



MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2005, the Group's turnover amounted to approximately HK\$101,633,000, representing an encouraging growth of 13.93% as compared with that for the corresponding period in the previous year. Gross profit margin was 35.24%, a slight increase when compared with 33.93% at the end of 2004, which is mainly attributable to the implementation of effective and stringent cost control measures. Net profit posted a significant increase of approximately 19.50% to HK\$8,089,000 as compared to HK\$6,770,000 for the corresponding period in the previous year. Basic earnings per share was HK4.0 cents (2004: HK 3.4 cents).

Operation Review

Wah Yuen is a renowned household brand and the leading food manufacturer, distributor and retailer in the Hong Kong and PRC markets, producing and distributing over 200 types of supreme quality snack products with a unique Asian flavour under the brand names of "Wah Yuen", "Rocco" and "采楓".

Hong Kong Market

During the period under review, sales in Hong Kong market amounted to approximately HK\$56,146,000, accounting for approximately 55.24% of the Group's total turnover and representing a remarkable growth of 22% as compared to the corresponding period in 2004.

The Group's satisfactory performance was mainly attributable to stable raw material prices, the successful launch of new products and the exploration of new distribution and sales channels.

In the first half of 2005, the Group launched its "味之誘惑" series of quality food products with brand new packaging and design through diversified distribution channels. In addition, to broaden revenue bases, the Group successfully introduced a number of new frozen food products with overwhelming market response.



The PRC Market

As for the PRC market, sales for the first half of 2005 totaled to approximately HK\$45,487,000, accounting for approximately 44.76% of the Group's total turnover. With stable raw material prices, the Group successfully maintained robust business growth despite intense market competition. During the reviewed period, the Group continued to consolidate its well-established distribution network spanning over 250 cities in 30 provinces.

Wah Yuen fully embraces the importance of product quality in expanding client base and maintaining high level of customer satisfaction. During the first half of 2005, the Group's was accredited the highest level of China Quality Credit Appraise Certificate by the authoritative China Quality Credit Appraisal Centre, recognizing Wah Yuen's continuous efforts in enhancing product quality.

Overseas Market

Through our good relationship with the distributors, the Group successfully tapped into the Japanese market and its frozen food products were well-received by the market. Wah Yuen continued to strengthen its market presence and introduce more new product while exploring new distribution channels, with the view of establishing a strong foothold in the Japanese market for future growth.

Production Facilities

As at 30 June 2005, the Group owns and manages three production facilities in Hong Kong and Huadu District, Guangzhou, Guangdong Province, China. Utilising 10 advanced and sophisticated production lines, the Group manufactures diversified range of products, including preserved meats, convenience frozen food products, flour, preserved fruits and nuts, seasonings and other products.

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 dedicated to attain unrivalled product quality and expedite business expansion.



Future Prospects

Looking ahead, the Group endeavors to further strengthen its leading market position by consolidating business development and developing more new products.

In addition to its core snack food products, the Group will also launch a variety of new convenient frozen food products, such as fried rice, fried noodles and dim sum, to enhance the market penetration. Currently, the Group has over 20 new products under development and targets to launch several series of new snack and frozen food products in the second half of the year.

While diversifying and enhancing its product portfolio, the Group will strengthen its marketing and promotion efforts and maintain amicable relationships with major distributors and retail chains. Besides, the Group will seek appropriate collaboration opportunities with local distributors and business co-operators in Japan in order to extend its sales network and expedite the Group's presence in overseas markets.

By capitalizing on its comprehensive and diversified product portfolio, extensive distribution network, strong production capabilities, stringent cost control and effective marketing strategy, Wah Yuen is confident of riding on the favourable market condition and is committed to becoming a leading unique one-stop food enterprise, offering its quality products to food lovers worldwide.

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 30 June 2005, the Group had total assets of approximately HK\$339,936,000 (31 December 2004: approximately HK\$348,430,000) which were financed by current liabilities of approximately HK\$152,494,000, long term liabilities of approximately HK\$47,312,000 and shareholders' equity of approximately HK\$140,130,000.



The cash and bank balance including pledged bank deposits is approximately HK\$47,046,000 and total borrowing of approximately HK\$173,581,000. Most of these borrowings were denominated in Hong Kong dollars and Renminbi and bearing floating interest rate. The gearing ratio of the Group as at 30 June 2004 was approximately 37.22% (31 December 2004: approximately 37.43%), calculated on the basis of total borrowings less cash over total asset.

The Group has very limited exposure to movements in exchange rate. The majority of the Group's purchases were denominated in Hong Kong dollars and Renminbi.

CHARGES ON ASSETS

As at 30 June 2005, certain assets of the Group with aggregate carrying value of approximately HK\$115 million (31 December 2004: approximately HK\$145 million) were pledged to banks to secure banking facilities granted to the Group.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2005, the Group had a total of 819 full-time staff. The total staff costs for the period under review were approximately HK\$10,314,000. The Group offers comprehensive remuneration and employees' benefits package to its employees. In addition, share options and discretionary bonuses are also granted to eligible staff based on the performance of the individual as well as the Group.

DIRECTORS' INTERESTS IN SHARE CAPITAL OF THE COMPANY

As at 30 June 2005, the directors and their associates have the following interests or short positions in shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of 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 ("Model Code"):

Name of director	Nature of interests	Number of shares held	Percentage
But Ka Wai	Corporate (<i>Note 1</i>)	60,500,000	30.25%
But Chai Tong	Corporate (<i>Note 2</i>)	57,000,000	28.50%



Notes:

- (1) The interest in these shares are held through Able Success Group Limited ("ASG"), the entire issued share capital of which is beneficially owned by Mr. But Ka Wai. Mr. But Ka Wai is also the sole director of ASG.
- (2) The interest in these shares are held through National Chain International Limited ("NCI"), the entire issued share capital of which is beneficially owned by Mr. But Chai Tong. Mr. But Chai Tong is also the sole director of NCI.

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 corporation as at 30 June 2005.

SUBSTANTIAL SHAREHOLDERS' INTEREST

As at 30 June 2005, the following persons (other than directors of the Company) were substantial shareholders of the Company and had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of substantial shareholder	Capacity	Number of shares held Long position	Percentage of share holding
ASG	beneficial owner <i>(note 1)</i>	60,500,000	30.25%
NCI	beneficial owner <i>(note 2)</i>	57,000,000	28.50%
Ms. Chan Yuk Ha	Interest of spouse <i>(note 3)</i>	60,500,000	30.25%
Ms. Chang Tei Wah, Teresa	Interest of spouse <i>(note 4)</i>	57,000,000	28.50%

Notes:

- (1) The entire issued share capital of ASG is beneficially owned by Mr. But Ka Wai.
- (2) The entire issued share capital of NCI is beneficially owned by Mr. But Chai Tong.
- (3) Ms. Chan Yuk Ha is the wife of Mr. But Ka Wai and is deemed to be interested in the shares in which Mr. But Ka Wai is interested under the provisions of Divisions 2 and 3 of Part XV of the SFO.



- (4) Ms. Chang Tei Wah, Teresa is the wife of Mr. But Chai Tong and is deemed to be interested in the shares in which Mr. But Chai Tong is interested under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed above, the Company has not been notified of any other person (other than directors of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO as at 30 June 2005.

SHARE OPTION SCHEME

The Company has conditionally adopted a share option scheme (the "Share Option Scheme") approved by way of written resolution of the Company on 3 June 2003 under which the directors of the Company may invite any employee (either full time or part time), directors (including executive directors, non-executive directors and independent non-executive directors), any suppliers, customers, shareholders, adviser (professional or otherwise), joint venture, service providers to the Group from time to time to take up options to subscribe for shares of the Company on the basis of the directors' opinion as to his contribution to the development and growth of the Group.

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 Share Option 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 Share Option Scheme of the Group must not in aggregate exceed 10% of the shares in issue on the 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 Share Option Scheme shall not be counted.

The subscription price for the shares under the Shares Option Scheme shall be a price determined by the directors but shall not be less than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet issued by the Stock Exchange on the date of grant, (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of the offer for the grant, and (iii) the nominal value of a share on the date of grant.



The options may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the board of directors to each option holder but may not be exercised after the expiry of ten years from the date of grant.

The following table discloses movements in the Company's share option scheme during the period:

Name	Date of grant	Exercise price per share HK cents	Exercisable period	Number of shares of the Company to be issued upon exercise of the share options		
				Balance at 1.1.2005	Exercised during the period	Outstanding at 30.6.2005
<i>Category I: Employees</i>						
Employees	<u>14.12.2004</u>	<u>31.6</u>	<u>14.12.2004 to 13.12.2007</u>	<u>10,000,000</u>	<u>-</u>	<u>10,000,000</u>
<i>Category II: Others</i>						
Consultants	<u>14.12.2004</u>	<u>31.6</u>	<u>14.12.2004 to 13.12.2007</u>	<u>2,000,000</u>	<u>-</u>	<u>2,000,000</u>
Total				<u>12,000,000</u>	<u>-</u>	<u>12,000,000</u>

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries, a party to any arrangement to enable the directors and chief executives or their spouses or children under 18 years of age of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the six months ended 30 June 2005.



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

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") with deviation from code provisions A.4.1 and A.4.2 in respect of the appointment of non-executive directors and the rotation of directors.

CODE PROVISION A.4.1

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

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

CODE PROVISION A.4.2

Under the code provision A.4.2, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to Bye-law 87 of the Bye-laws of the Company, the chairman or the managing director of the Board shall hold office and not subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year.

To comply with code provision A.4.2 of the Code, the Board of directors will propose relevant amendments to be made to the Bye-laws of the Company for approval by the shareholders at the forthcoming special general meeting or annual general meeting of the Company, whichever comes first.



The Company is committed to high standards of corporate governance practices. In September 2005, the Company has set up a remuneration committee responsible for formulating and making recommendation to the Board on the Group's policy and structure for all the remunerations of the directors and senior management and on the establishment of formal and transparent procedures for developing policy on such remuneration.

At the same time, the Company has also set up a nomination committee responsible for nominating and affirming candidates approved by the Board, reviewing the structure and composition of the Board on a regular basis, ensuring the competitive position of the organization, evaluating the leadership abilities of executive and non-executive directors and ensuring fair and transparent procedures for the appointment of directors to the Board.

AUDIT COMMITTEE

In accordance with Appendix 14 of the Listing Rules, the board of directors established an audit committee on 3 June 2003 to review and supervise the Company's financial reporting and internal control systems. The audit committee now consists of two independent non-executive directors and one non-executive director.

MODEL CODE

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

By order of the Board

But Ka Wai

Chairman

Hong Kong, 27 September 2005