THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares of HK$0.01 each in the capital of Wah Yuen Holdings Limited (the "**Company**"), you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities in the Company.

WAH YUEN HOLDINGS LIMITED
華園控股有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 2349)

VERY SUBSTANTIAL ACQUISITION

Financial Adviser to Wah Yuen Holdings Limited

Optima Capital Limited

(formerly known as VXL Financial Services Limited)

A notice convening an extraordinary general meeting of the Company to be held at 2nd Floor, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong on Friday, 12 October 2007 at 10:00 a.m. is set out on pages 179 to 180 of this circular of the Company. A form of proxy for use at the extraordinary general meeting is enclosed with this circular. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk.

Whether or not you are able to attend the extraordinary general meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and deposit the same at the offices of the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting or any adjournment thereof should you so wish.

24 September 2007

CONTENTS

DEFINITIONS

In this circular, unless the content otherwise requires, the following expressions shall have the following meanings:

"Acquisition"	the proposed acquisition of the Sale Shares in CEWH by the Purchaser for a total consideration of HK$200,000,000 pursuant to the Agreement
"Agreement"	the sale and purchase agreement dated 29 June 2007 entered into between the Vendor, the Purchaser, China Water and the Company in relation to the Acquisition
"Announcement"	the announcement of the Company dated 12 July 2007 in relation to the Agreement
"associates"	has the meaning ascribed to it under the Listing Rules
"Board"	board of Directors
"BVI"	the British Virgin Islands
"CEWH"	China Environmental Water Holdings Limited, a company incorporated in Hong Kong with limited liability
"CEWH Group"	CEWH and its subsidiaries, including Seabuckthorn Group
"China Water"	China Water Affairs Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 855)
"China Water Group"	China Water and its subsidiaries
"Company"	Wah Yuen Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange
"Completion"	completion of the Agreement
"connected persons"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the consideration of HK$200,000,000 payable by the Purchaser for the Acquisition and to be satisfied in the manner as described in this circular

"Consideration Shares"	the 133,000,000 new Shares to be allotted and issued to the Vendor to satisfy as part of the Consideration
"Conversion Price"	the price at which holder(s) of the Convertible Bonds may convert the outstanding principal amount of the Convertible Bonds into Shares, initially at HK$0.15 per Conversion Share (subject to adjustments) and on and subject to the terms and conditions described in this circular
"Conversion Shares"	the 1,200,333,333 new Shares which will fall to be issued upon full conversion of the initial principal amount of the Convertible Bonds of HK$180,050,000 at the initial Conversion Price of HK$0.15 per Share (subject to adjustments)
"Convertible Bonds"	the convertible bonds in the principal amount of HK$180,050,000 to be issued by the Company in favour of the Vendor at Completion to satisfy as part of the Consideration
"Directors"	directors of the Company
"EGM"	the extraordinary general meeting of the Company to be held for the purpose of considering and, if thought fit, approving the proposed Acquisition (including the issue of the Convertible Bonds and the allotment and issue of the Consideration Shares and the Conversion Shares which will fall to be allotted and issued upon conversion of the Convertible Bonds)
"Enlarged Group"	the Group immediately after Completion
"Group"	the Company and its subsidiaries
"Guaranteed Profit"	has the meaning ascribed thereto in the sub-section headed "Profit Guarantee" in the section headed "The Agreement" in this circular
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Issue Price"	the issue price of HK$0.15 per Consideration Share
"Latest Practicable Date"	21 September 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"Maturity Date"	the tenth anniversary of the date of the issue of the Convertible Bonds
"PRC"	the People's Republic of China which, for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Purchaser"	Top Harbour Development Limited, a wholly-owned subsidiary of the Company incorporated in BVI with limited liability
"Sale Shares"	10 shares of HK$1.00 each in the share capital of CEWH beneficially owned by the Vendor, representing the entire issued share capital of CEWH
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Seabuckthorn Company"	Conseco Seabuckthorn Co., Ltd., a sino-foreign equity joint venture established under the laws of the PRC, whose equity interest is held as to 50% by CEWH
"Seabuckthorn Group"	Seabuckthorn Company and its subsidiaries
"Seabuckthorn JV Partners"	has the meaning ascribed thereto in the paragraph headed "Information on the CEWH Group" in the section headed "The Agreement" in the letter form the Board contained in this circular
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholders"	holders of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	means the Hong Kong Codes on Takeovers and Mergers
"Vendor"	China Water Group Limited, a wholly-owned subsidiary of China Water incorporated in BVI with limited liability
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	per cent

WAH YUEN HOLDINGS LIMITED
華園控股有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 2349)

Executive Directors:
Mr But Ching Pui *(Honorary Chairman)*
Mr But Ka Wai *(Chairman)*
Mr But Chai Tong *(Vice Chairman)*

Non-executive Directors:
Ms Leung Wai Ling
Mr Ngai Chun Kong, Stephen

Independent non-executive Directors:
Mr Cheung Yu Yan, Tommy
Mr Ip Shing Tong, Francis
Mr Ku Siu Fung, Stephen

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
2nd Floor, On Shing Industrial Building
Nos. 2-16 Wo Liu Hang Road
Fo Tan, Shatin
New Territories
Hong Kong

24 September 2007

To the Shareholders

Dear Sir or Madam

VERY SUBSTANTIAL ACQUISITION

INTRODUCTION

On 12 July 2007, the Board announced that the Purchaser, a wholly-owned subsidiary of the Company, and the Vendor, a wholly-owned subsidiary of China Water, entered into the Agreement pursuant to which the Purchaser has conditionally agreed to acquire from the Vendor the Sale Shares, being 10 shares in CEWH, representing the entire issued share capital of CEWH at an aggregate consideration of HK$200,000,000.

CEWH is an investment holding company whose principal asset is the holding of 50% equity interest in Seabuckthorn Company. The Seabuckthorn Group is principally engaged in the cultivation and sale of seabuckthorn seedlings and manufacturing and sale of seabuckthorn related health products.

The Consideration shall be satisfied by the Purchaser as to (i) HK$19,950,000 by procuring the Company to allot and issue the Consideration Shares to the Vendor, credited as fully paid, at the Issue Price of HK$0.15 per Consideration Share; and (ii) HK$180,050,000 by procuring the Company to issue the Convertible Bonds to the Vendor on Completion.

The Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules. As such, the Agreement and the transactions contemplated therein (including but not limited to the issue of the Convertible Bonds and the allotment and issue of the Consideration Shares) are subject to the approval of the Shareholders at an extraordinary general meeting of the Company. The Vendor and its associates (including China Water and its connected persons) do not own or hold any Shares as at the Latest Practicable Date. As no Shareholder has a material interest in the Acquisition which is different from other Shareholders, no Shareholder would be required to abstain from voting at the extraordinary general meeting to be convened by the Company to consider and, if thought fit, to approve the Agreement and transactions contemplated therein.

This circular provides you with, among other things, (i) further details of the Agreement and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Consideration Shares and the Conversion Shares and the issue of Convertible Bonds); (ii) an accountants' report on the CEWH Group; (iii) unaudited pro forma financial information on the Enlarged Group; (iv) valuation reports on the property interests of the Enlarged Group; (v) financial and other information of the Group; and (vi) a notice of the EGM.

THE AGREEMENT

Date 29 June 2007

Parties to the Agreement

(i) China Water Group Limited, a wholly-owned subsidiary of China Water, as vendor;

(ii) Top Harbour Development Limited, a wholly-owned subsidiary of the Company, as purchaser;

(iii) China Water Affairs Group Limited, a company whose shares are listed on the main board of the Stock Exchange (stock code: 855) as guarantor of the performance by the Vendor of its obligations under the Agreement; and

(iv) the Company as guarantor of the performance by the Purchaser of its obligations under the Agreement.

The Vendor is an investment holding company and the intermediate holding company of CEWH. The Vendor is a wholly-owned subsidiary of China Water. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor and its associates (including China Water, its subsidiaries, and the substantial shareholders, directors and chief executive of China Water and its subsidiaries and their respective associates) are third parties independent of the Company and its connected persons. The Group has not entered into any previous transactions with the Vendor with would otherwise require aggregation pursuant to Rule 14.22 of the Listing Rules.

Assets to be acquired

The Sale Shares, being 10 shares in CEWH, representing the entire issued share capital of CEWH.

INFORMATION ON THE CEWH GROUP

CEWH was incorporated in Hong Kong with limited liability on 8 December 2003. CEWH is an investment holding company whose principal asset is the holding of 50% equity interest in Seabuckthorn Company, a sino-foreign equity joint venture established under the laws of the PRC in November 2005. The remaining 50% equity interest in Seabuckthorn Company is held by three parties, as to 18% by 水利部沙棘開發管理中心 (China National Administration Centre for Seabuckthorn Development*), as to 22% by 北京山合林水環境規劃設計中心 (Beijing Shan He Lin Environment Planning Design Centre*) and as to the balance of 10% by 江海世紀投資管理（北京）有限公司 (Jiang Hai Century Investment Management (Beijing) Co., Ltd.*) (together, the "Seabuckthorn JV Partners"), all of whom are third parties independent of the Company and its connected persons. The Vendor and China Water have confirmed that the Seabuckthorn JV Partners are unrelated to, and not connected persons of, China Water, save for their common shareholdings with CEWH in Seabuckthorn Company.

Seabuckthorn Company and its subsidiaries are principally engaged in the cultivation and sale of seabuckthorn seedlings, and processing, development, manufacturing and sale of seabuckthorn related food and health products and cosmetic products in the PRC, Hong Kong and other overseas markets. Seabuckthorns are deciduous bushes. Their habitat spreads over a wide area from northwestern Europe, through Central Asia, to the Altai Mountains to western and northern China and the northern Himalayas. They are both drought salt tolerant. They can survive temperatures as low as -40°C and barren lands, and require full sunlight for good growth. China's seabuckthorn resources accounts for 95% of the world's resources. Seabuckthorns are recognised for their high nutrient content in protein, vitamins C and E, and amino acids. The leaves and young branches and berries are used as functional food for their nutrition content (such as berries juices and tea leaves) and medicinal and cosmetics products for their pharmaceutical and antioxidant qualities (such as seabuckthorn oil for skin therapy including sun, heat, chemical and radiation burns, eczema and poorly healing wounds). Seabuckthorns are also widely cultivated for agronomic and environmental protection. Seabuckthorns rapidly develop an extensive root system capable of fixing nitrogen. They have been used for soil erosion control and land reclamation projects and breeding seedlings, to cultivation of operates in vertical integration from the developing seabuckthorn, to berries processing, to manufacturing of seabuckthorn products. The Seabuckthorn Group has founded its own seabuckthorn cultivation bases in Erdos Plateau, Loess Plateau, North-eastern Plain and Qinghai-Tibet Plateau in the PRC with total area of about 200,000 hectares to guarantee the stable supply of seabuckthorn for its manufacturing activities in seabuckthorn related products. The Seabuckthorn Group has also utilized seedling bases over a total area of about 200 hectares in Beijing, Inner Mongolia Autonomous Region and Shannxi province, with annual reproduction capacity of approximately 100 million plants. It has also set up

* *for indentification purpose only*

a raw material processing centre with annual fruit processing capacity of 5,000 tons. The products manufactured by the Seabuckthorn Group are of a wide variety, from raw materials including seed oil, pulp oil, pulp powder, flavone powder, raw juices, concentrate juices, seedlings, seeds, dried berries and tea leaves, finished products including health products such as flavone soft capsules, seed oil soft capsules, pulp oil soft capsules, seed oil, pulp oil, tea in packs, and cosmetic series. The sale and distribution network covers 11 provinces in the PRC, spanning over northern, northwestern, northeastern and central part of the PRC. Seabuckthorn Company and its subsidiaries have been accounted for as subsidiaries in the accounts of CEWH since the establishment of Seabuckthorn Company in November 2005.

CEWH had not carried on any business since its incorporation and until July 2005 when it entered into an investment agreement with the other existing shareholders of Seabuckthorn Company for the establishment of Seabuckthorn Company. The following financial information is extracted from the accountants' report of the CEWH Group contained in Appendix II for the period from 8 December 2003 (date of incorporation) to 31 March 2005 and for the year ended 31 March 2006 and 2007.

	Year ended 31 March 2007 *(HK$'000)*	**Year ended 31 March 2006** *(HK$'000)*	**Period from 8 December 2003 (date of incorporation) to 31 March 2005** *(HK$'000)*
Revenue	5,609	6,088	–
Operating profit/(loss) before taxation	21,888	16,851	(10)
Income tax expense	(4,222)	(3,049)	–
Profit/(loss) for the year/period	17,666	13,802	(10)
Minority interests	(8,814)	(7,404)	–
Profit/(loss) attributable to equity holders of CEWH during the year/period	8,852	6,398	(10)

As at 31 March 2007, the audited consolidated net asset value of the CEWH Group was approximately HK$48,641,000.

The Consideration

The Consideration for the Acquisition is HK$200,000,000 and shall be satisfied by the Purchaser as to (i) HK$19,950,000 by procuring the Company to allot and issue the Consideration Shares to the Vendor, credit as fully paid at the Issue Price of HK$0.15 per Consideration Share; and (ii) HK$180,050,000 by procuring the Company to issue the Convertible Bonds to the Vendor on Completion.

The Consideration Shares represent approximately 24.0% of the existing issued share capital of the Company, and approximately 19.4% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares.

The Consideration was arrived at after arm's length negotiations between the parties and with reference to the profit attributable to equity holders of CEWH (after consolidating Seabuckthorn Company) as referred to above and after taking into account factors such as the potential of the business of CEWH, the possible future earnings contribution to the Group and the Guaranteed Profit set out below.

Profit guarantee

Pursuant to the Agreement, the Vendor guarantees to the Purchaser that the audited consolidated net profit after tax and extraordinary or exceptional items of the CEWH Group (before deducting minority interests) will not be less than HK$20,000,000 for the year ending 31 March 2008 (the "**Guaranteed Profit**"). If the actual audited consolidated net profit after tax and extraordinary or exceptional items of the CEWH Group (before deducting minority interests) for the year ending 31 March 2008 (the "**Actual Profit**") is less than the Guaranteed Profit, the Vendor shall pay to the Purchaser the shortfall an a dollar to dollar basis in cash (the "**Guaranteed Profit Shortfall**") (being the difference between the Actual Profit and the Guaranteed Profit multiplied by 50%) within seven days after the delivery of the audited consolidated financial statements prepared in accordance with the Hong Kong Financial Reporting Standards for the year ending 31 March 2008. However, in any event, Guaranteed Profit Shortfall shall not exceed HK$10,000,000, as CEWH owns only 50% equity interest of Seabuckthorn Company. In the event that the CEWH Group records an audited consoldiated loss after tax and any extraordinary or exceptional items for the financial year ending 31 August 2008, the Vendor shall pay the maximum amount of HK$10,000,000 to the Purchaser.

Waiver of loans owed by CEWH Group

As at 31 March 2006, CEWH was indebted to other members of the China Water Group in the total amount of approximately HK$19.3 million, which advances were unsecured, interest free and repayable on demand. As at the Latest Practicable Date, CEWH is indebted to other members of the China Water Group in the total amount of approximately HK$19 million.

Pursuant to the Agreement, the Vendor will procure and confirm to the Purchaser that all obligations, liabilities and debts owing or incurred by CEWH or its subsidiaries to the Vendor or its associates on the date of the Agreement or on or at any time prior to Completion, whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on Completion, have been waived.

THE CONVERTIBLE BONDS

The principal terms of the Convertible Bonds to be issued by the Company are as follows:

Principal amount:	HK$180,050,000, credited as fully paid at its face value as satisfaction of part of the Consideration.
Maturity Date:	The tenth anniversary of the date of issue of the Convertible Bonds.

	Unless previously converted, the principal amount of the Convertible Bonds will be repaid by the Company on the Maturity Date.
Interest:	3% per annum on the principal amount outstanding from time to time, payable semi-annually in arrear.
Conversion and redemption:	Provided that (i) any conversion of the Convertible Bonds does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the relevant holder of the Convertible Bonds who exercises the conversion rights, whether or not such mandatory offer obligation is triggered by the fact that the number of Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds and, if applicable, together with any Shares already owned or agreed to be acquired by such holder of Convertible Bonds and/or parties acting concert with it, represents 30% or more (or such other percentage as stated in Rule 26 of the Takeovers Code in effect from time to time) of the then issued ordinary share capital of the Company or otherwise pursuant to other provisions of the Takeovers Code, the holder(s) of the Convertible Bonds shall have the right to convert the whole or any part (in integral multiple of HK$5,000,000 or if the aggregate outstanding principal amount is less than HK$5,000,000, the entire outstanding amount of the Convertible Bonds) of the outstanding principal amount of the Convertible Bonds into Shares at any time from the date of issue up to the Maturity Date at the Conversion Price of HK$0.15 per Conversion Share (subject to adjustments). To the extent not previously converted, the Company shall redeem the Convertible Bonds in cash at maturity.
	The Conversion Price of the Convertible Bonds is subject to adjustment provisions customary for convertible securities of similar type. The adjustment events will arise as a result of certain changes in the share capital of the Company including consolidation or sub-division of shares, capitalization of profits or reserves, capital distributions in cash or specie or subsequent issue of securities in the Company at substantial discount to market value.
Conversion Shares:	On the basis of the principal amount of HK$180,050,000 and the initial Conversion Price of HK$0.15 per Conversion Share, a total of 1,200,333,333 Conversion Shares will be issued upon full conversion of the Convertible Bonds. The Conversion Shares shall upon issue rank pari passu in all respects with the then issued Shares.

Assuming there is no change in the issued share capital of the Company after Completion, a holder of the Convertible Bonds may exercise conversion rights attaching to Convertible Bonds up to a principal amount of approximately HK$15,470,943, such that a total of 103,139,620 Conversion Shares shall be issued at the initial Conversion Price of HK$0.15 (which together with the Consideration Shares shall amount to 236,139,620 Shares and represent 29.90% of the issued share capital of the Company) each without triggering any general offer obligation on the part of the relevant Convertible Bonds holder under the existing provisions of the Takeovers Code.

Listing: No application will be made for the listing of the Convertible Bonds on any stock exchange. Application will be made for the listing of and permission to deal in the Conversion Shares on the Stock Exchange.

Voting: Holder(s) of the Convertible Bonds shall not be entitled to attend or vote at any general meetings of the Company by reason only of it being the Convertible Bonds holder.

Transferability: The Convertible Bonds may be assignable or transferable subject to the prior notification to the Company. The Company undertakes to the Stock Exchange that it will notify the Stock Exchange immediately upon becoming aware of any dealings in the Convertible Bonds by any connected persons of the Company.

The 1,200,333,333 Conversion Shares to be issued upon full conversion of the Convertible Bonds represent approximately 216.8% of the existing issued share capital of the Company, approximately 174.8% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and approximately 63.6% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and the Conversion Shares.

The Issue Price and the Conversion Price

The Issue Price and the initial Conversion Price of the Convertible Bonds are the same at HK$0.15 per Share which represents:

(i) a discount of approximately 89.4% to the closing price of HK$1.41 per Share as quoted on the Stock Exchange on 29 June 2007, being the last trading day prior to the suspension of trading in the Shares on 3 July 2007;

(ii) a discount of approximately 89.4% to the average of the closing prices of HK$1.416 per Share as quoted on the Stock Exchange over the last five consecutive trading days up to and including 29 June 2007;

(iii) a discount of approximately 88.8% to the average of the closing prices of HK$1.342 per Share as quoted on the Stock Exchange over the last 10 consecutive trading days up to and including 29 June 2007;

(iv) a discount of approximately 86.4% to the average of the closing prices of HK$1.10 per Share as quoted on the Stock Exchange over the last 30 consecutive trading days up to and including 29 June 2007;

(v) a discount of approximately 58.3% to the audited consolidated net assets of the Company of HK$0.36 per Share as at 31 December 2006; and

(vi) a discount of approximately 87.2% to the closing price of HK$1.17 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Conditions of the Agreement

The Agreement is subject to and conditional upon the fulfillment of the following conditions on or before 31 December 2007 (or such later date as shall be agreed between the Vendor and the Purchaser):

(a) the Purchaser being satisfied with the results of the due diligence review of the assets, liabilities, operations and affairs of the CEWH Group as it may reasonably consider appropriate;

(b) all necessary consents and approvals required to be obtained on the part of the Vendor and the Purchaser in respect of the Agreement and the transactions contemplated thereby having been obtained;

(c) the passing by the Shareholders at a general meeting of the Company to be convened and held of an ordinary resolution to approve the Agreement and the transactions contemplated hereunder, including but not limited to (i) the allotment and issue of the Consideration Shares to the Vendor credited as fully paid; and (ii) the issue of the Convertible Bonds to the Vendor;

(d) the obtaining of a PRC legal opinion (in form and substance satisfactory to the Purchaser) in relation to the transactions contemplated under the Agreement;

(e) the warranties contained in the Agreement remaining true and accurate in all respects;

(f) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Consideration Shares;

(g) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Conversion Shares; and

(h) if necessary, the passing by the shareholders of China Water at a general meeting of China Water to be convened and held of an ordinary resolution to approve the Agreement and the transactions contemplated thereunder.

All the above conditions can be waived except item (c), (f), (g) and (h). Application will be made to the Listing Committee of the Stock Exchange for the listing and permission to deal in the Consideration Shares and the Conversion Shares which may fall to be issued upon conversion of the Convertible Bonds.

If any of the above conditions have not been fulfilled (or as the case may be, waived by the Purchaser as to (a) and (d) and the Purchaser and the Vender together as to (b) and (e)) on or before 31 December 2007, the Agreement shall cease and determine and no party shall have any obligations and liabilities towards each other save for antecedent breaches.

Completion is to take place on the second business day after fulfillment (or waiver by the Purchaser as to (a) and (d) and the Purchaser and the Vender together as to (b) and (e) as the case may be) of the conditions referred to above.

SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is a summary of the shareholding in the Company (i) as at the Latest Practicable Date; (ii) immediately after the issue of the Consideration Shares upon Completion; (iii) after Completion and upon full conversion of the Conversion Bonds; and (iv) after Completion and upon partial conversion of the Convertible Bonds, each prepared on the basis that there would be no changes in the issued share capital of the Company after the date of the Announcement other than as stated in each scenario. However, Shareholders should take note that the analysis under scenario (iii) is shown for illustration purpose only and will not materialise, for the reason that the Vendor would otherwise hold approximately 70.66% of the enlarged issued share capital of the Company in that scenario, thus exceeding the threshold of 30% triggering a mandatory general offer obligation under the present provisions of the Takeovers Code. However, the terms and conditions of the Convertible Bonds stipulate that the conversion rights attaching to the Convertible Bonds may be converted by the holder of the Convertible Bonds thereof into Shares provided that such conversion does not trigger a mandatory offer obligation on the part of the holder of the Convertible Bonds who exercises the conversion right.

	As at the Latest Practicable Date		**Immediately after issue of the Consideration Shares upon Completion**		**After Completion and upon full conversion of the Convertible Bonds**		**After Completion and upon partial conversion of the Convertible Bonds**	
	Number of Shares	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*
Able Success Group Limited *(Note 1 & 3)*	151,562,000	27.38	151,562,000	22.07	151,562,000	8.03	151,562,000	19.19
National Chain International Limited *(Note 2 & 3)*	55,500,000	10.02	55,500,000	8.08	55,500,000	2.94	55,500,000	7.03
	207,062,000	37.40	207,062,000	30.15	207,062,000	10.97	207,062,000	26.22
The Vendor	–	–	133,000,000	19.37	1,333,333,333 *(Note 4)*	70.66	236,139,620 *(Note 5)*	29.90
Public	346,563,000	62.60	346,563,000	50.48	346,563,000	18.37	346,563,000	43.88
Total	553,625,000	100.00	686,625,000	100.00	1,886,958,333	100.00	789,764,620	100.00

Notes:

(1) Mr But Ka Wai, the Chairman and an executive Director of the Company, wholly and beneficially owns the entire issued share capital of Able Success Group Limited. Mr But Ka Wai is the younger brother of Mr But Chai Tong.

(2) Mr But Chai Tong, the Vice Chairman and an executive Director of the Company, wholly and beneficially owns the entire issued share capital of National Chain International Limited. Mr But Chai Tong is the elder brother of Mr But Ka Wai.

(3) Able Success Group Limited and National Chain International Limited are parties deemed to be acting in concert with each other under the Takeovers Code.

(4) Pursuant to the terms and conditions of the Convertible Bonds, holder(s) of the Convertible Bond may exercise all or part of the Convertible Bonds provided that the issue of the relevant Conversion Shares to it/them shall not trigger any general offer obligation on the part of the relevant Convertible Bonds holder who exercises the Convertible Bonds. For further details, see the paragraph headed "Convertible Bonds" above. Accordingly, this column is shown for illustration only and this scenario will not materialise.

(5) For illustration purpose only, a holder of the Convertible Bonds may exercise conversion rights attaching to Convertible Bonds up to a principal amount of approximately HK$15,470,943, such that a total of 103,139,620 Conversion Shares shall be issued at the initial Conversion Price of HK$0.15 (which together with the Consideration Shares shall amount to 236,139,620 Shares and represent 29.90% of each the then enlarged issued share capital of the Company) without triggering any general offer obligation on the part of the relevant Convertible Bonds holder under the existing provisions of the Takeovers Code subject to the then shareholding structure of the Company and the relevant rulings by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the Executive Director in accordance with the Takeovers Code.

REASONS FOR THE ACQUISITION

The Company is an investment holding company. The principal activities of the Company's subsidiaries comprise manufacturing, distribution and marketing of snack food products and convenience frozen food products in Hong Kong and the PRC, as well as trading and investment holding.

For the last three financial years ended 31 December 2006, the Group has been experiencing intense competition in the industry, resulting in a squeeze in the profit margin of the Group and a reduction in the net profits of the Group when compared to the results 3 years ago. The Directors consider that through the Acquisition, the Group will be able to diversify its revenue and profit bases and to explore the sale and distribution network of the Seabuckthorn Group in the central and northern part of the PRC. The product variety of the Seabuckthorn Group will also broaden the product mix of the Group. In view of the increasing health awareness of the population worldwide, the Directors believe that the Acquisition will be an effective mean to expand its product range to the health food sector.

The Issue Price and the initial Conversion Price of HK$0.15 per Share is at substantial discount to the current market prices of the Shares. However, the Directors note that the price of the Shares has increased from the low range of about HK$0.10 per Share at the beginning of 2007 to its last closing price of HK$1.41 per Share on 29 June 2007. The Directors are not aware of the reasons for such surge in Share price, but consider that the surge could be speculative due to the prevailing high liquidity of the stock market. In the circumstances, the Company consider the Issue Price and the initial Conversion Price of HK$0.15 per Share is fair and reasonable taking account of the average of the closing prices of the Share for the 62 trading days in the first quarter of 2007 of HK$0.143 per Share.

The Issue Price and initial Conversion Price of HK$0.15 per Share represents approximately a price/earnings multiple of 4.26 times the earnings per Share of HK$0.0352 for the year ended 31 December 2006. The Consideration of HK$200,000,000 for the Sale Shares represents a price/earnings multiple of 20 times the Guaranteed Profit for the year ending 31 December 2008 attributable to equity holders of CEWH. Although the Issue Price and the initial Conversion Price are at a lower price/earnings multiple than that for the Consideration and CEWH has a short period of operating history since 2005, taking account of the market potentials of the Seabuckthorn Group, and the possible earnings contribution to the Group in future on the basis of the Guaranteed Profit, against the relatively stable earnings level of the Group, the Directors (including the independent non-executive Directors) consider the Consideration payable for the Acquisition, which has been arrived at between the parties with reference to a price/earnings multiple of 20 times the Guaranteed Profit, is fair and reasonable.

Following Completion, through the nomination by CEWH, the Company will have four representatives, out of a total of seven, on the board of directors of Seabuckthorn Company in accordance with the relevant PRC shareholders' deed; thereby enabling the Company to have control over the Seabuckthorn Group. Completion virtually makes CEWH together with the Seabuckthorn Group the subsidiaries of the Company and their financial statements will be consolidated into the financial statements of the Group. There is no provision contained in the Agreement which gives the right for the Vendor to nominate Directors as a result of the Acquisition.

The Directors (including independent non-executive Directors) consider the terms of the Agreement to be on normal commercial terms and fair and reasonable as far as the Shareholders are concerned and that the Agreement is in the interests of the Company and its Shareholders as a whole.

MANAGEMENT DISCUSSION ON THE CEWH GROUP/SEABUCKTHORN GROUP

Set out below is a summary of the key financial data of the CEWH Group, which are extracted from the accountants' report contained in Appendix II to this circular.

	Year ended 31 March 2007		**Period ended 31 March**
	2007	**2006**	**2005**
	HK$'000	***HK$'000***	***HK$'000***
Revenue	5,609	6,088	–
Operating profit/(loss) before taxation	21,888	16,851	(10)
Income tax expense	(4,222)	(3,049)	–
Profit/(loss) for the year/period	17,666	13,802	(10)
Minority interests	(8,814)	(7,404)	–
Profit/(loss) attributable to equity holders of CEWH	8,852	6,398	(10)

Business Review

For the period/year ended 31 March 2005

CEWH has not commenced operations since its incorporation until November 2005 when it acquired 50% of the equity interest in Seabuckthorn Company. The losses for the period from 8 December 2003 (date of incorporation) to 31 March 2005 represent administrative expenses incurred by CEWH during the period.

As disclosed in the section II of appendix II to this circular which contains financial information on the Seabuckthorn Group, the Seabuckthorn Group recorded turnover of approximately HK$3.0 million from the cultivation, manufacture and sale of seabuckthorn seedlings and products and gross profit of HK$2.0 million for the year ended 31 March 2005. Other income represented mainly gain arising on initial recognition of biological assets at fair values less estimated point-of-sale costs of approximately HK$18.9 million. Other expenses amounted to approximately HK$13.9 million, which represented mainly staff costs, depreciation of property, plant and equipment and impairment of receivables. Net profit before and after tax of the Seabuckthorn Group amounted to approximately HK$4.5 million and HK$3.8 million respectively.

For the year ended 31 March 2006

During the year, CEWH acquired 50% of the equity interest in Seabuckthorn Company by injection of cash of RMB20 million (equivalent to approximately HK$19.2 million) into the registered capital of Seabuckthorn Company. The revenue for the year represented revenue generated by the Seabuckthorn Group from the cultivation, manufacture and sale of seabuckthorn seedlings and products after completion of the aforesaid acquisition.

Turnover for the year reached approximately HK$6.1 million with gross profit approximately HK$3.1 million.

During the year, the CEWH Group recorded gain arising on initial recognition of biological assets at fair value less estimated point-of-sale costs of approximately HK$20.5 million.

The administrative expenses and other operating expenses for the year amounted to approximately HK$1.8 million and HK$4.1 million respectively.

Net profit before tax for the year was approximately HK$16.9 million while net profit after tax amounted to HK$13.8 million.

As disclosed in the section II of appendix II to this circular which contains financial information on the Seabuckthorn Group, the Seabuckthorn Group recorded turnover of approximately HK$9.6 million and gross profit of HK$6.3 million for the year ended 31 March 2006, representing increase of 219% and 223% over the previous year respectively which was attributable to the expansion of capacity for manufacturing and sale of products. Other income represented mainly gain arising on initial recognition of biological assets at fair values less estimated point-of-sale costs of approximately HK$21.3 million which represents an increase of 12.4% over the previous year. Other operating expenses amounted to approximately HK$10.5 million, which represented a decrease of 24.4% from the previous year, principally due to reduction in staff costs. Net profit before and after tax of the Seabuckthorn Group amounted to approximately HK$12.5 million and HK$9.3 million respectively for the year ended 31 March 2006. Despite the Seabuckthorn Group recorded profit for the full year ended 31 March 2006, losses were incurred in the first few months of the financial year before the capital injection by CEWH in November 2005. As a result, the profit from the Seabuckthorn Group consolidated into and reflected in the accounts of the CEWH Group as discussed above is higher than the full year profits of the Seabuckthorn Group.

For the year ended 31 March 2007

The results of the CEWH Group for the year ended 31 March 2007 represented the full year results of the Seabuckthorn Group for the year.

Turnover for the year was approximately HK$5.6 million with gross profit approximately HK$1.9 million, representing an decrease of approximately 8% and 37% respectively as compared to those of 2006. The drop was as a result of the CEWH Group focusing more on cultivation of seeds during the year.

During the year, the CEWH Group recorded gain arising on initial recognition of biological assets at fair value less estimated point-of sale costs of approximately HK$23.2 million, representing an increase of approximately 13.6% from that of 2006. During the year, the CEWH Group has recorded government grants of approximately HK$13,480,000, which represented unconditional monetary award from relevant authorities in the PRC in respect of the CEWH Group's significant contribution in environmental protection.

As a result of various factors discussed above, net profit after tax for the year of approximately HK$17.7 million was achieved by the CEWH Group, representing an increase of 28% over the previous year.

Financial Position

Current fund and financial resources

As at 31 March 2005, 2006 and 2007, the cash position of the CEWH Group were approximately HK$1,000, HK$41.3 million and HK$8.6 million respectively. The current ratios (calculated on the basis of current assets over current liabilities) were 9%, 117%, and 86% respectively.

The CEWH Group has no other loans and interest bearing borrowings as at 31 March 2005 and 2006, and had other loans of approximately HK$3.5 million as at 31 March 2007. The gearing ratio as at 31 March 2007 (calculated as a percentage of total borrowings to total assets) was 3.7%.

As at 31 March 2007, the net book value and carrying amount of the property interests of the CEWH Group (which represent the property interests held by the Seabuckthorn Group) amounted to approximately HK$30.3 million (equivalent to RMB30.3 million *(note 1)*) and prepaid land lease payments of HK$2.4 million (equivalent to RMB2.4 million). Such property interests have been valued by CB Richard Ellis Limited, an independent valuer, at approximately RMB38.1 million as at 30 June 2007. A reconciliation of the net book value and carrying amount of the aforesaid property interests as at 31 March 2007 as recorded in its accountants' reports of the CEWH Group and the Seabuckthorn Group to the valuation of same property interests as at 30 June 2007 is set out as below:

	RMB'000
Net carrying amount (being the acquisition costs) of property interests of the CEWH Group and the Seabuckthorn Group as at 31 March 2007 *(note 2)*	32,730
Movement for the three months ended 30 June 2007 – Depreciation/Amortisation	(28)
Net carrying amount as at 30 June 2007 (unaudited)	32,702
Valuation surplus	5,363
Valuation as at 30 June 2007 – included in the valuation report as set out in Appendix IV to this circular	38,065

Notes:

1. For the preparation of the accountants' reports of the CEWH Group and Seabuckthorn Group, balances of the Seabuckthorn Group are translated from RMB into HK$ at the exchange rate of 1:1.

2. The balance comprises leasehold buildings (RMB3.3 million or HK$3.3 million), construction in progress (RMB27.0 million or HK$27.0 million) and prepaid land lease payments (RMB2.4 million or HK$2.4 million).

Foreign currency risk

The monetary assets and transactions of the CEWH Group are principally denominated in RMB, which expose the CEWH Group to foreign currency risk. However, the foreign currency risk is minimal because RMB is appreciating in recent years due to rapid growth in the PRC economy.

Capital commitments and contingent liabilities

The CEWH Group did not have any capital commitments as at 31 March 2005. The CEWH Group has capital commitments in respect of construction in progress and acquisitions of plant and machinery as at 31 March 2006 and 2007 amounting to approximately HK$9.7 million and HK$2.3 million respectively. The CEWH Group has no contingent liabilities as at 31 March 2005, 2006 and 2007.

Employees and remuneration policies

As at 31 March 2005, 2006 and 2007, the Seabuckthorn Group had about 84, 100 and 152 employees, respectively. Salaries, double pay and bonuses are determined according to the performance of the employees. Total staff costs (excluding directors' remuneration) incurred during the financial years ended 31 March 2005, 2006 and 2007 were approximately HK$3.6 million, HK$3.8 million and HK$6.3 million, respectively.

Material acquisitions and disposals of subsidiaries and associated companies

Apart from the capital injection by CEWH into Seabuckthorn Company in November 2005 as described above, there were no other material acquisitions or disposals of subsidiaries or associated companies during the period/years ended 31 March 2005, 2006 and 2007.

Charges on assets

As at 31 March 2007, certain of the CEWH Group's plant and machineries with carrying amount of approximately HK$5.0 million were pledged to secure the other loans of the CEWH Group with outstanding balance of approximately HK$3.5 million. There were no charges on assets of the CEWH Group as at 31 March 2005 and 2006.

Future plans

As at the Latest Practicable Date, the CEWH Group did not have any plans for material investments or capital assets.

LISTING RULES IMPLICATIONS

The Acquisition constitutes a very substantial acquisition of the Company under the Listing Rules. The Agreement and the transactions contemplated therein (including but not limited to the allotment and issue of the Consideration Shares and issue of the Convertible Bonds and the Conversion Shares which will fall to be allotted and issued upon conversion of the Convertible Bonds) are therefore subject to the approval of the Shareholders at an extraordinary general meeting of the Company. The Vendor and its associates (including China Water and its connected persons) do not own or hold any Shares as at the Latest Practicable Date. As no Shareholder has a material interest in the Acquisition which is different from other Shareholders, no Shareholder would be required to abstain from voting at an extraordinary general meeting to be convened by the Company to consider and, if thought fit, to approve the Agreement and transactions contemplated therein.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, CEWH will become a 100% owned subsidiary of the Company and the financial results of the CEWH Group will be consolidated with those of the Group.

Set out in Appendix III to this circular is the unaudited pro forma financial information on the Enlarged Group which illustrates the financial effect of the Acquisition on the results and cash flows of the Group assuming the completion of the Acquisition had taken place on 1 January 2006; and on the assets and liabilities of the Group assuming the completion of the Acquisition had taken place on 31 December 2006.

Based on the unaudited pro forma consolidated balance sheet in Appendix III to this circular, the total assets of the Group would increase by approximately 64% from HK$407.78 million to HK$669.73 million; and its total liabilities would increase by approximately 64% from HK$213.24 million to HK$349.99 million, as a result of the Acquisition. The Directors consider that the Acquisition will contribute to the revenue and earnings base of the Enlarged Group but the quantification of such impact will depend on the future performance of CEWH.

EGM

The EGM will be held at 2nd Floor, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong on Friday, 12 October 2007 at 10:00 a.m., the notice of which is set out on pages 179 to 180 of this circular, to consider and, if thought fit, approve the ordinary resolutions to approve the proposed Acquisition and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Consideration Shares and the Coversion Shares and the issued of the Convertible Bonds).

There is a form of proxy for use at the EGM accompanying this circular. Whether or not you will be able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong branch share registrar and transfer office of the Company, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

RECOMMENDATION

The Directors consider that the Acquisition is in the interests of the Company and the Shareholders as a whole and the terms of the Agreement are on normal commercial terms and fair and reasonable. Accordingly, the Directors recommend that Shareholders vote in favour of the ordinary resolutions to be proposed at the EGM to approve the proposed Acquisition and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Consideration Shares and the Conversion Shares and the issue of the Convertible Bonds).

GENERAL

Your attention is also drawn to the financial information of the Group and the CEWH Group, the valuation report on the property interests of the Enlarged Group and the other information set out in the appendices to this circular.

For and on behalf of the Board
Wah Yuen Holdings Limited
But Ka Wai
Chairman

1. FINANCIAL SUMMARY

The following table summarizes the consolidated income statement and consolidated balance sheet of the Group for the last three years ended 31 December 2006, as extracted from the 2004, 2005 and 2006 published annual reports of the Company. The auditors of the Company have given an unqualified opinion on each of the Group's financial statements for each of the three years ended 31 December 2006.

Income Statement

	Year ended 31 December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	(audited)	(restated)
Turnover	202,130	207,551	210,454
Cost of sales	(131,307)	(143,154)	(139,040)
Gross profit	70,823	64,397	71,414
Other operating income and net gain	3,675	8,951	1,472
Selling and distribution expenses	(25,268)	(22,254)	(21,678)
Administrative expenses	(18,093)	(21,998)	(24,748)
Profit from operations	31,137	29,096	26,460
Finance costs	(12,242)	(11,021)	(9,803)
Profit before taxation	18,895	18,075	16,657
Income tax expense	(5,865)	(7,859)	(3,598)
Profit for the year	13,030	10,216	13,059
Dividends	–	–	4,000

Assets and Liabilities

	As at 31 December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	(audited)	(restated)
Total assets	407,779	365,314	348,099
Total liabilities	(213,236)	(215,775)	(216,389)
Shareholders' funds	194,543	149,539	131,710

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2006

Set out below are the audited financial statements together with the relevant notes to the financial statements of the Group as extracted from the annual report of the Company for the year ended 31 December 2006.

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	**2006** *HK$'000*	**2005** *HK$'000*
Turnover	*7*	202,130	207,551
Cost of sales		(131,307)	(143,154)
Gross profit		70,823	64,397
Other operating income and net gain	*7*	3,675	8,951
Selling and distribution expenses		(25,268)	(22,254)
Administrative expenses		(18,093)	(21,998)
Profit from operations	*8*	31,137	29,096
Finance costs	*9*	(12,242)	(11,021)
Profit before tax		18,895	18,075
Income tax expense	*11*	(5,865)	(7,859)
Profit for the year attributable to the equity holders of the Company		13,030	10,216
Dividends	*12*	–	–
Earnings per share	*13*		
Basic		3.52 Cents	5.04 Cents
Diluted		N/A	N/A

All of the Group's operations are classed as continuing.

The accompanying notes form an integral part of these financial statements.

Consolidated Balance Sheet
At 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Prepaid lease payments	14	2,140	2,227
Property, plant and equipment	15	111,607	106,244
		113,747	108,471
CURRENT ASSETS			
Inventories	17	57,720	47,680
Trade and other receivables	18	178,487	177,286
Pledged bank deposits		21,459	16,805
Bank balances and cash		36,366	15,072
		294,032	256,843
CURRENT LIABILITIES			
Trade and other payables	19	28,326	28,863
Obligations under finance leases	20	5,092	6,623
Tax payable		3,121	1,758
Borrowings	21	138,674	132,779
		175,213	170,023
NET CURRENT ASSETS		118,819	86,820
TOTAL ASSETS LESS CURRENT LIABILITIES		232,566	195,291
NON-CURRENT LIABILITIES			
Obligations under finance leases	20	5,903	3,305
Borrowings	21	32,030	42,047
Deferred tax liabilities	25	90	400
		38,023	45,752
NET ASSETS		194,543	149,539
CAPITAL AND RESERVES			
Share capital	22	5,350	2,140
Reserves		189,193	147,399
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		194,543	149,539

Balance Sheet

At 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSET			
Interests in subsidiaries	16	171,137	150,667
CURRENT ASSET			
Bank balances		54	18
CURRENT LIABILITIES			
Other creditors and accruals		889	832
Borrowings		433	–
		1,322	832
NET CURRENT LIABILITIES		(1,268)	(814)
TOTAL ASSETS LESS CURRENT LIABILITIES		169,869	149,853
NON-CURRENT LIABILITY			
Borrowings	21	31,000	38,000
NET ASSETS		138,869	111,853
CAPITAL AND RESERVES			
Share capital	22	5,350	2,140
Reserves	24	133,519	109,713
		138,869	111,853

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	PRC statutory reserve HK$'000	Translations reserves HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1 January 2005	2,000	35,645	10,816	21,444	(6,264)	68,069	131,710
Issue of shares	140	5,460	–	–	–	–	5,600
Profit for the year	–	–	–	–	–	10,216	10,216
Transfers	–	–	–	1,607	–	(1,607)	–
Translation exchange difference	–	–	–	–	2,013	–	2,013
At 31 December 2005 and 1 January 2006	2,140	41,105	10,816	23,051	(4,251)	76,678	149,539
Issue of rights shares *(note 22)*	3,210	28,890	–	–	–	–	32,100
Share issue expenses	–	(1,444)	–	–	–	–	(1,444)
Profit for the year	–	–	–	–	–	13,030	13,030
Transfers	–	–	–	866	–	(866)	–
Translation exchange differences	–	–	–	–	1,318	–	1,318
At 31 December 2006	**5,350**	**68,551**	**10,816**	**23,917**	**(2,933)**	**88,842**	**194,543**

The special reserve represents:

(i) the difference between the nominal value of the share capital issued by Wah Yuen Foods International Limited and the nominal value of the share capital of the subsidiaries acquired in a previous group reorganisation; and

(ii) the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of the subsidiaries acquired in a previous group reorganisation.

The People's Republic of China (the "PRC") statutory reserves consist of a reserve fund and an expansion fund provided in accordance with the articles of association of the PRC subsidiaries. Laws and regulations in the PRC allow foreign investment enterprises to appropriate from profit after taxation, prepared in accordance with the PRC rules and regulations, an annual amount to the reserve fund and the expansion fund according to the decision of the board or the articles of association.

The reserve fund is to be used to expand the working capital of the PRC subsidiaries. When the PRC subsidiaries suffer losses, the reserve fund may be used to make up accumulated losses under special circumstances.

The expansion fund is to be used for business expansion and, if approved, can also be used to increase the capital of the PRC subsidiaries.

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	2006 HK$'000	2005 HK$'000
OPERATING ACTIVITIES		
Profit before tax	18,895	18,075
Adjustments for:		
Interest expenses	12,242	11,021
Interest income	(1,310)	(1,174)
Depreciation	8,714	8,356
Amortisation of prepaid lease payments	153	164
(Gain) loss on disposal on property, plant and equipment	(74)	155
Operating cash flows before movements in working capital	38,620	36,597
Increase in inventories	(10,040)	(1,699)
Increase in trade and other receivables	(1,201)	(35,879)
Decrease in trade and other payables	(537)	(3,963)
Cash generated from (used in) operations	26,842	(4,944)
Interest paid	(12,242)	(11,021)
Hong Kong Profits Tax paid, net	(1,340)	(3,576)
PRC Enterprise Income Tax paid	(3,472)	(3,493)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	9,788	(23,034)
INVESTING ACTIVITIES		
(Increase) decrease in pledged bank deposits	(4,654)	9,755
Purchase of property, plant and equipment	(10,569)	(640)
Decrease in loan receivable	–	599
Interest received	1,310	1,174
Proceeds from disposal of property, plant and equipment	215	230
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	(13,698)	11,118
FINANCING ACTIVITIES		
Borrowings raised	130,978	138,236
Repayment of bank borrowings	(146,026)	(138,497)
Capital element of finance leases	1,067	(1,337)
Proceeds from issue of ordinary shares, net of expenses	30,656	–
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	16,675	(1,598)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,765	(13,514)
Effect of foreign exchange rate change	(2,397)	(791)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	10,416	24,721
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	20,784	10,416
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	36,366	15,072
Bank overdrafts	(15,582)	(4,656)
	20,784	10,416

Notes to the Financial Statements

For the year ended 31 December 2006

1. GENERAL

Wah Yuen Holdings Limited (the "Company") was incorporated and registered as an exempted company with limited liability in the Cayman Island under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Island on 9 October 2002.

The shares of the Company were listed on The Stock Exchange of Hong Kong Limited on 25 June 2003. The addresses of its registered office and principal place of business are disclosed in the section headed "Corporate information" of the Group's Annual Report.

The financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

The Company is an investment holding company. The Company's subsidiaries are principally engaged in the production and distribution of snack food and convenience frozen food products. Details of the subsidiaries are set out in note 33.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

Financial guarantee contracts

In the current year, the Group has applied Hong Kong Accounting Standard ("HKAS") 39 and HKFRS 4 (Amendments) Financial Guarantee Contracts which is effective for annual periods beginning on or after 1 January 2006.

A financial guarantee contract is defined by HKAS 39 Financial Instruments: Recognition and Measurement as "a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument".

Prior to 1 January 2006, financial guarantee contracts were not accounted for in accordance with HKFRS 4 Insurance Contract and those contracts were disclosed as contingent liabilities. A provision for financial guarantee was only recognised when it was probable that an outflow of resources would be required to settle the financial guarantee obligation and the amount can be estimated reliably.

Upon the application of these amendments, a financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially, recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – Int 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC) – Int 8	Scope of HKFRS 2[3]
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions[6]
HK(IFRIC) – Int 12	Service Concession Arrangements[7]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 March 2006
[3] Effective for annual periods beginning on or after 1 May 2006
[4] Effective for annual periods beginning on or after 1 June 2006
[5] Effective for annual periods beginning on or after 1 November 2006
[6] Effective for annual periods beginning on or after 1 March 2007
[7] Effective for annual periods beginning on or after 1 January 2008

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses. Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investment in subsidiaries

A subsidiary is a company that is controlled by the Company, where the Company has the power to govern the financial and operating policies of such company so as to obtain benefits from its activities.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Construction in progress for production or administrative purpose are carried at cost less any identified impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Buildings	Over the relevant lease terms, or 20 years, whichever is the shorter
Furniture and equipment	20%
Motor vehicles	20%
Plant and machinery	10%
Loose tools and moulds	20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments represent up-front prepayments made for the land use rights as expensed in the consolidated income statement on a straight-line basis over the period of the lease.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Cost includes cost of purchases and where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated costs to completion and selling expenses.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a Group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories, including financial assets at fair value through profit or loss, loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, bank borrowings and obligations under finance leases are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Equity settled share-based payment transactions

Share options granted to directors and employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits.

Impairment losses (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefit costs

Payments to Mandatory Provident Fund Scheme and state-managed retirement benefits schemes are charged as expenses as they fall due. The Group's obligations under state-managed retirement benefits schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, short-term, highly liquid investments that are readily convertible to cash and with a maturity of three months or less from date of investment, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the consolidated balance sheet.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet dates, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Depreciation and amortisation

The Group depreciates the property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual values reflect the directors' estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life.

(b) Allowance for bad and doubtful debts

The Group's provision policy for bad and doubtful debts is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

5. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include borrowings, trade and other receivables and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain trade receivables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade debt to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significantly reduced. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Interest rate risk

The Group's fair value interest rate risk relates to its fixed-rate borrowings. However, the management considers the risk is insignificant to the Group.

6. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments are its primary reporting format.

(a) Business segments

The Group is principally engaged in the production and distribution of snack food and convenience frozen food products. No business segment analysis is presented as management considers this as one single business segment.

(b) Geographical segments

The Group's operations and assets are located in Hong Kong and elsewhere in the PRC. Geographical segment information are based on location of its assets, and the location of its assets is not significantly different from the location of its customers.

Year ended 31 December 2006

	Hong Kong	**The PRC**	**Eliminations**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE				
External sales	108,576	93,554	–	202,130
Inter-segment sales	–	26,566	(26,566)	–
Total revenue	108,576	120,120	(26,566)	202,130
SEGMENT RESULTS	4,970	22,492		27,462
Unallocated corporate income				3,675
Profit from operations				31,137
Finance costs				(12,242)
Profit before tax				18,895
Income tax expense				(5,865)
Profit for the year attributable to the equity holders of the Company				13,030

BALANCE SHEET
As at 31 December 2006

	Hong Kong	The PRC	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Segment assets	41,021	308,933	349,954
Unallocated corporate assets	–	–	57,825
Consolidated total assets			407,779
LIABILITIES			
Segment liabilities	9,148	22,402	31,550
Unallocated corporate liabilities	–	–	181,686
Consolidated total liabilities			213,236
OTHER INFORMATION			
Capital additions	1,107	9,462	10,569
Depreciation	585	8,129	8,714
Amortisation of prepaid lease payments	6	147	153

Year ended 31 December 2005

	Hong Kong	The PRC	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE				
External sales	118,862	88,689	–	207,551
Inter-segment sales	–	36,656	(36,656)	–
Total revenue	118,862	125,345	(36,656)	207,551
SEGMENT RESULTS	6,015	20,090		26,105
Unallocated corporate income				2,991
Profit from operations				29,096
Finance costs				(11,021)
Profit before tax				18,075
Income tax expense				(7,859)
Profit for the year attributable to the equity holders of the Company				10,216

BALANCE SHEET
As at 31 December 2005

	Hong Kong	The PRC	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
ASSETS			
Segment assets	53,885	279,552	333,437
Unallocated corporate assets	–	–	31,877
Consolidated total assets			365,314
LIABILITIES			
Segment liabilities	6,020	24,703	30,723
Unallocated corporate liabilities	–	–	185,052
Consolidated total liabilities			215,775
OTHER INFORMATION			
Capital additions	32	9,048	9,080
Depreciation	950	7,406	8,356
Amortisation of prepaid lease payments	6	158	164

Inter-segment sales are charged at terms agreed between the relevant parties.

7. TURNOVER, OTHER OPERATING INCOME AND NET GAIN

Turnover represents the amount received and receivable for goods sold, less returns and allowances.

An analysis of turnover, other operating income and net gain is as follows:

	2006	2005
	HK$'000	*HK$'000*
Sales of goods to outside customers	202,130	207,551
Other operating income and net gain:		
Interest income from bank deposits	1,310	1,174
Sundry income	2,365	7,777
	3,675	8,951
Total income	205,805	216,502

8. PROFIT FROM OPERATIONS

	2006	2005
	HK$'000	*HK$'000*
Profit from operations has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments *(note 10)*	17,894	19,069
Retirement benefits scheme contributions, including contributions for directors *(note 26)*	943	1,446
Total staff costs	18,837	20,515
Auditors' remuneration	430	380
Amortisation of prepaid lease payments	153	164
Depreciation		
– owned assets	6,702	7,355
– assets held under finance leases	2,012	1,001
(Gain) loss on disposal of property, plant and equipment	(74)	155
Operating lease rentals paid in respect of rented premises	1,689	1,882

9. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest expense on bank and other borrowings wholly repayable within five years	11,552	10,361
Interest expense on obligations under finance leases	690	660
	12,242	11,021

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

For the year ended 31 December 2006

		Other emoluments		
Emoluments	**Fees**	**Salaries and other benefits**	**Retirement benefits scheme contributions**	**Total**
	HK$	*HK$*	*HK$*	*HK$*
Executive Directors				
Mr. But Ching Pui	–	360,000	–	360,000
Mr. But Ka Wai	–	360,000	18,000	378,000
Mr. But Chai Tong	–	360,000	18,000	378,000
Mr. Chu Kin Wah (resigned on 30 June 2006)	–	180,000	9,000	189,000
Non-executive Directors				
Ms. Leung Wai Ling	50,000	–	–	50,000
Mr. Ngai Chun Kong, Stephen	50,000	–	–	50,000
Independent non-executive Directors				
Mr. Cheung Yu Yan, Tommy	100,000	–	–	100,000
Mr. Ip Shing Tong, Francis	50,000	–	–	50,000
Mr. Ku Siu Fung, Stephen	50,000	–	–	50,000
Total for 2006	300,000	1,260,000	45,000	1,605,000

For the year ended 31 December 2005

		Other emoluments		
Emoluments	**Fees**	**Salaries and other benefits**	**Retirement benefits scheme contributions**	**Total**
	HK$	*HK$*	*HK$*	*HK$*
Executive Directors				
Mr. But Ching Pui	–	360,000	–	360,000
Mr. But Ka Wai	–	360,000	18,000	378,000
Mr. But Chai Tong	–	360,000	18,000	378,000
Mr. Chu Kin Wah	–	360,000	18,000	378,000
Mr. Lai Wing Kuen (resigned on 7 June 2005)	–	150,000	7,500	157,500
Non-executive Directors				
Ms. Leung Wai Ling	50,000	–	–	50,000
Mr. Ngai Chun Kong, Stephen	50,000	–	–	50,000
Independent non-executive Directors				
Mr. Cheung Yu Yan, Tommy	100,000	–	–	100,000
Mr. Ip Shing Tong, Francis	50,000	–	–	50,000
Mr. Ku Siu Fung, Stephen	50,000	–	–	50,000
Total for 2005	300,000	1,590,000	61,500	1,951,500

(b) Employees' emoluments

The five highest paid individuals for the year ended 31 December 2006 included three (2005: three) executive directors of the Company. The emoluments of the remaining two (2005: two) individuals are as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Salaries and other benefits	1,210	864
Retirement benefits scheme contributions	59	45
	1,269	909

The emoluments of each of the two (2005: two) highest paid individuals were less than HK$1,000,000.

(c) During the year, no emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals of the Group (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any emoluments during the year.

11. INCOME TAX EXPENSE

	2006	**2005**
	HK$'000	*HK$'000*
The charge comprises:		
Current tax:		
Hong Kong Profits Tax		
Current year	558	1,292
(Over) under-provision in prior years	(10)	3,576
PRC Enterprise Income Tax		
Current year	5,373	2,848
Under-provision in prior years	254	140
Current tax charge for the year	6,175	7,856
Deferred tax (credit) charge for the year *(note 25)*	(310)	3
	5,865	7,859

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit arising in Hong Kong for the year.

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.

The tax charge for the year can be reconciled to the profit before tax per the consolidated income statement as follows:

	2006	2005
	HK$'000	*HK$'000*
Profit before tax	18,895	18,075
Tax at PRC Enterprise Income Tax rate of 27% (2005: 33%)	5,102	5,964
Tax effect of expenses not deductible for tax purpose	1,815	2,471
Tax effect of income not taxable for tax purpose	(578)	(3,338)
Under-provision in respect of prior years	244	3,716
Tax effect of tax losses not recognised	3	170
Utilisation of losses not previously recognised	15	6
Effect of different tax rates of subsidiaries operating in other jurisdictions	(736)	(1,130)
Tax charge for the year	5,865	7,859

12. DIVIDENDS

The directors do not recommend the payment of a dividend for the years ended 31 December 2005 and 2006.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to the equity holders of approximately HK$13,030,000 (2005: HK$10,216,000) and on the weighted average of 370,542,466 ordinary share (2005: 202,531,506) deemed to be in issue during the year.

No diluted earnings per share has been presented for the year ended 31 December 2006 as the exercise policies of outstanding options are higher than the market price of shares.

No diluted earnings per share has been presented for the year ended 31 December 2005 as there are no dilutive potential ordinary shares in Issue.

14. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represented interest in land use rights and leasehold land and their net book values are analysed as follows:

	2006	**2005**
	HK$'000	*HK$'000*
At cost		
As at 1 January	3,253	3,178
Exchange difference	100	75
As at 31 December	3,353	3,253
Accumulated amortisation		
As at 1 January	1,026	843
Exchange difference	34	19
Amortisation for the year	153	164
As at 31 December	1,213	1,026
Net book values		
As at 31 December	2,140	2,227

Note: The land use rights and leasehold land of the Group as at 31 December 2006 are held on medium term leases and situated in the PRC and Hong Kong respectively

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture and equipment	Motor vehicles	Plant and machinery	Construction In progress	Loose tools and moulds	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST							
At 1 January 2005	50,997	21,690	9,815	78,576	166	189	161,433
Exchange difference	1,325	330	65	1,947	5	–	3,672
Additions	–	2,361	–	618	6,101	–	9,080
Disposals	–	(130)	(472)	–	–	–	(602)
At 31 December 2005 and January 2006	52,322	24,251	9,408	81,141	6,272	189	173,583
Exchange difference	1,757	435	61	2,892	118	–	5,263
Additions	–	1,108	–	9,370	91	–	10,569
Transfer in/(out)	–	–	–	5,088	(5,088)	–	–
Disposals	(195)	–	(2,615)	(329)	–	–	(3,139)
At 31 December 2006	53,884	25,794	6,854	98,162	1,393	189	186,276
ACCUMULATED DEPRECIATION							
At 1 January 2005	7,261	15,233	8,449	27,193	–	140	58,276
Exchange difference	161	119	59	585	–	–	924
Provided for the year	1,204	1,274	400	5,473	–	5	8,356
Eliminated on disposals	–	(69)	(148)	–	–	–	(217)
At 31 December 2005 and 1 January 2006	8,626	16,557	8,760	33,251	–	145	67,339
Exchange difference	273	210	61	1,069	–	–	1,613
Provided for the year	1,165	1,543	99	5,902	–	5	8,714
Eliminated on disposals	(78)	–	(2,590)	(329)	–	–	(2,997)
At 31 December 2006	9,986	18,310	6,330	39,893	–	150	74,669
NET BOOK VALUES							
At 31 December 2006	43,898	7,484	524	58,269	1,393	39	111,607
At 31 December 2005	43,696	7,694	648	47,890	6,272	44	106,244

The net book value of property, plant and equipment of the Group held under finance leases included above is as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Motor vehicles	362	467
Plant and machinery	18,100	23,570
	18,462	24,037

16. INTERESTS IN SUBSIDIARIES

	The Company	
	2006	**2005**
	HK$'000	*HK$'000*
Unlisted shares, at cost	73,992	73,992
Amounts due from subsidiaries	97,145	76,675
	171,137	150,667

The carrying value of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the ultimate holding company of the Group pursuant to the group reorganisation undertaken in preparation for the listing of the Company's shares on the Stock Exchange in 2003 (the "Group Reorganisation").

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of the directors, the amounts will not be repayable within one year from the balance sheet date. Accordingly, such amounts have been classified as non-current. The directors consider that the amounts due from subsidiaries approximate their fair value.

Particulars of the Company's subsidiaries as at 31 December 2006 are set out in note 33.

17. INVENTORIES

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Raw materials	19,172	15,236
Work in progress	5,840	5,792
Finished goods	32,708	26,652
	57,720	47,680

18. TRADE AND OTHER RECEIVABLES

The Group adopts a general policy of allowing average credit periods ranging from 90 days to 180 days to its trade customers. However, for certain customers with long-established relationship and good past repayment histories, a longer credit period may be granted up to one year.

An aged analysis of trade receivables (net of allowance for bad and doubtful debts) is as follows:

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Within 90 days	70,274	101,275
91 to 180 days	35,274	15,186
Over 180 days	51,009	32,982
Trade receivables	156,557	149,443
Deposits, prepayments and other receivables	21,930	27,843
	178,487	177,286

The directors consider that the carrying amount of trade and other receivables approximate their fair value.

19. TRADE AND OTHER PAYABLES

An aged analysis of trade payables is as follows:

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Within 90 days	8,414	12,860
91 to 180 days	4,750	1,594
Over 180 days	5,016	4,739
Trade payables	18,180	19,193
Other payables	10,146	9,670
	28,326	28,863

The directors consider that the carrying amount of trade and other payables approximate their fair value.

20. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2006	**2005**	**2006**	**2005**
	HK$	*HK$*	*HK$*	*HK$*
Amounts payable under finance leases:				
Within one year	5,770	7,072	5,092	6,623
In the second to fifth year inclusive	6,283	3,438	5,903	3,305
	12,053	10,510	10,995	9,928
Less: Future finance charges	(1,058)	(582)	N/A	N/A
Present value of lease obligations	10,995	9,928	10,995	9,928
Less: Amount due for settlement within 12 months (shown under current liabilities)			(5,092)	(6,623)
Amount due for settlement after 12 months			5,903	3,305

It is the Group's policy to lease certain of its plant and machinery and motor vehicles under finance leases. The average lease term is 3 years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

21. BORROWINGS

	The Group 2006	2005
	HK$'000	*HK$'000*
Trust receipts loans	39,616	43,752
Bank overdrafts	15,582	4,656
Bank loans	115,506	120,168
Other loan	–	6,250
	170,704	174,826
Analysis as:		
Secured	123,689	125,920
Unsecured	47,015	48,906
	170,704	174,826

The maturity profile of the above borrowings is as follows:

	2006	2005
On demand or within one year	138,674	132,779
More than one year, but not exceeding two years	32,030	42,047
	170,704	174,826
Less: amount due within one year shown under current liabilities	(138,674)	(132,779)
	32,030	42,047

The trust receipts loans, bank overdrafts and bank loans carry interest at the prevailing market rates.

The directors consider that the carrying amount of borrowings approximate their fair value.

The bank loans of the Company in the amount of HK$31,000,000 (2005: HK$38,000,000) are guaranteed by two wholly-owned subsidiaries on a joint and several basis.

22. SHARE CAPITAL

	Number of ordinary shares	Amount *HK$'000*
Ordinary share of HK$0.01 each		
Authorised:		
At 1 January 2005, 31 December 2005 And 31 December 2006	4,000,000,000	40,000
Issued and fully paid:		
At 1 January 2005	200,000,000	2,000
Issue of shares on 27 October 2005	14,000,000	140
At 31 December 2005 and 1 January 2006	214,000,000	2,140
Issue of rights shares on 7 July 2006	321,000,000	3,210
As at 31 December 2006	535,000,000	5,350

On 7 July 2006, the Company issued 321 million rights shares of HK$0.01 each to qualifying shareholders at the subscription price of HK$0.10 each in satisfaction of the sum of HK$32,100,000. The excess over the nominal value of the shares issued amounting to HK$28,890,000 was credited to the share premium account of the Company.

23. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 3 June 2003 for the primary purpose of providing incentives to encourage its participants to perform their best in achieving the goals of the Company and enjoy its result. The participants are any director and eligible employee of the Group; any entity in which any member of the Group holds any equity interest (the "Invested Entity"); any supplier of goods or services and customers to any member of the Group or any Invested Entity; any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; any adviser or consultant to any area of business or business development of any member of the Group or any Invested Entity; any shareholders of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group, as absolutely determined by the board.

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

The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

The period within which the shares must be taken up under an option of the Scheme shall not be later than 10 years from the date the option is granted. There is no minimum period for which an option must be held before it can be exercised. HK$1 is payable on acceptable of the options within 21 days from the date of grant. The subscription price is the highest of (i) the closing price of the shares quoted in the Stock exchange's daily quotations sheet for trade in one or more board lots of the shares on the date of the offer for the grant which must be a business day; (ii) the average closing price of the shares as quoted in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a share. The Scheme is valid for 10 years from 3 June 2003. No further options may be granted pursuant to the Scheme after 2 June 2013.

The following table discloses details of the Company's options under the Scheme held by employees and consultant and the movement during the years ended 31 December 2006 and 2005:

Category	Date of grant	Exercise price per share prior to Rights Issue *(HK cents)*	Exercise price per share adjusted for the effect of Rights Issue *(HK cents)* *(note)*	Weighted average remaining contractual life *(years)*	Exercisable period	Outstanding at 01/01/06	Outstanding at 01/01/05	Exercised during the year 2006	Exercised during the year 2005	Outstanding at 31/12/06	Outstanding at 31/12/05
Employees	14 December 2004	31.6	23.8	0.95	14.12.2004 to 13.12.2007	10,000,000	10,000,000	–	–	10,000,000	10,000,000
Consultant	14 December 2004	31.6	23.8	0.95	14.12.2004 to 13.12.2007	2,000,000	2,000,000	–	–	2,000,000	2,000,000

There was no share options granted under the Scheme in both years.

Note: The exercise price per share brought forward from last year has been adjusted to reflect the effect of the Rights issue during the year ended 31 December 2006.

On 14 December 2004, the Company granted share options under the Scheme to certain employees of the Group and a consultant, which entitle them to subscribe for a total of 10,000,000 shares and 2,000,000 shares respectively at HK31.6 cents per share. The exercise price per share has been adjusted to HK23.8 cents per share to reflect the effect of the Rights issue during the year ended 31 December 2006. The total amount of consideration received from the participants for taking up the options granted was HK$7. No share options were granted during the years ended 31 December 2006 and 2005. No share options were exercised, cancelled and lapsed during the years ended 31 December 2006 and 2005.

24. RESERVES

The Company	**Share premium** *HK$'000*	**Contributed surplus** *HK$'000*	**Accumulated losses** *HK$'000*	**Total** *HK$'000*
At 1 January 2005	35,645	71,463	–	107,108
Issue of shares	5,460	–	–	5,460
Loss for the year	–	–	(2,855)	(2,855)
At 31 December 2005 and 1 January 2006	41,105	71,463	(2,855)	109,713
Issue of shares *(note 22)*	27,446	–	–	27,446
Loss for the year	–	–	(3,640)	(3,640)
At 31 December 2006	68,551	71,463	(6,495)	133,519

The contributed surplus represents the difference between the book values of the underlying net assets of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the Company's shares issued under the Group Reorganisation.

The Company's reserves available for distribution to its shareholders comprise share premium, contributed surplus and accumulated profits which in aggregate amounted to approximately HK$134 million as at 31 December 2006 (2005: HK$110 million). Under the Companies Law (Revised) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the payment of distributions or dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be payable out of the profits or other reserves, including the share premium account, of the Company.

25. DEFERRED TAX LIABILITIES

The following are the Group's major deferred tax liabilities/(assets) recognised and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2005	495	(98)	397
(Credited) charged to the income statement for the year *(note 11)*	(6)	9	3
At 31 December 2005 and 1 January 2006	489	(89)	400
Credited to the income statement for the year *(note 11)*	(63)	(247)	(310)
At 31 December 2006	426	(336)	90

As at 31 December 2006, the Group had unused tax losses of HK$8,596,000 (2005: HK$2,504,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$1,920,000 (2006: HK$509,000) of such losses. No deferred tax has been recognised in respect of the remaining HK$6,676,000 (2005: HK$1,995,000) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

26. RETIREMENT BENEFITS SCHEME

When the Mandatory Provident Fund Schemes Ordinance ("MPFO") came into effect in Hong Kong on 1 December 2000, The Group established a mandatory provident fund scheme with voluntary contributions (the "MPF Scheme") for its employees in Hong Kong.

Prior to the introduction of the MPF Scheme, the Group had operated a defined contribution scheme registered under the Occupational Retirement Schemes Ordinance (the "ORSO Scheme") for its qualified employees in Hong Kong. The ORSO Scheme discontinued in 2001 and the benefits of the employees were transferred to the MPF Scheme. The assets held under the ORSO Scheme which were held separately from those of the Group were also transferred directly to the MPF Scheme. For MPF Scheme, the Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by the employee.

The amounts charged to the consolidated income statements represent contributions payable to the schemes by the Group at rates specified in the rules of the schemes less forfeiture, if any, arising from employees leaving the Group prior to completion of their qualifying service period.

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

As at the balance sheet date, there was no significant amount of forfeited contributions available to reduce future contributions.

27. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance lease arrangements in respect of the acquisition of assets with a total capital value at the inception of the leases of HK$7,786,000 (2005: HK$8,176,000).

28. PLEDGE OF ASSETS

As at the balance sheet date, the following assets were pledged by the Group to banks in order to secure general banking facilities granted to the Group, and their respective net book values are as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Land and buildings together with relevant land use rights situated in the PRC	45,474	45,321
Land and buildings situated in Hong Kong	562	602
Plant and machinery	57,248	46,655
Trade receivables of subsidiaries	2,956	2,982
Bank deposits	21,459	16,805
	127,699	112,365

The Company did not have any assets pledged as at the balance sheet date.

29. OPERATING LEASES COMMITMENTS

As at the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases in respect of rented premises, which fall due as follows:

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Within one year	1,322	182
In the second to fifth years inclusive	1,166	–
	2,488	182

Operating lease payments represent rentals payable by the Group for certain of its office and premises. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

30. CAPITAL COMMITMENTS

	The Group	
	2006	**2005**
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	–	4,909
Capital contribution to the registered capital of the PRC subsidiaries *(note)*	–	1,554

Note: The capital commitment represents the outstanding registered capital to be contributed to the subsidiaries in the PRC by the Group as at 31 December 2005.

The Company did not have any significant capital commitments as at the balance sheet date.

31. CONTINGENT LIABILITIES

(a) Financial guarantees issued

As at the balance sheet date, the company has issued the following guarantees:

Guarantees to banks in respect of banking facilities granted to wholly owned subsidiaries which will be renewed subject to the banking facilities' expiry date.

As at the balance sheet date, the directors do not consider it probable that a claim will be made against the company under any of the guarantees. The maximum liability of the company at the balance sheet date under the single guarantees issued is the facility drawn down by the subsidiaries of HK$125,163,000 (2005: HK$129,285,000).

The company has not recognised any deferred income in respect of the guarantees as their fair values and its transaction price cannot be reliably measured.

32. CONNECTED AND RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties, some of which are also deemed to be connected persons pursuant to the Listing Rules:

		2006	**2005**
	Notes	*HK$'000*	*HK$'000*
Rentals paid to:			
– Lucky Fair Investment Limited	*(i) & (ii)*	180	180
– Profit Horn Development Limited	*(i) & (ii)*	156	156
– Tai Tung Supermarket Limited	*(i) & (ii)*	228	288
– Mr. But Ching Pui	*(ii)*	72	72
– The But's Family and Mr. But Chai Leung	*(ii)*	144	144
– Mr. But Ka Wai and Mr. But Chai Leung	*(ii)*	156	156
– Mr. But Ching Pui and Ms. Leung Wai Ling	*(ii)*	156	156

Compensation to key management personnel:

The directors of the Group considered that they are the only key management personnel of the Group and their remuneration are set out in note 10.

Notes:

(i) Mr. But Ching Pui, Ms. Leung Wai Ling, Mr. But Ka Wai and Mr. But Chai Tong, all of whom are directors and beneficial shareholders of the Company, are collectively referred to as the "But's Family". The But's Family has 100% beneficial interests in these companies.

(ii) Rental for premises were determined in accordance with the leases entered into between the Group and the related parties, on the basis of estimated market value.

33. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2006 are as follows:

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of issued capital/ registered capital held by the Company *(note (i))*	Principal activities
Wah Yuen Foods International Limited 華園食品國際有限公司	British Virgin Islands/ Hong Kong	Ordinary shares USD1,000	100%	Investment holding
Wah Yuen Foods (China) Limited 華園食品 (中國) 有限公司	British Virgin Islands/ Hong Kong	Ordinary shares USD1,000	100%	Investment holding
Hong Kong Wah Yuen Foods Company Limited 香港華園食品廠有限公司	British Virgin Islands/ Hong Kong	Ordinary share HK$1	100%	Investment holding
Wah Yuen Investment Limited 華園投資有限公司	British Virgin Islands/ Hong Kong	Ordinary shares USD1,000	100%	Investment holding
Wealthstar Investments Limited 裕星投資有限公司	British Virgin Islands/ Hong Kong	Ordinary share USD1	100%	Investment holding
Wah Yuen Licensing Company Limited 華園商標有限公司	Cook Islands/ Hong Kong	Ordinary shares HK$10	100%	Holding of trademarks
Honfine Company Limited 朗耀有限公司	Hong Kong	Ordinary shares HK$10 Non-voting deferred shares HK$2 *note (iii)*	100%	Distribution and marketing of snack foods products
Wah Yuen Foods (Hong Kong) Company Limited 華園食品 (香港) 有限公司	Hong Kong	Ordinary shares HK$1,000 Non-voting deferred shares HK$10,000,000	100%	Manufacturing distribution and marketing of snack food products and convenience frozen, food products

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of issued capital/ registered capital held by the Company *(note (i))*	Principal activities
Million Riches Development Limited 裕億發展有限公司	Hong Kong	Ordinary shares HK$100 Non-voting deferred shares HK$1,000,000 *note (iii)*	100%	Distribution and marketing of snack foods products
Wah Yuen Foods Company Limited 華園食品廠有限公司	Hong Kong	Ordinary shares HK$20	100%	Investment holding
Wah Yuen (Guangzhou) Foods Company Limited 華園（廣州）食品有限公司	PRC	Registered and contributed capital USD4,500,000	100%	Manufacturing, distribution and marketing of snack food products
Rocco Foods Enterprises Company (Guangzhou) Limited 廣州樂高食品企業有限公司 *note (ii)*	PRC	Registered and contributed capital USD2,810,000	100%	Manufacturing, distribution and marketing of snack food products
Guangzhou Lekker Pet Foods Company Limited 廣州市俐加寵物食品有限公司 *note (ii)*	PRC	Registered and contributed capital HK$500,000	100%	Manufacturing, distribution and marketing of pet food products
Wide Spread Foods Company Limited 廣州宏嘉食品有限公司 *note (ii)*	PRC	Registered and contributed capital HK$500,000	100%	Trading

Notes:

(i) All the above subsidiaries, except for Wah Yuen Foods International Limited which is directly held, are indirectly held by the Company and operate principally in their places of incorporation/establishment.

(ii) Wah Yuen (Guangzhou) Foods Company Limited, Rocco Foods Enterprises Company (Guangzhou) Limited, Guangzhou Lekker Pet Foods Company Limited, and Wide Spread Foods Company Limited are wholly foreign owned enterprises established in the PRC.

(iii) The deferred shares, which are not held by the Group, practically carry no rights to dividends or to receive notice of or to attend or vote at any of the respective companies' general meetings or to participate in any distribution on their winding up.

(iv) None of the subsidiaries had any debt securities outstanding as at 31 December 2006 or at any time during the year.

3. MANAGEMENT DISCUSSION AND ANALYSIS

Set out below is the management discussion and analysis of the operating results and business review of the Group extracted from the respective annual reports of the Company for the three years ended 31 December 2004, 2005 and 2006:

(A) FOR THE YEAR ENDED 31 DECEMBER 2004

INDUSTRY OVERVIEW

Rapid economic development and continuously improving living standards have expedited the demand for quality, diversified and value-for-money packaged food products that suit the needs of urban lifestyle. In 2004, the continued rising inflation led to the rise in raw material prices. As such, the unfavourable market conditions brought forth by increasing production costs imposed immense pressure on product pricing and affected the development of the industry.

BUSINESS REVIEW

Wah Yuen is the leading food manufacturer, distributor and retailer in the Hong Kong and PRC markets, producing and offering over 200 types of top quality snack products with a unique Asian flavour under three brands, namely Wah Yuen, Rocco and 采楓, and the OEM model. The Group also produces convenience frozen food products under the brand name Wah Yuen and under the OEM model.

Hong Kong Market

In 2004, despite keen market competition, the Group's business development in the Hong Kong market maintained sustainable growth, amidst Hong Kong's favourable economic conditions, increasing numbers of Mainland tourists, as well as strengthening of our marketing and promotional efforts.

By leveraging on its extensive sales and distribution network spanning 2,300 retail outlets in Hong Kong, long-established and renowned brand identity and diversified quality products, Wah Yuen continued to be one of the most popular packaged food brands in Hong Kong.

During the year under review, sales in the Hong Kong market amounted to approximately HK$115,785,000, representing a growth of 20% and accounting for approximately 55% of the Group's total turnover. The encouraging growth in sales was mainly attributable to the successful market launch of various new products and the development of existing and new sales channels.

In 2004, the Group further extended its comprehensive range of packaged snack food and convenience frozen food products by launching a number of innovative products, such as cookies, Chinese sausages, moon cakes with new creative designs and a series of new Chinese dim sum, all of which received positive market response. In 2004, Wah Yuen also participated in the 39th Hong Kong Brands & Products Expo and obtained a satisfactory result.

In addition, with the view of strengthening its market presence and enhancing sales performance, Wah Yuen proactively extended our existing network while developing potential sales channels and achieved impressive progress. The Group successfully expanded its sales network for convenience frozen food products, which established an ideal platform for business growth.

The PRC Market

Wah Yuen's products are mainly sold under the brand names of "Wah Yuen", "Rocco" and "采楓" through its well-established distribution network spanning over 250 cities in 30 provinces. As at 31 December 2004, the Group's branch offices were strategically located in Beijing, Shenyang, Changchun, Wuhan, Changsha and Nanning.

In 2004, the further opening of the PRC market upon its entry into the WTO, lower production costs and abundant work force attracted numerous new market entrants, which further intensified the already keen market competition there, thus triggering an intense price war. Together with the increasing prices for raw materials, the Group experienced different challenges during the year.

As a result of the difficult business environment, the Group's sales in the PRC for the year ended 31 December 2004 amounted to approximately HK$94,669,000, accounting for approximately 45% of the Group's total turnover. Sales of snacks under all three brand names recorded a decrease of approximately 8% due to severe market competition.

Despite the drop in sales of snacks, the Group's introduction of its convenience frozen food products to the PRC market during the first half of the year maintained stable progress. The Group endeavoured to consolidate its relationship with local supermarkets and convenience stores and stepped-up its sales promotion, with the view of establishing an extensive distribution network for 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 in 2004, demonstrating the Group's accomplishments in extending its business reach to the PRC market.

Overseas Market

While consolidating its business foundation and propelling product development, the Group successfully tapped into the Japanese market during the fourth quarter of 2004 and achieved substantial growth.

During the year under review, Wah Yuen introduced several types of convenience frozen food products, namely Hong Kong Style Fried Rice and Curry Fried Rice, and a series of Chinese dim sum into the Japanese market. For the period between October and December, sales of the convenience frozen food products recorded satisfactory performance and it is expected that the Japanese market will become a new business growth driver, expediting the Group's profitability.

Production Facilities

As at 31 December 2004, the Group has three production facilities in Hong Kong and the Huadu District, Guangzhou, Guangdong Province. Utilising 10 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's production facilities maintained smooth operation.

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 well equipped in its continual efforts to maintain excellent quality.

FINANCIAL REVIEW

The Group's turnover for the year ended 31 December 2004 amounted to HK$210,454,000, representing a slight growth of 6% as compared to HK$198,934,000 for the previous year. The Group's gross profit and profit attributable to shareholders for the year ended 31 December 2004 reached HK$71,414,000 and HK$13,086,000 respectively.

Sales of dried meat products which accounted for 51% 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 19%, 8% and 4% respectively of the total turnover, while the remaining was attributable to other products. These figures were similar to that of the previous year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2004, the Group had total assets of HK$348,430,000 and its total current assets were HK$239,767,000. As at that date, the current and non-current liabilities of the Group totaled to HK$170,382,000 and HK$46,007,000 respectively. The Group's bank borrowings amounted to HK$164,441,000 (2003: HK$154,386,000). Most of these bank borrowings were denominated in Hong Kong dollars and Renminbi and bearing floating interest rates. As at 31 December 2004, the gearing ratio of the Group was 37% (2003: 34%), 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$11,751,000 in fixed assets, of which 23% was used for purchasing production plant and machinery, 44% for renovation of production facilities and the remaining related to other assets.

As at 31 December 2004, the Group had capital commitments of approximately HK$6,627,000 in respect of acquisition of new machinery and renovation of a new production line.

CHARGE ON ASSETS

As at 31 December 2004, certain assets of the Group with aggregate carrying value of HK$145,204,000 were pledged to banks to secure banking facilities granted to the Group.

EMPLOYEES

As at 31 December 2004, total number of employees of the Group were approximately 72 in Hong Kong (2003: 85), and approximately 865 in the PRC (2003: 821). 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.

(B) FOR THE YEAR ENDED 31 DECEMBER 2005

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.

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.

(C) FOR THE YEAR ENDED 31 DECEMBER 2006

The Group's turnover for the year ended 31 December 2006 amounted to HK$202,130,000, representing a slightly decrease of 3% as compared to HK$207,551,000 for the previous year. The Group's gross profit and profit attributable to the equity holders for the year ended 31 December 2006 increased by 10% to HK$70,823,000 and inflated substantially by 28% to HK$13,030,000 respectively.

Sales of dried meat products which accounted for 53% 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 22%, 5% and 4% respectively of the total turnover, while the remaining was attributable to other products.

BUSINESS REVIEW

Wah Yuen is the market leader of food manufacture, distribution and retail in both Hong Kong and the PRC, offering a diverse range of over 200 types of supreme quality snack products with unique Asian flavour. The Group produces and markets its quality products under three brands, namely "Wah Yuen", "Rocco" and "采楓", as well as the OEM model. Additionally, the Group also engages in the manufacturing and marketing of convenience frozen food products under the Wah Yuen brand and the OEM model.

Hong Kong Market

On the back of encouraging economic development and increased consumption power in the local market, the Group maintained satisfactory performance in Hong Kong despite keen competition, while the production and sale of Wah Yuen snack food products and convenience frozen food products remain the core business of the Company.

During the year under review, the Group successfully extended its network coverage and further expanded its sales and distribution channels. With an extensive retail network comprising a total of approximately 2,000 outlets, Wah Yuen cemented its unrivalled position as one of the leading packaged food brands most favoured by Hong Kong consumers, leveraging on its renowned brand equity and diverse range of quality products.

For the year ended 31 December 2006, sales in the Hong Kong market amounted to approximately HK$108,576,000 and accounted for 54% of the Group's total turnover. The slightly decline of turnover was mainly due to the drop of low-margin trading business.

In 2006, the Group stepped up its new product development initiatives to cater to customers' preferences and attained encouraging results. Stepping up efforts to enhance its product portfolio, the Group launched a number of new products this year, namely Chinese dim sum, fried rice and snack products. Additionally, the Group consolidated marketing efforts in a number of key sales channels. Wah Yuen has particularly focused on strengthening its cooperation with key supermarket chain stores and convenience stores via concessionaries and joint promotion programmes. Boosting an extensive retail network covering all major supermarkets and convenience chain stores, the Group has cemented its market position as one of the most popular packaged food brands in Hong Kong.

The PRC Market

The Group markets its products in the PRC market under the brand names of "Wah Yuen", "Rocco" and "采楓", via its comprehensive mainland distribution network spanning 250 cities in 30 provinces.

During the year under review, the Group's sales in the PRC slightly increased by 6% and amounted to approximately HK$93,554,000, which accounted for approximately 46% of the Group's total turnover for the year ended 31 December 2006.

Despite unfavourable market conditions and competition from increase entrants in the market, the Group maintained its strength in the sales and marketing promotion of its products. As a result, the Group's marketing and distribution expenses increased as it paved the way to facilitate future growth.

Overseas Market

The Group attained the "A Grade Certificate" this year in recognition of its production facilities, which demonstrated the Group's longstanding commitment to hygiene standards and quality control. Significantly, 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 and a leading international corporation with businesses spanning the globe. Operations of Sojitz consists of five core businesses - machinery and aerospace; energy and mineral resources; chemicals and plastics; real estate development and forestry products; as well as consumer lifestyle business.

Under the aforementioned partnership, Wah Yuen will provide manufacturing services to Sojitz and its subsidiaries for a period of 15 years commencing in 2006, exporting its premium fried rice, dim sum and convenience frozen food products to Japan through the distribution and retail network of Sojitz. Wah Yuen is confident that under this long-term strategic agreement, the Japanese market will become the Group's future growth driver, cultivating immense potential to enhance its profitability and business scope.

Production Facilities

The Group currently owns and operates three production facilities in Hong Kong and the Huadu District, Guangzhou, Guangdong Province. The Company was granted the internationally recognized HACCP certificate, acknowledging the compliance of its production lines with the strictest hygiene standards throughout the entire food production process, from the procurement of raw materials, to packaging, processing and distribution.

During the year, the Group has continued to upgrade its manufacturing and production facilities to enhance its capacities, while capitalizing on its 10 state-of-the-art and highly efficient production lines to deliver its renowned quality products.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the Group had total assets of HK$407,779,000 and its total current assets were HK$294,032,000. As at that date, the current and non-current liabilities of the Group totaled to HK$175,213,000 and HK$38,023,000 respectively. The Group's bank borrowings amounted to HK$170,704,000 (2005: HK$174,826,000). Most of these bank borrowings were denominated in Hong Kong dollars and bearing floating interest rates. As at 31 December 2006, the gearing ratio of the Group improved at 30% (2005: 42%), calculated on the basis of total borrowings less cash over total assets at that date.

EXPOSURE TO FLUCTUATION IN FOREIGN EXCHANGE

As at 31 December 2006, the Group had no foreign exchange exposure and related hedge.

CAPITAL EXPENDITURE

During the year, the Group invested approximately HK$10,569,000 in fixed assets, of which 89% was used for purchasing production machinery and the remaining related to other assets.

As at 31 December 2006, the Group had no capital commitments.

CHARGE ON ASSETS

As at 31 December 2006, certain assets of the Group with aggregate carrying value of approximately HK$127,699,000 were pledged to banks to secure banking facilities granted to the Group.

RIGHTS ISSUE

A resolution was passed by the shareholders of the Company at a special general meeting on 5 June 2006 to approve the allotment of 321,000,000 shares at a price of HK$0.1 per share on the basis of three rights shares for every two existing Company shares. The rights issue was completed on 7 July 2006 and net proceeds of approximately HK$30,656,000 was received.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2006, the Group's total number of employees stood at approximately 650. Total staff costs for the year under review were approximately HK$18,837,000. Wah Yuen offers its workforce comprehensive remuneration and employees' benefits packages. Additionally, share options and discretionary bonuses were also granted to eligible staff members based on their performance and the results of the Group.

4. INDEBTEDNESS

At the close of business on 31 July 2007, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had total outstanding borrowings of approximately HK$183.6 million, comprising secured bank loans of approximately HK$147.2 million, unsecured bank overdraft of HK$18.5 million, and secured obligation under finance lease contracts of approximately HK$17.9 million.

The Enlarged Group's borrowings were secured by the charge over certain bank deposits amounting to approximately HK$22.3 million, certain leasehold land and buildings, plant and machinery with net book value of approximately HK$105.4 million, certain trade receivables amounting to approximately HK$2.6 million, and corporate guarantees of the Enlarged Group.

Save as aforesaid or as otherwise mentioned herein and apart from intra-group liabilities and normal trade payables in the ordinary course of business, at the close of business on 31 July 2007, the Enlarged Group did not have any outstanding indebtedness, any loan capital, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase or finance lease commitments, guarantees or other contingent liabilities.

The Directors have confirmed that have been no material changes in the indebtedness and contingent liabilities of the Enlarged Group since 31 July 2007.

5. WORKING CAPITAL

The Directors are satisfied after due and careful enquiry that after taking into account the existing banking facilities available and the existing cash and bank balances, the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this circular, in the absence of unforeseeable circumstances.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

The following is the text of reports, prepared for the purpose of inclusion in this circular, received from the reporting accountants, Grant Thornton, Certified Public Accountants.

(1) The CEWH Group

Certified Public Accountants
Member of Grant Thornton International

Grant Thornton
均富會計師行

24 September 2007

The Board of Directors
Wah Yuen Holdings Limited
2nd Floor, On Shing Industrial Building
Nos. 2-16 Wo Liu Hang Road
Fo Tan, Shatin
New Territories
Hong Kong

Dear Sirs

We set out below our report on the financial information (the "Financial Information") of China Environmental Water Holdings Limited ("CEWH") and its subsidiaries (hereinafter collectively referred to as the "CEWH Group") including the consolidated balance sheets of the CEWH Group as at 31 March 2005, 2006 and 2007, balance sheets of CEWH as at 31 March 2005, 2006 and 2007, consolidated income statements, consolidated cash flow statements and consolidated statements of changes in equity for the period from 8 December 2003 (being date of incorporation of CEWH) to 31 March 2005 and each of the two years ended 31 March 2006 and 2007 ("the Relevant Periods") and notes thereto prepared for inclusion in the circular (the "Circular") dated 24 September 2007 issued by Wah Yuen Holdings Limited (the "Company") in connection with the proposed acquisition of the entire issued share capital of CEWH.

CEWH is a limited company incorporated in Hong Kong on 8 December 2003 with an authorised share capital of HK$10,000 divided into 10,000 ordinary shares of HK$1 each. The registered office of CEWH and its principal place of business are at Suite 6408, 64/F., Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong. As at the date of this report, CEWH is wholly and beneficially owned by China Water Affairs Group Limited ("China Water"), a company re-domiciled in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited. The principal activity of CEWH is investment holding and its principal investment mainly represents the 50% equity interest in Conseco Seabuckthorn Co., Ltd. ("CONSECO"), details of the subsidiaries are set out in note 12 of Section II below.

The financial statements of CEWH for the period from 8 December 2003 (date of incorporation) to 31 March 2005 were prepared in accordance with accounting principles generally accepted in Hong Kong and audited by Messrs. RSM Nelson Wheeler, Certified Public Accountants, in Hong Kong.

We have acted as auditors of CEWH for each of the two years ended 31 March 2006 and 2007. The financial statements of CEWH were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA") except for a qualified opinion arising from the disagreement about non-preparation of consolidated financial statements as required by Hong Kong Accounting Standard 27 "Consolidated and Separate Financial Statements" issued by the HKICPA and the Hong Kong Companies Ordinances for the year ended 31 March 2006. Such qualification has been removed in this report because, for the purpose of this report, the financial information of CEWH's subsidiaries is consolidated in the preparation of this Financial Information. No such qualification in the auditors' report for the year ended 31 March 2007 as CEWH was exempted from the preparation of consolidated financial statements for the year ended 31 March 2007 as it is a wholly-owned subsidiary of China Water, whose financial statements are available for public use and comply with HKFRSs. Furthermore, the auditors' report for the year ended 31 March 2007 has an explanatory paragraph covering the existence of material uncertainty of preparing the financial statements of CEWH on a going concern basis was included therein. For the purpose of this report, we have included such explanatory paragraph as set out in note 1.2 of Section II below.

The financial statements of the following subsidiaries were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the People's Republic of China (the "PRC") and were audited by the following certified public accountants registered in the PRC:

Name of subsidiaries	**Financial period**	**Name of auditors**
CONSECO	Years ended 31 December 2005 and 2006	華辰會計師事務所
鄂爾多斯市高原聖果生態建設開發有限公司	Year ended 31 December 2005	內蒙古興原會計師事務所鄂爾多斯分所
	Year ended 31 December 2006	鄂爾多斯市興原會計師事務所
准格爾旗高原聖果沙棘有限公司	Year ended 31 December 2005	內蒙古興原會計師事務所鄂爾多斯分所
	Year ended 31 December 2006	鄂爾多斯市興原會計師事務所
達拉特旗高原聖果沙棘有限公司	Year ended 31 December 2005	內蒙古興原會計師事務所鄂爾多斯分所
	Year ended 31 December 2006	鄂爾多斯市興原會計師事務所
陝西果聖水土保持建設有限公司	Year ended 31 December 2005	Exempt from the issuance of the PRC audited financial statements due to the voluntary requirement of enterprise annual inspection
	Year ended 31 December 2006	陝西榆林振北有限責任會計師事務所

For the purpose of this report, the directors of CEWH have prepared the consolidated financial statements of CEWH for the Relevant Periods (the "Underlying Financial Statements") in accordance with HKFRSs. We have, for the purpose of this report, performed appropriate audit procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information and the notes thereto as set out in Section I to III below has been prepared by the directors of CEWH based on the Underlying Financial Statements in accordance with HKFRSs and is presented on the basis set out in note 1 of Section II below. For the purpose of this report, we have examined the Financial Information and carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The directors of CEWH are responsible for preparing the Underlying Financial Statements and the Financial Information which gives a true and fair view. The directors of the Company are responsible for the contents of the Circular in which this report is included. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of the CEWH Group and CEWH as at 31 March 2005, 2006 and 2007 and of the consolidated results and cash flows of the CEWH Group for each of the Relevant Periods.

I. FINANCIAL INFORMATION

(a) Consolidated income statements

	Notes	Period from 8 December 2003 (date of incorporation) to 31 March 2005 HK$'000	Year ended 31 March 2006 HK$'000	Year ended 31 March 2007 HK$'000
Revenue	3	–	6,088	5,609
Cost of sales		–	(3,008)	(3,665)
Gross profit		–	3,080	1,944
Other income	3	–	20,638	37,151
Selling and distribution costs		–	(1,033)	(2,561)
Administrative expenses		10	(1,782)	(7,495)
Other operating expenses		–	(4,052)	(7,151)
Operating (loss)/profit before income tax	5	(10)	16,851	21,888
Income tax expense	6	–	(3,049)	(4,222)
(Loss)/Profit for the period/year		(10)	13,802	17,666
Attributable to:				
Equity holders of CEWH		(10)	6,398	8,852
Minority interests		–	7,404	8,814
(Loss)/Profit for the period/year		(10)	13,802	17,666
(Loss)/Earnings per share attributable to equity holders of CEWH during the period/year	7			
– Basic		–	1,066	885
– Diluted		N/A	N/A	N/A

(b) **Consolidated balance sheets**

	Notes	2005 HK$'000	31 March 2006 HK$'000	2007 HK$'000
ASSETS AND LIABILITIES				
Non-current assets				
Goodwill	*8*	–	4,619	4,619
Property, plant and equipment	*9*	–	14,538	45,597
Prepaid land lease payments	*10*	–	2,361	2,410
Deposits	*11*	–	–	5,100
		–	21,518	57,726
Current assets				
Inventories	*13*	–	2,781	5,626
Biological assets	*14*	–	–	–
Prepayments and other receivables	*15*	–	9,503	20,964
Amounts due from a fellow subsidiary	*16*	–	–	31
Amounts due from a minority shareholder of subsidiary	*16*	–	–	700
Cash and cash equivalents	*17*	1	41,282	8,643
		1	53,566	35,964
Current liabilities				
Trade payables	*18*	–	38	387
Accrued liabilities, deposits received and other payables		–	22,424	13,160
Amounts due to a related party	*16*	–	–	5,773
Amounts due to minority shareholders of subsidiaries	*16*	–	1,381	2,944
Amounts due to an immediate holding company	*16*	11	13,485	13,485
Amounts due to a shareholder	*16*	–	5,773	–
Amounts due to ultimate holding company	*16*	–	–	1
Amounts due to a fellow subsidiary	*16*	–	11	–
Taxes payable		–	2,751	5,849
		11	45,863	41,599
Net current (liabilities)/assets		(10)	7,703	(5,635)
Total assets less current liabilities		(10)	29,221	52,091
Non-current liabilities				
Borrowings	*19*	–	–	3,450
Net (liabilities)/assets		(10)	29,221	48,641
EQUITY				
Equity attributable to equity holders of CEWH				
Share capital	*20*	–	–	–
Reserves		(10)	6,388	16,081
		(10)	6,388	16,081
Minority interests		–	22,833	32,560
Total equity		(10)	29,221	48,641

(c) Balance sheets

			31 March	
		2005	**2006**	**2007**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES				
Non-current assets				
Interests in subsidiaries	*12*	–	19,242	19,242
Current assets				
Cash and cash equivalents		1	8	3
Current liabilities				
Amounts due to a related party	*16*	–	–	5,773
Amounts due to an immediate holding company	*16*	11	13,485	13,485
Amounts due to a shareholder	*16*	–	5,773	–
Amounts due to ultimate holding company	*16*	–	–	1
Amounts due to a fellow subsidiary	*16*	–	11	–
		11	19,269	19,259
Net current liabilities		(10)	(19,261)	(19,256)
Net liabilities		(10)	(19)	(14)
EQUITY				
Share capital	*20*	–	–	–
Accumulated losses		(10)	(19)	(14)
Total equity		(10)	(19)	(14)

(d) Consolidated statements of changes in equity

	Equity attributable to equity holders of CEWH				Minority interests	Total
	Share capital	Exchange fluctuation reserve*	(Accumulated loss)/Retained profits*	Total		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Issue of new shares	–	–	–	–	–	–
Loss for the period	–	–	(10)	(10)	–	(10)
Total recognised income and expense for the period	–	–	(10)	(10)	–	(10)
At 31 March 2005 and at 1 April 2005	–	–	(10)	(10)	–	(10)
Profit for the year	–	–	6,398	6,398	7,404	13,802
Total recognised income and expenses for the year	–	–	6,398	6,398	7,404	13,802
Arising from acquisition of subsidiaries	–	–	–	–	15,429	15,429
At 31 March 2006 and at 1 April 2006	–	–	6,388	6,388	22,833	29,221
Currency translation difference – net income directly recognised in equity	–	841	–	841	913	1,754
Profit for the year	–	–	8,852	8,852	8,814	17,666
Total recognised income and expenses for the year	–	841	8,852	9,693	9,727	19,420
At 31 March 2007	–	841	15,240	16,081	32,560	48,641

* *These reserve accounts comprise the consolidated reserves in the consolidated balance sheets.*

(e) Consolidated cash flow statements

	Period from 8 December 2003 (date of incorporation) to 31 March 2005	Year ended 31 March 2006	2007
	HK$'000	*HK$'000*	*HK$'000*
Cash flows from operating activities			
Operating (loss)/profit before income tax	(10)	16,851	21,888
Adjustments for:			
Depreciation of property, plant and equipment	–	265	1,201
Amortisation of prepaid land lease payments	–	23	45
Gain on disposal of property, plant and equipment	–	–	(120)
Interest income	–	(123)	(188)
Inventories written off	–	–	900
Operating (loss)/profit before working capital changes	(10)	17,016	23,726
Decrease/(Increase) in inventories	–	616	(3,745)
Increase in prepayments and other receivables	–	(833)	(11,461)
Increase in trade payables	–	28	349
Decrease in accrued liabilities, deposits received and other payables	–	(6,626)	(9,264)
Increase in amounts due from a fellow subsidiary	–	–	(31)
Increase in amounts due from a minority shareholder of subsidiary	–	–	(700)
Increase in amounts due to minority shareholders of subsidiaries	–	1,381	1,563
Increase in amounts due to an immediate holding company	11	13,474	–
Increase in amounts due to a shareholder	–	5,773	–
Increase in amounts due to ultimate holding company	–	–	1
Increase/(Decrease) in amounts due to a fellow subsidiary	–	11	(11)
Cash generated from operations	1	30,840	427
Income tax paid	–	(298)	(1,124)
Net cash generated from/(used in) operating activities	1	30,542	(697)

	Period from 8 December 2003 (date of incorporation) to 31 March 2005	Year ended 31 March	
	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*
Cash flows from investing activities			
Purchases of property, plant and equipment	–	(4,217)	(32,636)
Proceeds from disposal of property, plant and equipment	–	–	1,077
Acquisition of subsidiaries (net of cash and cash equivalent acquired) *(note 22)*	–	14,833	–
Deposits paid	–	–	(5,100)
Interest received	–	123	188
Net cash generated from/(used in) investing activities	–	10,739	(36,471)
Cash flows from financing activities			
Proceeds from borrowings	–	–	3,450
Net cash generated from financing activities	–	–	3,450
Net increase/(decrease) in cash and cash equivalents	1	41,281	(33,718)
Cash and cash equivalents at beginning of the period/year	–	1	41,282
Effect of foreign exchange rate changes	–	–	1,079
Cash and cash equivalents at end of the period/year	1	41,282	8,643

MAJOR NON-CASH TRANSACTIONS

(a) Amounts due to a shareholder of HK$5,773,000 were assigned to a related party of the Company during the year ended 31 March 2007 of which was a non-cash transaction.

(b) During the year ended 31 March 2006, there was an asset contribution amounting to HK$3,855,000 made for the purpose of capital injection to CONSECO by a minority equity holder.

II. NOTES TO THE FINANCIAL INFORMATION

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 Statement of compliance

The Financial Information set out in this report has been prepared in accordance with HKFRSs which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA, which have been consistently applied throughout the Relevant Periods. The Financial Information also compiles with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

1.2 Basis of preparation of Financial Information

The CEWH Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of CEWH anticipate that the adoption of such HKFRSs will not result in material financial impact on the Financial Information for the Relevant Periods.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 23 (Revised)	Borrowing Costs[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Interpretation 8	Scope of HKFRS 2[3]
HK(IFRIC)-Interpretation 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC)-Interpretation 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC)-Interpretation 11	HKFRS 2 – Group and Treasury Share Transactions[6]
HK(IFRIC)-Interpretation 12	Service Concession Arrangements[7]
HK(IFRIC)-Interpretation 13	Customer Loyalty Programmes[8]
HK(IFRIC)-Interpretation 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[7]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 May 2006
[4] Effective for annual periods beginning on or after 1 June 2006
[5] Effective for annual periods beginning on or after 1 November 2006
[6] Effective for annual periods beginning on or after 1 March 2007
[7] Effective for annual periods beginning on or after 1 January 2008
[8] Effective for annual periods beginning on or after 1 July 2008

The significant accounting policies that have been used in the preparation of the Financial Information for the Relevant Periods are summarised below. These policies have been consistently applied to all the period/years presented unless otherwise stated.

The Financial Information for the Relevant Periods has been prepared on the historical cost basis except for biological assets which are stated at fair values less point-of-sale costs. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the Financial Information for the Relevant Periods. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information for the Relevant Periods are disclosed in note 2.

As at 31 March 2007, the CEWH Group and CEWH had net current liabilities of HK$5,635,000 and HK$19,256,000 respectively and CEWH had net liabilities of HK$14,000. Notwithstanding these, the Financial Information has been prepared on a going concern basis on the assumption that the CEWH Group and CEWH will continue to operate as a going concern. The going concern basis has been adopted on the basis of an undertaking by its ultimate holding company to continue to provide financial support to the CEWH Group and CEWH.

Should the CEWH Group and CEWH be unable to continue in business as a going concern, adjustments would have to be made to reduce the value of assets to recoverable amount, to reclassify non-current assets and liabilities as current assets and liabilities and to provide for any further liabilities which might arise.

1.3 Basis of consolidation

The Financial Information incorporates the financial statements of CEWH and its subsidiaries made up to 31 March each year.

1.4 Subsidiaries

Subsidiaries are entities over which CEWH has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether CEWH controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to CEWH. They are excluded from consolidation from the date that control ceases.

Business combinations (other than for combining entities under common control) are accounted for by applying the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, assets and liabilities of the subsidiary are included in the consolidated balance sheets at their fair values, which are also used as the bases for subsequent measurement in accordance with the CEWH Group's accounting policies.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the Financial Information. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In CEWH's balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by CEWH on the basis of dividends received and receivable at the balance sheet date.

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the CEWH Group and are not the CEWH Group's financial liabilities.

Minority interests are presented in the consolidated balance sheets within equity, separately from the equity attributable to the equity holders of CEWH. Profit or loss attributable to the minority interests are presented separately in the consolidated income statements as an allocation of the CEWH Group's results. Where losses applicable to the minority exceeds the minority interest in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the CEWH Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the CEWH Group has been recovered.

1.5 Foreign currency translation

The Financial Information is presented in Hong Kong Dollars ("HK$"), which is also the functional currency of CEWH.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statements.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the Financial Information, all individual financial statements of foreign operations, originally presented in a currency different from the CEWH Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the balance sheet date. Income and expenses have been converted into HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the exchange fluctuation reserve in equity.

1.6 Revenue

Revenue comprises the fair value for the sale of goods, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the CEWH Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

(i) Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods; and

(ii) Interest income is recognised on a time-proportion basis using effective interest method.

1.7 Biological assets

Biological assets represent seedlings which are stated at fair value less estimated point-of-sale costs. The fair value of biological assets is determined based on market prices of seedlings of similar age, breed and genetic merit and with reference to the most recent market transaction prices. Gain or loss arising on initial recognition of a biological asset at fair value less estimated point-of-sale costs, or from a change in the fair value less estimated point-of-sale costs of the biological assets is included in the income statements for the period in which it arises.

1.8 Goodwill

Goodwill represents the excess of the cost of a business combination over the CEWH Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the CEWH Group, plus any costs directly attributable to the business combination.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1.11).

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

1.9 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at acquisition cost less accumulated depreciation and accumulated impairment losses. The cost of asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statements.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the CEWH Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs less their estimated residual values over their estimated useful lives, as follows:

Leasehold buildings	50 years or over the lease term, whichever is shorter
Leasehold improvements	5 years or over the lease term, whichever is shorter
Plant and machineries	6 to 15 years
Furniture, equipment and motor vehicles	5 years

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Construction in progress represents leasehold buildings, plant and machineries under construction and is stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

1.10 Prepaid land lease payments

Prepaid land lease payments represent up-front payments to acquire the land use rights/leasehold land. They are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line basis over the lease term except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets.

1.11 Impairment of assets

Goodwill arising on acquisition of subsidiaries, property, plant and equipment, prepaid land lease prepayments, interests in subsidiaries are subject to impairment testing.

Goodwill with an indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the CEWH Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other non-financial assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.12 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the CEWH Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the CEWH Group

Assets that are held by the CEWH Group under leases which transfer to the CEWH Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the CEWH Group are classified as operating leases.

(ii) Operating lease charges as leasee

Where the CEWH Group has the right to use assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

1.13 Financial assets

The CEWH Group's accounting policies for financial assets other than investments in subsidiaries are set out below.

Recognition and measurement

Financial assets of the CEWH Group include deposits, prepayments and other receivables. These are classified into loans and receivables. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the CEWH Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value plus directly attributable transaction costs.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fee that are an integral part of the effective interest rate and transaction cost.

Derecognition of financial assets

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

Impairment of financial assets

At each balance sheet date, financial assets are reviewed to determine whether there is any objective evidence of impairment. If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in the income statements of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in income statements for the period in which the reversal occurs.

1.14 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

1.15 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statements.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition of assets and liabilities in a transaction that affects neither taxable nor accounting profit nor loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the CEWH Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset is realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statements, or in equity if they relate to items that are charged or credited directly to equity.

1.16 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand.

1.17 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

1.18 Employee benefits

Retirement benefits to employees are provided through a defined contribution plan.

The employees of the CEWH Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government (the "Scheme"). These subsidiaries are required to contribute certain percentage of its payroll costs to the Scheme. The local municipal government undertakes to assume the retirement benefits obligation of all existing and future retired employees of the CEWH Group's subsidiaries. The only obligation of the CEWH Group with respect to the scheme is to pay the ongoing required contributions under the Scheme mentioned above. The contributions are charged to the income statement as they become payable in accordance with the rules of the Scheme.

1.19 Financial liabilities

The CEWH Group's financial liabilities include trade payables, accrued liabilities and other payables, amounts due to a director, minority shareholders of subsidiaries, an immediate holding company, a shareholder, ultimate holding company and a fellow subsidiary and borrowings.

Financial liabilities are recognised when the CEWH Group becomes a party to the contractual provisions of the instrument. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statements.

(i) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(ii) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statements over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the CEWH Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

All borrowing costs are expensed as incurred.

1.20 Related parties

A party is considered to be related to the CEWH Group if:

(i) directly, or indirectly through one or more intermediaries, the party (a) controls, is controlled by, or is under common control with, the CEWH Group; (b) has an interest in the CEWH Group that gives it significant influence over the CEWH Group; or (c) has joint control over the CEWH Group;

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of the CEWH Group or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of the employees of the CEWH Group, or of any entity that is a related party of the CEWH Group.

1.21 Government grants

Government grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the CEWH Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statements over the period necessary to match them with the costs that they are intended to compensate and are presented separately from the costs. Government grants relating to the purchase of assets are included in non-current liabilities as deferred government grants and are recognised in their income statements on a straight line basis over the expected lives of the related assets.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The CEWH Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Depreciation and amortisation

The CEWH Group depreciates the property, plant and equipment and prepaid land lease payments in accordance with the accounting policies stated in note 1.9 and note 1.10 respectively. The estimated useful lives reflect the directors' estimate of the periods that the CEWH Group intends to derive future economic benefits from the use of these assets.

(ii) Impairment of goodwill

The CEWH Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 1.11. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(iii) Valuation of biological assets

The CEWH Group's management determines the fair values less estimated point-of-sale costs of biological assets on initial recognition and at each balance sheet date. These estimates are based on the current market condition, the knowledge and experience of the CEWH Group's management.

(iv) Income tax

The CEWH Group is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The CEWH Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25% and will be effective from 1 January 2008. The impact of such change of enterprise income tax rate on the CEWH Group's Financial Information will depend on detailed pronouncements that will be subsequently issued. Since the implementation measure on the transitional policy of preferential tax rate granted according to current tax law and administrative regulations has not yet been announced, the CEWH Group cannot reasonably estimate the financial impact of the new tax law to the CEWH Group at this stage.

3. REVENUE AND OTHER REVENUE

The CEWH Group is principally engaged in investment holding and sale of sea buckthorn's seedlings. Revenue arising from the CEWH Group's principal activities and other income recognised during the Relevant Periods are as follows:

	Period from 8 December 2003 (date of incorporation) to 31 March	Year ended 31 March	
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Revenue – Turnover			
Sales of goods	–	6,088	5,609
Other income			
Interest income	–	123	188
Exchange gain, net	–	10	–
Gain arising on initial recognition of biological assets at fair values less estimated point-of-sale costs of biological assets	–	20,451	23,241
Gain on disposal of property, plant and equipment	–	–	120
Government grants and subsidies *	–	–	13,480
Sundry income	–	54	122
	–	20,638	37,151

* *Government grants and subsidies mainly represented the unconditional monetary awards receivable from the relevant authorities in the PRC in respect of the CEWH Group's contribution in environmental protection in sea buckthorn's business.*

4. SEGMENT INFORMATION

The Group is principally engaged in sea buckthorn's related business, which is the only business segment of the Group throughout the Relevant Periods. Accordingly, no analysis by business segment is provided. No geographical segment analysis is presented as the Group's revenue and assets attributed to sea buckthorn's related business were located in the PRC.

5. OPERATING (LOSS)/PROFIT BEFORE INCOME TAX

	Period from 8 December 2003 (date of incorporation) to 31 March	Year ended 31 March	
	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*
Operating (loss)/profit before income tax is arrived at after charging:			
Amortisation of prepaid land lease payments	–	23	45
Auditors' remuneration	–	–	27
Cost of inventories sold	–	2,622	2,953
Depreciation of property, plant and equipment	–	265	1,201
Exchange loss, net	–	–	38
Operating lease rentals in respect of land and buildings	–	1,728	1,530
Inventories written-off	–	–	900
Staff costs:			
– Salaries, wages and other allowances	–	1,658	6,080
– Contribution to retirement scheme	–	67	544

6. INCOME TAX EXPENSE

No Hong Kong profits tax has been made as the CEWH Group had no assessable profit arising in Hong Kong during the Relevant Periods. The provision for PRC income tax is based on a statutory rate of 33% of the assessable profit of subsidiaries of the CEWH Group as determined in accordance with the relevant income tax rules and regulations of the PRC.

	Period from 8 December 2003 (date of incorporation) to 31 March	**Year ended 31 March**	
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Current tax			
– PRC enterprise income tax	–	3,049	4,222

Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates:

	Period from 8 December 2003 (date of incorporation) to 31 March	**Year ended 31 March**	
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Operating (loss)/profit before income tax	(10)	16,851	21,888
Tax on operating (loss)/profit, calculated at the rates applicable to (loss)/profit in tax jurisdiction concerned	(2)	5,562	2,538
Tax effect of non-deductible expenses	2	96	285
Tax concession	–	(2,609)	–
Tax effect of unused tax losses not recognised	–	–	1,339
Tax effect of taxable temporary difference not recognised	–	–	60
Income tax expense	–	3,049	4,222

As at 31 March 2007, the CEWH Group has unused tax losses of HK$4,058,000 (31 March 2005 and 2006: Nil) available for offsetting against future taxable profits of the companies which incurred the losses. Deferred tax assets have not been recognised in respect of these losses due to the unpredictability of future profit streams.

7. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF CEWH

The calculation of basic (loss)/earnings per share is based on the (loss)/profit for the period/year attributable to equity holders of CEWH and on weighted average of 2, 6 and 10 ordinary shares in issue during the Relevant Periods.

Diluted (loss)/earnings per share for the Relevant Periods were not presented as there is no dilutive potential ordinary share.

8. GOODWILL – THE CEWH GROUP

The amount of goodwill capitalised as an asset in the consolidated balance sheets, arising from business combinations, is as follows:

		31 March	
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
At beginning of the period/year			
Gross carrying amount	–	–	4,619
Accumulated impairment	–	–	–
Net carrying amount	–	–	4,619
For the period/year ended 31 March 2005, 2006 and 2007			
Net carrying amount at beginning of the year	–	–	4,619
Acquisition of subsidiaries *(note 22)*	–	4,619	–
Net carrying amount at end of the period/year	–	4,619	4,619
At end of the period/year			
Gross carrying amount	–	4,619	4,619
Accumulated impairment	–	–	–
Net carrying amount	–	4,619	4,619

The management of the CEWH Group tests goodwill annually for impairment, or more frequently if there are indicators that goodwill might be impaired.

The recoverable amount of the cash-generating units as detailed in note 22 were determined based on fair value less costs to sell of the cash-generating units. The fair value is based on going concern premise and conducted on a fair value basis which could be bought or sold in an arm's length transaction between willing parties. The valuation method is based on a "Market Approach – Guideline Company Method and Income Approach". This approach uses guideline companies with sufficient and reliable financial information which are comparable to the subject asset, i.e. sea buckthorn related business. The CEWH Group uses an independent external valuer, CB Richard Eillis Limited, to estimate the fair value less costs to sell of its cash-generating units.

9. PROPERTY, PLANT AND EQUIPMENT – THE CEWH GROUP

	Leasehold buildings	Leasehold improvements	Plant and machineries	Furniture, equipment and motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 March 2005						
Cost	–	–	–	–	–	–
Accumulated depreciation	–	–	–	–	–	–
Net book amount	–	–	–	–	–	–
Year ended 31 March 2006						
Opening net book amount	–	–	–	–	–	–
Acquisition of subsidiaries *(note 22)*	1,052	1,030	930	1,256	2,463	6,731
Additions	1,608	–	1,865	555	4,044	8,072
Transfers	1,062	–	–	–	(1,062)	–
Depreciation	(38)	(2)	(111)	(114)	–	(265)
Closing net book amount	3,684	1,028	2,684	1,697	5,445	14,538
At 31 March 2006						
Cost	3,722	1,030	2,795	1,811	5,445	14,803
Accumulated depreciation	(38)	(2)	(111)	(114)	–	(265)
Net book amount	3,684	1,028	2,684	1,697	5,445	14,538
Year ended 31 March 2007						
Opening net book amount	3,684	1,028	2,684	1,697	5,445	14,538
Additions	216	–	1,730	1,955	28,735	32,636
Disposals	(950)	–	(4)	(3)	–	(957)
Transfers	344	–	7,038	–	(7,382)	–
Depreciation	(137)	(61)	(624)	(379)	–	(1,201)
Exchange realignment	147	41	107	68	218	581
Closing net book amount	3,304	1,008	10,931	3,338	27,016	45,597
At 31 March 2007						
Cost	3,463	1,071	11,660	3,828	27,016	47,038
Accumulated depreciation	(159)	(63)	(729)	(490)	–	(1,441)
Net book amount	3,304	1,008	10,931	3,338	27,016	45,597

As at 31 March 2007, the CEWH Group's certain plant and machineries at the carrying amount of HK$4,978,000 were pledged to secure the borrowings of the CEWH Group (note 19).

10. PREPAID LAND LEASE PAYMENTS – THE CEWH GROUP

	31 March		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
At beginning of the period/year			
Gross carrying amount	–	–	2,384
Accumulated amortisation	–	–	(23)
Carrying amount	–	–	2,361
For the period/year ended 31 March 2005, 2006 and 2007			
Opening carrying amount	–	–	2,361
Acquisition of subsidiaries *(note 22)*	–	2,384	–
Amortisation	–	(23)	(45)
Exchange realignment	–	–	94
Net book amount	–	2,361	2,410
At end of the period/year			
Gross carrying amount	–	2,384	2,478
Accumulated amortisation	–	(23)	(68)
Carrying amount	–	2,361	2,410

The CEWH Group's prepaid land lease payments represent the up-font payment to acquire long term leasehold interest in the rights to use the land situated in the PRC, which are held under medium term leases.

11. DEPOSITS – THE CEWH GROUP

	31 March		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Deposit for acquisition of equity instruments	–	–	5,100

As at 31 March 2007, the amount represents the deposit paid by the CEWH Group for the establishment of an equity joint venture in Shaanxi, the PRC, which will be principally engaged in the manufacture of sea buckthorn's products.

12. INTERESTS IN SUBSIDIARIES – CEWH

	31 March 2005	31 March 2006	31 March 2007
	HK$'000	*HK$'000*	*HK$'000*
Unlisted shares, at cost	–	19,242	19,242

Particulars of the subsidiaries at 31 March 2006 and 2007 are as follows:

Name	Place of incorporation/ operation	Particulars capital of registered	Percentage of equity interest attributable to CEWH	Principal activities
Held directly:				
CONSECO * *(i)*	The PRC	Registered capital of Reminbi ("RMB") 30,500,000	50%	Cultivation, manufacture and sale of sea buckthorn's seedlings and products
Held indirectly:				
鄂爾多斯市高原聖果生態建設開發有限公司 ^ *(i)*	The PRC	Registered capital of RMB20,000,000	50%	Cultivation, manufacture and sale of sea buckthorn's seedlings
准格爾旗高原聖果沙棘有限公司 ^ *(i)*	The PRC	Registered capital of RMB500,000	45%	Cultivation, manufacture and sale of sea buckthorn's seedlings
達拉特旗高原聖果沙棘有限公司 ^ *(i)*	The PRC	Registered capital of RMB500,000	45%	Cultivation and sale of sea buckthorn's seedlings
陝西果聖水土保持建設有限公司 ^ *(i)*	The PRC	Registered capital of RMB5,000,000	45%	Cultivation and sale of sea buckthorn's seedlings

* *registered as a sino-foreign joint venture under the PRC law.*

^ *registered as limited liability companies under the PRC law.*

(i) accounted for as subsidiaries of CEWH because the directors are of the opinion that CEWH has the power to cast the majority of votes at meetings of the board of directors in respect of financial and operating policies of these entities.

13. INVENTORIES – THE CEWH GROUP

		31 March	
	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	–	1,307	1,497
Work in progress	–	–	76
Finished goods	–	1,474	4,053
	–	2,781	5,626

14. BIOLOGICAL ASSETS – THE CEWH GROUP

(a) A reconciliation of the carrying amounts of biological assets is as follows:

		31 March	
	2005	2006	2007
	HK$'000	*HK$'000*	*HK$'000*
Carrying amount at beginning of the period/year	–	–	–
Gains arising on initial recognition of biological assets at fair value less estimated point-of-sale costs	–	20,451	23,241
Decrease due to sales	–	(20,451)	(23,241)
Carrying amount at end of the period/year	–	–	–

The CEWH Group's biological assets during the period/years ended 31 March 2005, 2006 and 2007 represented seedling of sea buckthorn which are primarily cultivated and held for sale.

(b) Financial risk management strategies relating to biological assets

The CEWH Group is exposed to financial risks arising from changes in prices of biological assets which are determined by constantly changing market forces of supply and demand and other factors. The other factors include governmental and environmental regulations, weather conditions and diseases relating to the biological assets. The CEWH Group has little or no control over these conditions and factors.

The CEWH Group has not entered into derivatives or other contracts to manage the risk of fluctuation in the prices of biological assets. The CEWH Group reviews its exposure for the prices of biological assets in considering the need for active financial risk management.

The CEWH Group is subject to the risks associating with its ability to maintain the health of biological assets. Health problems of biological assets could adversely impact the production and customer satisfaction. The CEWH Group monitors the health status of its biological assets on a regular basis and has procedures in place to reduce the potential exposure to diseases. Although policies and procedures have been put into place, there is no guarantee that the CEWH Group will not be affected by these disease epidemics.

15. PREPAYMENTS AND OTHER RECEIVABLES – THE CEWH GROUP

The directors of CEWH consider that the fair values of other receivables are not materially different from their carrying amounts because these amounts have short maturity periods on their inception.

16. AMOUNTS DUE FORM/(TO) A FELLOW SUBSIDIARY AND MINORITY SHAREHOLDER(S) OF SUBSIDIARY(IES), AMOUNTS DUE TO A RELATED PARTY, AN IMMEDIATE HOLDING COMPANY, A SHAREHOLDER AND ULTIMATE HOLDING COMPANY – THE CEWH GROUP AND CEWH

The balances are unsecured, interest-free and repayable on demand.

As at 31 March 2007, the amounts due to a related party represent amounts due to Mr. Duan Chuan Liang, a director of China Water.

17. CASH AND CASH EQUIVALENTS – THE CEWH GROUP

As at 31 March 2006 and 2007, the CEWH Group had cash and bank balances denominated in RMB amounted to approximately HK$41,274,000 and HK$8,640,000 respectively, which were deposited with the banks in the PRC and held in hand. RMB is not freely convertible into foreign currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the CEWH Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

18. TRADE PAYABLES – THE CEWH GROUP

The credit terms of trade payables vary according to the terms agreed with different suppliers. The ageing analysis of the CEWH Group's trade payables as at the respective balance sheet dates is as follows:

		31 March	
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Current to 90 days	–	28	132
91 – 180 days	–	8	20
Over 180 days	–	2	235
	–	38	387

Trade payables are all denominated in RMB.

19. BORROWINGS – THE CEWH GROUP

	31 March		
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Non-current portion under non-current liabilities			
– Other loans, secured	–	–	3,450
Borrowings were repayable as follows:			
In the second year	–	–	600
In the third to fifth year	–	–	2,850
	–	–	3,450

Other loans are denominated in RMB and their carrying values approximate to their fair value.

Other loans were secured by pledge of certain plant and machineries (note 9) of the CEWH Group.

20. SHARE CAPITAL – THE CEWH GROUP AND CEWH

	Number of shares	*HK$*
Authorised:		
10,000 ordinary shares of HK$1 each at 31 March 2005, 2006 and 2007	10,000	10,000
Issued and fully paid:		
Issue of 2 ordinary shares of HK$1 each and at 31 March 2005	2	2
2 ordinary shares of HK$1 each at 1 April 2005	2	2
Issue of 8 ordinary shares of HK$1 each	8	8
10 Ordinary shares of HK$1 each at 31 March 2006 and 2007	10	10

CEWH was incorporated in Hong Kong on 8 December 2003 with an authorised share capital of HK$10,000 dividend into 10,000 ordinary shares of HK$1 each. 2 subscriber shares of HK$1 each were allotted and issued in cash on 9 December 2003.

On 7 July 2005, 8 ordinary shares of HK$1 each in the capital of CEWH were issued, allotted and credited as fully paid at par for cash.

21. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

No director received any fees or other emoluments during the Relevant Periods. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

All the five individuals with the highest emoluments during the Relevant Periods were employees of the CEWH Group. The emoluments of the five individuals were as follows:

	Period from 8 December 2003 (date of incorporation) to 31 March	Year ended 31 March	
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Salaries, wages and other allowances	–	298	974
Contribution to retirement scheme	–	–	125
	–	298	1,099

The emolument of each of the individual during the Relevant Periods was within HK$1,000,000.

During the Relevant Periods, no emoluments were paid by the CEWH Group to the directors and five highest individuals as an inducement to join or upon joining the CEWH Group or as compensation for loss of office and no directors of CEWH waived or agreed to waive any remunerations.

22. BUSINESS COMBINATIONS

On 9 November 2005, CEWH acquired 50% equity interest in CONSECO by injection of cash of RMB20,000,000 (approximately HK$19,242,000) into the enlarged registered capital of CONSECO. CONSECO is principally engaged in cultivation, manufacture and sale of sea buckthorn's seedlings and products.

Details of the net assets acquired and goodwill are as follows:

	HK$'000
Capital injection by cash	19,242
Net assets attributable to the CEWH Group acquired	(14,623)
Goodwill *(note 8)*	4,619

The goodwill is attributable to the high profitability of the acquired business and the significant synergies are expected to arise after the CEWH Group's acquisition of CONSECO.

The consolidated assets and liabilities of CONSECO arising from the acquisition are as follows:

	Fair value *HK$'000*	Carrying amount *HK$'000*
Property, plant and equipment *(note 9)*	6,731	6,731
Prepaid land lease payments *(note 10)*	2,384	2,384
Bank and cash balances	11,007	11,007
Inventories	3,397	3,397
Prepayments and other receivables	8,670	8,670
Trade payables	(10)	(10)
Accrued liabilities and other payables	(29,050)	(29,050)
Minority interests	(806)	(806)
Net assets before capital injections	2,323	
Capital injection by CEWH	19,242	
Capital injection by other minority equity holders	7,681	
Net assets	29,246	
Minority interests (50%)	(14,623)	
Net assets attributable to the CEWH Group acquired	14,623	

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of CONSECO is as follows:

	Year ended 31 December 2006 *HK$'000*
Cash consideration	(19,242)
Bank and cash balances acquired	11,007
Cash inflow from capital injection made by the CEWH and other minority shareholders of the subsidiaries	23,068
Net inflow	14,833

Since the acquisition, CONSECO contributed revenue of approximately HK$6,088,000 to the CEWH Group and net profit attributable to the equity holders of CEWH of approximately HK$6,407,000 for the period from 9 November 2005 to 31 March 2006.

Had the combination taken place at 1 April 2005, the revenue of the CEWH Group for the year ended 31 March 2006 would have been HK$9,222,000 and net profit attributable to the equity holders of CEWH for the year ended 31 March 2006 would have been HK$4,527,000. These pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and result of operations of the CEWH Group that actually would have been achieved had the acquisition been completed on 1 April 2005, nor are they intended to be a projection of future results.

23. OPERATING LEASE COMMITMENTS – THE CEWH GROUP AND CEWH

At the respective balance sheet dates, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable by the CEWH Group as follows:

		31 March	
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	–	910	560
In the second to fifth years	–	1,886	1,820
After five years	–	5,769	4,820
Total	–	8,565	7,200

The CEWH Group leases certain of its leasehold land, office premises and properties under operating lease arrangements for terms ranging from 1 to 20 years. Certain leases contain an option to renew the lease and renegotiated the terms at the expiry dates or at dates mutually agreed between the CEWH Group and the landlords. None of the leases include contingent rentals.

CEWH did not have any operating lease commitments as at 31 March 2005, 2006 and 2007.

24. CAPITAL COMMITMENTS – THE CEWH GROUP AND CEWH

At the respective balance sheet dates, the CEWH Group had the following outstanding commitments:

		31 March	
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
Contracted, but not provided for			
– Construction in progress	–	8,292	1,276
– Plant and machinery	–	1,374	1,015
Total	–	9,666	2,291

CEWH did not have any capital commitments as at 31 March 2005, 2006 and 2007.

25. RELATED PARTY TRANSACTIONS – THE CEWH GROUP

In addition to the transactions and balances disclosed elsewhere in the Financial Information, the CEWH Group had the following material related party transactions:

	Notes	Period from 8 December 2003 (date of incorporation) to 31 March 2005 HK$'000	Year ended 31 March 2006 HK$'000	Year ended 31 March 2007 HK$'000
Sale to a minority shareholder of subsidiaries	*(i)*	–	20,451	23,241
Receipt-in-advance from a minority shareholder of subsidiaries	*(ii)*	–	11,306	13,569

Notes:

(i) The sales represented sale of biological assets to 水利部沙棘開發管理中心, a minority shareholder of a subsidiary. The sales were based on mutually agreed terms.

(ii) An aggregate amount of receipt-in-advance as at the balance sheet dates was received from 水利部沙棘開發管理中心. This amount was made for the sales of biological assets based on mutually agreed terms and was included under "accrued liabilities, deposits received and other payables".

(iii) The directors are of the opinion that the key management personnel were solely the directors of CEWH. No fees or other emoluments have been paid to the directors of CEWH during the Relevant Periods.

26. RISK MANAGEMENT OBJECTIVES AND POLICIES

The CEWH Group does not have written risk management policies and guidelines. However, the directors of CEWH meet periodically to analyse and formulate measures to manage the CEWH Group's exposure to market risk (i.e. foreign currency risk and interest rate risk) and credit risk. Generally, the CEWH Group employs a conservative strategy regarding its risk management. As the CEWH Group's exposure to market risk and credit risk are kept at a minimum level, the CEWH Group has not used any derivatives or other instruments for hedging purposes. The CEWH Group does not hold or issue derivative financial instruments for trading purposes.

As at the respective balance sheet dates, the CEWH Group's financial instruments mainly consisted of other receivables, amounts due from/(to) a fellow subsidiary, bank and cash balances, trade payables, accrued liabilities, other payables, amounts due to a director, minority equity holders of subsidiaries, an immediate holding company, a shareholder and ultimate holding company and borrowings.

(a) Foreign currency risk

The CEWH Group is exposed to foreign currency risk arising from various currency exposures, primarily related to RMB against HK$. The CEWH Group does not hedge its foreign currency risks, as management of the CEWH Group does not expect any significant movements in the exchange rate between RMB and HK$. The CEWH Group's exposure to foreign currency risk resulting form changes in foreign currency exchanges rate is minimal.

(b) Interest rate risk

The CEWH Group's interest rate risk mainly arises from the CEWH Group's borrowings. The interest rate risk is minimal to the CEWH Group as borrowings are usually at fixed interest rates.

(c) Credit risk

The carrying amounts of other receivables and amounts due from a fellow subsidiary represent the CEWH Group's maximum exposure to credit risk in relation to its financial assets.

None of the CEWH Group's financial assets are secured by collateral or other credit enhancements.

The CEWH Group has no other significant concentration of credit risk. No other financial assets carry a significant exposure to credit risk.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the CEWH Group, CEWH or any of its subsidiaries have been prepared in respect of any period subsequent to 31 March 2007.

Yours faithfully,

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

(2) The Seabuckthorn Group

Certified Public Accountants
Member of Grant Thornton International

Grant Thornton
均富會計師行

24 September 2007

The Board of Directors
Wah Yuen Holdings Limited
2nd Floor, On Shing Industrial Building
Nos. 2-16 Wo Liu Hang Road
Fo Tan, Shatin
New Territories
Hong Kong

Dear Sirs

We set out below our report on the financial information (the "Financial Information") of Conseco Seabuckthorn Co., Ltd. ("CONSECO") and its subsidiaries (hereinafter collectively referred to as the "CONSECO Group") including the consolidated balance sheets of the CONSECO Group as at 31 March 2005, 2006 and 2007, balance sheets of CONSECO as at 31 March 2005, 2006 and 2007, consolidated income statements, consolidated cash flow statements and consolidated statements of changes in equity for the three years ended 31 March 2005, 2006 and 2007 ("the Relevant Periods") and notes thereto prepared for inclusion in the circular (the "Circular") dated 24 September 2007 issued by Wah Yuen Holdings Limited (the "Company") in connection with the proposed acquisition of the entire issued share capital of China Environmental Water Holdings Limited ("CEWH").

CONSECO is a domestic enterprise established in the People's Republic of China (the "PRC") with a registered capital of Reminbi ("RMB") 2,500,000. On 29 November 2005, CONSECO was reconstituted into a sino-foreign enterprise with limited liability established in the PRC and its registered capital was increased from RMB2,500,000 to RMB30,500,000 by way of capital injection amounting to RMB24,000,000 and assets injection amounting to RMB4,000,000, pursuant to an investment agreement dated 15 July 2005. The registered office of CONSECO and its principal place of business are at 北京市海淀區复興路甲1號東2區14幢601及607室, the PRC. As at the date of this report, CONSECO is beneficially owned as to 50% by CEWH, 22% by北京江河沙棘公司, 10% by 江海世紀投資管理(北京)有限公司and 18% by 水利部沙棘開發管理中心. CONSECO is accounted for as a subsidiary of CEWH because the directors of CEWH are of the opinion that CEWH has the power to cast the majority of votes at meetings of the board of directors in respect of financial and operating policies of CONSECO. The principal activity of CONSECO is cultivation, manufacture and sale of sea buckthorn's seedlings and products and its principal investments mainly represents 100% equity interest in鄂爾多斯市高原聖果生態建設開發有限公司, 90% equity interest in准格爾旗高原聖果沙棘有限公司, 90% equity interest in達拉特旗高原聖果沙棘有限公司 and 90% equity interest in陝西果聖水土保持建設有限公司, details of the subsidiaries are set out in note 10 of Section II below.

The financial statements of CONSECO and its subsidiaries were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC and were audited by the following certified public accountants registered in the PRC:

Name of companies	Financial period	Name of auditors
CONSECO	Years ended 31 December 2004, 2005 and 2006	華辰會計師事務所
鄂爾多斯市高原聖果生態建設開發有限公司	Years ended 31 December 2004 and 2005	內蒙古興原會計師事務所鄂爾多斯分所
	Year ended 31 December 2006	鄂爾多斯市興原會計師事務所
准格爾旗高原聖果沙棘有限公司	Years ended 31 December 2004 and 2005	內蒙古興原會計師事務所鄂爾多斯分所
	Year ended 31 December 2006	鄂爾多斯市興原會計師事務所
達拉特旗高原聖果沙棘有限公司	Years ended 31 December 2004 and 2005	內蒙古興原會計師事務所鄂爾多斯分所
	Year ended 31 December 2006	鄂爾多斯市興原會計師事務所
陝西果聖水土保持建設有限公司	Year ended 31 December 2004	陝西榆林振北有限責任會計師事務所
	Year ended 31 December 2005	Exempt from the issuance of the PRC audited financial statements due to the voluntary requirement of enterprise annual inspection
	Year ended 31 December 2006	陝西榆林振北有限責任會計師事務所

For the purpose of this report, the directors of CONSECO have prepared the consolidated financial statements of CONSECO for the Relevant Periods (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have, for the purpose of this report, performed appropriate audit procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information and the notes thereto as set out in Section I to III below has been prepared by the directors of CONSECO based on the Underlying Financial Statements in accordance with HKFRSs and is presented on the basis set out in note 1 of Section II below. For the purpose of this report, we have examined the Financial Information and carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The directors of CONSECO are responsible for preparing the Underlying Financial Statements and the Financial Information which gives a true and fair view. The directors of the Company are responsible for the contents of the Circular in which this report is included. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of the CONSECO Group and CONSECO as at 31 March 2005, 2006 and 2007 and of the consolidated results and cash flows of the CONSECO Group for each of the Relevant Periods.

I. FINANCIAL INFORMATION

(a) Consolidated income statements

		Year ended 31 March		
		2005	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*3*	3,004	9,582	5,609
Cost of sales		(1,054)	(3,276)	(3,665)
Gross profit		1,950	6,306	1,944
Other income	*3*	19,383	21,733	37,140
Selling and distribution costs		(811)	(2,059)	(2,561)
Administrative expenses		(2,193)	(3,022)	(7,489)
Other operating expenses		(13,879)	(10,494)	(7,151)
Operating profit before income tax	*5*	4,450	12,464	21,883
Income tax expense	*6*	(606)	(3,171)	(4,222)
Profit for the year		3,844	9,293	17,661
Attributable to:				
Equity holders of CONSECO		3,635	8,258	17,694
Minority interests		209	1,035	(33)
Profit for the year		3,844	9,293	17,661
Dividends	*7*	600	–	–

(b) Consolidated balance sheets

			31 March	
		2005	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	*8*	4,512	15,119	45,597
Prepaid land lease payments	*9*	–	2,455	2,410
Deposits	*11*	–	–	5,100
		4,512	17,574	53,107
Current assets				
Inventories	*12*	4,070	2,892	5,626
Biological assets	*13*	–	–	–
Prepayments and other receivables	*14*	11,435	9,886	20,964
Amounts due from a fellow subsidiary	*15*	–	–	31
Amounts due from a shareholder	*15*	–	–	700
Cash and cash equivalents	*16*	9,792	42,924	8,640
		25,297	55,702	35,961
Current liabilities				
Trade payables	*17*	2	40	387
Accrued liabilities, deposits received and other payables		18,246	23,322	13,160
Amounts due to shareholders	*15*	3,618	1,436	2,944
Taxes payable		19	2,861	5,849
		21,885	27,659	22,340
Net current assets		3,412	28,043	13,621
Total assets less current liabilities		7,924	45,617	66,728
Non-current liabilities				
Borrowings	*18*	–	–	3,450
Net assets		7,924	45,617	63,278
EQUITY				
Equity attributable to equity holders of CONSECO				
Paid in capital	*19*	2,500	30,500	30,500
Reserves		4,184	13,239	30,933
		6,684	43,739	61,433
Minority interests		1,240	1,878	1,845
Total equity		7,924	45,617	63,278

(c) Balance sheets

	Notes	31 March 2005 RMB'000	2006 RMB'000	2007 RMB'000
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	8	337	6,705	8,760
Interests in subsidiaries	10	4,900	25,350	25,350
Deposits	11	–	–	5,100
		5,237	32,055	39,210
Current assets				
Inventories	12	2,699	2,498	2,771
Biological assets	13	–	–	–
Prepayments and other receivables	14	1,844	1,656	1,731
Amount due from a fellow subsidiary	15	–	–	31
Cash and cash equivalents	16	3,255	10,234	5,332
		7,798	14,388	9,865
Current liabilities				
Trade payables	17	–	38	19
Accrued liabilities, deposits received and other payables		2,236	2,231	1,309
Amounts due to shareholders	15	1,768	2,136	2,944
Amounts due to subsidiaries	15	5,929	8,771	14,807
Taxes payable		19	1,132	1,082
		9,952	14,308	20,161
Net current (liabilities)/assets		(2,154)	80	(10,296)
Net assets		3,083	32,135	28,914
EQUITY				
Paid in capital	19	2,500	30,500	30,500
Reserves	20	583	1,635	(1,586)
Total equity		3,083	32,135	28,914

(d) Consolidated statements of changes in equity

	Equity attributable to equity holders of CONSECO					Minority interests	Total
	Paid in capital	Statutory reserves* (note 20)	Other reserves* (note 20)	Retained profits*	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 April 2004	2,500	605	–	544	3,649	1,031	4,680
Profit for the year	–	–	–	3,635	3,635	209	3,844
Total recognised income and expenses for the year	–	–	–	3,635	3,635	209	3,844
Dividend declared and paid	–	–	–	(600)	(600)	–	(600)
Transfers	–	111	–	(111)	–	–	–
At 31 March 2005 and at 1 April 2005	2,500	716	–	3,468	6,684	1,240	7,924
Profit for the year	–	–	–	8,258	8,258	1,035	9,293
Total recognised income and expenses for the year	–	–	–	8,258	8,258	1,035	9,293
Capital injection from equity holders	28,000	–	–	–	28,000	–	28,000
Decrease of minority interests due to further acquisition by CONSECO	–	–	597	–	597	(197)	400
Decrease of minority interests due to diluted effect of capital injection in a subsidiary by CONSECO	–	–	200	–	200	(200)	–
At 31 March 2006 and at 1 April 2006	30,500	716	797	11,726	43,739	1,878	45,617
Profit for the year	–	–	–	17,694	17,694	(33)	17,661
Total recognised income and expenses for the year	–	–	–	17,694	17,694	(33)	17,661
At 31 March 2007	30,500	716	797	29,420	61,433	1,845	63,278

* *These reserve accounts comprise the consolidated reserves in the consolidated balance sheets.*

(e) Consolidated cash flow statements

	Year ended 31 March		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Cash flows from operating activities			
Operating profit before income tax	4,450	12,464	21,883
Adjustments for:			
Depreciation of property, plant and equipment	265	484	1,201
Amortisation of prepaid land lease payments	–	23	45
Loss/(Gain) on disposal of property, plant and equipment	–	200	(120)
Interest income	(155)	(102)	(188)
Inventories written off	275	209	900
Impairment loss on other receivables	288	912	–
Operating profit before working capital changes	5,123	14,190	23,721
(Increase)/Decrease in inventories	(1,582)	969	(3,634)
(Increase)/Decrease in prepayments and other receivables	(455)	637	(11,078)
Increase in amounts due from a fellow subsidiary	–	–	(31)
Increase in amounts due from a shareholder	–	–	(700)
(Decrease)/Increase in trade payables	(86)	38	347
(Decrease)/Increase in accrued liabilities, deposits received and other payables	(8,738)	5,076	(10,162)
(Decrease)/Increase in amounts due to shareholders	(5,528)	(1,782)	1,508
Cash (used in)/generated from operations	(11,266)	19,128	(29)
Income tax paid	(594)	(329)	(1,234)
Net cash (used in)/generated from operating activities	(11,860)	18,799	(1,263)

	Year ended 31 March		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Cash flows from investing activities			
Purchases of property, plant and equipment	(1,623)	(7,291)	(32,636)
Proceeds from disposal of property, plant and equipment	–	–	1,077
Purchase of land use right	–	(2,478)	–
Deposits paid	–	–	(5,100)
Interest received	155	102	188
Net cash used in investing activities	(1,468)	(9,667)	(36,471)
Cash flows from financing activities			
Dividend paid	(600)	–	–
Capital contribution by equity holders of CONSECO	–	24,000	–
Proceeds from borrowings	–	–	3,450
Net cash (used in)/generated from financing activities	(600)	24,000	3,450
Net (decrease)/increase in cash and cash equivalents	(13,928)	33,132	(34,284)
Cash and cash equivalents at beginning of the year	23,720	9,792	42,924
Cash and cash equivalents at end of the year	9,792	42,924	8,640

MAJOR NON-CASH TRANSACTIONS

(a) During the year ended 31 March 2006, there was a capital contribution by setting off the amounts due to shareholders amounting to RMB400,000 made for the purpose of capital injection to the CONSECO Group.

(b) During the year ended 31 March 2006, there was an asset contribution amounting to RMB4,000,000 made for the purpose of capital injection to CONSECO Group.

II. NOTES TO THE FINANCIAL INFORMATION

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 Statement of compliance

The Financial Information set out in this report has been prepared in accordance with HKFRSs which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA, which have been consistently applied throughout the Relevant Periods. The Financial Information also compiles with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

1.2 Basis of preparation of Financial Information

The CONSECO Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of CONSECO anticipate that the adoption of such HKFRSs will not result in material financial impact on the Financial Information for the Relevant Periods.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 23 (Revised)	Borrowing Costs[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Interpretation 8	Scope of HKFRS 2[3]
HK(IFRIC)-Interpretation 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC)-Interpretation 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC)-Interpretation 11	HKFRS 2 – Group and Treasury Share Transactions[6]
HK(IFRIC)-Interpretation 12	Service Concession Arrangements[7]
HK(IFRIC)-Interpretation 13	Customer Loyalty Programmes[8]
HK(IFRIC)-Interpretation 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements their Interaction[7]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 May 2006
[4] Effective for annual periods beginning on or after 1 June 2006
[5] Effective for annual periods beginning on or after 1 November 2006
[6] Effective for annual periods beginning on or after 1 March 2007
[7] Effective for annual periods beginning on or after 1 January 2008
[8] Effective for annual periods beginning on or after 1 July 2008

The significant accounting policies that have been used in the preparation of the Financial Information for the Relevant Periods are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The Financial Information for the Relevant Periods has been prepared on the historical cost basis except for biological assets which are stated at fair values less point-of-sale costs. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the Financial Information for the Relevant Periods. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information for the Relevant Periods are disclosed in note 2.

At 31 March 2007, CONSECO had net current liabilities of RMB10,296,000. Notwithstanding this, the Financial Information has been prepared on a going concern basis on the assumption that CONSECO will continue to operate as a going concern. The going concern basis has been adopted on the basis of an undertaking by its ultimate holding company to continue to provide financial support to CONSECO.

Should CONSECO be unable to continue in business as a going concern, adjustments would have to be made to reduce the value of assets to recoverable amount, to reclassify non-current assets and liabilities as current assets and liabilities and to provide for any further liabilities which might arise.

1.3 Basis of consolidation

The Financial Information incorporates the financial statements of CONSECO and its subsidiaries made up to 31 March each year.

1.4 Subsidiaries

Subsidiaries are entities over which CONSECO has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether CONSECO controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to CONSECO. They are excluded from consolidation from the date that control ceases.

Business combinations (other than for combining entities under common control) are accounted for by applying the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, assets and liabilities of the subsidiary are included in the consolidated balance sheets at their fair values, which are also used as the bases for subsequent measurement in accordance with the CONSECO Group's accounting policies.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the Financial Information. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In CONSECO's balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by CONSECO on the basis of dividends received and receivable at the balance sheet date.

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the CONSECO Group and are not the CONSECO Group's financial liabilities.

Minority interests are presented in the consolidated balance sheets within equity, separately from the equity attributable to the equity holders of CONSECO. Profit or loss attributable to the minority interests are presented separately in the consolidated income statements as an allocation of the CONSECO Group's results. Where losses applicable to the minority exceeds the minority interest in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the CONSECO Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the CONSECO Group has been recovered.

1.5 Foreign currency translation

The Financial Information is presented in RMB, which is also the functional currency of CONSECO.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statements.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

1.6 Revenue

Revenue comprises the fair value for the sale of goods, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the CONSECO Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

(i) Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods; and

(ii) Interest income is recognised on a time-proportion basis using effective interest method.

1.7 Biological assets

Biological assets represent seedlings which are stated at fair value less estimated point-of-sale costs. The fair value of biological assets is determined based on market prices of seedlings of similar age, breed and genetic merit and with reference to the most recent market transaction prices. Gain or loss arising on initial recognition of a biological asset at fair value less estimated point-of-sale costs, or from a change in the fair value less estimated point-of-sale costs of the biological assets is included in the income statements for the period in which it arises.

1.8 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at acquisition cost less accumulated depreciation and accumulated impairment losses. The cost of asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statements.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the CONSECO Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs less their estimated residual values over their estimated useful lives, as follows:

Leasehold buildings	50 years or over the lease term, whichever is shorter
Leasehold improvements	5 years or over the lease term, whichever is shorter
Plant and machineries	6 to 15 years
Furniture, equipment and motor vehicles	5 years

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Construction in progress represents leasehold buildings, plant and machineries under construction and is stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

1.9 Prepaid land lease payments

Prepaid land lease payments represent up-front payments to acquire the land use rights/leasehold land. They are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line basis over the lease term except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets.

1.10 Impairment of assets

Property, plant and equipment, prepaid land lease prepayments, interests in subsidiaries are subject to impairment testing.

All assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment losses recognised for cash-generating units are charged pro rata to the assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on non-financial assets is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.11 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the CONSECO Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the CONSECO Group

Assets that are held by the CONSECO Group under leases which transfer to the CONSECO Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the CONSECO Group are classified as operating leases.

(ii) Operating lease charges as leasee

Where the CONSECO Group has the right to use assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

1.12 Financial assets

The CONSECO Group's accounting policies for financial assets other than investments in subsidiaries are set out below.

Recognition and measurement

Financial assets of the CONSECO Group include deposits, prepayments and other receivables. These are classified into loans and receivables. Management determines the classification of its financial asset at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the CONSECO Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value plus directly attributable transaction costs.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fee that are an integral part of the effective interest rate and transaction cost.

Derecognition of financial assets

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

Impairment of financial assets

At each balance sheet date, financial assets are reviewed to determine whether there is any objective evidence of impairment. If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in the income statements of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in income statements for the period in which the reversal occurs.

1.13 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

1.14 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statements.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition of assets and liabilities in a transaction that affects neither taxable nor accounting profit nor loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the CONSECO Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset is realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statements, or in equity if they relate to items that are charged or credited directly to equity.

1.15 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand.

1.16 Paid in capital

Paid in capital paid is classified as equity.

1.17 Employee benefits

Retirement benefits to employees are provided through a defined contribution plan.

The employees of the CONSECO Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government (the "Scheme"). These subsidiaries are required to contribute certain percentage of its payroll costs to the Scheme. The local municipal government undertakes to assume the retirement benefits obligation of all existing and future retired employees of the CEWH Group's subsidiaries. The only obligation of the CEWH Group with respect to the scheme is to pay the ongoing required contributions under the Scheme mentioned above. The contributions are charged to the income statement as they become payable in accordance with the rules of the Scheme.

1.18 Financial liabilities

The CONSECO Group's financial liabilities include trade payables, accrued liabilities and other payables, amounts due to shareholders and borrowings.

Financial liabilities are recognised when the CONSECO Group becomes a party to the contractual provisions of the instrument. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statements.

(i) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(ii) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statements over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the CONSECO Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

All borrowing costs are expensed as incurred.

1.19 Related parties

A party is considered to be related to the CONSECO Group if:

(i) directly, or indirectly through one or more intermediaries, the party (a) controls, is controlled by, or is under common control with, the CONSECO Group; (b) has an interest in the CONSECO Group that gives it significant influence over the CONSECO Group; or (c) has joint control over the CONSECO Group;

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of the CONSECO Group or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of the employees of the CONSECO Group, or of any entity that is a related party of the CONSECO Group.

1.20 Government grants

Government grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the CONSECO Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statements over the period necessary to match them with the costs that they are intended to compensate and are presented separately from the costs. Government grants relating to the purchase of assets are included in non-current liabilities as deferred government grants and are recognised in their income statements on a straight line basis over the expected lives of the related assets.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The CONSECO Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Depreciation and amortisation

The CONSECO Group depreciates the property, plant and equipment and prepaid land lease payments in accordance with the accounting policies stated in note 1.8 and note 1.9 respectively. The estimated useful lives reflect the directors' estimate of the periods that the CONSECO Group intends to derive future economic benefits from the use of these assets.

(ii) Valuation of biological assets

The CONSECO Group's management determines the fair values less estimated point-of-sale costs of biological assets on initial recognition and at each balance sheet date. These estimates are based on the current market condition, the knowledge and experience of the CONSECO Group's management.

(iii) Income tax

The CONSECO Group is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The CONSECO Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25% and will be effective from 1 January 2008. The impact of such change of enterprise income tax rate on the CONSECO Group's Financial Information will depend on detailed pronouncements that will be subsequently issued. Since the implementation measure on the transitional policy of preferential tax rate granted according to current tax law and administrative regulations has not yet been announced, the CONSECO Group cannot reasonably estimate the financial impact of the new tax law to the CONSECO Group at this stage.

3. REVENUE AND OTHER REVENUE

The CONSECO Group is principally engaged in investment holding and sale of sea buckthorn's seedlings. Revenue arising from the CONSECO Group's principal activities and other income recognised during the Relevant Periods are as follows:

	Year ended 31 March		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Revenue – Turnover			
Sales of goods	3,004	9,582	5,609
Other income			
Interest income	155	102	188
Exchange gain, net	–	10	–
Gain arising on initial recognition of biological assets at fair values less estimated point-of-sale costs of biological assets	18,926	21,278	23,241
Gain on disposal of property, plant and equipment	–	–	120
Government grants and subsidies*	–	–	13,480
Sundry income	302	343	111
	19,383	21,733	37,140

* *Government grants and subsidies mainly represented unconditional monetary awards receivable from relevant authorities in the PRC in respect of the CONSECO Group's contribution in environmental protection in sea buckthorn's business.*

4. SEGMENT INFORMATION

The Group is principally engaged in sea buckthorn's related business, which is the only business segment of the Group throughout the Relevant Periods. Accordingly, no analysis by business segment is provided. No geographical segment analysis is presented as the Group's revenue and assets attributed to sea buckthorn's related business were located in the PRC.

5. OPERATING PROFIT BEFORE INCOME TAX

	Year ended 31 March		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Operating profit before income tax is arrived at after charging:			
Amortisation of prepaid land lease payments	–	23	45
Auditors' remuneration	19	60	27
Cost of inventories sold	779	2,874	2,953
Depreciation of property, plant and equipment	265	484	1,201
Exchange loss, net	-	10	38
Operating lease rentals in respect of land and buildings	1,023	1,797	1,530
Impairment loss on other receivables	288	912	–
Inventories written-off	275	209	900
Loss on disposal of property, plant and equipment	–	200	–
Staff costs:			
– Salaries, wages and other allowances	3,527	4,027	6,080
– Contribution to retirement scheme	206	247	544

6. INCOME TAX EXPENSE

The provision for PRC income tax during the Relevant Periods is based on a statutory rate of 33% of the assessable profit of subsidiaries of the CONSECO Group as determined in accordance with the relevant income tax rules and regulations of the PRC.

	Year ended 31 March		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Current tax			
– PRC enterprise income tax	606	3,171	4,222

Reconciliation between tax expense and accounting profit at applicable tax rates:

	Year ended 31 March		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Operating profit before income tax	4,450	12,464	21,883
Tax on operating profit, calculated at the rates applicable in the PRC	1,469	4,113	2,538
Tax effect of non-deductible expenses	402	323	285
Tax concession	(1,307)	(2,019)	–
Tax effect of unused tax losses not recognised	42	–	1,339
Tax effect of taxable temporary difference not recognised	–	754	60
Income tax expense	606	3,171	4,222

As at 31 March 2007, the CONSECO Group has unused tax losses of RMB4,058,000 (31 March 2005 and 2006: Nil) available for offsetting against future taxable profits of the companies which incurred the losses. Deferred tax assets have not been recognised in respect of these losses due to the unpredictability of future profit streams.

7. DIVIDENDS

Dividends disclosed during the Relevant Periods represented dividends declared, approved and payable by CONSECO to its equity holders. The rates of dividend are not presented as such information is not meaningful.

8. PROPERTY, PLANT AND EQUIPMENT

The CONSECO Group

	Leasehold buildings	Leasehold improvements	Plant and machineries	Furniture, equipment and motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 April 2004						
Cost	285	880	252	1,244	1,002	3,663
Accumulated depreciation	(35)	(117)	(16)	(341)	–	(509)
Net book amount	250	763	236	903	1,002	3,154
Year ended 31 March 2005						
Open net book amount	250	763	236	903	1,002	3,154
Additions	74	–	679	502	368	1,623
Transfers	–	330	–	–	(330)	–
Depreciation	(-)	(49)	(198)	(18)	–	(265)
Closing net book amount	324	1,044	717	1,387	1,040	4,512
At 31 March 2005						
Cost	359	1,210	931	1,746	1,040	5,286
Accumulated depreciation	(35)	(166)	(214)	(359)	–	(774)
Net book amount	324	1,044	717	1,387	1,040	4,512
Year ended 31 March 2006						
Open net book amount	324	1,044	717	1,387	1,040	4,512
Additions	1,680	–	2,108	736	6,767	11,291
Transfers	1,875	66	107	96	(2,144)	–
Disposals	–	–	–	(200)	–	(200)
Depreciation	(48)	(41)	(141)	(254)	–	(484)
Closing net book amount	3,831	1,069	2,791	1,765	5,663	15,119
At 31 March 2006						
Cost	3,914	1,276	3,146	2,374	5,663	16,373
Accumulated depreciation	(83)	(207)	(355)	(609)	–	(1,254)
Net book amount	3,831	1,069	2,791	1,765	5,663	15,119

	Leasehold buildings	Leasehold improvements	Plant and machineries	Furniture, equipment and motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 March 2007						
Opening net book amount	3,831	1,069	2,791	1,765	5,663	15,119
Additions	216	–	1,730	1,955	28,735	32,636
Transfers	344	–	7,038	–	(7,382)	–
Disposals	(950)	–	(4)	(3)	–	(957)
Depreciation	(137)	(61)	(624)	(379)	–	(1,201)
Closing net book amount	3,304	1,008	10,931	3,338	27,016	45,597
At 31 March 2007						
Cost	3,498	1,276	11,856	4,156	27,016	47,802
Accumulated depreciation	(194)	(268)	(925)	(818)	–	(2,205)
Net book amount	3,304	1,008	10,931	3,338	27,016	45,597

As at 31 March 2007, the CONSECO Group's certain plant and machineries at the carrying amount of RMB4,978,000 were pledged to secure the borrowings of the CONSECO Group (note 18).

CONSECO

	Leasehold buildings	Plant and machineries	Furniture, equipment and motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 April 2004					
Cost	–	23	59	–	82
Accumulated depreciation	–	(12)	(18)	–	(30)
Net book amount	–	11	41	–	52
Year ended 31 March 2005					
Open net book amount	–	11	41	–	52
Additions	–	117	187	–	304
Transfers	–	–	–	–	–
Depreciation	–	(5)	(14)	–	(19)
Closing net book amount	–	123	214	–	337
At 31 March 2005					
Cost	–	140	246	–	386
Accumulated depreciation	–	(17)	(32)	–	(49)
Net book amount	–	123	214	–	337
Year ended 31 March 2006					
Open net book amount	–	123	214	–	337
Additions	1,680	2,072	562	2,174	6,488
Transfers	1,104	–	–	(1,104)	–
Depreciation	(14)	(54)	(52)	–	(120)
Closing net book amount	2,770	2,141	724	1,070	6,705
At 31 March 2006					
Cost	2,784	2,212	808	1,070	6,874
Accumulated depreciation	(14)	(71)	(84)	–	(169)
Net book amount	2,770	2,141	724	1,070	6,705

	Leasehold buildings	Plant and machineries	Furniture, equipment and motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 March 2007					
Opening net book amount	2,770	2,141	724	1,070	6,705
Additions	215	19	792	2,418	3,444
Transfers	344	2,528	–	(2,872)	–
Disposals	(950)	(4)	(3)	–	(957)
Depreciation	(73)	(245)	(114)	–	(432)
Closing net book amount	2,306	4,439	1,399	616	8,760
At 31 March 2007					
Cost	2,375	4,727	1,559	616	9,277
Accumulated depreciation	(69)	(288)	(160)	–	(517)
Net book amount	2,306	4,439	1,399	616	8,760

9. PREPAID LAND LEASE PAYMENTS – THE CONSECO GROUP

	31 March		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
At beginning of the year			
Gross carrying amount	–	–	2,478
Accumulated amortisation	–	–	(23)
Carrying amount	–	–	2,455
For the year ended 31 March 2005, 2006 and 2007			
Opening carrying amount	–	–	2,455
Additions	–	2,478	–
Amortisation	–	(23)	(45)
Net book amount	–	2,455	2,410
At end of the year			
Gross carrying amount	–	2,478	2,478
Accumulated amortisation	–	(23)	(68)
Carrying amount	–	2,455	2,410

The CONSECO Group's prepaid land lease payments represent the up-font payment to acquire long term leasehold interest in the rights to use the land situated in the PRC, which are held under medium term leases.

10. INTERESTS IN SUBSIDIARIES – CONSECO

	31 March 2005	31 March 2006	31 March 2007
	RMB'000	*RMB'000*	*RMB'000*
Unlisted shares, at cost	4,900	25,350	25,350

Particulars of the subsidiaries at each of the balance sheet date are as follows:

Name	Place of incorporation/ operation	Particulars of registered capital	Percentage of equity interest attributable to CONSECO Directly	Percentage of equity interest attributable to CONSECO Indirectly	Principal activities
鄂爾多斯市高原聖果生態建設開發有限公司^	The PRC	Registered capital of RMB20,000,000	2005: 70% 2006: 100% 2007: 100%	– – –	Cultivation, manufacture and sale of sea buckthorn's seedlings
准格爾旗高原聖果沙棘有限責任公司^	The PRC	Registered capital of RMB500,000	2005: 80% 2006: 90% 2007: 90%	– – –	Cultivation, manufacture and sale of sea buckthorn's seedlings
達拉特旗高原聖果沙棘有限公司^	The PRC	Registered capital of RMB500,000	2005: 30% 2006: 90% 2007: 90%	2005: 49% – –	Cultivation and sale of sea buckthorn's seedlings
陝西果聖水土保持建設有限公司^	The PRC	Registered capital of RMB5,000,000	2005: 80% 2006: 90% 2007: 90%	2005: 14% – –	Cultivation and sale of sea buckthorn's seedlings

^ *registered as limited liability companies under the PRC law.*

11. DEPOSITS – THE CONSECO GROUP AND CONSECO

	31 March		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Deposits for acquisition of equity instruments	–	–	5,100

As at 31 March 2007, the amount represents the deposit paid by CONSECO for the establishment of an equity joint venture in Shaanxi, the PRC, which will be principally engaged in the manufacture of sea buckthorn's products.

12. INVENTORIES

The CONSECO Group

	31 March		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	2,622	1,359	1,497
Work in progress	532	–	76
Finished goods	916	1,533	4,053
	4,070	2,892	5,626

CONSECO

	31 March		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	1,824	965	1,361
Finished goods	875	1,533	1,410
	2,699	2,498	2,771

13. BIOLOGICAL ASSETS

(a) A reconciliation of the carrying amounts of biological assets is as follows:

The CONSECO Group

	31 March		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount at beginning of the year	–	–	–
Gains arising on initial recognition of biological assets at fair value less estimated point-of-sale costs	18,926	21,269	23,241
Decrease due to sales	(18,926)	(21,269)	(23,241)
Carrying amount at end of the year	–	–	–

CONSECO

	31 March		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount at beginning of the year	–	–	–
Gains arising on initial recognition of biological assets at fair value less estimated point-of-sale costs	3,958	4,394	2,303
Decrease due to sales	(3,958)	(4,394)	(2,303)
Carrying amount at end of the year	–	–	–

Biological assets during the years ended 31 March 2005, 2006 and 2007 represented seedling of sea buckthorn which are primarily cultivated and held for sale.

(b) Financial risk management strategies relating to biological assets

The CONSECO Group and CONSECO are exposed to financial risks arising from changes in prices of biological assets which are determined by constantly changing market forces of supply and demand and other factors. The other factors include governmental and environmental regulations, weather conditions and diseases relating to the biological assets. The CONSECO Group and CONSECO have little or no control over these conditions and factors.

The CONSECO Group and CONSECO have not entered into derivatives or other contracts to manage the risk of fluctuation in the prices of biological assets. The CONSECO Group and CONSECO review their exposure for the prices of biological assets in considering the need for active financial risk management.

The CONSECO Group and CONSECO are subject to the risks associating with their ability to maintain the health of biological assets. Health problems of biological assets could adversely impact the production and customer satisfaction. The CONSECO Group and CONSECO monitor the health status of their biological assets on a regular basis and have procedures in place to reduce the potential exposure to diseases. Although policies and procedures have been put into place, there is no guarantee that the CONSECO Group and CONSECO will not be affected by these disease epidemics.

14. PREPAYMENTS AND OTHER RECEIVABLES – THE CONSECO GROUP AND CONSECO

The directors of CONSECO consider that the fair values of other receivables are not materially different from their carrying amounts because these amounts have short maturity periods on their inception.

15. AMOUNTS DUE FORM A FELLOW SUBSIDIARY, AMOUNTS DUE FROM/(TO) SHAREHOLDER(S) AND AMOUNTS DUE TO SUBSIDIARIES – THE CONSECO GROUP AND CONSECO

The balances are unsecured, interest-free and repayable on demand.

16. CASH AND CASH EQUIVALENTS – THE CONSECO GROUP AND CONSECO

As at 31 March 2005, 2006 and 2007, the cash and cash equivalents of CONSECO Group and CONSECO are cash and bank balances denominated in RMB, which were deposited with the banks in the PRC and held in hand. RMB is not freely convertible into foreign currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the CONSECO Group and CONSECO are permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

17. TRADE PAYABLES

The credit terms of trade payables vary according to the terms agreed with different suppliers. The ageing analysis of the CONSECO Group's and CONSECO's trade payables as at the respective balance sheet dates is as follows:

The CONSECO Group

		31 March	
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Current to 90 days	–	29	131
91 – 180 days	–	–	20
Over 180 days	2	11	236
	2	40	387

CONSECO

		31 March	
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Current to 90 days	–	29	–
91 – 180 days	–	–	5
Over 180 days	–	9	14
	–	38	19

Trade payables are all denominated in RMB.

18. BORROWINGS – THE CONSECO GROUP

	31 March		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Non-current portion under non-current liabilities			
– Other loans, secured	–	–	3,450

Borrowings were repayable as follows:

In the second year	–	–	600
In the third to fifth year	–	–	2,850
	–	–	3,450

Other loans are denominated in RMB and their carrying values approximate to their fair values.

Other loans were secured by pledge of certain plant and machineries (note 8) of the CONSECO Group.

19. PAID IN CAPITAL – THE CONSECO GROUP AND CONSECO

CONSECO was established in the PRC on 5 May 1998 with an initial registered capital of RMB1,000,000.

On 3 March 2003, its registered capital increased from RMB1,000,000 to RMB2,500,000 by way of capitalising distributable earnings and capital reserves amounting to RMB1,500,000.

On 29 November 2005, CONSECO was reconstituted into a sino-foreign enterprise with limited liabilities established in the PRC and its registered capital was increased from RMB2,500,000 to RMB30,500,000 by way of cash contribution amounting to RMB24,000,000 and assets injection amounting to RMB4,000,000 pursuant to an investment agreement dated 15 July 2005.

As at 31 March 2005, 2006 and 2007, the paid in capital of CONSECO were RMB2,500,000, RMB30,500,000 and RMB30,500,000 respectively.

20. RESERVES

The CONSECO Group

The amounts of the CONSECO Group's reserves and the movements therein during the Relevant Periods are presented in the consolidated statement of changes in equity set out in note (d) of Section I.

According to the relevant PRC laws, the CONSECO Group is required to transfer at least 10% of its net profit after tax, as determined under the PRC accounting regulation, to the statutory reserve untill the reserve balance reaches 50% of its paid in capital. The transfer of this reserve must be made before the distribution of dividend to its equity owners. The statutory reserve is non-distributable other than upon the liquidation of the CONSECO Group.

Other reserve represents the difference between the fair value the carrying amount of the net assets attributable to the additional interest in subsidiaries being acquired from minority equity holders.

CONSECO

	Statutory reserves*	Retained profits/ (Accumulated losses)	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 April 2004	210	705	915
Profit for the year	–	268	268
Dividend declared and paid	–	(600)	(600)
Transfers	111	(111)	–
At 31 March 2005 and 1 April 2005	321	262	583
Profit for the year	–	1,052	1,052
At 31 March 2006 and 1 April 2006	321	1,314	1,635
Loss for the year	–	(3,221)	(3,221)
At 31 March 2007	321	(1,907)	(1,586)

* *According to the relevant PRC Laws, CONSECO is required to transfer at least 10% of its net profit after tax, as determined under the PRC accounting regulation, to a statutory reserve until the reserve balance reaches 50% of its paid in capital. The transfer of this reserve must be made before the distribution of dividend to the entity's equity owners. The statutory reserve is non-distributable other than upon the liquidation of CONSECO.*

21. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

Details of directors' remuneration of the CONSECO Group for each of the Relevant Periods are as follows:

	Salaries, allowances and other benefits	Retirement scheme contribution	Total
	RMB'000	*RMB'000*	*RMB'000*
For the year ended 31 March 2005			
閆培華	–	–	–
郤源臨	–	–	–
李永海	–	–	–
溫中平*	62	–	62
盧健*	60	–	60
盧順光*	–	–	–
徐雙民*	–	–	–
楊松*	–	–	–
	122	–	122
For the year ended 31 March 2006			
閆培華	–	–	–
郤源臨	–	–	–
李永海	169	–	169
溫中平*	124	–	124
盧健*	143	–	143
盧順光*	–	–	–
徐雙民*	–	–	–
楊松*	–	–	–
段傳良^	–	–	–
胡穎^	–	–	–
王卉^	–	–	–
林貴^	–	–	–
	436	–	436
For the year ended 31 March 2007			
閆培華	–	–	–
郤源臨	–	–	–
李永海	257	28	285
段傳良^	–	–	–
胡穎^	–	–	–
王卉^	–	–	–
林貴^	–	–	–
	257	28	285

^ *Appointed during the year ended 31 March 2006*

* *Resigned during the year ended 31 March 2006*

(b) Five highest paid individuals

The five highest paid individuals in the CONSECO Group during the Relevant Periods included two directors for the year ended 31 March 2005, three directors for the year ended 31 March 2006 and one director for the year ended 31 March 2007, details of whose emoluments have been disclosed in note (a) above. The emoluments paid to the remaining non-director, highest paid individuals during the Relevant Periods are as follows:

	Year ended 31 March		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, allowances and other benefits	172	280	717
Contribution to retirement scheme	34	–	97
	206	280	814

The emolument of each of the individual during the Relevant Periods was within HK$1,000,000.

During the Relevant Periods, no emoluments were paid by the CONSECO Group to the directors and five highest individuals as an inducement to join or upon joining the CONSECO Group or as compensation for loss of office and no directors of CONSECO waived or agreed to waive any remuneration.

22. OPERATING LEASE COMMITMENTS

At the respective balance sheet dates, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable by the CONSECO Group and CONSECO as follows:

The CONSECO Group

	31 March		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	1,103	947	560
In the second to fifth years	1,429	1,962	1,820
After five years	3,680	6,000	4,820
Total	6,212	8,909	7,200

CONSECO

	31 March		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	1,103	700	272
In the second to fifth years	1,429	962	920
After five years	3,680	3,450	3,220
Total	6,212	5,112	4,412

The CONSECO Group and CONSECO lease certain leasehold land, office premises and properties under operating lease arrangements for terms ranging from 1 to 20 years. Certain leases contain an option to renew the lease and renegotiated the terms at the expiry dates or at dates mutually agreed between the CONSECO Group/CONSECO and the landlords. None of the leases include contingent rentals.

23. CAPITAL COMMITMENTS – THE CONSECO GROUP AND CONSECO

At the respective balance sheet dates, the CONSECO Group and CONSECO had the following outstanding commitments:

The CONSECO Group

	31 March		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Contracted, but not provided for			
– Construction in progress	–	8,624	1,276
– Plant and machinery	–	1,429	1,015
Total	–	10,053	2,291

CONSECO did not have any capital commitments as at 31 March 2005, 2006 and 2007.

CONSECO

	31 March		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Contracted, but not provided for			
– Plant and machinery	–	1,429	48

24. RELATED PARTY TRANSACTIONS – THE CONSECO GROUP

In addition to the transactions and balances disclosed elsewhere in the Financial Information, the CONSECO Group had the following material related party transactions:

		Year ended 31 March		
		2005	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Sale to a minority shareholder of subsidiaries	(i)	18,926	21,287	23,241
Receipt-in-advance from a minority shareholder of subsidiaries	(ii)	5,540	11,758	13,569

Notes:

(i) The sales represented sale of biological assets to 水利部沙棘開發管理中心, a shareholder of CONSECO. The sales were based on mutually agreed terms.

(ii) An aggregate amount of receipt-in-advance as at the balance sheet dates was received from 水利部沙棘開發管理中心. This amount was made for the sales of biological assets based on mutually agreed terms and was included under "accrued liabilities, deposits received and other payables".

(iii) The directors are of the opinion that the key management personnel were solely the directors of CONSECO, details of whose remuneration during the Relevant Periods are set out in note 21(a).

25. RISK MANAGEMENT OBJECTIVES AND POLICIES

The CONSECO Group does not have written risk management policies and guidelines. However, the directors of CONSECO meet periodically to analyse and formulate measures to manage the CONSECO Group's exposure to market risk (i.e. interest rate risk) and credit risk. Generally, the CONSECO Group employs a conservative strategy regarding its risk management. As the CONSECO Group's exposure to market risk and credit risk are kept at a minimum level, the CONSECO Group has not used any derivatives or other instruments for hedging purposes. The CONSECO Group does not hold or issue derivative financial instruments for trading purposes.

As at the respective balance sheet dates, the CONSECO Group's financial instruments mainly consisted of other receivables, amounts due from a fellow subsidiary, bank and cash balances, trade payables, accrued liabilities, other payables, amounts due from/(to) a shareholder(s) and borrowings.

(a) Interest rate risk

The CONSECO Group's interest rate risk mainly arises from the CONSECO Group's borrowings. The interest rate risk is minimal to the CONSECO Group as borrowings are usually at fixed interest rates.

(b) Credit risk

The carrying amounts of other receivables, amounts due from a fellow subsidiary and a shareholder represent the CONSECO Group's maximum exposure to credit risk in relation to its financial assets.

None of the CONSECO Group's financial assets are secured by collateral or other credit enhancements.

The CONSECO Group has no other significant concentration of credit risk. No other financial assets carry a significant exposure to credit risk.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the CONSECO Group, CONSECO or any of its subsidiaries have been prepared in respect of any period subsequent to 31 March 2007.

Yours faithfully,

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

The following are the unaudited pro forma financial information on the Enlarged Group and the text of a comfort letter thereon received from HLM&Co., Certified Public Accountants, prepared for the purpose of inclusion in this circular:

1. INTRODUCTION

The following is the unaudited pro forma financial information of the Enlarged Group prepared in accordance with the Rules 4.29 of the Listing Rules for the purpose of illustrating the effect of the proposed acquisition of the CEWH Group on the financial position of the Group as if the Acquisition had been completed on 31 December 2006 and the results and cash flows of the Group as if the Acquisition had been completed on 1 January 2006. As it is prepared for illustrative purpose only, and because of its nature, it may not give a true picture of the financial position, results and cash flows of the Enlarged Group following completion of the Acquisition.

The unaudited pro forma consolidated balance sheet of the Enlarged Group is prepared based on the audited consolidated balance sheet of the Group as at 31 December 2006 extracted from the published annual report of the Group as of 31 December 2006 as set out in Appendix I to this circular and the audited consolidated balance sheet of the CEWH Group as at 31 March 2007 extracted from the accountant's report on the CEWH Group as set out in Appendix II to this circular as if the Acquisition had been completed on 31 December 2006.

The unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement of the Enlarged Group for the year ended 31 December 2006 extracted from the published annual report of the Group as of 31 December 2006 as set out in Appendix I to this circular and the audited consolidated income statement and cash flow statement of the CEWH Group for the year ended 31 March 2007 extracted from the accountants' report on the CEWH Group as set out in Appendix II to this circular as if the Acquisition has been completed on 1 January 2006.

The unaudited pro forma financial information of the Enlarged Group is based upon the published audited financial information of the Group and the audited financial information of the CEWH Group after giving effect to the pro forma adjustments described in the notes below. These pro forma adjustments of the Acquisition are (i) directly attributable to the transactions concerned and not relating to future events or decisions; and (ii) factually supportable.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the published annual report of the Group and the accountants' report on the CEWH Group and other financial information included elsewhere in the circular.

2. UNAUDITED PRO FORMA BALANCE SHEET OF THE ENLARGED GROUP

	The Group as at 31 December 2006 *HK$'000*	The CEWH Group as at 31 March 2007 *HK$'000*	Sub-total *HK$'000*	Pro forma adjustments *HK$'000*	*Notes*	Pro forma Enlarged Group *HK$'000*
ASSETS AND LIABILITIES						
Non-current assets						
Prepaid lease payments	2,140	2,410	4,550			4,550
Property, plant and equipment	111,607	45,597	157,204			157,204
Deposits for acquisitions of property, plant and equipment	–	5,100	5,100			5,100
Goodwill	–	4,619	4,619	168,260	*(c)*	172,879
	113,747	57,726	171,473			339,733
Current assets						
Inventories	57,720	5,626	63,346			63,346
Trade and other receivables	178,487	20,964	199,451	31	*(h)*	199,482
Amounts due from China Water Group	–	31	31	(31)	*(h)*	–
Amount due from a minority shareholder of a subsidiary	–	700	700			700
Pledged bank deposits	21,459	–	21,459			21,459
Bank balances and cash	36,366	8,643	45,009			45,009
	294,032	35,964	329,996			329,996
Current liabilities						
Trade and other payables	28,326	13,547	41,873	3,600	*(c)*	45,473
Amounts due to China Water Group	–	19,259	19,259	(19,259)	*(d)*	–
Amounts due to minority shareholders of subsidiaries	–	2,944	2,944			2,944
Obligations under a finance lease	5,092	–	5,092			5,092
Tax payable	3,121	5,849	8,970			8,970
Borrowings	138,674	–	138,674			138,674
	175,213	41,599	216,812			201,153
Net current assets/(liabilities)	118,819	(5,635)	113,184			128,843
Total assets less current liabilities	232,566	52,091	284,657			468,576
Non-current liabilities						
Obligations under a finance lease	5,903	–	5,903			5,903
Borrowings	32,030	3,450	35,480			35,480
Convertible loan note	–	–	–	107,360	*(e)*	107,360
Deferred tax liabilities	90	–	90			90
	38,023	3,450	41,473			148,833
Net assets	194,543	48,641	243,184			319,743
EQUITY						
Equity attributable to equity holders of the Company						
Share capital	5,350	–	5,350	1,330	*(a)*	6,680
Reserves	189,193	16,081	205,274	18,620	*(a)*	
				19,259	*(d)*	
				(16,081)	*(b),(c)*	
				(19,259)	*(c)*	
				72,690	*(e)*	280,503
	194,543	16,081	210,624			287,183
Minority interests	–	32,560	32,560			32,560
Total equity	194,543	48,641	243,184			319,743

3. UNAUDITED PRO FORMA INCOME STATEMENT OF THE ENLARGED GROUP

	The Group for the year ended 31 December 2006	The CEWH Group for the year ended 31 March 2007	Sub-total	Pro forma adjustments		Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Turnover	202,130	5,609	207,739			207,739
Costs of sales	(131,307)	(3,665)	(134,972)			(134,972)
Gross profit	70,823	1,944	72,767			72,767
Other operating income and net gain	3,675	37,151	40,826			40,826
Selling and distribution expenses	(25,268)	(2,561)	(27,829)			(27,829)
Administrative expenses and other operating expenses	(18,093)	(14,646)	(32,739)			(32,739)
Profit from operations	31,137	21,888	53,025			53,025
Finance costs	(12,242)	–	(12,242)	(9,562)	*(f)*	(21,804)
Profit before tax	18,895	21,888	40,783			31,221
Income tax expense	(5,865)	(4,222)	(10,087)			(10,087)
Profit for the year	13,030	17,666	30,696			21,134
Attributable to:						
Equity holders of the Company	13,030	8,852	21,882	(9,562)	*(f)*	12,320
Minority interests	–	8,814	8,814			8,814
	13,030	17,666	30,696			21,134

4. UNAUDITED PRO FORMA CASH FLOW STATEMENT OF THE ENLARGED GROUP

	The Group as at 31 December 2006	The CEWH Group as at 31 March 2007	Sub-total	Pro forma adjustments	Notes	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
Cash flows from operating activities						
Profit before tax	18,895	21,888	40,783	(9,562)	*(f)*	31,221
Adjustments for:						
Interest expenses	12,242	–	12,242	9,562	*(f)*	21,804
Interest income	(1,310)	(188)	(1,498)			(1,498)
Depreciation	8,714	1,201	9,915			9,915
Amortisation of prepaid lease payments	153	45	198			198
Inventories written off	–	900	900			900
Gain on disposal on property, plant and equipment	(74)	(120)	(194)			(194)
Operating cash flows before movements in working capital	38,620	23,726	62,346			62,346
Increase in inventories	(10,040)	(3,745)	(13,785)			(13,785)
Increase in trade and other receivables	(1,201)	(11,461)	(12,662)			(12,662)
Decrease in trade and other payables	(537)	(8,946)	(9,483)			(9,483)
Increase in amounts due from a minority shareholder of a subsidiary	–	(700)	(700)			(700)
Decrease in amounts due to China Water Group	–	(10)	(10)			(10)
Increase in amounts due to minority shareholders of subsidiaries	–	1,563	1,563			1,563
Cash generated from operations	26,842	427	27,269			27,269
Interest paid	(12,242)	–	(12,242)	(5,402)	*(f)*	(17,644)
Hong Kong Profits Tax paid, net	(1,340)	–	(1,340)			(1,340)
PRC Enterprise Income Tax paid	(3,472)	(1,124)	(4,596)			(4,596)
Net cash generated from/(used in) operating activities	9,788	(697)	9,091			3,689
Cash flows from investing activities						
(Increase) decrease in pledged bank deposits	(4,654)	–	(4,654)			(4,654)
Purchase of property, plant and equipment	(10,569)	(32,636)	(43,205)			(43,205)
Deposits paid for acquisition of property, plant and equipment	–	(5,100)	(5,100)			(5,100)
Acquisition of subsidiaries	–		–	41,282	*(g)*	41,282
Interest received	1,310	188	1,498			1,498
Proceeds from disposal of property, plant and equipment	215	1,077	1,292			1,292
Net cash used in investing activities	(13,698)	(36,471)	(50,169)			(8,887)
Cash flows from financing activities						
Borrowings raised	130,978	–	130,978			130,978
(Repayment) of proceeds from bank borrowings	(146,026)	3,450	(142,576)			(142,576)
Capital element of finance leases	1,067	–	1,067			1,067
Proceeds from issue of ordinary shares, net of expenses	30,656	–	30,656			30,656
Net cash generated from financing activities	16,675	3,450	20,125			20,125
Net increase/(decrease) in cash and cash equivalents	12,765	(33,718)	(20,953)			14,927
Effect of foreign exchange rate change	(2,397)	1,079	(1,318)			(1,318)
Cash and cash equivalents at beginning of year	10,416	41,282	51,698	(41,282)	*(g)*	10,416
Cash and cash equivalents at end of year	20,784	8,643	29,427			24,025
ANALYSIS OF CASH AND CASH EQUIVALENTS						
Bank balances and cash	36,366	8,643	45,009	(5,402)	*(f)*	39,607
Bank overdrafts	(15,582)	–	(15,582)			(15,582)
	20,784	8,643	29,427			24,025

5. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMAITON OF THE ENLARGED GROUP

(a) The adjustments for the acquisition of the interest in 100% of the issued share capital of CEWH, the consideration of HK$200,000,000 is to be satisfied in full by way of (i) the issue of 133,000,000 new shares at a price of HK$0.15 each; and (ii) issue of the Convertible Bonds as to the remaining of HK$180,050,000.

The issue of new shares will increase the Company's share capital by approximately HK$1,330,000 and share premium by approximately HK$18,620,000.

(b) The adjustments reflected the elimination of pre acquisition retained profits and other reserves of CEWH Group amounting to an aggregate of approximately HK$16,081,000 and also its share capital amounting to HK$10.

(c) The adjustments represent the effect of the Acquisition on the consolidated balance sheet of the Group as if the Acquisition had been taken place on 31 December 2006. The recognition of goodwill of approximately HK$168,260,000 arising from the Acquisition which has been determined as the difference between the consideration of HK$200,000,000, including the professional fees and other transaction costs of approximately HK$3,600,000 directly attributable to the Acquisition and the Group's interest in CEWH Group's net assets acquired at book values of approximately HK$35,340,000, taking into account the waiver of shareholder's loan due to China Water Group referred to in note (d) below.

The final amount of goodwill will be determined based on the final consideration paid by the Group and the Group's interest in the fair value of the identifiable assets and liabilities of CEWH on the date of completion in accordance with Hong Kong Financial Reporting Standard 3 "Business Combinations" issued by Hong Kong Institute of Certified Public Accountants. The Group will apply the purchase method to account for the Acquisition in the consolidated financial statements of the Group.

(d) Pursuant to the Agreement, the Vendor will waive its shareholder's loan in the amount of HK$19,259,000 due by CEWH immediately before Completion.

(e) The adjustments represent the liability and equity components of the Convertible Notes issued for the Acquisition as if it was issued on 31 December 2006. The estimated fair value of the liability component of the Convertible Bonds is HK$107,360,002 determined using the discounted cash flow method and the estimated fair value of the equity component is HK$72,689,998.

(f) The adjustments represent the imputed interest expenses for the year ended 31 December 2006 on the Convertible Bonds as part of consideration for the Acquisition, assuming effective interest rate of 8.91% per annum, as if they were issued on 1 January 2006. The effective interest rate was considered by reference to market risk free rate and the credit spread corresponding to the financial conditions of the Company. This unaudited pro forma adjustment will have continuing income statement effect to the Enlarged Group, and the actual amount will vary according to the timing of the whole or any part of the Convertible Bonds are being converted and redeemed and the applicable effective interest rates.

(g) The adjustments represent the inclusion of the cash flow statement of CEWH Group extracted from the accountants' report of CEWH Group for the year ended 31 March 2007 as set out in Appendix II to this circular which has been prepared in accordance with the Group's accounting policies.

(h) Re-classification of the accounts under the Enlarged Group.

恒健會計師行
HLM & Co.
Certified Public Accountants

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2-12 Queen's Road West, Hong Kong.
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24 September 2007

The Directors
Wah Yuen Holdings Limited
2/F, On Shing Industrial Building
Nos.2-16 Wo Liu Hang Road
Fo Tan, Shatin
New Territories, Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of the Enlarged Group set out in Appendix III to the circular of Wah Yuen Holdings Limited (the "Company", together with its subsidiaries are referred to as the "Listed Group") dated 24 September 2007 which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the proposed acquisition of the 100% equity interest in China Environmental Water Holdings Limited and its subsidiaries (the "Target Company"), might have affected the audited consolidated income statement and audited consolidated cash flow statement of the Listed Group for the year ended 31 December 2006 and the audited consolidated balance sheet of the Listed Group as at 31 December 2006. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the section headed "Introduction to the unaudited pro forma financial information" and "Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group" of this Appendix.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by Paragraph 4.29 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Report on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Listed Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the results and cash flows of the Enlarged Group for the year ended 31 December 2006 or any future periods; or
- the financial position of the Enlarged Group as at 31 December 2006 or any future date.

Opinion

In our opinion:

(a) the accompanying Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Listed Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
HLM & Co.
Certified Public Accountants

(i) The Group

The following is the text of a property valuation report, prepared for the purpose of inclusion in this circular, received from DTZ Debenham Tie Leung Limited, in connection with its valuation as at 30 June 2007 of the property interests of the Group:

10th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

24 September 2007

The Directors
Wah Yuen Holdings Limited
2nd Floor, On Shing Industrial Building
Nos. 2-16 Wo Liu Hang Road
Fo Tan
Shatin
New Territories
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests held by Wah Yuen Holdings Limited (the "Company") or its subsidiaries (hereinafter together referred to as the "Group") in Hong Kong and the People's Republic of China (the "PRC") as listed in the attached summary of valuations, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of such property interests as at 30 June 2007 (the "date of valuation").

Our valuation of each property interest represents its market value which in accordance with The HKIS Valuation Standards on Properties (First Edition 2005) of The Hong Kong Institute of Surveyors is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Our valuation of each property interest excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

In valuing the property interests in Hong Kong the Government Leases of which expired before 30 June 1997, we have taken into account the provisions contained in Annex III of the Joint Declaration of the Government of the United Kingdom and the Government of the People's Republic of China on the Question of Hong Kong as well as in the New Territories Leases (Extension) Ordinance under which such leases have been extended without premium until 30 June 2047 and that Government rents of three per cent. of the rateable value are charged per annum from the date of extension.

In the course of our valuation of the property interests in the PRC, we have assumed that transferable land use rights in respect of the property interests for respective specific terms at nominal annual land use fee have been granted and that any premium payable has already been fully paid. We have assumed that the grantees or the users of the property interests have free and uninterrupted rights to use or to assign the property interests for the whole of the respective unexpired terms as granted. We have relied on the advice given by the Group and the Company's legal adviser on the PRC law, Winners Solicitors and Attorneys, regarding the title to each of the property interests and interests of the Group in the properties.

In forming our opinion of values of the property interests in Group I, which are owned by the Group in Hong Kong, we have valued each of such property interests in its existing state and use on a market value basis assuming sale with immediate vacant possession and by making reference to comparable sales evidence.

In valuing the property interests in Group II, which are held by the Group in the PRC, we have adopted the Depreciated Replacement Costs ("DRC") Approach. The DRC Approach is a method in which a property is valued by summing the market value of the land in its existing use with an estimate of the new replacement cost of the buildings and structures from which deductions are made to allow for their ages, conditions and functional obsolescence. In arriving at our opinion of the market value of the land, we have valued them by comparison approach by making reference to the comparable land sale evidences in the relevant locality.

The property interests in Groups III and IV which are leased or licensed to the Group in Hong Kong and the PRC respectively have no commercial value due to the prohibitions against assignment of the properties or otherwise due to the lack of substantial profit rents.

In valuing the properties, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property interests nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In respect of the property interests owned by the Group in Hong Kong, we have not been provided with copies of the title documents relating to the property interests but have caused searches to be made at the Land Registry. We have been provided with copies of extracts of documents in relation to the title to the property interests in the PRC as well as copies of tenancy agreements relating to the properties leased to the Group in Hong Kong and the PRC. However, we have not searched the original documents to ascertain ownership or to verify any amendments which may not appear on the copies handed to us. In the course of our valuation, we have relied to a very considerable extent on the information given to us by the Group and the Company's legal advisers on the PRC law, Winners Solicitors and Attorneys. We have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of properties, completion dates of buildings, particulars of occupancy, site and floor areas, site and floor plans, tenancy particulars and all other relevant matters.

Dimensions, measurements and areas included in the attached valuation certificates are based on information provided to us and are therefore only approximations. We have not been able to carry out on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the copies of the documents handed to us are correct. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuations. We were also advised by the Group that no material facts have been omitted from the information supplied. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free from rot, infestation or any other structural defects. No tests were carried out to any of the services. Unless otherwise stated, we have not been able to carry out on-site measurements to verify the floor areas of the properties and we have assumed that the areas shown on the copies of documents handed to us are correct.

Unless otherwise stated, all money amounts stated in our valuations are in Hong Kong dollars. The exchange rate adopted in our valuation is HK$1=RMB0.97 which was the approximate exchange rate prevailing as at the date of valuation.

We enclose herewith a summary of valuations and our valuation certificates.

Yours faithfully,
For and on behalf of
DTZ Debenham Tie Leung Limited
K.B. Wong
Registered Professional Surveyor
(General Practice Division)
China Real Estate Appraiser
M.R.I.C.S., M.H.K.I.S.
Director

Note: Mr. K. B. Wong is a registered professional surveyor who has 23 years of experience in the valuation of properties in Hong Kong and over 15 years experience in the valuation of the properties in the PRC.

SUMMARY OF VALUATIONS

	Property	Capital value in existing state as at 30 June 2007
		HK$
Group I – Property interests held by the Group for owner occupation in Hong Kong		
1.	Workshop C on 2nd Floor and Flat Roof C, Workshop D on 2nd Floor and Car Park 7, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong	6,200,000
2.	Car Park Space No. 333 and 333A on 1st Level, Nos. 1-11, 15-17 Mount Sterling Mall, Nos. 10-16 Lai Wan Road, Mei Foo Sun Chuen Stage VII, Lai Chi Kok, Kowloon, Hong Kong	450,000
	Sub-total:	6,650,000
Group II – Property interests held by the Group for owner occupation in the PRC		
3.	Wah Yuen Industrial Complex situated at No. 178 Jianshe North Road, Huadu District, Guangzhou City, Guangdong Province	48,600,000
4.	Rocco Industrial Complex situated at No. 178 Jianshe North Road, Huadu District, Guangzou City, Guangdong Province	12,600,000
	Sub-total:	61,200,000

	Property	Capital value in existing state as at 30 June 2007 *HK$*
Group III – Property interests leased to the Group in Hong Kong		
5.	Workshop A on 2nd Floor and Flat Roof A, Workshop B on 2nd Floor, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong	No commercial value
6.	Workshop A on 11th Floor, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong	No commercial value
7.	Workshop B on 11th Floor, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong	No commercial value
8.	Workshop A on 12th Floor and Roof A, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong	No commercial value
9.	Workshop B on 12th Floor and Roof B, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong	No commercial value
10.	Workshop C on 12th Floor and Roof C and Car Park 19, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong	No commercial value
11.	Container Car Park (Car Park 2), On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong	No commercial value

	Property		Capital value in existing state as at 30 June 2007 *HK$*
12.	Car Parks 8 and 10, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong		No commercial value
13.	Car Park 18, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong		No commercial value
		Sub-total:	No commercial value

Group IV – Property interests leased to the Group in the PRC

14.	Room No. 301 on the 3rd Level, Unit 1 of Block No. 2, Zhengxin Garden, Xinyang Beiyi Road, Nanning City, Guangxi Zhuang Autonomous Region		No commercial value
15.	Unit No. 1219 on the 12th Level, No. 21 Nanjing North Street, Heping District, Shenyang City, Liaoning Province		No commercial value
16.	A warehouse on 4th Level, Block No. 10, No. 29 Huaxi Road, Nanning City, Guangxi Zhuang Autonomous Region		No commercial value
		Sub-total:	No commercial value
		Grand-Total:	**67,850,000**

VALUATION CERTIFICATE

Group I – Property interests held by the Group for owner occupation in Hong Kong

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2007
1.	Workshop C on 2nd Floor and Flat Roof C, Workshop D on 2nd Floor and Car Park 7, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong 73/1913th shares of and in Sha Tin Town Lot No. 7	The property comprises two industrial units on the 2nd floor and the corresponding flat roof and a car parking space on the ground floor of a 13-storey industrial building completed in 1978. The industrial units have a total gross floor area of approximately 761.80 sq.m. (8,200 sq.ft.). The flat roof area is approximately 30.01 sq.m. (323 sq.ft.). The property is held from the Government for a term of 99 years less the last 3 days commencing from 1 July 1898 which has been statutorily extended until 30 June 2047. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	The property is currently leased to Wah Yuen Foods (Hong Kong) Company Limited, a wholly owned subsidiary of the Company, for a term of 3 years from 1 January 2006 to 31 December 2008 at a monthly rent of HK$27,000, exclusive of rates and management fees. The property is currently occupied for workshop, warehouse and parking purposes.	HK$6,200,000

Notes:

(1) The registered owner of the property is Million Riches Development Limited, a wholly owned subsidiary of the Company.

(2) The property is subject to a legal charge for all money in favour of Industrial and Commercial Bank of China (Asia) Limited.

(3) The property is currently zoned for "Industrial" purpose under Sha Tin Outline Zoning Plan S/ST/23 dated 5 June 2007.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2007
2.	Car Park Space No. 333 and 333A on 1st Level, Nos. 1-11, 15-17 Mount Sterling Mall, Nos. 10-16 Lai Wan Road, Mei Foo Sun Chuen Stage VII, Lai Chi Kok, Kowloon, Hong Kong 1/12728th share of and in New Kowloon Inland Lot No. 5086	The property comprises two car parking spaces on the 1st floor of a 6-storey podium (including lower ground floor to upper podium floor) upon which various residential towers are erected. The podium was completed in 1976. The property is held from the Government for a term of 99 years less the last 3 days commencing from 1 July 1898 which has been statutorily extended until 30 June 2047. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	The property is currently occupied by the Group for parking purpose.	HK$450,000

Notes:

(1) The registered owner of the property is Wah Yuen Foods (Hong Kong) Company Limited, a wholly owned subsidiary of the Company.

(2) The property is subject to a mortgage for all moneys in favour of DBS Bank (Hong Kong) Limited.

(3) The property is currently zoned for “Residential (Group A)” purpose under Lai Chi Kok Outline Zoning Plan S/K16/14 dated 12 April 2005.

Group II – Property interests held by the Group for owner occupation in the PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2007
3.	Wah Yuen Industrial Complex situated at No. 178 Jianshe North Road, Huadu District, Guangzhou City, Guangdong Province	The property comprises an industrial complex erected upon a plot of land having a site area of approximately 18,863 sq.m. (203,041 sq.ft.). The industrial complex of the property comprises 5 blocks of single to 5-storey industrial building, a block of 6-storey dormitory, a block of 4-storey office and other ancillary structures. The industrial complex was completed between 1997 and 1999. The property has a total gross floor area of approximately 29,744.87 sq.m. (320,174 sq.ft.) (exclusive of areas of those ancillary structures – see Note 3). The land use rights of the property have been granted for a term from 7 November 1992 to 6 November 2042 for industrial use.	The property is currently occupied by the Group for workshops, warehouses, ancillary office and other ancillary uses.	HK$48,600,000

Notes:

(1) According to Certificate for the Use of State-owned Land No. (92) 11013711 issued by Hua County Land Administration Bureau on 7 November 1992, the land use rights of the property comprising a site area of 18,863 sq.m. have been granted to Wah Yuen (Guangzhou) Foods Company Limited, a wholly owned subsidiary of the Company, for a term from 7 November 1992 to 6 November 2042 for industrial use.

(2) According to 7 Real Estate Title Certificates all issued by Guangzhou Huadu District Land and Real Estate Administration Bureau, the realty title to the property comprising a total gross floor area of 29,744.87 sq.m. is vested in Wah Yuen (Guangzhou) Foods Company Limited. Details of the said certificates are, inter alia, cited as follows:

Certificate No.	Date of Issue	Building	No. of Storey	Gross Floor Area (*sq.m.*)
2696592	15-02-2001	Generator Room	1	538.11
2696593	15-02-2001	Dormitory	6	5,436.32
2696594	15-02-2001	Workshop	5	4,244.42
2696595	15-02-2001	Boiler Room	3	1,071.96
2696596	15-02-2001	Cold Storage Warehouse	2	1,195.00
2696597	15-02-2001	Workshop	4	14,912.57
C0180104	07-06-2001	Office	4	2,346.49
			Total:	29,744.87

(3) We note that some ancillary structures erected on the site are not granted with the Building Ownership Certificate. We have not assigned values to the said ancillary structures in our valuation.

(4) According to the Business Licence No. 447511 dated 25 January 2002, Wah Yuen (Guangzhou) Foods Company Limited was established with a registered capital of US$4,500,000 and has an operation period from 1 December 1995 to 1 December 2009.

(5) The opinion of the Company's legal adviser on PRC law states, inter alia, that:

(i) According to Certificate for the Use of State-owned Land No. (92) 11013711 issued by Hua County Land Administration Bureau on 7 November 1992, the land use rights of the property comprising a site area of 18,863 sq.m. have been granted to Wah Yuen (Guangzhou) Foods Company Limited, a wholly owned subsidiary of the Company, for a term from 7 November 1992 to 6 November 2042 for industrial use.

(ii) According to 7 Real Estate Title Certificates all issued by Guangzhou Huadu District Land and Real Estate Administration Bureau, the realty title to the property comprising a total gross floor area of 29,744.87 sq.m. is vested in Wah Yuen (Guangzhou) Foods Company Limited. Details of the said certificates are, inter alia, cited as Note (2) above.

(iii) According to the Real Estate Title Certificates, the buildings of the property are subject to a mortgage in favour of Business Development Bank Ltd. (德富泰銀行有限公司) to an extent of US$6.67 million due to expire on 30 January 2008. Any transfer of the property should follow the relevant requirements and regulations of the PRC law within the valid period of the mortgage.

(iv) Wah Yuen (Guangzhou) Foods Company Limited is in possession of a proper legal title to the property and is entitled to use, transfer and lease the property with the residual term of its land use rights at no extra land premium or other onerous payment payable to the government.

(v) All land premium have been settled in full.

(6) As advised by the Group and the Company's PRC legal adviser, the Group is not required to pay any Ground/Government Rent.

(7) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

Certificate for the Use of State-owned Land	Yes
Real Estate Title Certificate	Yes
Business Licence	Yes

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2007
4.	Rocco Industrial Complex situated at No. 178 Jianshe North Road, Huadu District, Guangzou City, Guangdong Province	The property comprises an industrial complex erected on a plot of land having a site area of approximately 9,615.86 sq.m. (103,505 sq.ft.). The industrial complex of the property comprises a block of 2-storey workshop, a block of 2-storey ancillary building, a block of 4-storey dormitory, a block of 4.5-storey dormitory and other ancillary structures. The industrial use complex was completed in 1989. The property has a total gross floor area of approximately 10,499.29 sq.m. (113,014 sq.ft.) (exclusive of areas of those ancillary structures – see Note 3). The land use rights of the property have been granted for a term from 4 April 2003 to 3 April 2053 for industrial use.	The property is currently occupied by the Group for workshops, ancillary office and other ancillary uses.	HK$12,600,000

Notes:

(1) According to Certificate for the Use of State-owned Land No. (96) 11026051 issued by The People's Government of Huadu on 11 June 1996, the land use rights of the property comprising a site area of 9,615.86 sq.m. have been granted to Rocco Food Enterprise Company (Guangzhou) Limited, a wholly owned subsidiary of the Company, for a term from 4 April 2003 to 3 April 2053 for industrial use.

(2) According to 4 Building Ownership Certificates all issued by Guangzhou Huadu Municipality Land Real Estate Administration Bureau, the building ownership to the property comprising a total gross floor area of 10,499.29 sq.m. is vested in Rocco Foods Enterprise Company (Guangzhou) Limited. Details of the said certificates are, inter alia, cited as follows:

Certificate No.	**Building**	**No. of Storey**	**Gross Floor Area** *(sq.m.)*
4061078	Dormitory	4.5	878.00
4061820	Workshop	2	7,236.34
4061152	Ancillary	2	500.64
4061160	Dormitory	4	1,884.31
		Total:	10,449.29

(3) We note that some ancillary structures erected on the site are not granted with the Building Ownership Certificate. We have not assigned values to the said ancillary structures in our valuation.

(4) According to Business Licence No. 447673 dated 15 January 2002, Rooco Food Enterprise Company (Guangzhou) Limited was established with a registered capital of US$2,810,000 and has an operation period from 24 March 1989 to 24 March 2019.

(5) The opinion of the Company's legal adviser on PRC states, inter alia, that:

(i) According to Certificate for the Use of State-owned Land No. (96) 11026051 issued by The People's Government of Huadu on 11 June 1996, the land use rights of the property comprising a site area of 9,615.86 sq.m. have been granted to Rocco Food Enterprise Company (Guangzhou) Limited, a wholly owned subsidiary of the Company, for a term from 4 April 2003 to 3 April 2053 for industrial use.

(ii) According to 4 Building Ownership Certificates all issued by Guangzhou Huadu Municipality Land Real Estate Administration Bureau, the building ownership of the property comprising a total gross floor area of 10,499.29 sq.m. is vested in Rocco Foods Enterprise Company (Guangzhou) Limited. Details of the said certificates are, inter alia, cited as Note (2) above.

(iii) Rocco Foods Enterprise Company (Guangzhou) Limited is in possession of a proper legal title to the property and is entitled to use, transfer and lease the property with the residual term of its land use rights at no extra land premium or other onerous payment payable to the government.

(iv) The property is not subject to any mortgage or security.

(v) All land premium have been settled in full.

(6) As advised by the Group and the Company's PRC legal adviser, the Group is not required to pay any Ground/Government Rent.

(7) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

Certificate for the Use of State-owned Land	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

Group III – Property interests leased to the Group in Hong Kong

	Property	Description and tenancy particulars	Capital value in existing state as at 30 June 2007
5.	Workshop A on 2nd Floor and Flat Roof A, Workshop B on 2nd Floor, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong	The property comprises two industrial units on the 2nd floor and the corresponding flat roof of a 13-storey industrial building completed in 1978. The property has a total gross floor area of approximately 761.80 sq.m. (8,200 sq.ft.) and is currently occupied by the Group as warehouse and ancillary office. The flat roof area is approximately 30.01 sq.m. (323 sq.ft.). The property is currently leased by Tai Tung Supermarket Limited (which is ultimately controlled by the directors of the Company) to Wah Yuen Foods (Hong Kong) Company Limited, a wholly owned subsidiary of the Company, for a term of 3 years commencing on 1 January 2006 and expiring on 31 December 2008 at a monthly rent of HK$24,000, exclusive of rates and management fees. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	No commercial value
6.	Workshop A on 11th Floor, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong	The property comprises an industrial unit on the 11th floor of a 13-storey industrial building completed in 1978. The property has a gross floor area of approximately 362.32 sq.m. (3,900 sq.ft.) and is currently occupied by the Group as a warehouse. The property is currently leased by an independent third party to Wah Yuen Foods (Hong Kong) Company Limited, a wholly owned subsidiary of the Company, for a term of 1 year commencing on 1 February 2007 and expiring on 31 January 2008 at a monthly rent of HK$14,000, inclusive of rates and management fees. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	No commercial value

	Property	Description and tenancy particulars	Capital value in existing state as at 30 June 2007
7.	Workshop B on 11th Floor, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong	The property comprises an industrial unit on the 11th floor of a 13-storey industrial building completed in 1978. The property has a gross floor area of approximately 399.48 sq.m. (4,300 sq.ft.) and is currently occupied by the Group as a warehouse. The property is currently leased by Profit Horn Development Limited (which is ultimately controlled by the directors of the Company) to Wah Yuen Foods (Hong Kong) Company Limited, a wholly owned subsidiary of the Company, for a term of 3 years commencing on 1 January 2006 and expiring on 31 December 2008 at a monthly rent of HK$13,000, exclusive of rates and management fees. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	No commercial value
8.	Workshop A on 12th Floor and Roof A, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong	The property comprises an industrial unit on the 12th floor and the corresponding roof of a 13-storey industrial building completed in 1978. The property has a gross floor area of approximately 362.32 sq.m. (3,900 sq.ft.) (excluding the roof area) and is currently occupied by the Group as a workshop. The property is currently leased by But Ching Pui, But Ka Wai, But Chai Tong, Leung Wai Ling (who are directors of the Company) and But Chai Leung to Wah Yuen Foods (Hong Kong) Company Limited, a wholly owned subsidiary of the Company, for a term of 3 years commencing on 1 January 2006 and expiring on 31 December 2008 at a monthly rent of HK$12,000, exclusive of rates and management fees. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	No commercial value

	Property	Description and tenancy particulars	Capital value in existing state as at 30 June 2007
9.	Workshop B on 12th Floor and Roof B, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong	The property comprises an industrial unit on the 12th floor and the corresponding roof of a 13-storey industrial building completed in 1978. The property has a gross floor area of approximately 399.48 sq.m. (4,300 sq.ft.) (excluding the roof area) and is currently occupied by the Group as a workshop. The property is currently leased by But Ching Pui and Leung Wai Ling (who are directors of the Company) to Wah Yuen Foods (Hong Kong) Company Limited, a wholly owned subsidiary of the Company, for a term of 3 years commencing on 1 January 2006 and expiring on 31 December 2008 at a monthly rent of HK$13,000, exclusive of rates and management fees. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	No commercial value
10.	Workshop C on 12th Floor and Roof C and Car Park 19, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong	The property comprises an industrial unit on the 12th floor, the corresponding roof and a car parking space on the ground floor of a 13-storey industrial building completed in 1978. The property has a gross floor area of approximately 362.32 sq.m. (3,900 sq.ft.) (excluding the roof and car park areas) and is currently occupied by the Group as a warehouse and car parking space. The property is currently leased by Lucky Fair Investment Limited (which is ultimately controlled by the directors of the Company) to Wah Yuen Foods (Hong Kong) Company Limited, a wholly owned subsidiary of the Company, for a term of 3 years commencing on 1 January 2006 and expiring on 31 December 2008 at a monthly rent of HK$15,000, exclusive of rates and management fees. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	No commercial value

	Property	Description and tenancy particulars	Capital value in existing state as at 30 June 2007
11.	Container Car Park (Car Park 2), On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong	The property comprises a container car parking space on the ground floor of a 13-storey industrial building completed in 1978. The property is currently leased by an independent third party to Wah Yuen Foods (Hong Kong) Company Limited, a wholly owned subsidiary of the Company, for a term of 1 year commencing on 1 April 2007 and expiring on 31 March 2008 at a monthly rent of HK$5,200, inclusive of rates but exclusive of management fees. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	No commercial value
12.	Car Parks 8 and 10, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong	The property comprises two car parking spaces on the ground floor of a 13-storey industrial building completed in 1978. The property is currently leased by But Ching Pui (directors of the Company) to Wah Yuen Foods (Hong Kong) Company Limited, a wholly owned subsidiary of the Company, for a term of 3 years commencing on 1 January 2006 and expiring on 31 December 2008 at a monthly rent of HK$6,000, exclusive of rates and management fees. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	No commercial value
13.	Car Park 18, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong	The property comprises a car parking space on the ground floor of a 13-storey industrial building completed in 1978. The property is currently leased by an independent third party to Wah Yuen Foods (Hong Kong) Company Limited, a wholly owned subsidiary of the Company, on a monthly basis at a monthly fee of HK$3,500. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	No commercial value

Group IV – Property interests leased to the Group in the PRC

	Property	Description and tenancy particulars	Capital value in existing state as at 30 June 2007
14.	Room No. 301 on the 3rd Level, Unit 1 of Block No. 2, Zhengxin Garden, Xinyang Beiyi Road, Nanning City, Guangxi Zhuang Autonomous Region	The property comprises a unit on the 3rd level of a 6-storey building completed in 1985. The property has a total gross floor area of approximately 73.22 sq.m. (788 sq.ft.) and is currently occupied by the Group as an office. The property is currently leased by an independent third party to Nanning Branch Company of Rocco Foods Enterprise Company (Guangzhou) Limited, a wholly owned subsidiary of the Company, for a term of 1 year commencing on 1 January 2007 and expiring on 31 December 2007 at a monthly rent of RMB600, exclusive of management fees and utilities charges. The opinion of the Company's legal adviser on PRC law states, inter alia, that: (i) The title of the property is held by the lessor. The lease has not been duly registered in the relevant government authorities but the lease is valid and enforceable. (ii) The lease terms and conditions are in compliance with the PRC law.	No commercial value
15.	Unit No. 1219 on the 12th Level, No. 21 Nanjing North Street, Heping District, Shenyang City, Liaoning Province	The property comprises an office unit on the 12th level of a 15-storey plus basement office building completed in 1993. The property has a total gross floor area of approximately 29.4 sq.m. (316 sq.ft.) and is currently occupied by the Group as an office. The property is currently leased by an independent third party to Shenyang Branch Company of Rocco Food Enterprise Company (Guangzhou) Limited, a wholly owned subsidiary of the Company, for a term of 1 year commencing on 11 June 2007 and expiring on 10 June 2008 at an annual rent of RMB13,000, inclusive of management fees but exclusive of utilities charges. The opinion of the Company's legal adviser on PRC law states, inter alia, that: (i) The title of the property is held by the lessor. The lease has not been duly registered in the relevant government authorities but the lease is valid and enforceable. (ii) The lease terms and conditions are in compliance with the PRC law.	No commercial value

	Property	Description and tenancy particulars	Capital value in existing state as at 30 June 2007
16.	A warehouse on 4th Level, Block No. 10, No. 29 Huaxi Road, Nanning City, Guangxi Zhuang Autonomous Region	The property comprises a warehouse on the 4th level of 6-storey industrial building completed in 1994. The property has a total gross floor area of approximately 52 sq.m. (560 sq.ft.) and is currently occupied by the Group as a warehouse. The property is currently leased by an independent third party to Nanning Branch Company of Rocco Foods Enterprise Company (Guangzhou) Limited, a wholly owned subsidiary of the Company, for a term of 1 year commencing on 1 January 2007 and expiring on 31 December 2007 at a quarterly rent of RMB1,872. The opinion of the Company's legal adviser on PRC law states, inter alia, that: (i) The title of the property is held by the lessor. The lease has not been duly registered in the relevant government authorities but the lease is valid and enforceable. (ii) The lease terms and conditions are in compliance with the PRC law.	No commercial value

(ii) The CEWH Group

The following is the text of a property valuations report, prepared for the purpose of inclusion in this circular, received from CB Richard Ellis, in connection with its valuation as at 30 June 2007 of the property interests of the CEWH Group:

CBRE
CB RICHARD ELLIS
世邦魏理仕

34/F Central Plaza
18 Harbour Road
Wanchai
Hong Kong

24 September 2007

The Directors
Wah Yuen Holdings Limited
2nd Floor, On Shing Industrial Building
Nos. 2-16 Wo Liu Hang Road
Fo Tan
Shatin
New Territories
Hong Kong

Dear Sirs,

In accordance with your (Wah Yuen Holdings Limited or the "Instructing Party") instructions for us to value the property interests held by China Environmental Water Holdings Limited (the "Company") or its subsidiaries (hereinafter together referred to as the "Group") in the People's Republic of China (the "PRC") as listed in the attached summary of valuations, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of such property interests as at 30 June 2007 (the "date of valuation").

Our valuation of each property interest represents its market value which in accordance with The HKIS Valuation Standards on Properties (First Edition 2005) of The Hong Kong Institute of Surveyors is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Our valuation of each property interest excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

We have assumed that transferable land use rights in respect of the property interests for respective specific terms at nominal annual land use fee have been granted and that any premium payable has already been fully paid. We have assumed that the grantees or the users of the property interests have free and uninterrupted rights to use or to assign the property interests for the whole of the respective unexpired terms as granted. We have relied on the advice given by the Instructing Party's legal adviser on the PRC law, DeHeng Law Offices (德恒律師事務所), regarding the title to each of the property interests and interests of the Group in the properties.

In valuing the property interest held by the Group in the PRC, we have adopted the Depreciated Replacement Costs ("DRC") Approach. The DRC Approach is a method in which a property is valued by summing the market value of the land in its existing use with an estimate of the new replacement cost of the buildings and structures from which deductions are made to allow for their ages, conditions and functional obsolescence. In the valuation of the land portion, reference has been made to the standard land prices and the sales evidence as available to us in the locality.

The property interests which are leased or licensed to the Group in the PRC have no commercial value due to the prohibitions against assignment of the properties or otherwise due to the lack of substantial profit rents.

In valuing the properties, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property interests nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We have been provided with copies of extracts of documents in relation to the title to the property interests in the PRC as well as copies of tenancy agreements relating to the properties leased to the Group in the PRC.

However, we have not searched the original documents to ascertain ownership or to verify any amendments which may not appear on the copies handed to us. In the course of our valuation, we have relied to a very considerable extent on the information given to us by the Instructing Party's legal advisers on the PRC law, DeHeng Law Offices (德恒律師事務所). We have accepted advice given to us on such matters as planning approvals or statutory notices, tenure, identification of properties, completion dates of buildings, particulars of occupancy, site and floor areas, site and floor plans, tenancy particulars and all other relevant matters.

Dimensions, measurements and areas included in the attached valuation certificates are based on information provided to us and are therefore only approximations. We have not been able to carry out on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the copies of the documents handed to us are correct. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuations. We were also advised by the Group that no material facts have been omitted from the information supplied.

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free from rot, infestation or any other structural defects. No tests were carried out to any of the services.

We enclose herewith a summary of valuations and our valuation certificates.

Yours faithfully,
For and on behalf of
CB Richard Ellis Limited
Kam Hung YU
BSc (Hons) FHKIS FRICS RPS(GP) FHIREA
Senior Managing Director
Valuation & Advisory Services

Note: Mr. Yu is the Senior Vice President of the Hong Kong Institute of Surveyors. He is a Registered Professional Surveyor (General Practice), a fellow of Royal Institution of Chartered Surveyors, a fellow of the Hong Kong Institute of Surveyors and a fellow of the Hong Kong Institute of Real Estate Administration. He has over 25 years' valuation experience in Hong Kong, the PRC and Asia Pacific Region.

SUMMARY OF VALUATIONS

	Property Interests	Capital Value in existing state as at 30 June 2007 *(RMB)*	Interest attributable to the Group	Capital Value attributable to the Group as at 30 June 2007 *(RMB)*
Group I – Property interests held by the Group for occupation				
1.	Various properties in Old Town Area of Tongchuan Town, Dongsheng District, Ordos City, Inner Mongolia Province, The PRC	38,065,000	50%	19,032,500
			Group I sub-total:	19,032,500
Group II – Property interests rented by the Group				
2.	No. 12, Fuhai Road, Huangchun Town, Daxing County, Beijing, The PRC	No commercial value	50%	No commercial value
3.	A parcel of land in Yiyang District, Yilin City, Shaanxi Province, The PRC	No commercial value	45%	No commercial value
4.	A parcel of land in South Huofang Village, Shulinzhao Village, Delateqi, Inner Mongolia, The PRC	No commercial value	50%	No commercial value
5.	Various buildings in Shatuodu Development Zone, Inner Mongolia, The PRC	No commercial value	50%	No commercial value
6.	Unit Nos. 812 & 813, Level 8, No. 3, South Yuyuantan Road, Haidian District, Beijing, The PRC	No commercial value	30%	No commercial value
7.	Unit Nos. 601 & 607, Level 6, Block 14, Area 2, No. 1A Fuxing Road, Haidian District, Beijing, The PRC	No commercial value	50%	No commercial value
			Group II sub-total:	No commercial value
			GRAND TOTAL:	19,032,500

VALUATION CERTIFICATE

Group I – Property interests held by the Group for occupation

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 June 2007 *(RMB)*
1.	Various buildings in Old Town Area of Tongchuan Town, Dongsheng District, Ordos City, Inner Mongolia Province, The PRC	The property comprises 6 buildings with total gross floor area of 13,265.40 sq.m.. The property is erected on a site with total site area of 133,333.08 sq.m.. Most of the buildings were completed in about September 2006. The details of the development are stated as below: **Component** — **Area** *(sq.m.)* Factory (1 block) 9,333.60 Office (1 block) 3,018.00 Ancillary Buildings (4 blocks) 913.80 The land use rights of the property is held for a term expiring on 8 September 2055 for industrial use.	The property is occupied by the Group as factory, office and for other uses.	38,065,000 (50% interest attributable to the Group: 19,032,500)

Notes:

1. Pursuant to the State-owned Land Use Certificate No. Dong Guo Yong (2005) Zi Di Grant 2005-125 (東國用(2005)字第出讓2005-125號) dated 9 September 2005, the land use rights of the property with an area of approximately 133,333.08 sq.m. has been granted to Ordos Conseco Seabuckthorn Ecological Construction Development Co. Ltd. (鄂爾多斯市高原聖果生態建設開發有限公司) for a term expiring on 8 September 2055 for industrial use.

2. Pursuant to the attachment of Rural Construction Land Use Planning Permit No. 2005-14, the construction on the subject land is in compliance of the planning requirements.

3. Pursuant to the attachment of Rural Construction Works Planning Permit No. Dong Gui Zi 2005-25 (東規字 2005-25), the construction works are in compliance of the construction requirements.

4. Pursuant to construction Works Commencement Permit No. 152701200510030101, the construction works of the property are in compliance of the requirements on works commencement.

5. We have been provided with a legal opinion on the property prepared by the Instructing Party's PRC legal advisers, which contains, inter alia, the following information:

   Ordos Conseco Seabuckthorn Ecological Construction Development Co. Ltd. (鄂爾多斯市高原聖果生態建設開發有限公司) has obtained the land use rights of the subject land. According to Ordos Conseco Seabuckthorn Ecological Construction Development Co. Ltd., the land use rights is not subject to mortgage The construction works has obtained relevant approvals. Upon certified completion, Ordos Conseco Seabuckthorn Ecological Construction Development Co. Ltd. can apply for Realty Title Certificate without problem in legal aspect.

VALUATION CERTIFICATE

Group II – Property interests rented by the Group

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 June 2007 *(RMB)*
2.	No. 12, Fuhai Road, Huangchun Town, Daxing County, Beijing, The PRC	The property comprises various buildings with total gross floor area of approximately 8,258.20 sq.m.. It is erected on a site with an area of approximately 14,593.41 sq.m.. The land use rights of the property are allocated for Shaji product development use.	The property is currently occupied by the Group as factory and office.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Beijing Shan He Lin Environment Planning Design Centre (北京山合林水環境規劃設計中心) and Conseco Seabuckthorn Co., Ltd. (高原聖果沙棘制品有限公司), the property is leased to Conseco Seabuckthorn Co., Ltd. for a term of 30 years commencing from 1 January 2006 at an annual rental of RMB200,000 subject to review every two years.

2. Pursuant to the State-owned Land Use Certificate No. Da Xing Xian Guo Yong (Ji) Zhi 68 (大興縣國用(籍)字第66號), the land use rights of the subject site with an area of approximately 14,593.41 sq.m. has been allocated to Beijing Jianghe Shaji Company (北京江河沙棘公司) commencing from 1994 for Shaji product development uses. The terms of which is unavailable.

3. Pursuant to the Building Ownership Certificate No. Jing Fang Quan Zheng Guo Zi Di 00001887 (京房權證興國字第00001887號) dated 20 August 2001, the building ownership rights of the property with gross floor areas of 8,258.2 sq.m. belongs to Beijing Jianghe Shaji Company (北京江河沙棘公司).

4. Pursuant to the attachment of the Building Ownership Certificates No. Jing Fang Quan Zheng Guo Zi Di 00001887 (京房權證興國字第00001887號), the building ownership rights of the property with gross floor areas of 2,426.91 sq.m. has been transferred to Conseco Seabuckthorn Co., Ltd. (高原聖果沙棘制品有限公司).

5. We have been provided with a legal opinion on the property prepared by the Instructing Party's PRC legal advisers, which contains, inter alia, the following information:

   According to verbal enquiry to the Beijing Land Management Bureau Daxing Branch, the subject land is allocated to Beijing Shan He Lin Environment Planning Design Centre (北京山合林水環境規劃設計中心). Conseco Seabuckthorn Co., Ltd. (高原聖果沙棘制品有限公司) has not yet provided the legal advisor with the relevant approval for the lease of the property. If such approval has obtained, Conseco Seabuckthorn Co., Ltd has the use rights of the property.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 June 2007 *(RMB)*
3.	A parcel of land in Yiyang District, Yilin City, Shaanxi Province, The PRC	The property comprises a parcel of land with site area of approximately 133,334 sq.m.. As advised, the land use term is held for 30 years. It has not obtained Land Use Certificate.	The property is currently occupied by the Group for plantation of Shaji and other plants.	No commercial value

Notes:

1. Pursuant to "Explanation Regarding Shaanxi Guosheng Shuitu Maintenance Construction Co. Ltd. Shaji Plantation, Plant Reproduction" (關於陝西果聖水土保持建設有限公司沙棘種植、苗木繁育的有關說明) dated 2 December 2003, the property is unconditionally leased to Shaanxi Guosheng Shuitu Maintenance Construction Co. Ltd. (陝西果聖水土保持建設有限公司) for a term of 30 years.

2. We have been provided with a legal opinion on the property prepared by the Instructing Party's PRC legal advisers, which contains, inter alia, the following information:

   Shaanxi Guosheng Shuitu Maintenance Construction Co. Ltd. (陝西果聖水土保持建設有限公司) has legally obtained the land use rights by lease. The terms of which is unavailable.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 June 2007 *(RMB)*
4.	A parcel of land in South Huofang Village, Shulinzhao Village, Delateqi, Inner Mongolia, The PRC	The property comprises a parcel of land with site area of approximately 1,333,340 sq.m.. As advised, the land use term is held for 15 years from 28 November 2005 to 27 November 2020. It has not obtained Land Use Certificate.	The property is currently occupied by the Group for reproduction of plants. The annual rental is RMB200,000.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Shuitu Maintenance Plant Development Management Centre of Waters Department (Shaji Development Management Centre of Waters Department) (水利部水土保持植物開發管理中心(水利部沙棘開發管理中心)) and Ordos Conseco Seabuckthorn Ecological Construction Development Co. Ltd. (鄂爾多斯市高原聖果生態建設開發有限公司), the property is leased to Ordos Gaoyuan Shengguo Ecological Construction Development Co. Ltd. for a term of 15 years from 28 November 2005 to 27 November 2020. The annual rental is RMB200,000.

2. We have been provided with a legal opinion on the property prepared by the Instructing Party's PRC legal advisers, which contains, inter alia, the following information:

   Ordos Conseco Seabuckthorn Ecological Construction Development Co. Ltd. (鄂爾多斯市高原聖果生態建設開發有限公司) leased the property from Shuitu Maintenance Plant Development Management Centre of Waters Department (Shaji Development Management Centre of Waters Department) (水利部水土保持植物開發管理中心(水利部沙棘開發管理中心)). If Shuitu Maintenance Plant Development Management Centre of Waters Department (Shaji Development Management Centre of Waters Department) obtains the use rights of the land, Ordos Conseco Seabuckthorn Ecological Construction Development Co. Ltd. has the use rights of the property. The terms of which is unavailable.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 June 2007 *(RMB)*
5.	Various buildings in Shatuodu Development Zone, Inner Mongolia, The PRC	The property comprises 8 buildings with total gross floor area of 2,655 sq.m. erected on a parcel of land with site area of approximately 20,000.1 sq.m.. Most of the buildings were completed in about March 2005. The property has not obtained Reality Title Certificate.	The property is currently occupied by the Group as factory and office. The annual rental is RMB50,000.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Shuitu Maintenance Plant Development Management Centre of Waters Department (Shaji Development Management Centre of Waters Department) (水利部水土保持植物開發管理中心(水利部沙棘開發管理中心)) and Ordos Conseco Seabuckthorn Ecological Construction Development Co. Ltd. (鄂爾多斯市高原聖果生態建設開發有限公司), the property is leased to Ordos Conseco Seabuckthorn Ecological Construction Development Co. Ltd. for a term of 30 years from 1 September 2005 to 31 August 2035. The annual rental is RMB50,000.

2. We have been provided with a legal opinion on the property prepared by the Instructing Party's PRC legal advisers, which contains, inter alia, the following information:

   Ordos Conseco Seabuckthorn Ecological Construction Development Co. Ltd. (鄂爾多斯市高原聖果生態建設開發有限公司) leased the property from Shuitu Maintenance Plant Development Management Centre of Waters Department (Shaji Development Management Centre of Waters Department) (水利部水土保持植物開發管理中心(水利部沙棘開發管理中心)). After Shuitu Maintenance Plant Development Management Centre of Waters Department (Shaji Development Management Centre of Waters Department) has obtained the Reality Title Certificate, Ordos Conseco Seabuckthorn Ecological Construction Development Co. Ltd. has the use rights of the property. The terms of which is unavailable.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 June 2007 *(RMB)*
6.	Unit Nos. 812 & 813, Level 8, No. 3, South Yuyuantan Road, Haidian District, Beijing, The PRC	The property comprises 2 office units with total gross floor area of 246.3 sq.m.. As advised, the property has not obtained Reality Title Certificate.	The property is currently occupied by the Group as office. The annual rental is RMB305,000. The lease term is from 4 January 2007 to 3 January 2009.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Beijing Dajiang Shiji Exhibition Co. Ltd (北京大江世紀展覽有限公司) and Conseco Seabuckthorn (Beijing) Marketing Co., Ltd. (高原聖果(北京)沙棘營銷有限公司), the property is leased to Conseco Seabuckthorn (Beijing) Marketing Co., Ltd. for a term from 4 January 2007 to 3 January 2009. The annual rental is RMB305,000.

2. We have been provided with a legal opinion on the property prepared by the Instructing Party's PRC legal advisers, which contains, inter alia, the following information:

   Conseco Seabuckthorn (Beijing) Marketing Co., Ltd. (高原聖果(北京)沙棘營銷有限公司) lease the property from Beijing Dajiang Shiji Exhibition Co. Ltd (北京大江世紀展覽有限公司). After Beijing Dajiang Shiji Exhibition Co. Ltd has obtained the Reality Title Certificate, Conseco Seabuckthorn (Beijing) Marketing Co., Ltd. has the use rights of the property. The terms of which is unavailable.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 30 June 2007 *(RMB)*
7.	Unit Nos. 601 & 607, Level 6, Block 14, Area 2, No. 1A Fuxing Road, Haidian District, Beijing, The PRC	The property comprises 2 office units with total gross floor area of 60 sq.m..	The property is currently occupied by the Group as office. The annual rental is RMB30,000. The lease term is from 1 January 2006 to 31 December 2035.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Shuitu Maintenance Plant Development Management Centre of Waters Department (Shaji Development Management Centre of Waters Department) (水利部水土保持植物開發管理中心(水利部沙棘開發管理中心)) and Conseco Seabuckthorn Co., Ltd. (高原聖果沙棘制品有限公司), the property is leased to Conseco Seabuckthorn Co., Ltd. for a term of 30 years from 1 January 2006 to 31 December 2035. The annual rental is RMB30,000.

2. We have been provided with a legal opinion on the property prepared by the Instructing Party's PRC legal advisers, which contains, inter alia, the following information:

   Conseco Seabuckthorn Co., Ltd. (高原聖果沙棘制品有限公司) has the legal rights to use and occupy the property by lease. The terms of which is unavailable.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this circular misleading.

1. SHARE CAPITAL

(a) The authorised and issued and fully paid up share capital of the Company at present is as follows:–

Number		**Nominal amount** *HK$*
Authorised:		
4,000,000,000	Shares	40,000,000
Issued and fully paid:		*HK$*
553,625,000	Shares	5,536,250

(b) The authorised and issued and fully paid up share capital of the Company upon issue of the Consideration Shares and the Conversion Shares will be as follows:

Authorised:		*HK$*
4,000,000,000	Shares	40,000,000
Issued and fully paid:		*HK$*
553,625,000	Shares	5,536,250
133,000,000	Consideration Shares to be allotted and issued	1,330,000
1,200,333,333	Conversion Shares to be allotted and issued pursuant to the Convertible Bond (subject to adjustment)	12,003,333.33
1,886,958,333	Shares	18,869,583.33

2. DISCLOSURE OF INTERESTS

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

As at the Latest Practicable Date, the interests of the directors and their associates in the shares and underlying shares and debenture of the Company and its associated corporation as recorded in the register maintained by the Company pursuant to 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 Directors of Listed Companies (the "Model Code"), were as follows:

Long positions

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
But Ka Wai	Held by controlled corporation *(note 1)*	151,562,000	27.38%
But Chai Tong	Held by controlled corporation *(note 2)*	55,500,000	10.02%
		207,062,000	37.40%

Notes:

(1) These Shares were held by Able Success Group Limited ("Able Success") which is wholly-owned by Mr. But Ka Wai.

(2) These Shares were held by National Chain International Limited ("National Chain") which is wholly-owned by Mr. But Chai Tong.

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 corporations as at the Latest Practicable Date.

B. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following Shareholders had notified the Company of relevant interests in the issued share capital of the Company.

	Capacity		Percentage of the issued share capital of the Company
	Family interests	Corporate interests	
Substantial Shareholders:			
Able Success *(note 1)*	–	151,562,000	27.38%
National Chain *(note 2)*	–	55,500,000	10.02%
Ms. Chan Yuk Ha *(note 3)*	151,562,000	–	27.38%
Ms. Chang Tei Wah, Teresa *(note 4)*	55,500,000	–	10.02%

All interest stated above represent long positions.

Note:

(1) Mr. But Ka Wai is deemed to be interested in these Shares through his wholly-owned interest in the issued share capital of Able Success.

(2) Mr. But Chai Tong is deemed to be interested in these Shares through his wholly-owned interest in the issued share capital of National Chain.

(3) Ms. Chan Yuk Ha, the spouse of Mr. But Ka Wai, is deemed to be interested in 151,562,000 Shares.

(4) Ms. Chang Tei Wah, Teresa, the spouse of Mr. But Chai Tong, is deemed to be interested in 55,500,000 Shares.

Saved as disclosed above, as at the Latest Practicable Date, the Company had 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.

C. OTHERS

As at the Latest Practicable Date, none of the Directors and their respective associates had any direct or indirect interest in a business which competes or may compete with the business of the Enlarged Group.

There is no contract or arrangement entered into by any member of the Group subsisting at the date of this circular in which any Director is materially interested and which is significant to the business of the Group.

3. PROCEDURES BY WHICH A POLL MAY BE DEMANDED

Pursuant to article 72 of the articles of association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded. A poll may be demanded by:

(i) the chairman of the meeting; or

(ii) at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

(iii) a Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) of by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

(iv) a Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth one-tenth of the total sum paid up on all the Shares conferring that right.

Pursuant to article 73A of the articles of association of the Company, notwithstanding any other provisions in the articles of association of the Company, if the aggregate proxies held by (i) the chairman of a particular meeting, and/or (ii) the Directors, account for five (5) per cent or more of the total voting rights at that meeting, and if on a show of hands in respect of any resolution, the meeting votes in the opposite manner to that instructed in those proxies, the chairman of the meeting and/or any Director holding proxies as aforesaid shall demand a poll.

4. EXPERTS AND CONSENT

The following are the experts, and their qualifications, who have given opinion contained in this circular:

Name	Qualification
HLM & Co. (“HLM”)	certified public accountants
Grant Thornton	certified public accountants
DTZ Debenham Tie Leung (“DTZ”)	independent professional valuer
CB Richard Ellis (“CBRE”)	independent professional valuer

Each of HLM, Grant Thornton, DTZ and CBRE has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its reports and/or letters as set out in this circular and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of HLM, Grant Thornton, DTZ and CBRE was beneficially interested in the share capital of any member of the Enlarged Group, nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group, nor did it have any direct or indirect interest in any assets which were, sine 31 December 2006 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to, or proposed to be acquired or disposed of by or leased to, any member of the Enlarged Group.

5. LITIGATION AND CLAIMS

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Enlarged Group.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contract with any member of the Enlarged Group (excluding contracts expiring or determinable by the employer with in one year without payment of compensation other than statutory compensation).

7. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, were entered into by the Enlarged Group within two years immediately preceding the Latest Practicable Date, and are or may be material:

(a) the subscription agreement dated 18 October 2005 and entered into between the Company as issuer and Pak Lok Equipment Co., Ltd. as the subscriber in relation to the subscription of 14 million Shares at the subscription price of HK$0.40 per Share;

(b) the underwriting agreement dated 4 April 2006 and entered into among the Company, TIS Securities (HK) Limited, Mr. But Ka Wai and Mr. But Chai Tong in relation to the rights issue of 321,000,000 Shares in the proportion of three rights Shares for every two Shares held on the record date; and

(d) the Agreement.

8 CORPORATE INFORMATION

(i) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Isalnds.

(ii) The principal share registrar and transfer office of the Company is Bank of Bermuda (Cayman) Limited, P.O. Box 513 GT, Strathvale House, North Church Street, George Town, Grand Cayman, Cayman Islands.

(iii) The Hong Kong branch share registrar and transfer office of the Company is Tricor Tengis Limited at 26th floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(iv) The secretary and qualified accountant of the Company is Mr. Chong Ching Hei. Mr. Chong is an associate member of the Hong Kong Institute of Certified Public Accountants.

(v) The English text of this circular and the accompanying form of proxy shall prevail over their respective chinese texts in case of inconsistency.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the head office and principal place of business of the Company 2nd Floor, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong during normal business hours on any weekdays other than public holidays up to and including Friday, 12 October 2007:

(i) the memorandum and articles of association of the Company;

(ii) the annual reports of the Company for the two years ended 31 December 2005 and 2006;

(iii) the accountants' report on the CEWH Group, the text of which is set out in Appendix II to this circular;

(iv) the unaudited pro forma financial information on the Enlarged Group letter from HLM on the text of which is set out in Appendix III to this circular;

(v) the property valuation reports for the Group and the CEWH Group, the texts of which are set out in Appendix IV to this circular;

(vi) the written consents as referred to in the paragraph headed "Experts and consents" in this appendix;

(vii) the material contracts as referred to in the paragraph headed "Material contracts" in this appendix; and

(viii) a copy of each of the circulars of the Company issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules since 31 December 2006 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

WAH YUEN HOLDINGS LIMITED
華園控股有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 2349)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting ("**EGM**") of Wah Yuen Holdings Limited (the "**Company**") will be held at 2nd Floor, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong on Friday, 12 October 2007 at 10:00 a.m. to consider and, if thought fit, pass the following resolutions with or without amendments, as ordinary resolutions:

ORDINARY RESOLUTIONS

1. "**THAT**

(i) the sale and purchase agreement (the "**Agreement**") as defined in the circular dated 24 September 2007 despatched to the shareholders of the Company (the "**Circular**"), a copy of which has been produced to this meeting marked "A" and signed by the chairman hereof for the purpose of identification, and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(ii) any one or more of the directors (the "**Directors**") of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Agreement including but not limited to the allotment and issue of 133,000,000 ordinary shares of HK$0.01 each in the share capital of the Company (the "**Consideration Shares**") and the transactions contemplated thereunder;

(iii) the issue of the convertible bonds (the "**Convertible Bonds**") in the principal amount of HK$180,050,000 to be issued by the Company in accordance with the terms and conditions of the Agreement and the transactions contemplated therein be and are hereby approved; and

(iv) any one or more Directors be and is/are hereby authorised to do all such acts and things and execute all such documents which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the issue of Convertible Bonds including but not limited to the allotment and issue of 1,200,333,333 ordinary shares of HK$0.01 each in share capital of the Company (the "**Conversion Shares**") of which may fall to be issued upon the exercise of the conversion rights attached to the Convertible Bonds."

2. "**THAT** subject to the ordinary resolution no 1 above being duly passed, the unconditional specific mandate granted to the Directors to exercise the powers of the Company to allot, issue and deal with the Consideration Shares be and is hereby approved".

3. "**THAT** subject to the ordinary resolution no 1 above being duly passed, the unconditional specific mandate granted to the Directors to exercise the powers of the Company to allot, issue and deal with the Conversion Shares be and is hereby approved".

Yours faithfully
For and on behalf of
the board of Directors of
Wah Yuen Holdings Limited
But Ka Wai
Chairman

Hong Kong, 24 September 2007

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
2nd Floor
On Shing Industrial Building
Nos. 2-16 Wo Liu Hang Road
Fo Tan, Shatin
New Territories
Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, vote in his stead. A proxy need not be a member of the Company.

2. In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the offices of the Company's branch registrars and transfer office in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting.