



Wah Yuen Holdings Limited

華園控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2349)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

INTERIM RESULT

The board (the “Board”) of directors (the “Directors”) of Wah Yuen Holdings Limited (“the Company” or “Wah Yuen”) is pleased to announce the unaudited condensed financial results of the Company and its subsidiaries (together the “Group”) for the six months ended 30 June 2007 together with the unaudited comparative figures for the corresponding period in 2006 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2007 (unaudited) HK\$'000	2006 (unaudited) HK\$'000
	<i>Note</i>		
Turnover	3	110,014	100,339
Cost of sales		<u>(74,678)</u>	<u>(69,197)</u>
Gross profit		35,336	31,142
Other operating income		954	926
Selling and distribution expenses		(12,229)	(10,390)
Administrative expenses		<u>(8,857)</u>	<u>(8,485)</u>
Profit from operations	4	15,204	13,193
Finance costs		<u>(6,016)</u>	<u>(5,614)</u>
Profit before taxation		9,188	7,579
Taxation	5	<u>(1,868)</u>	<u>(1,578)</u>
Profit attributable to shareholders		<u>7,320</u>	<u>6,001</u>
Earnings per share	7		
– Basic		<u>1.36 cents</u>	<u>2.80 cents</u>
– Diluted		<u>1.35 cents</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

	As at 30 June 2007 (unaudited) HK\$'000	As at 31 December 2006 (audited) HK\$'000
NON-CURRENT ASSETS		
Land use rights and leasehold land	2,116	2,140
Property, plant and equipment	120,930	111,607
	<u>123,046</u>	<u>113,747</u>
CURRENT ASSETS		
Inventories	59,965	57,720
Trade and other receivables	166,503	178,487
Tax recoverables	1,044	–
Pledged bank deposits	22,221	21,459
Bank balances and cash	28,755	36,366
	<u>278,488</u>	<u>294,032</u>
CURRENT LIABILITIES		
Trade and other payables	10,733	28,326
Obligation under finance leases	10,610	5,092
Taxation	–	3,121
Borrowings	139,709	138,674
	<u>161,052</u>	<u>175,213</u>
NET CURRENT ASSETS	<u>117,436</u>	<u>118,819</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>240,482</u>	<u>232,566</u>
NON-CURRENT LIABILITIES		
Obligation under finance leases	8,320	5,903
Borrowings	25,370	32,030
Deferred tax liabilities	90	90
	<u>33,780</u>	<u>38,023</u>
	<u>206,702</u>	<u>194,543</u>
CAPITAL AND RESERVES		
Share capital	5,536	5,350
Reserves	201,166	189,193
	<u>206,702</u>	<u>194,543</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the period ended 30 June 2007

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared under the historical cost convention and are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

These interim financial statements should be read, where relevant, in conjunction with the 2006 annual financial statements of the Group.

The same accounting policies, presentation and methods of computation are followed in these unaudited condensed financial statements as were applied in the preparation of the Group’s annual financial statements for the year ended 31 December 2006.

2. FINANCIAL RISK MANAGEMENT

All aspects of the Group’s financial risk management objectives and policies are consistent with those disclosed in the annual financial statements for the year ended 31 December 2006.

3. SEGMENT INFORMATION

During the period ended 30 June 2007, the Group was engaged in the production and distribution of snack foods and frozen foods in Hong Kong, the PRC and overseas market. The Group’s primary format for reporting segment information is geographical segments as presented below:

	Unaudited			
	For the six months ended 30 June 2007			
	Hong Kong	The PRC	Eliminations	Consolidated
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
TURNOVER				
External sales	63,542	46,472	–	110,014
Inter-segment sales	–	10,450	(10,450)	–
Total turnover	<u>63,542</u>	<u>56,922</u>	<u>(10,450)</u>	<u>110,014</u>
SEGMENT RESULTS	<u>5,754</u>	<u>8,496</u>	<u>–</u>	<u>14,250</u>
Unallocated corporate income				954
Finance costs				(6,016)
Taxation				(1,868)
Profit for the period				<u>7,320</u>

Unaudited
For the six months ended 30 June 2006

	Hong Kong <i>HK\$'000</i>	The PRC <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER				
External sales	56,143	44,196	–	100,339
Inter-segment sales	–	7,423	(7,423)	–
	<u>56,143</u>	<u>51,619</u>	<u>(7,423)</u>	<u>100,339</u>
SEGMENT RESULTS				
	<u>5,261</u>	<u>7,006</u>	<u>–</u>	12,267
Unallocated corporate income				926
Finance costs				(5,614)
Taxation				(1,578)
Profit for the period				<u>6,001</u>

4. PROFIT FROM OPERATIONS

The Group's profit from operations is stated after charging the followings:

	For the six months ended 30 June	
	2007 (unaudited) <i>HK\$'000</i>	2006 (unaudited) <i>HK\$'000</i>
Cost of inventories sold	74,678	69,197
Depreciation and amortisation	3,139	2,527
Equity-settled share option expenses	153	–
Operating lease rental in respect of rental premises	790	845
	<u>79,760</u>	<u>72,569</u>

5. TAXATION

Hong Kong Profits Tax was provided at the rate of 17.5% (six months ended 30 June 2006: 17.5%) on the estimated assessable profits arising in or derived from Hong Kong. In accordance with the relevant tax laws and regulations of the PRC, certain of the Group's PRC subsidiaries are exempted from PRC Enterprise Income Tax for two years starting from the first profit making year after utilisation of the carried forward tax losses and eligible for a 50% relief of the PRC Enterprise Income Tax for the following three years.

6. INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: Nil).

7. EARNINGS PER SHARE

The calculation of basic and diluted earnings per shares for the period are based on the profit attributable to shareholders of the Company of HK\$7,320,000 (six months ended 30 June 2006: HK\$6,001,000). The basic earnings per share is based on the weighted average of 538,371,720 shares (six months ended 30 June 2006: 214,000,000 shares) in issue during the six months ended 30 June 2007.

The diluted earnings per share is based on 538,371,720 shares (six months ended 30 June 2006: 214,000,000 shares) which is the weighted average number of shares in issue during the six months ended 30 June 2007 plus the weighted average of 2,490,234 shares (six months ended 30 June 2006: nil) deemed to be issued if all outstanding share options granted under the share option scheme of the Company had been exercised.

MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors is pleased to report the unaudited results of Wah Yuen for the six months ended 30 June 2007. In the first half of the year, the Group recorded an encouraging increase of 9.6% in turnover, reaching approximately HK\$110,014,000. Gross profit and profit attributable to shareholders increased by 13.5% and 22% to approximately HK\$35,336,000 and HK\$7,320,000 respectively. Basic earnings per share amounted to HK1.36 cents.

Benefited from strong consumption in Hong Kong and the PRC as well as vigorous market demand for convenience frozen food products and quality snack products, Wah Yuen posted satisfactory business performance during the period. Gross profit margin continued to improve to 32.1%, which was due to effective cost control and economies of scale.

BUSINESS REVIEW

With its over 40 years of invaluable heritage and unrivalled brand reputation as the cornerstone of business development, Wah Yuen has become a leading food manufacturer, distributor and retailer in Hong Kong and the PRC. The Group offers a wide range of over 200 types of quality snack products in unique Asian flavour under three major brands, namely “Wah Yuen”, “Rocco” and “采楓”.

Hong Kong Market

During the period under review, the production and sale of snack food and convenience frozen food products remained as the Group’s core business. Backed by robust market momentum and favourable business environment, sales in Hong Kong rose 13.2% to HK\$63,542,000, accounted for 57.8% of total turnover.

Facing intense market competition, the Group continued to fortify the collaboration with key supermarket chain stores and convenience stores by establishing concessionaries and launching joint promotion programmes.

Wah Yuen is dedicated to satisfy various customer needs and has always emphasized on new product development. In the first half of 2007, the Group achieved certain progress in product portfolio diversification and launched a series of new products, such as convenience frozen food products, Chinese dim sum, fried rice and noodles.

Capitalizing on an extensive retail network of about 2,000 outlets, Wah Yuen successfully enhanced its market presence and further consolidated its market position as one of the most popular packaged food brands in Hong Kong.

The PRC Market

Amidst the buoyant economy and prosperous consumer sector of the PRC market, the Group attained a growth of 5.2% in turnover, amounting to HK\$46,472,000 and representing 42.2% of total turnover.

In the first half of 2007, the Group's exertions in expanding sales and distribution network resulted in higher penetration in sales channels, such as supermarkets and convenience stores, building a solid foothold for propelling 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, demonstrating the Group's accomplishments in extending its business reach to the PRC market.

Overseas Market

Since the establishment of a 15-year strategic partnership in 2006 with Sojitz Corporation ("Sojitz"), a renowned listed conglomerate in Japan and a leading global food distribution company, the Group has fostered amicable cooperation with this Japanese partner.

Under this long-term agreement, Wah Yuen will provide manufacturing services to Sojitz and export its premium products, such as fried rice, packaged Chinese dim sum and convenience frozen food to Japan through the distribution and retail network of Sojitz.

During the period under review, the collaboration of the two parties was in stable progress and the Group is confident of extending its reach to the Japanese market with this strategic cooperation. In view of its immense market potential, the Japanese market is poised to become the Group's future growth driver, significantly enhancing its profitability.

Production Facilities

At present, Wah Yuen owns and operates three production facilities, which are located in Hong Kong and at Huadu District of Guangzhou in Guangdong Province. Accredited the internationally recognized Hazard Analysis and Critical Control Point (HACCP) certificate as well as the ISO 9001 and ISO 9002 certificates, the Group's ten highly efficient production lines maintained smooth operation, delivering quality products in compliance with excellent hygiene standard.

FUTURE PLANS AND PROSPECTS

Looking ahead, the Group endeavours to strengthen its reputation as a household brand while expediting new product development, so as to increase its market presence and enrich its product mix. In addition, Wah Yuen aims at expanding its sales and distribution network both in Hong Kong and the PRC to boost product sales.

As for the Japanese market, the Group will further develop its exporting business through Sojitz. By jointly exploring more business opportunities in Japan with this strategic partner, Wah Yuen is optimistic towards the development in Japan and believes that it will generate lucrative return to the Group.

While consolidating its core business, the Group also introduces new business initiatives. On 29 June 2007, Wah Yuen entered into an agreement with China Water Affairs Group Limited (“China Water Affairs”), whose shares are listed on The Stock Exchange of Hong Kong Limited, pursuant to which the Group agrees to acquire the entire issued share capital of China Environmental Water Holdings Limited (“CEWH”) at an aggregate consideration of HK\$200,000,000. CEWH is principally engaged in the cultivation, development and sale of seabuckthorn seedlings, as well as the processing, development, manufacturing and sale of seabuckthorn related food and health products and cosmetic products in the PRC, Hong Kong and other overseas markets.

Through the acquisition, the Group will be able to diversify its revenue and profit bases and explore CEWH’s sales and distribution network that covers 11 provinces in the PRC. The Group will also be able to broaden its product mix via the cooperation with CEWH. In view of increasing health awareness of the worldwide population, it is believed that the Group is capable of expanding its product range to health food sector effectively and creating remarkable contribution in future.

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 2007, the Group had total assets of HK\$401,534,000 which were financed by current liabilities of approximately HK\$161,052,000, long term liabilities of HK\$33,780,000 and shareholders’ equity of HK\$206,702,000.

The cash and bank balance including pledged bank deposits is HK\$50,976,000 and total borrowing of HK\$184,009,000. 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 2007 was 33% (31 December 2006: 30%), calculated on the basis of total borrowings less cash over total assets.

FOREIGN EXCHANGE EXPOSURE

As at 30 June 2007, the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

MATERIAL ACQUISITIONS

On 29 June 2007, the Group entered into a conditional agreement with China Water Group Limited (“Vendor”), a wholly-owned subsidiary of China Water Affairs pursuant to which the Group agreed to acquire the entire interest in CEWH for a consideration of HK\$200,000,000. CEWH hold 50% equity interest in Conseco Seabuckthorn Company Limited (“Seabuckthorn Company”). Seabuckthorn Company and its subsidiaries are principally engaged in the cultivation, manufacture and sale of seabuckthorn seedlings, and processing, development, manufacturing and sale of seabuckthorn related food and health products and cosmetic products in the PRC. Pursuant to the agreement, the total consideration shall be settled upon the completion in the following manner:

- (i) HK\$19,950,000 of the consideration shall be satisfied by way of the Company issuing and allotting to China Water Affairs 133,000,000 new shares at a price of HK\$0.15 per share; and
- (ii) the balance of HK\$180,050,000 shall be satisfied by way of the Company issuing the convertible bonds to China Water Affairs.

Details of the transaction are included in an announcement of the Company dated 12 July 2007. The transaction had not yet been completed as at 30 June 2007 and up to the date of this report.

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.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2007, the total number of employees of the Group was approximately 630. The total staff costs for the period under review were approximately HK\$8,630,540 (six months ended 30 June 2006: 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 the payment of an interim dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: Nil).

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 2007.

COMPLIANCE WITH APPENDIX 10 OF THE LISTING RULES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("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, the directors have confirmed that they have complied with the Model Code throughout the period under review.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with all applicable code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the six months period to 30 June 2007.

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 audit committee has reviewed the accounting principles and practices adopted by the Company and discussed internal control and financial reporting matters with management relating to the preparation of unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2007.

PUBLICATION OF RESULTS ANNOUNCEMENT AND DESPATCH OF INTERIM REPORT

This results announcement is published on the website of the Stock Exchange (www.hkex.com.hk). The interim report will be despatched to the shareholders and available on the same website in due course.

By order of the Board

But Ka Wai

Chairman

Hong Kong, 24 September 2007

As at the date of this statement, Mr. But Ching Pui, Mr. But Ka Wai, and Mr. But Chai Tong are the executive Directors, Ms. Leung Wai Ling and Mr. Ngai Chun Kong, Stephen are the non-executive Directors, and Mr. Cheung Yu Yan, Tommy, Mr. Ip Shing Tong, Francis and Mr. Ku Siu Fung, Stephen are the independent non-executive Directors