ANNUAL REPORT 2005

WAH YUEN HOLDINGS LIMITED
華 園 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 2349)

Contents

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

WEBSITE ADDRESS

www.wahyuenfoods.com

COMPANY SECRETARY

Mr. Chu Kin Wah *FCCA, AHKSA*

AUTHORISED REPRESENTATIVES

Mr. But Chai Tong
Mr. Chu Kin Wah

AUDIT COMMITTEE MEMBERS

Mr. Ngai Chun Kong, Stephen
Mr. Ip Shing Tong, Francis
Mr. Ku Siu Fung, Stephen

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

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

Chairman's Statement

But Ka Wai **Chairman**

Wah Yuen Holdings Limited ("Wah Yuen" or "the Group"), backed by its 40 years of valuable heritage, consolidates its leading position as a reputable household brand name in Hong Kong, the People's Republic of China (the "PRC") and most of the Chinese-populated communities worldwide.

Amidst a challenging business environment with intensified market competition, the Group successfully maintained stable development and fortify its business foothold in Hong Kong and PRC markets. Capitalizing on the Group's extensive market recognition as the leading one-stop packaged food manufacturer, distributor and retailer in Hong Kong and the PRC, Wah Yuen strategically tapped into the Japanese market and achieved remarkable performance.

By maintaining amicable relationships with major distributors and retail chains, the Group surpassed its peers and continued to be the trendsetter for snacks with comprehensive product categories spanning preserved meats, convenience frozen foods, flour products, preserved fruits and nut and other products. The Group successfully developed and launched a number of innovative products, including new snack food and convenience frozen food products, and were well-received by the customers.

Over the years, Wah Yuen emphasized on attaining impeccable quality, safety and hygiene standard across all of its production lines. In 2005, the Group was accredited the highest level of China Quality Credit Appraise Certificate by the authoritative China Quality Credit Appraisal Centre, representing a praise of Wah Yuen's continuous efforts in enhancing product quality.

Currently, the Group operates two production facilities located in Huadu District, Guangzhou, Guangdong Province in the PRC. The granting of the internationally recognized HACCP certificate acknowledges their compliance with the strictest hygiene standards throughout the entire food production process, from raw materials procurement, processing, packaging to distribution.

Looking ahead, the Group will focus on developing a wide variety of new products to further enrich its product mix and to stay abreast with market changes. The Group endeavours to further strengthen its sound market foundation in Hong Kong and the PRC. With the impressive progress of embarking to the Japanese market, Wah Yuen will leverage on its unique edges and unrivalled corporate strengths, with an aim of capturing the immense business potential of this market and propelling future growth and development.

On behalf of the Group, I would like to express my sincere gratitude to our shareholders and customers, for their strong support and loyalty. In addition, I would also like to take this opportunity to thank our dedicated staff members and the management for their valuable contribution during the year. Wah Yuen is committed to developing innovative and quality tastes and products to customers spanning worldwide, bringing them new excitement and striding towards another business height.

By Order of the Board
But Ka Wai
Chairman

Hong Kong, 24 April 2006

Hong Kong's best seller of
packaged egg rolls in 2005 (AC Nielsen)

Hong Kong's best seller of
packaged snack meat products in 2004 (AC Nielsen)

Hong Kong's "Superbrands" in 2004 (Superbrands)

BUSINESS REVIEW

Wah Yuen is the market leader of food manufacture, distribution and retail 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 brands, namely “Wah Yuen”, “Rocco” and “采楓”, and the OEM model. In addition, the Group also engages in the manufacture of convenience frozen food products under the brand name Wah Yuen and the OEM model.

Hong Kong Market

Benefited from encouraging economic development and the strengthening of consumption power, the Group achieved satisfactory growth in the Hong Kong market in spite of keen market competition.

During the year under review, the Group extended its network coverage and further expanded its sales and distribution channels. With an extensive retail network of a total of 2,300 outlets, Wah Yuen fortified its unrivalled position as one of the most popular packaged food brands in Hong Kong by leveraging on its established and renowned brand equity as well as diversified products with outstanding quality.

For the year ended 31 December 2005, sales in the Hong Kong market amounted to approximately HK$118,862,000, representing an increase of 3% over that of 2004, and accounted for 57% of the Group’s total turnover. The sales performance in Hong Kong was mainly attributable to the remarkable progress in product development and effective product promotion.

In 2005, the Group attained impressive progress in new product development. While launching different series of preserved fruits and nuts, as well as new convenience frozen food products such as fried rice, fried noodles and Chinese dim sum, the Group successfully developed new sales channels and set up concessionaires in supermarkets, which also further reinforced the Group’s collaboration with key distributors and retail chains.

Management Discussion and Analysis

The PRC Market

For the PRC market, Wah Yuen mainly sells its products under the brand names of "Wah Yuen", "Rocco" and "采楓" through its extensive distribution network spanning across 250 cities in 30 provinces.

Amidst unfavourable market condition with increasing entrants, the Group enhanced its exertions in strengthening the sales and marketing promotion of its products. As such, the Group's marketing and distribution expenses significantly increased. Coupled with severe market competition, the Group's business performance in the PRC was adversely affected.

As a result, the Group's sales in the PRC dropped by 6% and amounted to approximately HK$88,689,000, accounting for approximately 43% of the Group's total turnover for the year ended 31 December 2005.

Despite the decrease in product sales, the Group endeavoured to consolidate its distribution channels and establish intimate relationship with local supermarkets and convenience stores, so as to pave a way for the Group to expedite future growth.

In addition, the Group's persistence in pursuing meticulous quality was accredited the highest level of China Quality Credit Appraise Certificate by the authoritative China Quality Credit Appraisal Centre, which further equipped the Group with unparalleled strength to excel in the PRC market.

Overseas Market

Since its successful development into the Japanese market in the fourth quarter of 2004, the Group has achieved astonishing progress with remarkable growth.

During the year, the Group continued to strengthen the marketing and promotion of diversified convenience frozen food products sold in the Japanese market, including fried rice and a series of Chinese dim sum.

Meanwhile, the Group established a partnership and entered into an agreement with one of the largest conglomerates listed in Japan. In 2005, the representatives of this Japanese conglomerate visited the Group's production facilities in the PRC and accredited an "A Grade Certificate", which demonstrated the Group's production technology has attained the quality standard in Japan.

With the solid foundation established over the past year, Wah Yuen is confident that the Japanese market will become a future growth driver, further fortifying its core competencies and solidify market presence in the region.

PRODUCTION FACILITIES

As at 31 December 2005, the Group has three production facilities in Hong Kong and the Huadu District, Guangzhou, Guangdong Province. Capitalizing on the 10 state-of-the-art and highly efficient production lines, the Group manufactures preserved meats, convenience frozen food products, flour, preserved fruits and nuts, seasonings and other products. During the year under review, the Group upgraded its existing equipment and machinery to enhance production capabilities.

In addition to the accreditation of the Hazard Analysis and Critical Control Point certificate (HACCP) as well as the ISO 9001 and ISO 9002 certificates, the Group also successfully obtained the highest level of China Quality Credit Appraise Certificate by the authoritative China Quality Credit Appraisal Centre, enabling the Group to further ameliorate product quality.

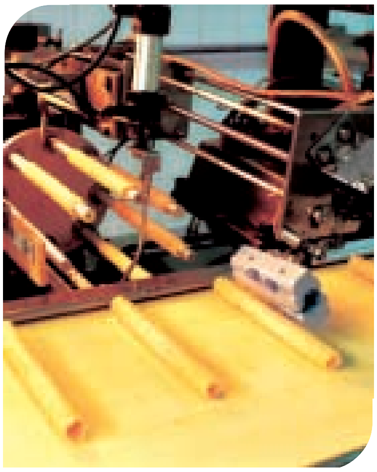
FUTURE PROSPECTS

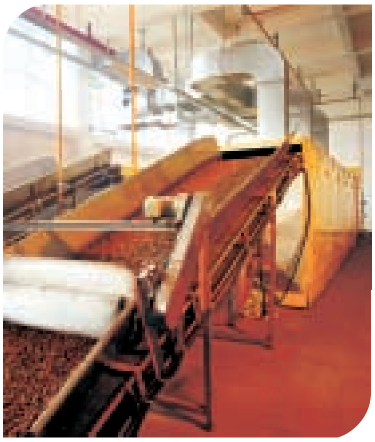
The Group has formulated different business strategies, with an aim of cementing its leading market position, boosting product sales and propelling profit growth.

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

Participated in The 40th Hong Kong Brands & Products Expo organized by The Chinese Manufacturers' Association of Hong Kong in 2005





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.

FINANCIAL REVIEW

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.

Sales of dried meat products which accounted for 44% of total turnover were the major source of the Group's revenue. Sales of convenience frozen food products, flour products and preserved fruits and nuts products accounted for approximately 20%, 8% and 4% respectively of the total turnover, while the remaining was attributable to other products.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, the Group had total assets of HK$365,314,000 and its total current assets were HK$256,843,000. As at that date, the current and non-current liabilities of the Group totaled to HK$170,023,000 and HK$45,752,000 respectively. The Group's bank borrowings amounted to HK$168,576,000 (2004: HK$164,441,000). Most of these bank borrowings were denominated in Hong Kong dollars and bearing floating interest rates. As at 31 December 2005, the gearing ratio of the Group was 42% (2004: 37%), calculated on the basis of total borrowings less cash over total assets at that date.

EXPOSURE TO FLUCTUATION IN FOREIGN EXCHANGE

The Group's monetary assets and liabilities are denominated in Hong Kong dollars and Renminbi which were relatively stable during the year. The Group is not exposed to any other significant exchange risk.

CAPITAL EXPENDITURE

During the year, the Group invested approximately HK$9,080,000 in fixed assets, of which 74% was used for purchasing production machinery and the remaining related to other assets.

As at 31 December 2005, the Group had capital commitments of approximately HK$4,909,000 in respect of acquisition of new machinery and renovation of a new production line.

CHARGE ON ASSETS

As at 31 December 2005, certain assets of the Group with aggregate carrying value of approximately HK$112,365,000 were pledged to banks to secure banking facilities granted to the Group.

EMPLOYEES

As at 31 December 2005, total number of employees of the Group were approximately 71 in Hong Kong (2004: 72), and approximately 590 in the PRC (2004: 865). The Group offers a comprehensive remuneration and benefit package to its employees. In addition, share option and discretionary bonuses are also granted to eligible staff based on the performance of the individual as well as the Group.

DIRECTORS

Executive Directors

Mr. BUT Ching Pui (畢清培), 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 (畢家偉), 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 (畢濟棠), 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 joined the Group in 1980.

Mr. CHU Kin Wah (朱建華), 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.

Directors and Senior Management

Non-executive Directors

Ms. LEUNG Wai Ling (梁惠玲), 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 (倪振剛), 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. (張宇人), aged 56, is an independent non-executive 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 (葉成棠), 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 (古兆豐), 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.

SENIOR MANAGEMENT

Mr. LAI Wing Kuen (黎永權), aged 43, is the general manager of the Hong Kong plant. He is responsible for the general management and administration of the Group. Mr. Lai has over 10 years of experience in financial management and general administration. Prior to joining the Group, Mr. Lai has worked in the credit and marketing departments in various international banks in Hong Kong. During the tenure in his previous employment with banks, he was responsible for handling the portfolio of clients in the manufacturing and trading sector, and had gained exposure in credit administration and operational matters. He has attended various professional training courses in credit analysis, credit risk management, capital market, bank analysis and financial strategies during the period from 1991 to 1994.

Mr. MA Hok Chung (馬學忠), aged 48, is the factory manager of the Hong Kong plant. He is responsible for overseeing the overall production operations in Hong Kong. He has over 20 years of experience in the food industry in Hong Kong with the Group. He joined the Group in October 1979.

Mr. LI Kwok Wah (李國華), aged 54, is the general manager – sales & marketing. He is responsible for the daily operations in Hong Kong. He joined the Group in July 1991 as sales manager, left in February 1997 but rejoined the Group in April 2003. Mr. Li has over 20 years of sales & marketing experience.

Mr. CHONG Ching Hei (莊清熹), aged 33, is the financial controller of the Group. Mr. Chong holds a master degree of professional accounting from the Hong Kong Polytechnic University. He is an associate member of the Hong Kong Society of Accountants. Prior to joining the Group, Mr. Chong has over 9 years of experience in auditing and accounting in an international accounting firm in Hong Kong.

Ms. LAU Sze Man (劉詩敏), aged 36, is the export manager of overseas markets. She is responsible for overall export activities, co-ordination between overseas customers and the production departments at Hong Kong and the PRC, regular customers' visit and developing of potential markets. She joined the Group since July 2002. Prior to joining the Group, she had worked in the trading and marketing industry for 7 years in dealing with local and overseas customers.

Mr. LAU Chuen Chung (劉全忠), aged 65, is the general manager of the First Huadu plant and the Second Huadu plant. He is responsible for the general management administration of the above two plants in the PRC. He joined the Group in May 1989.

Mr. LI Huen (黎煥), aged 33, is the general manager – sales & marketing. He is responsible for the daily operations in the PRC. He has over 10 years of sales & marketing experience with the Group. He joined the Group in August 1994

Mr. LEI Lu (雷路), aged 37, is the manager of the finance and accounting department of the First Huadu plant and the Second Huadu plant. He holds the title of accountant in the PRC. He is responsible for the financial and accounting management of the above two plants in the PRC. He joined the Group in March 1993, left in May 1999 but rejoined the Group in April 2004. He has over 10 years of experience in accounting.

Ms. CHE Jia Wan (車嘉文), aged 37, is the research and development and quality control manager of the First Huadu plant and the Second Huadu plant. She is responsible for the quality control and product development of the above two plants in the PRC. She graduated from the Zhengzhou Light Industry College (鄭州輕工業學院), majoring in food engineering. She joined the Group in January 1991 after graduating.

Mr. CHEN De Xiong (陳德雄), aged 35, is the HACCP and the ISO officer of the First Huadu plant and the Second Huadu plant. He is responsible for the ISO quality control of the above two plants in the PRC. He graduated from the Xiang Tan University (湘潭大學), majoring in food engineering. After graduating, he was the assistant food engineer of a food related company in the PRC for over three years. He later joined the Group in January 1996.

COMPANY SECRETARY

Mr. CHU Kin Wah (朱建華), aged 38, is an executive Director and the company secretary of the Company. The particulars of Mr. Chu are set out in the paragraph headed "Directors" above in this section.

The directors present their annual report and the audited financial statements for the year ended 31 December, 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 35 to the financial statements.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December, 2005 are set out in the consolidated income statement on page 29 of the annual report.

The directors do not recommend any payment of dividend for the year.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company are set out in note 23 to the financial statements.

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS

The directors of the Company since its date of incorporation and up to the date of this report were:

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

Non-executive directors:
Leung Wai Ling
Ngai Chun Kong, Stephen

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

In accordance with Article 108 of the Company's Articles of Association, Messrs. But Ching Pui and Chu Kin Wah shall retire by rotation and Mr. But Ching Pui, being eligible, shall offer himself for re-election at the forthcoming annual general meeting.

No directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURE

At 31 December, 2005, the interests of the directors and their associates in the shares and underlying shares and debenture of the Company and its associated corporation as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

Long positions

Ordinary shares of HK$0.01 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
But Ka Wai	Held by controlled corporation *(note 1)*	60,500,000	28.3%
But Chai Tong	Held by controlled corporation *(note 2)*	57,000,000	26.6%
		11,750,000	54.9%

Notes:

(1) These shares were held by Able Success Group Limited ("Able Success") which is wholly-owned by Mr. But Ka Wai.

(2) These shares were held by National Chain International Limited ("National Chain") which is wholly-owned by Mr. But Chai Tong.

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December, 2005.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 24 to the financial statements.

The following table discloses movements in the Company's share options during the year under review:

Name	Date of grant	Exercise price per share	Exercisable period	Number of shares of the Company to be issued upon exercise of the share options		
				Outstanding at 1.1.2005	Exercised during the year	Outstanding at 31.12.2005
		HK cents				
Category I: Employees						
Employees	14.12.2004	31.6	14.12.2004 to 13.12.2007	10,000,000	–	10,000,000
Category II: Others						
Consultants	14.12.2004	31.6	14.12.2004 to 13.12.2007	2,000,000	–	2,000,000
Total				12,000,000	–	12,000,000

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share Options" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 31st December 2005, the interest and short position of substantial shareholders in the shares or underlying shares of the Company, as recorded in the register maintained by the Company under Section 336 of the SFO or as notified to the Company were as follows:

Ordinary shares of HK$0.01 each of the Company

	Capacity			Percentage of the issued share capital of the Company
	Beneficial owner	**Corporate interests**	**Total**	
Substantial shareholders:				
Able Success *(note 1)*	–	60,500,000	60,500,000	28.3%
National Chain *(note 2)*	–	57,000,000	57,000,000	26.6%
See Sau Yuk	14,000,000	–	14,000,000	6.5%

All interest stated above represent long positions.

Note:

(1) Mr. But Ka Wai is deemed to be interested in these shares through his wholly-owned interest in the issued share capital of Able Success.

(2) Mr. But Chai Tong is deemed to be interested in these shares through his wholly-owned interest in the issued share capital of National Chain.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than as disclosed in the section headed "Connected Transactions" below, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

Details of discloseable connected transactions for the year are set out in note 33 to the financial statements. In the opinion of the independent non-executive directors of the Company, the transactions were carried out on normal commercial terms, in the ordinary and usual course of business of the Group, on terms that are fair and reasonable so far as the shareholders of the Company are concerned and within the relevant cap amounts as agreed by the Stock Exchange.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers accounted for approximately 49% of the total sales of the Group and the largest customer accounted for approximately 18% of the total sales of the Group.

The aggregate purchases attributable to the Group's five largest suppliers during the year accounted for approximately 29% of the total purchases of the Group and the largest supplier accounted for approximately 11% of the total purchases of the Group.

At no time during the year did a director, an associate of a director or a shareholder of the Company, which to the knowledge of the directors owns more than 5% of the Company's issued share capital, have an interest in any of the five largest customers and suppliers of the Group.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December, 2005.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole of any substantial part of the business of the Company were entered into or existed during the year.

EXPOSURE TO BORROWERS AND OTHER SPECIFIC CIRCUMSTANCES THAT REQUIRE DISCLOSURE

The Company has entered into a loan agreement dated 28 June 2005 which requires the controlling shareholder of the Company to maintain their controlling interest in the Company.

AUDITORS

During the year, Deloitte Touche Tohmatsu resigned as auditors of the Company and HLB Hodgson Impey Cheng were appointed by the directors to fill the casual vacancy so arising. Save as disclosed above, there have been no other changes of auditors in the past three years. A resolution for the reappointment of HLB Hodgson Impey Cheng as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

But Ka Wai
CHAIRMAN

Hong Kong, 24 April 2006

The Company is committed to ensuring a high standard of corporate governance in the interests of the shareholders and devotes considerable effort to maintaining high level of business ethics and corporate governance practices.

During the year, the Company endeavours to comply with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "**CG Code**"). The Company considers that it has complied with the CG Code during the year except for certain areas of non-compliance that are discussed later in this report. The Board continues to review and update the practices from time to time to ensure compliance with the legal and commercial standards.

THE BOARD

The Board comprises nine Directors including four executive Directors, two non-executive Directors, and three independent non-executive Directors. The independent non-executive Directors possess appropriate academic and professional qualifications or related financial management expertise and have brought a wide range of business and financial experience to the Board. The composition of the Board and the Committees of the Board are given below:

Executive Directors:
Mr. BUT Ching Pui *(Honorary Chairman)*
Mr. BUT Ka Wai *(Chairman)*
Mr. BUT Chai Tong *(Vice Chairman)*
Mr. CHU Kin Wah *(Company Secretary)*

Non-executive Directors:
Ms. LEUNG Wai Ling
Mr. NGAI Chun Kong, Stephen *(member of Audit Committee, Remuneration Committee and Nomination Committee)*

Independent non-executive Directors:
Mr. CHEUNG Yu Yan, Tommy
Mr. IP Shing Tong, Francis *(member of Audit Committee, Remuneration Committee and Nomination Committee)*
Mr. KU Siu Fung, Stephen *(member of Audit Committee, Remuneration Committee and Nomination Committee)*

The biographical details of the Directors are set out on pages 13 to 14 of this annual report.

Regular Board meetings are held at least four times a year which include two full Board meetings to approve interim and financial results and to propose interim and final dividends, if appropriate. It is also held as and when necessary to discuss significant transactions, including issuance of debt securities, material acquisitions and disposal, and connected transactions, if any. All Directors are given an opportunity to include matters in the agenda for Board meetings. There were eight Board meeting and two Audit Committee meetings held during the year ended 31 December 2005 and the individual attendance record of each Director at the meetings of the Board and the Audit Committee during the year is set out below:

	Attendance/Number of meetings	
Name of Directors	**Board**	**Audit Committee**
Mr. But Ching Pui	3/8	Not applicable
Mr. But Ka Wai	7/8	Not applicable
Mr. But Chai Tong	8/8	Not applicable
Mr. Chu Kin Wah	6/8	Not applicable
Ms. Leung Wai Ling	1/8	Not applicable
Mr. Ngai Chun Kong, Stephen	4/8	2/2
Mr. Cheung Yu Yan, Tommy	2/8	Not applicable
Mr. Ip Shing Tong, Francis	4/8	2/2
Mr. Ku Siu Fung, Stephen	4/8	2/2

The Board sets the Group's overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Company. It also decides on matters such as annual and interim results, major transactions, director appointments or re-appointments, and dividend and accounting policies. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's businesses to the Vice Chairman and the senior management.

Mr. But Ching Pui is the husband of Ms. Leung Wai Ling who has two sons, namely, Mr. But Ka Wai (the Chairman) and Mr. But Chai Tong (the Vice Chairman). Save as aforesaid, there is no financial, business, family or other material or relevant relationship among the Directors.

All non-executive Directors (including independent non-executive Directors) of the Company have been appointed for a term of two years from the date of their appointments. They are eligible for re-appointment and subject to re-election on retirement by rotation in accordance with the articles of association of the Company.

The Company has received from each of its independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and it still considers the independent non-executive Directors to be independent.

The current Articles of Association of the Company does not require the chairman of the Board to be subject to rotation at the annual general meeting. This is not in line with the provision under the CG Code. To align the Articles of Association of the Company with the CG Code, resolutions will be proposed at the AGM to approve, among other matters, the amendment to the Articles of Association of the Company to require that every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years and all Directors appointed to fill a casual vacancy should be subject to election by the Shareholders at the first general meeting after their appointment.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority.

The Chairman is Mr. But Ka Wai. Although there is no Chief Executive Officer, the relevant job responsibilities are taken up by the Vice Chairman, Mr. But Chai Tong. Their respective responsibilities are clearly defined and set out in writing.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

The Vice Chairman focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. He is also responsible for developing strategic plans and formulating the company practices and procedures, business objectives, and risk assessment for the Board's approval.

AUDIT COMMITTEE

The Audit Committee comprises two independent non-executive Directors, Mr. Ip Shing Tong, Francis (Chairman of the Audit Committee) and Mr. Ku Siu Fung, Stephen and one non-executive Director, Mr. Ngai Chun Kong, Stephen.

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 met twice and reviewed the financial results and reports, financial reporting and compliance procedures and the re-appointment of the external auditors. The Committee has not taken a different view from the Board regarding the selection, appointment, resignation or dismissal of the external auditors.

RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of accounts for each financial period with a view to ensuring such accounts give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgment and estimates made are prudent and reasonable.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the Report of the Auditor on page 28 of this annual report.

AUDITORS' REMUNERATION

HLB Hodgson Impey Cheng has been appointed as the Company's external auditor by the Directors on 9 December 2005 to fill the casual vacancy following the resignation of Messrs. Deloitte Touche Tohmatsu. They are primarily responsible for providing audit services in connection with the annual consolidated financial statements. During the year, the total remuneration payable to the Company's external auditor amounted to HK$390,000 of which HK$380,000 was incurred for statutory audit and HK$10,000 was incurred for non-audit services.

REMUNERATION COMMITTEE

The Remuneration Committee was set up on 16 September 2005, constituted by one non-executive Director and two independent non-executive Directors, namely, Mr. Ngai Chun Kong, Stephen (Chairman of the Committee), Mr. Ip Shing Tong, Francis and Mr. Ku Siu Fung, Stephen.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the Directors and senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration packages. As there has been no change in directorship of the Company since the Remuneration Committee was set out, no meeting of the Remuneration Committee was held during the year ended 31 December 2005.

NOMINATION COMMITTEE

The Nomination Committee was set up on 16 September 2005, constituted by one non-executive Director and two independent non-executive Directors, namely, Mr. Ngai Chun Kong, Stephen (Chairman of the Committee), Mr. Ip Shing Tong, Francis and Mr. Ku Siu Fung, Stephen.

The Committee from time to time considers replenishing the composition of the Board whenever the Company requires to meet the business demand, opportunities and challenges and to comply with the laws and regulations. No meeting of the Nomination Committee was held during the year. The nomination procedures basically follow Article 111 of the Articles of Association which empowers the Board from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. The Directors will select and evaluate the balance of skills, qualification, knowledge and experience of the candidate to the directorship as may be required by the Company from time to time by such means as the Company may deems fit. The Directors shall consider the candidate from a wide range of backgrounds, on his/her merits and against objective criteria set out by the Board and taking into consideration his/her time devoted to the position.

All newly appointed Director will be provided an induction so as to ensure that he/she has appropriate understanding of the business and operations of the Group and of the responsibilities and obligations under the Listing Rules and other relevant regulatory requirements.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct governing securities transactions by directors on terms no less exacting than that required under the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 of the Listing Rules. Having made specific enquiry with all Directors, each of them confirms that he/she has complied in full with the Model Code regarding Directors' securities transactions for the year ended 31 December 2005.

國衛會計師事務所
HLB Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

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

TO THE SHAREHOLDERS OF WAH YUEN HOLDINGS LIMITED
華園控股有限公司
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 29 to 73 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 24 April 2006

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

All of the Group's operations are classed as continuing.

The accompanying notes form an integral part of these financial statements.

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

The financial statements on pages 29 to 73 were approved and authorised for issue by the Board of Directors on 24 April 2006 and signed on its behalf by:

But Ka Wai
Director

But Chai Tong
Director

The accompanying notes form an integral part of these financial statements.

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

The financial statements on pages 29 to 73 were approved and authorised for issue by the Board of Directors on 24 April 2006 and signed on its behalf by:

But Ka Wai	**But Chai Tong**
Director	*Director*

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	PRC statutory reserves HK$'000	Translation reserve HK$'000	Accumulated profits HK$'000	Total 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.

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	2005 HK$'000	2004 HK$'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)

Consolidated Cash Flow Statement *(Continued)*

For the year ended 31 December 2005

	2005 HK$'000	2004 HK$'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

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:

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

(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)

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

(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 Payment" 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.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

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*

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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.

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.

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%

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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.

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets *(Continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities and equity *(Continued)*

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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.

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.

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.

5. FINANCIAL RISK MANAGEMENT *(Continued)*

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.

6. SEGMENT INFORMATION *(Continued)*

(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 HK$'000	The PRC HK$'000	Eliminations HK$'000	Consolidated HK$'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

6. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments *(Continued)*

As at 31 December 2005

	Hong Kong HK$'000	The PRC HK$'000	Consolidated 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.

6. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments *(Continued)*

Year ended 31 December 2004 (Restated)

	Hong Kong HK$'000	The PRC HK$'000	Eliminations HK$'000	Consolidated HK$'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

6. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments *(Continued)*

As at 31 December 2004 (Restated)

	Hong Kong HK$'000	The PRC HK$'000	Consolidated 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 HK$'000	2004 HK$'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 HK$'000	2004 HK$'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

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

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

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(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.

11. INCOME TAX EXPENSE *(Continued)*

The tax charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2005	2004
	HK$'000	HK$'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	2004
	HK$'000	HK$'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

14. LAND USE RIGHTS AND LEASEHOLD LAND *(Continued)*

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							
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)
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

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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").

16. INTERESTS IN SUBSIDIARIES *(Continued)*

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	2004
	HK$'000	HK$'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

18. TRADE AND OTHER RECEIVABLES *(Continued)*

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:		
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.

24. SHARE OPTION SCHEME *(Continued)*

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

24. SHARE OPTION SCHEME *(Continued)*

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 HK$'000	Contributed surplus HK$'000	Accumulated profits HK$'000	Total HK$'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
At 1 January 2004	317	(186)	131
Charged to the income statement for the year *(note 11)*	178	88	266
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.

27. RETIREMENT BENEFITS SCHEME *(Continued)*

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:

	Notes	2005 HK$'000	2004 HK$'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
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

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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
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.

Financial Summary

RESULTS

	For the year ended 31 December,				
	2001	2002	2003	2004	**2005**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
				(Restated)	
Turnover	177,044	192,865	198,934	210,454	**207,551**
Profit from operations	31,908	43,454	35,259	26,460	**29,096**
Finance costs	(6,860)	(8,369)	(8,401)	(9,803)	**(11,021)**
Profit before taxation	25,048	35,085	26,858	16,657	**18,075**
Income tax expense	(1,652)	(5,246)	(5,516)	(3,598)	**(7,859)**
Profit before minority interests	23,396	29,839	21,342	13,059	**10,216**
Minority interests	(841)	(812)	(1,199)	–	**–**
Profit for the year attributable to the equity holders of the Company	22,555	29,027	20,143	13,059	**10,216**
Earnings per share					
– Basic	16.11 cents	20.73 cents	11.76 cents	6.53 cents	**5.04 cents**
– Diluted	N/A	N/A	N/A	6.51 cents	**N/A**

ASSETS AND LIABILITIES

	As at 31 December,				
	2001	2002	2003	2004	**2005**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
				(Restated)	
Total Assets	232,720	304,844	352,011	348,099	**365,314**
Total Liabilities	(186,788)	(232,104)	(224,683)	(216,389)	**(215,775)**
Minority interests	(4,373)	(4,373)	(4,373)	–	**–**
Equity attributable to the equity holders of the Company	41,559	68,367	122,955	131,710	**149,539**

Note: The results, assets and liabilities and minority interests of the Group for each of the two years ended 31 December, 2002 have been extracted from the Company's prospectus dated 12 June, 2003.