

MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors is pleased to report that the unaudited turnover of Wah Yuen Holdings Limited (“Wah Yuen”) for the first half of the year reached approximately HK\$100,339,000 and maintained at similar level as compared to the same period of 2005. The Group’s gross profit and profit attributable to shareholders were approximately HK\$31,142,000 and HK\$6,001,000 respectively. Basic earnings per share was HK2.8 cents (six months ended 30 June 2005: 4 cents).

The overall business performance was satisfactory despite the lower net profit, which could be attributed to the intense market competition in the PRC and Hong Kong markets, as well as the expansion of new distribution channels and marketing initiatives. Gross profit margin was stable at 31% as compared with the figure at the end of 2005. Backed by the Group’s 40 years of valuable heritage and reputable household brandname in the marketplace, Wah Yuen will continue to leverage on its strong market presence and unrivalled corporate strengths, with an aim of capturing business opportunities and expediting future growth potential.

BUSINESS REVIEW

Wah Yuen is one of the leading food manufacturer, distributor and retailers 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 key brands, namely “Wah Yuen”, “Rocco” and “采楓”.

Hong Kong Market

The production and sale of Wah Yuen’s snack food and convenience frozen food products continued to be the principal business of the Group and the sales in Hong Kong amounted to approximately HK\$56,143,000, accounting for approximately 56.0% of total turnover.

During the first half of the year, the Group successfully extended its distribution channels and expanded further its sales network in Hong Kong.

The Group attained encouraging progress in new product development to cater customers’ preference and needs. With continuous effort in extending its product portfolio, the Group successfully launched a number of new products, namely Chinese packaged dim sum, fried rice and snack products.

In addition, the Group stepped up its marketing efforts in various key sales channel. In particular, the Group was committed to developing and strengthening the cooperation with key supermarket chain stores through the establishment of concessionaires as well as joint promotion programmes. With an extensive retail network covering all major supermarket and convenience chain stores, Wah Yuen fortified its market presence as one of the most famous packaged food brands in Hong Kong.

The PRC Market

The Group produces and markets its products in the PRC through its extensive distribution network spanning across 250 cities in 30 provinces in the PRC.

During the period, the Group's sales in the PRC accounted for approximately 44.0% of the Group's total turnover, a slightly decrease of 3% as compared to the same period last year.

With the challenge of fierce market competition, Wah Yuen managed and executed exertions in enhancing its competencies in the PRC market. As such, the Group endeavoured to consolidate its distribution channels with supermarkets and convenience chain stores, so as to pave a way for the Group to expedite future growth.

Overseas Market

The recognition of "A Grade Certificate" to Wah Yuen's production facilities demonstrated the Group's continuous commitment on its quality control and hygiene standard. In 2006, Wah Yuen successfully established a strategic partnership with Sojitz Corporation ("Sojitz"; a merger between Nichimen Corporation and Nissho Iwai Corporation), a large listed conglomerate in Japan with net sales of US\$42,496 million for the 12 months ended 31 March 2006. Sojitz is a leading international corporation with businesses spanning the globe. Operations consist of five core businesses - machinery & aerospace; energy & mineral resources; chemicals & plastics; real estate development & forest products; and consumer lifestyle business.

Under this long-term strategic agreement, Wah Yuen will provide manufacturing services to Sojitz and its subsidiaries for a period of 15 years commencing in 2006. During the period, Wah Yuen has commenced production and export its premium quality fried rice, Chinese dim sum and frozen preserved food under a renowned brand "Wah Yuen" "廚の選" to Japan through sales channels and retail network of Sojitz. With the solid foundation established over the past years, Wah Yuen is confident that the Japanese market will become a future growth driver, further enhancing the Group's profitability.

Production Facilities

The Group currently owns and operates three production facilities in Hong Kong and the Huadu District, Guangzhou, Guangdong Province. During the period, the Group continued to upgrade its manufacturing equipment and production facilities to enhance its efficiency and capabilities.

FUTURE PLANS & PROSPECTS

Wah Yuen aims to strengthen the market presence and enhance its brand image as a reputable household brand. This will be achieved through the provision of quality products and the strengthening of brand recognition for "Wah Yuen" and its family brands, through effective marketing and joint promotion programmes with various supermarket and convenience chain stores.

The Group will also strengthen its core competencies by introducing a wider variety of new products, continuously improving its product mix and further expanding its distribution channels in Hong Kong and the PRC markets.

Sojitz's partnership clearly demonstrates its confidence in manufacturing facilities and quality products of Wah Yuen. Going forward, the Group will work closely with Sojitz to explore more areas of cooperation in Japan. By securing the long-term strategic partnership with Sojitz, the Group is optimistic towards its business development in Japan, which is poised to become the Group's future growth momentum.

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 30 June 2006, the Group had total assets of HK\$359,284,000 which were financed by current liabilities of approximately HK\$162,940,000, long term liabilities of HK\$39,312,000 and shareholders' equity of HK\$157,032,000.

The cash and bank balance including pledged bank deposits is HK\$45,759,000 and total borrowing of HK\$177,539,000. Most of these borrowings were dominated in Hong Kong and Renminbi and bearing floating interest rates. The gearing ratio of the Group as at 30 June 2006 was 36.68% (31 December 2005: 41.85%), calculated on the basis of total borrowings less cash over total assets.

FOREIGN EXCHANGE EXPOSURE

As at 30 June 2006, the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

MATERIAL ACQUISITIONS AND DISPOSALS

During the six months ended 30 June 2006, the Group has no material acquisitions and disposals.

PLEGGED OF ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

There was no material changes in the Group's pledged of assets, contingent liabilities and commitments as compared to the most recent published annual report.

RIGHTS ISSUE

A resolution was passed by the shareholders of the Company at an extraordinary general meeting on 5 June 2006 to approve the allotment of 321,000,000 rights shares at a price HK\$0.10 per right shares on the basis of three rights shares for every two existing Company's shares. The rights issue was completed on 11 July 2006 and net proceeds of approximately HK\$30.6 million was received.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2006, the total number of employees of the Group was approximately 601. The total staff costs for the period under review were approximately HK\$8,262,440. The Group offers comprehensive remuneration and employees' benefits package to its employees. In additions, share options and discretionary bonuses are also granted to eligible staff based on their performance and the results of the Group.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).

DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2006, the following Directors had or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO were as follows:

Name of director	Notes	Capacity	Number of ordinary shares held	Position	Approximate percentage of shareholding
Mr. But Ka Wai	1	Interest of controlled corporation	60,500,000	Long	28.27%
Mr. But Chai Tong	2	Interest of controlled corporation	57,000,000	Long	26.63%

Note 1: These shares are held by Able Success Group Limited ("ASG"), the entire issued share capital of which is beneficially owned by Mr. But Ka Wai.

Note 2: These shares are held by National Chain International Limited ("NCI"), the entire issued share capital of which is beneficially owned by Mr. But Chai Tong.

Save as disclosed above, none of directors nor the chief executive of the Company had, as at 30 June 2006, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of 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 pursuant to the Model Code for securities Transactions by the directors of Listed Issuers (the "Model Code") as contained in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2006, other than the interests and short positions of the directors and chief executives of the Company as disclosed above, the shareholders who had interests and short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Notes	Capacity	Number of ordinary shares held	Position	Approximate percentage of shareholding
ASG	1	Beneficial owner	60,500,000	Long	28.27%
NCI	2	Beneficial owner	57,000,000	Long	26.63%
Ms. Chan Yuk Ha	3	Interest of spouse	60,500,000	Long	28.27%
Ms. Chang Tei Wah, Teresa	4	Interest of spouse	57,000,000	Long	26.63%
Ms. See Sau Yuk		Beneficial owner	14,000,000	Long	6.50%

Note 1: The entire issued share capital of ASG is beneficially owned by Mr. But Ka Wai.

Note 2: The entire issued share capital of NCI is beneficially owned by Mr. But Chai Tong.

Note 3: Ms. Chan Yuk Ha is the wife of Mr. But Ka Wai.

Note 4: Ms. Chang Tei Wah, Teresa is the wife of Mr. But Chai Tong.

Save as disclosed above, as at 30 June 2006, the Company has not been notified by any persons (other than directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

At the general meeting of the Company held on 3 June 2003, the shareholders of the Company approved the adoption of a share option scheme. As at 30 June 2006, there are options relating to 12,000,000 shares granted by the Company pursuant to the Option Scheme which are valid and outstanding.

Movement of the share option under the Option Scheme during the period is as follows:

Category	Date of grant	Exercise price <i>HK cents</i>	Weighted average remaining contractual life (years)	Exercisable period	Options held at 1 January 2006	Exercised during the period	Options held at 30 June 2006
Employees	14.12.2004	31.6	1.45	14.12.2004 to 13.12.2007	10,000,000	-	10,000,000
Consultant	14.12.2004	31.6	1.45	14.12.2004 to 13.12.2007	2,000,000	-	2,000,000

Save as disclosed above, the Company or its subsidiaries was at no time during the period, a party to any arrangement to enable the Directors or any of their spouses or children under 18 years of age to acquire benefits by way of the acquisition of shares in or debentures of the Company or any other corporation.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares for the six months ended 30 June 2006.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

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.

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 provision A.4.1 in respect of the appointment of non-executive directors.

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.

AUDIT COMMITTEE

The audit committee comprises three members namely Mr. Ngai Chun Kong, Stephen who is a non-executive director of the Company, Mr. Ip Shing Tong, Francis and Mr. Ku Siu Fung, Stephen who are independent non-executive directors of the Company. 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 has reviewed with the management the financial reporting matters, including the unaudited condensed financial statements, related to the preparation of the interim report for the six months ended 30 June 2006.

On behalf of the Board

But Ka Wai
Chairman

Hong Kong, 25 September 2006