



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)



WAH YUEN

**Participated in The 39th Hong Kong Brands & Products Expo
organized by The Chinese Manufacturers' Association
of Hong Kong in 2004**



Management Discussion and Analysis

INDUSTRY OVERVIEW

Rapid economic development and continuously improving living standards have expedited the demand for quality, diversified and value-for-money packaged food products that suit the needs of urban lifestyle. In 2004, the continued rising inflation led to the rise in raw material prices. As such, the unfavourable market conditions brought forth by increasing production costs imposed immense pressure on product pricing and affected the development of the industry.

BUSINESS REVIEW

Wah Yuen is the leading food manufacturer, distributor and retailer in the Hong Kong and PRC markets, producing and offering over 200 types of top quality snack products with a unique Asian flavour under three brands, namely Wah Yuen, Rocco and 采楓, and the OEM model. The Group also produces convenience frozen food products under the brand name Wah Yuen and under the OEM model.



Hong Kong Market

In 2004, despite keen market competition, the Group's business development in the Hong Kong market maintained sustainable growth, amidst Hong Kong's favourable economic conditions, increasing numbers of Mainland tourists, as well as strengthening of our marketing and promotional efforts.

By leveraging on its extensive sales and distribution network spanning 2,300 retail outlets in Hong Kong, long-established and renowned brand identity and diversified quality products, Wah Yuen continued to be one of the most popular packaged food brands in Hong Kong.



During the year under review, sales in the Hong Kong market amounted to approximately HK\$115,785,000, representing a growth of 20% and accounting for approximately 55% of the Group's total turnover. The encouraging growth in sales was mainly attributable to the successful market launch of various new products and the development of existing and new sales channels.



Management Discussion and Analysis

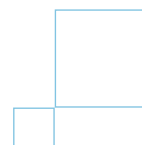
In 2004, the Group further extended its comprehensive range of packaged snack food and convenience frozen food products by launching a number of innovative products, such as cookies, Chinese sausages, moon cakes with new creative designs and a series of new Chinese dim sum, all of which received positive market response. In 2004, Wah Yuen also participated in the 39th Hong Kong Brands & Products Expo and obtained a satisfactory result.

In addition, with the view of strengthening its market presence and enhancing sales performance, Wah Yuen proactively extended our existing network while developing potential sales channels and achieved impressive progress. The Group successfully expanded its sales network for convenience frozen food products, which established an ideal platform for business growth.

The PRC Market

Wah Yuen's products are mainly sold under the brand names of "Wah Yuen", "Rocco" and "采楓" through its well-established distribution network spanning over 250 cities in 30 provinces. As at 31 December 2004, the Group's branch offices were strategically located in Beijing, Shenyang, Changchun, Wuhan, Changsha and Nanning.

In 2004, the further opening of the PRC market upon its entry into the WTO, lower production costs and abundant work force attracted numerous new market entrants, which further intensified the already keen market competition there, thus triggering an intense price war. Together with the increasing prices for raw materials, the Group experienced different challenges during the year.



Management Discussion and Analysis

As a result of the difficult business environment, the Group's sales in the PRC for the year ended 31 December 2004 amounted to approximately HK\$94,669,000, accounting for approximately 45% of the Group's total turnover. Sales of snacks under all three brand names recorded a decrease of approximately 8% due to severe market competition.

Despite the drop in sales of snacks, the Group's introduction of its convenience frozen food products to the PRC market during the first half of the year maintained stable progress. The Group endeavoured to consolidate its relationship with local supermarkets and convenience stores and stepped-up its sales promotion, with the view of establishing an extensive distribution network for future growth.

By leveraging on its prominent strengths, unrivalled product quality and reputable brand awareness, Wah Yuen was accredited as one of the Top 100 Private Enterprises in Guangzhou in 2004, demonstrating the Group's accomplishments in extending its business reach to the PRC market.

Overseas Market

While consolidating its business foundation and propelling product development, the Group successfully tapped into the Japanese market during the fourth quarter of 2004 and achieved substantial growth.

During the year under review, Wah Yuen introduced several types of convenience frozen food products, namely Hong Kong Style Fried Rice and Curry Fried Rice, and a series of Chinese dim sum into the Japanese market. For the period between October and December, sales of the convenience frozen food products recorded satisfactory performance and it is expected that the Japanese market will become a new business growth driver, expediting the Group's profitability.





Management Discussion and Analysis

Production Facilities

As at 31 December 2004, the Group has three production facilities in Hong Kong and the Huadu District, Guangzhou, Guangdong Province. Utilising 10 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's production facilities maintained smooth operation.

With the accreditation of the Hazard Analysis and Critical Control Point certificate (HACCP) as well as the ISO 9001 and ISO 9002 certificates, the Group is well equipped in its continual efforts to maintain excellent quality.

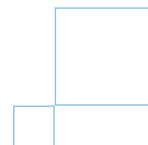
Future Prospects

Looking ahead, the Group is dedicated to fortifying its leading market position and increasing its market share by implementing a series of business strategies.

With the overwhelming response received, the Group expects that sales of new snack food products, such as cookies and the different tastes of fried dough, will further increase, generating remarkable contribution to the Group. Meanwhile, Wah Yuen plans to introduce two brand new series of preserved fruits and nuts, namely "Healthy Series" and "Sweet'n Sour Series", in 2005.

In addition to snack food products, the Group will also launch a number of new convenience frozen food products, such as fried rice, dim sum and packaged convenience food (饅菜包)。Upon the Group's success in extending its business reach to the Japanese market, Wah Yuen is confident of the Japanese market's immense growth potential. The Group will continue to develop new products to cater to ever-changing customer tastes and needs, so as to capture any arising business opportunities.

Along with diversifying and enhancing its product portfolio, the Group will continue to strengthen its marketing and promotion efforts while maintaining intimate relationships with major distributors and retail chains to further broaden its business reach in Hong Kong, the PRC and Japan.





Management Discussion and Analysis



By leveraging on its extensive sales and distribution network, long established business foundation, comprehensive product mix, effective marketing strategy and stringent quality control, Wah Yuen is committed to becoming a leading unique one-stop food enterprise and introducing more quality products to food lovers worldwide.

FINANCIAL REVIEW

The Group's turnover for the year ended 31 December 2004 amounted to HK\$210,454,000, representing a slight growth of 6% as compared to HK\$198,934,000 for the previous year. The Group's gross profit and profit attributable to shareholders for the year ended 31 December 2004 reached HK\$71,414,000 and HK\$13,086,000 respectively.

Sales of dried meat products which accounted for 51% 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 19%, 8% and 4% respectively of the total turnover, while the remaining was attributable to other products. These figures were similar to that of the previous year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2004, the Group had total assets of HK\$348,430,000 and its total current assets were HK\$239,767,000. As at that date, the current and non-current liabilities of the Group totaled to HK\$170,382,000 and HK\$46,007,000 respectively. The Group's bank borrowings amounted to HK\$164,441,000 (2003: HK\$154,386,000). Most of these bank borrowings were denominated in Hong Kong dollars and Renminbi and bearing floating interest rates. As at 31 December 2004, the gearing ratio of the Group was 37% (2003: 34%), calculated on the basis of total borrowings less cash over total assets at that date.





Management Discussion and Analysis

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\$11,751,000 in fixed assets, of which 23% was used for purchasing production plant and machinery, 44% for renovation of production facilities and the remaining related to other assets.

As at 31 December 2004, the Group had capital commitments of approximately HK\$6,627,000 in respect of acquisition of new machinery and renovation of a new production line.

CHARGE ON ASSETS

As at 31 December 2004, certain assets of the Group with aggregate carrying value of HK\$145,204,000 were pledged to banks to secure banking facilities granted to the Group.

EMPLOYEES

As at 31 December 2004, total number of employees of the Group were approximately 72 in Hong Kong (2003: 85), and approximately 865 in the PRC (2003: 821). 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.