



Wah Yuen Holdings Limited

華園控股有限公司

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

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

INTERIM RESULT

The board (the “Board”) of directors (the “Directors”) of Wah Yuen Holdings Limited (“the Company”) is pleased to announce the unaudited condensed financial results of the Company and its subsidiaries (together the “Group”) for the six months ended 30 June 2006 together with the unaudited comparative figures for the corresponding period in 2005 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
	Notes	2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)
Turnover	3	100,339	101,633
Cost of sales		<u>(69,197)</u>	<u>(65,815)</u>
Gross profit		31,142	35,818
Other operating income		926	333
Selling and distribution expenses		(10,390)	(10,334)
Administrative expenses		<u>(8,485)</u>	<u>(11,856)</u>
Profit from operations		13,193	13,961
Finance costs		<u>(5,614)</u>	<u>(4,194)</u>
Profit before taxation		7,579	9,767
Taxation	5	<u>(1,578)</u>	<u>(1,678)</u>
Profit for the period attributable to equity holders of the Company		<u>6,001</u>	<u>8,089</u>
Interim dividend	6	<u>–</u>	<u>–</u>
Earnings per share	7		
– Basic		<u>2.8 cents</u>	<u>4.0 cents</u>
– Diluted		<u>N/A</u>	<u>3.8 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

	As at 30 June 2006 (unaudited) HK\$'000	As at 31 December 2005 (audited) HK\$'000
NON-CURRENT ASSETS		
Land use rights and leasehold land	2,192	2,227
Property, plant and equipment	105,716	106,244
	<u>107,908</u>	<u>108,471</u>
CURRENT ASSETS		
Inventories	51,918	47,680
Trade and other receivables	153,699	177,286
Pledged bank deposits	22,129	16,805
Bank balances and cash	23,630	15,072
	<u>251,376</u>	<u>256,843</u>
CURRENT LIABILITIES		
Trade and other payables	23,321	28,863
Obligation under finance leases	5,849	6,623
Taxation	990	1,758
Borrowings	132,780	132,779
	<u>162,940</u>	<u>170,023</u>
NET CURRENT ASSETS	<u>88,436</u>	<u>86,820</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>196,344</u>	<u>195,291</u>
NON-CURRENT LIABILITIES		
Obligation under finance leases	3,253	3,305
Borrowings	35,657	42,047
Deferred tax liabilities	402	400
	<u>39,312</u>	<u>45,752</u>
	<u>157,032</u>	<u>149,539</u>
CAPITAL AND RESERVES		
Share capital	2,140	2,140
Reserves	154,892	147,399
	<u>157,032</u>	<u>149,539</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared under the historical convention and are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants.

These interim financial statements should be read, where relevant, in conjunction with the 2005 annual financial statements of the Group.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2005, except that the Group adopted HKAS 19 (Amendment) – Employee Benefits, HKAS 39 (Amendment) – Cash Flow Hedge Accounting of Forecast Intragroup Transactions, HKAS 39 (Amendment) – The Fair Value Option, HKAS 39 & HKFRS 4 (Amendment) – Financial Guarantee Contracts and HKFRS – Int 4 – Determining whether an Arrangement contains a Lease, as at 1 January 2006. These changes in accounting policies did not have a significant impact on the Group’s results and financial position.

The interim results of the Group are unaudited and have been reviewed by the Group’s Audit Committee.

2. FINANCIAL RISK MANAGEMENT

All aspects of the Group’s financial risk management objectives and policies are consistent with those disclosed in the annual financial statements for the year ended 31 December 2005.

3. SEGMENT INFORMATION

The Group's primary format for reporting segment information is geographical segments as presented below:

	Unaudited			Consolidated <i>HK\$'000</i>
	For the six months ended 30 June 2006			
	Hong Kong <i>HK\$'000</i>	The PRC <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	
TURNOVER				
External sales	56,143	44,196	-	100,339
Inter-segment sales	-	7,423	(7,423)	-
	<u>56,143</u>	<u>44,196</u>	<u>(7,423)</u>	<u>100,339</u>
Total turnover	<u>56,143</u>	<u>44,196</u>	<u>(7,423)</u>	<u>100,339</u>
SEGMENT RESULTS				
	5,261	7,006	-	12,267
Unallocated corporate income				
				926
Finance costs				
				(5,614)
Taxation				
				(1,578)
Profit for the period				
				<u>6,001</u>
	Unaudited			Consolidated <i>HK\$'000</i>
	For the six months ended 30 June 2005			
	Hong Kong <i>HK\$'000</i>	The PRC <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	
TURNOVER				
External sales	55,994	45,639	-	101,633
Inter-segment sales	-	8,163	(8,163)	-
	<u>55,994</u>	<u>45,639</u>	<u>(8,163)</u>	<u>101,633</u>
Total turnover	<u>55,994</u>	<u>45,639</u>	<u>(8,163)</u>	<u>101,633</u>
SEGMENT RESULTS				
	3,702	9,926	-	13,628
Unallocated corporate income				
				333
Finance costs				
				(4,194)
Taxation				
				(1,678)
Profit for the period				
				<u>8,089</u>

4. DEPRECIATION AND AMORTISATION

During the period, charged against profit from operations was depreciation and amortisation of approximately HK\$2,527,000 (six months ended 30 June 2005: approximately HK\$2,862,000) in respect of the Group's property, plant and equipment, land use rights and leasehold land.

5. TAXATION

Hong Kong Profits Tax was provided at the rate of 17.5% (six months ended 30 June 2005: 17.5%) on the estimated assessable profits arising in or derived from Hong Kong. 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.

6. INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).

7. EARNINGS PER SHARE

The basic earnings per shares is based on the profit attributable to equity holders of the Company of approximately HK\$6,001,000 (six months ended 30 June 2005: HK\$8,089,000) and on 214,000,000 shares of the Company (six months ended 30 June 2005: 200,000,000) in issue during the period.

No diluted earnings per share has been presented for the six months ended 30 June 2006 as there are no dilutive potential ordinary shares in issue.

During the six months ended 30 June 2005, diluted earnings per share was based on 212,000,000 which is the weighted average of ordinary shares outstanding, adjusted for the effects of the vested options outstanding during that period.

MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors is pleased to report that the unaudited turnover of Wah Yuen Holdings Limited ("Wah Yuen") for the first half of the year reached approximately HK\$100,339,000 and maintained at similar level as compared to the same period of 2005. The Group's gross profit and profit attributable to shareholders were approximately HK\$31,142,000 and HK\$6,001,000 respectively. Basic earnings per share was HK2.8 cents (six months ended 30 June 2005: 4 cents).

The overall business performance was satisfactory despite the lower net profit, which could be attributed to the intense market competition in the PRC and Hong Kong markets, as well as the expansion of new distribution channels and marketing initiatives. Gross profit margin was stable at 31% as compared with the figure at the end of 2005. Backed by the Group's 40 years of valuable heritage and reputable household brandname in the marketplace, Wah Yuen will continue to leverage on its

strong market presence and unrivalled corporate strengths, with an aim of capturing business opportunities and expediting future growth potential.

BUSINESS REVIEW

Wah Yuen is one of the leading food manufacturer, distributor and retailers in Hong Kong and the PRC. With a diversified range of over 200 types of supreme quality snack products with a unique Asian flavour, the Group produces and offers its products under three key brands, namely “Wah Yuen”, “Rocco” and “采楓”.

Hong Kong Market

The production and sale of Wah Yuen’s snack food and convenience frozen food products continued to be the principal business of the Group and the sales in Hong Kong amounted to approximately HK\$56,143,000, accounting for approximately 56.0% of total turnover.

During the first half of the year, the Group successfully extended its distribution channels and expanded further its sales network in Hong Kong.

The Group attained encouraging progress in new product development to cater customers’ preference and needs. With continuous effort in extending its product portfolio, the Group successfully launched a number of new products, namely Chinese packaged dim sum, fried rice and snack products.

In addition, the Group stepped up its marketing efforts in various key sales channel. In particular, the Group was committed to developing and strengthening the cooperation with key supermarket chain stores through the establishment of concessionaires as well as joint promotion programmes. With an extensive retail network covering all major supermarket and convenience chain stores, Wah Yuen fortified its market presence as one of the most famous packaged food brands in Hong Kong.

The PRC Market

The Group produces and markets its products in the PRC through its extensive distribution network spanning across 250 cities in 30 provinces in the PRC.

During the period, the Group’s sales in the PRC accounted for approximately 44.0% of the Group’s total turnover, a slightly decrease of 3% as compared to the same period last year.

With the challenge of fierce market competition, Wah Yuen managed and executed exertions in enhancing its competencies in the PRC market. As such, the Group endeavoured to consolidate its distribution channels with supermarkets and convenience chain stores, so as to pave a way for the Group to expedite future growth.

Overseas Market

The recognition of “A Grade Certificate” to Wah Yuen’s production facilities demonstrated the Group’s continuous commitment on its quality control and hygiene standard. In 2006, Wah Yuen successfully established a strategic partnership with Sojitz Corporation (“Sojitz”; a merger between Nichimen Corporation and Nissho Iwai Corporation), a large listed conglomerate in Japan with net sales of US\$42,496 million for the 12 months ended 31 March 2006. Sojitz is a leading international corporation with businesses spanning the globe. Operations consist of five core businesses - machinery & aerospace; energy & mineral resources; chemicals & plastics; real estate development & forest products; and consumer lifestyle business.

Under this long-term strategic agreement, Wah Yuen will provide manufacturing services to Sojitz and its subsidiaries for a period of 15 years commencing in 2006. During the period, Wah Yuen has commenced production and export its premium quality fried rice, Chinese dim sum and frozen preserved food under a renowned brand “Wah Yuen” “廚の選” to Japan through sales channels and retail network of Sojitz. With the solid foundation established over the past years, Wah Yuen is confident that the Japanese market will become a future growth driver, further enhancing the Group’s profitability.

Production Facilities

The Group currently owns and operates three production facilities in Hong Kong and the Huadu District, Guangzhou, Guangdong Province. During the period, the Group continued to upgrade its manufacturing equipment and production facilities to enhance its efficiency and capabilities.

FUTURE PLANS & PROSPECTS

Wah Yuen aims to strengthen the market presence and enhance its brand image as a reputable household brand. This will be achieved through the provision of quality products and the strengthening of brand recognition for “Wah Yuen” and its family brands, through effective marketing and joint promotion programmes with various supermarket and convenience chain stores.

The Group will also strengthen its core competencies by introducing a wider variety of new products, continuously improving its product mix and further expanding its distribution channels in Hong Kong and the PRC markets.

Sojitz's partnership clearly demonstrates its confidence in manufacturing facilities and quality products of Wah Yuen. Going forward, the Group will work closely with Sojitz to explore more areas of cooperation in Japan. By securing the long-term strategic partnership with Sojitz, the Group is optimistic towards its business development in Japan, which is poised to become the Group's future growth momentum.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated resources and banking facilities provided by its banks in Hong Kong and in the PRC.

As at 30 June 2006, the Group had total assets of HK\$359,284,000 which were financed by current liabilities of approximately HK\$162,940,000, long term liabilities of HK\$39,312,000 and shareholders' equity of HK\$157,032,000.

The cash and bank balance including pledged bank deposits is HK\$45,759,000 and total borrowing of HK\$177,539,000. Most of these borrowings were dominated in Hong Kong and Renminbi and bearing floating interest rates. The gearing ratio of the Group as at 30 June 2006 was 36.68% (31 December 2005: 41.85%), calculated on the basis of total borrowings less cash over total assets.

FOREIGN EXCHANGE EXPOSURE

As at 30 June 2006, the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

MATERIAL ACQUISITIONS AND DISPOSALS

During the six months ended 30 June 2006, the Group has no material acquisitions and disposals.

PLEGGED OF ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

There was no material changes in the Group's pledged of assets, contingent liabilities and commitments as compared to the most recent published annual report.

RIGHTS ISSUE

A resolution was passed by the shareholders of the Company at an extraordinary general meeting on 5 June 2006 to approve the allotment of 321,000,000 rights shares at a price HK\$0.10 per right shares on the basis of three rights shares for every two

existing Company's shares. The rights issue was completed on 11 July 2006 and net proceeds of approximately HK\$30.6 million was received.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2006, the total number of employees of the Group was approximately 601. The total staff costs for the period under review were approximately HK\$8,262,440. The Group offers comprehensive remuneration and employees' benefits package to its employees. In additions, share options and discretionary bonuses are also granted to eligible staff based on their performance and the results of the Group.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares for the six months ended 30 June 2006.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own Code of Conduct regarding securities transaction by the directors. Having made specific enquiry of all directors, all directors declared that they have complied with the Model Code throughout the period.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") with deviation from code provision A.4.1 in respect of the appointment of non-executive directors.

Under the code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election.

All of the non-executive directors of the Company are not appointed for a specific term but are subject to retirement and rotation and re-election at the Company's annual general meeting.

AUDIT COMMITTEE

The audit committee comprises three members namely Mr. Ngai Chun Kong, Stephen who is a non-executive director of the Company, Mr. Ip Shing Tong, Francis and Mr. Ku Siu Fung, Stephen who are independent non-executive directors of the Company. The main duties of the committee are to review the financial information of the Company and oversee the Company's financial reporting system and internal control procedures.

The audit committee has reviewed with the management the financial reporting matters, including the unaudited condensed financial statements, related to the preparation of the interim report for the six months ended 30 June 2006.

PUBLICATION OF RESULTS ANNOUNCEMENT AND DESPATCH OF INTERIM REPORT

This results announcement is published on the website of the Stock Exchange (www.hkex.com.hk). The interim report will be despatched to the shareholders and available on the same website in due course.

By order of the Board
But Ka Wai
Chairman

Hong Kong, 25 September 2006

As at the date of this announcement, Mr. But Ching Pui, Mr. But Ka Wai and Mr. But Chai Tong are executive Directors; Ms. Leung Wai Ling and Mr. Ngai Chun Kong, Stephen are non-executive Directors; and Mr. Cheung Yu Yan, Tommy, Mr. Ip Shing Tong, Francis and Mr. Ku Siu Fung, Stephen are the independent non-executive Directors.

Please also refer to the published version of this announcement in The Standard.