



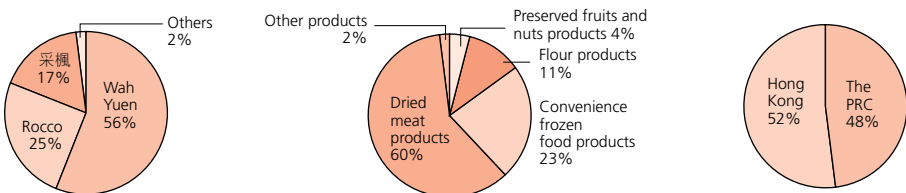
MANAGEMENT DISCUSSION AND ANALYSIS

For the period under review, the Group's turnover amounted to approximately HK\$89,207,000, representing a mild growth of approximately 0.7% as compared with turnover of approximately HK\$88,592,000 for the corresponding period in the previous year. Gross profit recorded a year-on-year increase of approximately 3.5% due to the implementation of stringent cost control measures and improvement in production efficiency. Net profit after minority interests rose slightly to approximately HK\$6,770,000 as compared to approximately HK\$6,750,000 for the corresponding period in the previous year. During the period, the Group acquired the remaining 35.19% interest in Rocco Foods Enterprises Company (Guangzhou) Limited, leading to nil minority interest since 19 May 2004. Basic earnings per share was HK 3.4 cents (2003: HK 4.8 cents).

Operations Review

Wah Yuen is a leading food manufacturer, distributor and retailer in the Hong Kong and China markets. Being the household brand for snacks, the Group is renowned for its product quality, unique Asian savour and diversified product range. The Group's products are sold under the brand names of "Wah Yuen", "Rocco" and "采楓" and its convenience frozen foods are distributed under the "Wah Yuen" brand name and under the OEM model. The Group is dedicated to continually enriching its product portfolio. Currently, the Group produces and distributes over 200 product varieties under five major categories.

Breakdown of turnover by brands, product categories and geographical areas are as follows:





Hong Kong Market

For the six months ended 30 June 2004, sales in the Hong Kong market amounted to approximately HK\$46,070,000, accounting for approximately 51.6% of the Group's total turnover. The directors attribute the Group's remarkable performance to the rebound of the Hong Kong economy, the further relaxation of the travel policy for Mainland tourists, as well as our stepped-up marketing and promotional efforts.

During the period under review, the Group collaborated with renowned retailers in the promotion of the European Football Championship 2004. In addition, the Group also launched a number of new products, such as “夏之脆” and “味之誘惑” in designated convenience stores.

The China Market

For the first half of 2004, sales in the China market amounted to approximately HK\$43,137,000, accounting for approximately 48.4% of the Group's total turnover. Sales of snacks under all three brand names recorded a decrease of approximately 10.2% compared with the corresponding period in the previous year due to intense market competition.

During this period, the Group endeavoured to strengthen its market presence in different department stores, convenience stores and specialty stores spanning across 250 cities in 30 provinces.

The Group introduced its convenience frozen food products to the China market in the first half of 2004, marking its first step in tapping into the enormous PRC market for convenience frozen food products.

The Group's specialty stores under joint ventures with local distributors have continued to enhance the market penetration and brand recognition of “Wah Yuen”.



Production Facilities

Currently, the Group owns three production facilities in Hong Kong and Huadu District, Guangzhou, Guangdong Province, China, namely the Hong Kong plant, the first Huadu Plant and the second Huadu Plant. Utilising 10 production lines, the Group manufactures preserved meats, convenience frozen food products, flour, preserved fruits and nuts, seasonings and other products. The Group's expansion of production facilities and enhancement in production capacity was smooth during the period under review.

With the accreditation to the Hazard Analysis and Critical Control Point certificate (HACCP) as well as ISO 9001 and ISO 9002, the Group continues to exert tremendous efforts in accelerating its expansion plan and maintaining excellent quality.

Future Prospects

In the future, the Group aims to fortify its leading market position by introducing a variety of new products. Over the second half of 2004, the Group will launch new snack food products such as cookies and nuts with a view to increasing its market share and expediting sales.

In addition to snack food products, the Group will also introduce a number of new convenience frozen food products, such as rice and dim sum, targeting the high-end market. Following the Group's success in tapping into China's convenience frozen food market, Wah Yuen considers there to be ample room for further growth. The Group will continue to develop new products to cater for different customer tastes and needs and to capture immense growth potentials envisaged by the directors.

Along with enhancing its product portfolio, the Group will also seek appropriate collaboration opportunities to organise joint promotional campaigns. In so doing, the Group endeavours to maintain strong relationship with major distributors and retail chains to further strengthen its market presence.



The Group will also concentrate on consolidating its leading market position in Hong Kong while extending its reach to overseas markets. Currently, the Group is launching a series of convenience frozen food products in Japan, such as fried rice, which have so far been well received by the market. Looking to the second half of 2004, the Group will continue to launch different varieties of products in Japan, including dim sum and other convenience frozen foods. It is expected that the Group will start to receive long-term orders in 2005. In addition to the Japanese market, the Group is looking forward to launching its products in other overseas countries so as to extend its business network and explore new revenue sources.

Leveraging on its extensive distribution network, diversified product portfolio, creative and effective marketing strategy and stringent cost control, Wah Yuen is confident of capitalising on its tremendous market potential and bringing its quality products to food lovers worldwide.