

## 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.



### 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

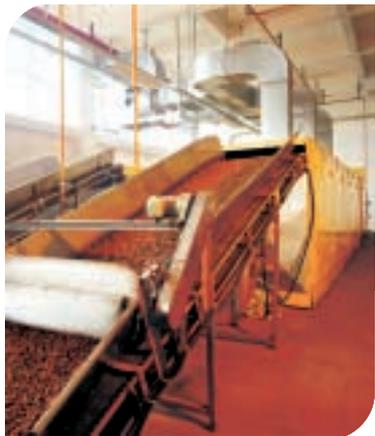
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penetrating into the Hong Kong, PRC and Japanese market, and extending its business reach to overseas markets.

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.