Sau Yuk	14,000,000	Beneficial owner	6.50%

L: Long Position

Notes:

1. The interest in the Shares will be held through ASG Limited, the entire issued share capital of which is beneficially owned by Mr. KW But.

2. The interest in the Shares will be held through NCI Limited, the entire issued share capital of which is beneficially owned by Mr. CT But.

3. Ms. Chan Yuk Ha is the wife of Mr. KW But and is deemed to be interested in the Shares in which Mr. KW But is interested under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. Ms. Chang Tei Wah, Teresa is the wife of Mr. CT But and is deemed to be interested in the Shares in which Mr. CT But is interested under the provisions of Divisions 2 and 3 of Part XV of the SFO.

As at the Latest Practicable Date, none of the Directors was a director or employee of a company which had, or was deemed to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of its subsidiaries after the date two years immediately preceding the date of the Announcement and up to the Latest Practicable Date and are or may be material:

(a) an acquisition agreement dated 19 May 2004 entered into between Wah Yuen Foods Company Limited, a company incorporated in Hong Kong, a wholly owned subsidiary of the Company and 花都市天誠實業有限公司 Huadu City Tian Cheng Industry Limited to acquire 35.19% of 廣州樂高食品企業有限公司Rocco Foods Enterprise Company (Guangzhou) Limited; and

(b) the Underwriting Agreement.

5. DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company. Each of Mr. But Ching Pui, Mr. But Ka Wai and Mr. But Chai Tong has entered into a service agreement with the Company for an initial term of three years commencing 1 June 2003 and continuing thereafter until terminated by not less than three months' written notice served by either party.

Mr. Chu Kin Wah has entered into a service agreement with the Company for an initial term of two years commencing 1 June 2003 and continuing thereafter until terminated by not less than three months' written notice served by either party.

Each of Ms. Leung Wai Ling, Mr. Ngai Chun Kong, Stephen, Mr. Cheung Yu Yan, Tommy, J.P., Mr. Ip Shing Tong, Francis and Mr. Ku Siu Fung, Stephen has entered into a service agreement with the Company for an initial term of two years commencing 1 June 2003 and renewed on 1 June 2005 and continuing thereafter until terminated by not less than three months' written notice served by either party.

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group and associated companies (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

6. EXPERTS

The following are the qualification of the experts who have given opinions or advice which are contained in this circular:

Name	Qualification
HLB Hodgson Impey Cheng	Chartered Accountants, Certified Public Accountants
RexCapital	a licensed corporation to carry on business in type 6 (advising on corporate finance) regulated activity under the SFO

Each of HLB Hodgson Impey Cheng and RexCapital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, each of HLB Hodgson Impey Cheng and RexCapital does not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

7. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation or arbitration of material importance is pending or threatened against the Company or any of its subsidiaries.

8. PARTICULARS OF THE DIRECTORS

(a) Name and address of the Directors

Name	**Correspondence Address**
Executive Directors	
Mr. But Ching Pui	4th Floor, Block A, Rose Court, 121 Wong Nai Chung Road, Hong Kong
Mr. KW But	4th Floor, Block A, Rose Court, 121 Wong Nai Chung Road, Hong Kong
Mr. CT But	Flat A, 8th Floor, Block 8, Beverly Villas, 16 La Salle Road, Kowloon
Mr. Chu Kin Wah	Flat C, 40th Floor, Block 10, Discovery Park, Tsuen Wan, N.T.
Non-executive Directors	
Mr. Leung Wai Ling	4th Floor, Block A, Rose Court, 121 Wong Nai Chung Road, Hong Kong
Mr. Ngai Chun Kong, Stephen	House 6, Asiaciti Garden, Fung Sau Road, Tai Mong Tsai, Sai Kung, N.T.
Independent non-executive Directors	
Mr. Cheung Yu Yan, Tommy	Flat B, 3rd Floor, Block 3, Julimount Garden, Shatin, N.T.
Mr. Ip Shing Tong, Francis	Flat E, 9th Floor, Block 4, Cotton Tree Mansions, Site 7, Whampoa Garden, Kowloon
Mr. Ku Siu Fung, Stephen	10 Cape Drive, Chung Hom Kok, Hong Kong

(b) Qualification of the Directors

Executive Directors

Mr. But Ching Pui, aged 80, is the honorary Chairman and the founder of the Group. He is responsible for the overall strategic planning and product development of the Group. Mr. But has over 45 years of experience in the snack food manufacturing business since founding the Group in 1958. He was named as an honorary citizen of Huadu District, Guangzhou, Guangdong Province, the PRC by the local authority in 1996 for his contribution to the Huadu District. Mr. But is the husband of Ms. Leung Wai Ling and the father of Mr. But Ka Wai and Mr. But Chai Tong.

Mr. But Ka Wai, aged 48, is the Chairman and an executive Director. He is the son of Mr. But Ching Pui and Ms. Leung Wai Ling and the younger brother of Mr. But Chai Tong. He has over 20 years of experience in the snack food manufacturing business. From 1978 to 1989, Mr. But was responsible for production and general administration of the Group. He has been responsible for the overall strategic development and formulation of corporate policies of the Group since 1989. He is presently a standing member of the committee of the Huadu District Chinese People's Political Consultative Conference. He was also named as an honorary citizen of Huadu District, Guangzhou, Guangdong Province, the PRC, by the local authority in 1998 for his contribution to the Huadu District. He joined the Group in 1978.

Mr. But Chai Tong, aged 52, is the Vice Chairman and an executive Director. He is the son of Mr. But Ching Pui and Ms. Leung Wai Ling and the elder brother of Mr. But Ka Wai. He has over 20 years of experience in the snack food manufacturing business. From 1980 to 1989, Mr. But was responsible for financial management and marketing of the Group. He has been responsible for strategic planning, marketing and sales activities, maintenance of business relationships with the Group's customers and overseeing the general operation of the Group since 1989. He is presently a standing member of the committee of the Huadu District Chinese People's Political Consultative Conference. Mr. But is also a member of the Association of Restaurant Managers Limited. He jointed the Group in 1980.

Mr. Chu Kin Wah, aged 38, is an executive Director and the company secretary of the Company. Mr. Chu is responsible for the financial management, accounting, corporate finance of the Group. Mr. Chu is a fellow member of The Chartered Association of Certified Accountants and an associate member of the Hong Kong Society of Accountants. He graduated from the Hong Kong Polytechnic University in 1991 with a bachelor's degree in Accounting. Prior to joining the Group in 2002, he has spent more than seven years in an international accounting firm in Hong Kong and has gained extensive experience in accounting, auditing and taxation matters.

Non-Executive Directors

Ms. Leung Wai Ling, aged 78, is a non-executive Director. She is the wife of Mr. But Ching Pui and the mother of Mr. But Ka Wai and Mr. But Chai Tong. Ms. Leung is not responsible for daily operations of the Group. Her role in the Group is to advise on the Group's overall strategic planning. Ms. Leung has over 45 years of experience in the snack food manufacturing business. Ms. Leung joined the Group in 1960 and was appointed as a non-executive Director for a term of two years.

Mr. Ngai Chun Kong, Stephen, aged 47, is a non-executive Director. Mr. Ngai is a member of The Toys Manufacturers' Association of Hong Kong Limited and a director of The Chiu Chau Plastic Manufacturing Association Company Limited. He is also a director of Artin International (Holdings) Limited and Co-Pack Printing Products Limited. Mr. Ngai has over 20 years of experience in the toy and printing industry. He joined the Group in May 2003 and was appointed as a non-executive Director for a term of two years. Mr. Ngai is one of the audit committee members of the Company.

Independent non-executive Directors

Mr. Cheung Yu Yan, Tommy, J.P., aged 56, is an independent non-execution Director. He is currently a member of the Legislative Council and the Eastern District Council of Hong Kong. Mr. Cheung is also the chairman of the Hong Kong Catering Industry Association and the honorary life president of the Association of Restaurant Managers Limited. Mr. Cheung has over 25 years of experience in restaurant and food related business. He joined the Group in May 2003 and was appointed as an independent non-executive Director for a term of two years.

Mr. Ip Shing Tong, Francis, aged 61, is an independent non-executive Director. Mr. Ip served in the Government of Hong Kong from 1963 to 2001, and retired from the position of Superintendent of Environment Health of the Food and Environmental Hygiene Department of the Government of Hong Kong in 2001. He has over 30 years of work experience in the environmental hygiene area. He joined the Group in May 2003 and was appointed as an independent non-executive Director for a term of two years. Mr. Ip is one of the audit committee members of the Company.

Mr. Ku Siu Fung, Stephen, aged 51, is an independent non-executive Director. Mr. Ku is a member of The Hong Kong Institute of Architects. He is also a director of Chau, Ku & Leung Architects & Engineers Limited since 1991. Mr. Ku has over 20 years of experience in architecture. He joined the Group in May 2003 and was appointed as an independent non-executive Director for a term of two years. Mr. Ku is one of the audit committee members of the Company.

9. CORPORATE INFORMATION

Registered Office	Century Yard Cricket Square Hutchins Drive P.O. box 2681 GT George Town Grand Cayman British West Indies
Head office and principal place of business in Hong Kong	2nd Floor On Shing Industrial Building Nos. 2-16 Wo Liu Hang Road Fo Tan, Shatin New Territories Hong Kong
Authorised representatives	Mr. But Chai Tong Flat A, 8th Floor, Block 8 Beverly Villas, 16 La Salle Road, Kowloon Mr. Chu Kin Wah Flat C, 40th Floor, Block 10 Discovery Park, Tsuen Wan, N.T.
Principal share registrar and transfer office	Bank of Bermuda (Cayman) Limited P.O. Box 513 GT Strathvale House North Church Street George Town Grand Cayman Cayman Islands British West Indies
Hong Kong Branch share registrar and transfer office	Tengis Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Legal advisers to the Company in relation to the Rights Issue	Michael Li & Co. 14th Floor, Printing House 6 Duddell Street Central, Hong Kong

Auditors	HLB Hodgson Impey Cheng 31st Floor, Gloucester Tower The Landmark 11 Pedder Street Central, Hong Kong
Principal bankers	The Bank of China (Hong Kong) Limited 9th Floor Bank of China Tower 1 Garden Road Hong Kong
	The Bank of East Asia, Limited 10 Des Voeux Road Central Hong Kong
	CITIC Ka Wah Bank Limited 9th Floor, Tower 1, Lippo Centre 89 Queensway Hong Kong
	DBS Bank (Hong Kong) Limited 16th Floor, The Center 99 Queen's Road Central Hong Kong
	Industrial and Commercial Bank of China (Asia) Limited 34th Floor, ICBC Tower 3 Garden Road Central Hong Kong
	China Construction Bank, Huadu Branch 68, Xin Hua Jian She Lu Huadu District Guangzhou Guangdong Province The PRC
	Industrial and Commercial Bank of China Huadu Branch 39 Xin Hua Jian She Lu Huadu District Guangzhou Guangdong Province The PRC

10. DIRECTORS' INTERESTS

As at the Latest Practicable Date, none of the Directors had any interests, direct or indirect, in any assets which have been, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2005, the date to which the latest published audited consolidated financial statements of the Group were made up.

As at the Latest Practicable Date, save for the Underwriting Agreement, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group since 31 December 2005, being the date to which the latest published audited financial statements of the Company were made up, and which was significant in relation to the business of the Group

As at the Latest Practicable Date, none of the Directors nor their respective associates had any interests (including indirect interests) in any business which competes or may compete with the business of any member of the Group.

11. MISCELLANEOUS

(a) There is no contract or arrangement entered into by any member of the Group subsisting at the date of this circular in which any Director is materially interested and which is significant to the business of the Group;

(b) As at the Latest Practicable Date, neither HLB Hodgson Impey Cheng, RexCapital nor any Directors had any direct or indirect interests in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2005, the date to which the latest published audited consolidated financial statements of the Group were made up;

(c) The principal share registrar of the Company is Bank of Bermuda (Cayman) Limited at 36C Bermuda House, 3rd Floor, P.O. Box 513 GT, Dr. Roy's Drive, George Town, Grand Cayman, Cayman Islands, British West Indies.

(d) The Hong Kong branch share registrar of the Company is Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road Easet, Wanchai, Hong Kong.

(e) The secretary of the Company is Mr. Chu Kin Wah, an associate member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants.

(f) The qualified accountant of the Company appointed pursuant to Rule 3.24 of the Listing Rules is Mr. Chong Ching Hei.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours at the principal place of business of the Company at 2nd Floor, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong from the date of this circular up to the completion of the Rights Issue:

(a) the memorandum of association and articles of the Company, Able Success Group Limited, National Chain International Limited and the Underwriter;

(b) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;

(c) the service contracts referred to in the paragraph headed "Directors' service contracts" in this appendix;

(d) the written consent of the experts referred to in the paragraph headed "Experts" in this appendix;

(e) the letter of advice from Independent Board Committee which is set out from pages 21 in this circular;

(f) the letter of advice from RexCapital which is set out from pages 22 to 36 in this circular;

(g) the accountants' report from HLB Hodgson Impey Cheng on the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group, the text of which is set out in appendix II to this circular;

(h) the annual report of the Company for each of the two financial years ended 31 December 2004 and 31 December 2005; and

(i) the circular dated 11 June 2004 regarding a discloseable and connected transaction.

WAH YUEN HOLDINGS LIMITED
華園控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2349)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Wah Yuen Holdings Limited (the "**Company**") will be held at 2nd Floor, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong on Monday, 5 June 2006 at 9:30 a.m. to consider and, if thought fit, passing the following ordinary resolution to be taken by way of poll:

"**THAT**:

(a) the Rights Issue (as defined below) be and are hereby approved;

For the purpose of this resolution, "**Rights Issue**" means the proposed issue by way of rights of not less than 321,000,000 rights shares (the "**Rights Shares**") and not more than 339,000,000 Rights Shares at a subscription price of HK$0.10 per Rights Shares to the shareholders (the "**Qualifying Shareholders**") of the Company whose names appear on the register of members of the Company on the date by reference to which entitlement under the Rights Issue will be determined (other then those shareholders (the "**Excluded Shareholders**") with registered addresses outside Hong Kong whom the directors (the "**Directors**") of the Company, after making relevant enquiry, consider their exclusion from the Rights Issue to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place) in the proportion of three Rights Shares for every two shares then held and otherwise pursuant to and subject to the fulfillment or waiver of the conditions and terms set out in the underwriting agreement (the "**Underwriting Agreement**") (a copy of which have been produced to this meeting marked "A" and signed by the chairman of this meeting for the purpose of identification) dated 4 April 2006 and made between TIS Securities (HK) Limited, being the underwriter, the Company, Mr. But Ka Wai and Mr. But Chai Tong; and

(b) the Directors be and are hereby authorised to allot and issue the Rights Shares pursuant to the Rights Issue notwithstanding the same may be offered, allotted or, issued otherwise than pro rata to the Qualifying Shareholders and, in particular, the Directors may make such exclusions or other arrangements in relation to Excluded Shareholders as they deem necessary or expedient having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong; and

(c) the Directors be and are hereby authorised to do all acts and things in connection with the allotment and issue of the Right Shares, the implementation of the Rights Issue and the Underwriting Agreement, the exercise or enforcement of any of the Company's rights under the Underwriting Agreement and to make and agree to make such variations of the terms of the Underwriting Agreement as they may in their discretion consider to be appropriate and desirable and in the best interests of the Company."

Yours faithfully
For and on behalf of
the board of Directors of
Wah Yuen Holdings Limited
But Ka Wai
Chairman

Hong Kong, 17 May 2006

Registered office:
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

Head office and principal place of business in Hong Kong:
2nd Floor
On Shing Industrial Building
Nos. 2-16 Wo Liu Hang Road
Fo Tan, Shatin
New Territories
Hong Kong

Notes:

1. In case of a recognised clearing house, it may authorise such person(s) as it thinks fit to act as its representative(s) at the meeting and vote in its stead.

2. In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the offices of the Company's branch registrars in Hong Kong, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting.

3. In the case of joint holders of shares, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holder are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.

4. Delivery of the form of proxy appointing a proxy will not preclude a member from attending and voting in person at the EGM or adjourned meeting.

5. The voting on the resolution will be conducted by way of poll.

6. A form of proxy for use at the EGM is enclosed.