THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in China Botanic Development Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

中國植物開發控股有限公司

CHINA BOTANIC DEVELOPMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2349)

PROPOSED OPEN OFFER IN THE PROPORTION OF ONE OFFER SHARE FOR EVERY TWO SHARES HELD ON THE RECORD DATE;

CONNECTED TRANSACTION: LOAN CAPITALISATION AND APPLICATION FOR WHITEWASH WAIVER

Joint Independent Financial Advisers to the Independent board committee of China Botanic Development Holdings Limited

REXCAPITAL (Hong Kong) Limited

ASIAVEST PARTNERS

Asia Vest Partners Limited

A letter of advice from the Independent Financial Advisers, to the Independent Board Committee and the Independent Shareholders of the Company is set out on pages 30 to 45 of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders is set out on page 27 of this circular.

It should be noted that the Underwriting Agreement contains provisions granting the Underwriter the right to terminate the obligations of the Underwriter thereunder on the occurrence of certain events. These certain events are set out in the paragraph headed "Termination of the Underwriting Agreement" on page 9 of this circular. If the Underwriting Agreement is terminated by the Underwriter or does not become unconditional, the Open Offer will not proceed.

A notice convening the EGM to be held at 2nd Floor, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong at 9:30 a.m. on 4 March 2009 is set out on pages 137 to 138 of this circular. A form of proxy for use at the meeting is enclosed. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrars of the Company in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so desire.

16 February 2009

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

"acting in concert"	has the meaning ascribed thereto under the Takeovers Code
"Announcement"	the announcement of the Company dated 19 November 2008 in relation to, among other matters, the Open Offer, the Whitewash Waiver and the Loan Capitalisation
"Application Form(s)"	the application form(s) for use by the Qualifying Shareholders to apply for the Offer Shares in relation to their respective entitlement and excess Offer Shares
"Articles"	the articles of association of the Company
"AsiaVest Partners"	AsiaVest Partners Limited, a licensed corporation under the SFO permitted to carry out types 4 (advising in securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities, being one of the independent financial advisors to advise the Independent Board Committee and the Independent Shareholders in respect of the Open Offer, the Whitewash Waiver and the Loan Capitalisation
"associates"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"BOC Convertible Bonds"	the convertible bonds issued by the Company with principal amount of HK$122,000,000 convertible into 106,643,356 Shares with conversion price of HK$1.144 per Share
"Business Day"	any day on which the Stock Exchange is open for the business in dealing securities
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"China Water"	China Water Affairs Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the issued shares of which are listed on the Stock Exchange
"Company"	China Botanic Development Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Stock Exchange

"CW Convertible Bonds"	the convertible bonds with principal amount of HK$180,050,000 convertible into 1,200,333,333 Shares with an initial conversion price of HK$0.15 per Share, as to HK$25,000,000 beneficially held by Prime and as to the remaining balance of HK$155,050,000 held by China Water
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve the Loan Capitalisation and the Whitewash Waiver
"Executive"	Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any of his delegate(s)
"Group"	the Company and its subsidiaries
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	The Hong Kong Special Administrative Region of the People's Republic of China
"Independent Board Committee"	the independent committee of the Board comprising all the non-executive Directors and independent non-executive Directors to advise the Independent Shareholders in respect of the Open Offer and the Whitewash Waiver and comprising all independent non-executive Directors in respect of the Loan Capitalisation
"Independent Financial Advisers"	REXCAPITAL and AsiaVest Partners, the independent financial advisers to the Independent Board Committee and the Independent Shareholders in respect of the Open Offer, the Whitewash Waiver and the Loan Capitalisation
"Independent Shareholders"	Shareholders other than China Water, its concert parties and those who are involved in or interested in the Open Offer and the Whitewash Waiver who are required by the Listing Rules or the Takeovers Code to abstain from voting in respect of the resolutions to approve the resolutions in relation to the Loan Capitalisation and the Whitewash Waiver at the EGM
"Latest Acceptance Date"	being 4:00 p.m. 20 March 2009 or such other date and/or time as the Underwriter and the Company may agree as the latest date for acceptance and payment in respect of provisional allotments and applications for excess offer shares under the Open Offer

"Latest Lodging Date"	being 4:00 p.m. 27 February 2009 or such other date and/or time as the Underwriter and the Company may agree as the latest time for lodging transfer of Shares and/or exercising Share Options in order to be qualified for the Open Offer
"Latest Practicable Date"	13 February 2009, being the latest practicable date for ascertaining certain information contained in this circular
"Last Trading Date"	14 November 2008, being the last trading day of the Shares prior to the release of the Announcement
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Loan"	the loan of HK$27,677,500 owed by the Company to China Water
"Loan Capitalisation"	the capitalisation of the Loan in order to settle the underwriting obligations of the Underwriter under the Underwriting Agreement and the subscription price to be paid by China Water under the Open Offer
"Offer Share(s)"	not less than 345,968,750 Shares and not more than 415,040,428 Shares to be issued pursuant to Open Offer
"Open Offer"	the proposed issue of Offer Shares on the basis of one (1) Offer Share for every two (2) Shares to Qualifying Shareholders by way of rights or to holders of Offer Shares at the Subscription Price, pursuant to the terms and conditions of the Underwriting Agreement
"Overseas Shareholders(s)"	the Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date and whose registered address(es) as shown on such register is(are) outside Hong Kong
"Prime"	Prime Investments Holdings Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the issued shares of which are listed on the Stock Exchange
"Prohibited Shareholders"	Overseas Shareholders, to whom the Directors, based on legal opinions provided by legal advisers and on account either of legal restrictions under the laws of relevant place or the requirements of the relevant regulatory body or stock exchange in that place, consider it necessary or expedient not to offer the Offer Shares

"Prospectus"	the prospectus to be issued by the Company in relation to the Open Offer
"Prospectus Documents"	the Prospectus, the provisional allotment letter and the form of application for excess Offer Shares
"Prospectus Posting Date"	6 March 2009 or such later date as the Underwriter may agree in writing with the Company
"Qualifying Shareholder(s)"	the Shareholder(s), other than the Prohibited Shareholder(s), whose name(s) appear(s) on the register of members of the Company on the Record Date
"Record Date"	4 March 2009, being the date by reference to which entitlements to the Open Offer will be determined
"Registrar"	Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, being the Company's Hong Kong branch share registrar
"Relevant Period"	the period beginning six month immediately prior to the publication of the Announcement and ending on the Latest Practicable Date
"REXCAPITAL"	REXCAPITAL (Hong Kong) Limited, a licensed corporation to carry on type 6 (advising on corporate finance) regulated activity under the SFO, being one of the independent financial advisors appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Open Offer, the Whitewash Waiver and the Loan Capitalisation
"Securities"	including shares, convertible securities, warrants, options and derivatives in respect of shares
"SFC"	the Securities and Futures Commission
"SFO"	the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholder(s)"	holder(s) of the Shares
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company

"Share Option(s)"	the share option(s) granted under the Share Option Scheme
"Share Option Scheme"	the share option scheme adopted by the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Price"	subscription price of HK$0.08 per Offer Share
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Underwriter"	China Water
"Underwriting Agreement"	the underwriting agreement dated 17 November 2008 (as supplemented by the supplemental agreements dated 6 January 2009 and 11 February 2009) entered into among the Company and the Underwriter in relation to the Open Offer
"Whitewash Waiver"	the whitewash waiver from the obligation of the Underwriter and parties acting in concert with it to make a mandatory offer under Rule 26 of the Takeovers Code as a result of the underwriting of the Offer Shares under the Underwriting Agreement pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	per cent.

SUMMARY OF THE OPEN OFFER

The following information is derived from, and should be read in conjunction with, the full text of this circular.

Basis of the Open Offer:	One (1) Offer Share for every two (2) Shares held on the Record Date
Subscription Price:	HK$0.08 per Offer Share payable in fully upon acceptance
Number of Shares in issue as at the Latest Practicable Date:	691,937,500 Shares
Number of Offer Shares:	Not less than 345,968,750 Offer Shares and not more than 415,040,428 Offer Shares, representing 50% of the existing issued share capital of the Company and representing 33.33% of the issued share capital of the Company as enlarged by the Open Offer
Amount to be raised by the Open Offer:	approximately HK$27 million
Basis of entitlement:	Offer Shares will be allotted in the proportion of one (1) Offer Share for every two (2) Shares held by the Qualifying Shareholders on the Record Date. No Offer Shares will be offered to the Prohibited Shareholders (if any)

The expected timetable for the Open Offer as set out below is indicative only and has been prepared on the assumption that the Open Offer will be approved by the Independent Shareholders at the EGM. The expected timetable is subject to change, and any such change will be announced in a separate announcement by the Company as and when appropriate.

Despatch of Company's circular with notice of EGM	16 February 2009
Last day of dealings in Shares on a cum-entitlement basis	25 February 2009
First day of dealings in Shares on an ex-entitlement basis	26 February 2009
Register of members of the Company closed (both dates inclusive)	2 March 2009 to 5 March 2009 (both dates inclusive)
Latest time for lodging transfer of Shares in order to be qualified for the Open Offer	4:00 p.m. on 27 February 2009
Latest time for lodging forms of proxy for the purpose of the EGM	9:30 a.m. on 2 March 2009
EGM	9:30 a.m. on 4 March 2009
Announcement of results of EGM to be published on the Stock Exchange website	4 March 2009
Record Date	4 March 2009
Register of members of the Company re-opens	6 March 2009
Despatch of the Prospectus Documents (in case of the Prohibited Shareholders, the Prospectus only)	6 March 2009
Latest time for acceptance of, and payment of Offer Shares and application for excess Offer Shares	4:00 p.m. on 20 March 2009
Latest time for the Open Offer to become unconditional (being the third Business Days following the Latest Acceptance Date)	4:00 p.m. on 25 March 2009
Announcement of results of acceptance of and excess application for the Offer Shares to be published on the Stock Exchange	On or before 1 April 2009
Despatch of refund cheques in respect of unsuccessfully or partially unsuccessful excess applications for excess Offer Shares	On or before 1 April 2009
Despatch of share certificates for Offer Shares	On or before 1 April 2009
Dealings in Offer Shares commence	9:30 a.m. on 3 April 2009

EFFECT OF BAD WEATHER ON THE LATEST ACCEPTANCE DATE

The Latest Acceptance Date will be postponed if there is:

1. a tropical cyclone warning signal number 8 or above, or

2. a "black" rainstorm warning

in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on 20 March 2009. Instead, the Latest Acceptance Date will be rescheduled to 12:00 noon on the next Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 12:00 noon. If the Latest Acceptance Date is postponed in accordance with the foregoing, the dates mentioned in the section headed "EXPECTED TIMETABLE" in this circular may be affected. An announcement will be made by the Company in such event.

TERMINATION OF THE UNDERWRITING AGREEMENT

If at any time, prior to 4:00 p.m. on the third Business Day following the Latest Acceptance Date, which is expected to be 25 March 2009:

(1) in the sole and absolute discretion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:

(a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the sole and absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or

(b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the sole and absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(c) any material adverse change in the business or in the financial or trading position of the Group as a whole; or

(2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the sole and absolute opinion of the Underwriter is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(3) there is any change in the circumstances of the Company or any member of the Group which in the sole and absolute opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or

(4) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the Announcement, this circular or the Prospectus Documents or other announcements or circulars in connection with the Open Offer; or

(5) *the circular, prospectus or announcements of the Company published since the date of the Underwriting Agreement when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the Listing Rules or any applicable regulations) which has not prior to the date hereof been publicly announced or published by the Company and which may in the sole and absolute opinion of the Underwriter is material to the Group as a whole and is likely to affect materially and adversely the success of the Open Offer or might cause a prudent investor not to accept the Offer Shares provisionally allotted to it.*

The Underwriter shall at its sole and absolute discretion be entitled by notice in writing to the Company, served prior to 4:00 p.m. on the third Business Day **after the Latest Acceptance Date**, which is expected to be 25 March 2009, to terminate the Underwriting Agreement.

The Underwriting Agreement further contains provisions that the Underwriter may terminate its commitment under the Underwriting Agreement if prior to 4:00 p.m. on the third Business Day **following the Latest Acceptance Date**, which is expected to be 25 March 2009, there is:

(a) any material breach of any of the warranties or undertakings under the Underwriting Agreement; or

(b) any specified event described in the Underwriting Agreement comes to the knowledge of the Underwriter.

If the Underwriting Agreement is terminated by the Underwriter on or before the aforesaid deadline or does not become unconditional, the Open Offer will not proceed.

中國植物開發控股有限公司
CHINA BOTANIC DEVELOPMENT HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2349)

Executive Directors:
Mr. But Ching Pui
Mr. But Ka Wai
Mr. But Chai Tong
Mr. Ying Wei
Ms. Gao Jihong

Non-executive Directors:
Madam Leung Wai Ling
Ms. Wang Fang

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

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

Principal place of business in Hong Kong:
2nd Floor, On Shing Industrial Building
2-16 Wo Liu Hang Road
Fo Tan, Shatin
New Territories
Hong Kong

16 February 2009

To the Shareholders

Dear Sir or Madam,

PROPOSED OPEN OFFER IN THE PROPORTION OF ONE OFFER SHARE FOR EVERY TWO SHARES HELD ON THE RECORD DATE;

CONNECTED TRANSACTION: LOAN CAPITALISATION AND APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

Reference is made to the announcements of the Company dated 19 November 2008, 10 December 2008 and 6 January 2009 in relation to, among other matters, the Open Offer, the Whitewash Waiver and the Loan Capitalisation. Reference is also made to the announcements of the Company dated 23 January and 30 January 2009 in relation to the despatch of this circular and the expected timetable for the Open Offer.

The purpose of this circular is to give (i) details of the Open Offer, the Whitewash Waiver and the Loan Capitalisation; (ii) the recommendations of the Independent Board Committee in relation to the Open Offer, the Whitewash Waiver and the Loan Capitalisation; (iii) a letter of advice from the Independent Financial Advisers to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer, the Whitewash Waiver and the Loan Capitalisation; and (iv) notice convening the EGM.

PROPOSED OPEN OFFER

Issue statistics

Basis of the Open Offer:	One (1) Offer Share for every two (2) Shares held on the Record Date
Number of Shares in issue:	691,937,500 Shares as at the Latest Practicable Date
Number of outstanding Share Options:	31,500,000 Share Options to subscribe for an aggregate of 31,500,000 Shares as at the Latest Practicable Date
Number of Shares to be allotted and issued upon the full conversion of the BOC Convertible Bonds:	106,643,356 Shares
Number of Offer Shares:	Not less than 345,968,750 Offer Shares and not more than 415,040,428 Offer Shares
Number of Offer Shares undertaken to be taken up by China Water:	Pursuant to the Underwriting Agreement, China Water has irrevocably undertaken to accept or procure acceptance of their entitlements under the Open Offer for 66,500,000 Offer Shares.
Number of Offer Shares underwritten by the Underwriter:	Pursuant to the Underwriting Agreement, China Water has conditional agreed to underwrite not less than 279,468,750 Offer Shares (and not more than 348,540,428 Offer Shares if all the Share Options have been exercised and the BOC Convertible Bonds have been fully converted) respectively, on the terms and subject to the conditions set out in the Underwriting Agreement. The Open Offer (other than the Offer Shares undertaken to be taken up by China Water) will be fully underwritten by the Underwriter on the terms and subject to the conditions set out in the Underwriting Agreement.

Of the 31,500,000 Share Options mentioned above, 26,500,000 Share Options are being held by the employees of the Company and the remaining 5,000,000 Share Options are being held by other consultants of the Company. Among the holders of the Share Options, all employees and other consultants of the Company are independent third parties not connected with the Company and its connected persons (as defined under the Listing Rules).

The BOC Convertible Bonds in the principal amount of HK$122,000,000 with the rights to convert into 106,643,356 Shares at conversion price of HK$1.144 per Share were issued by the Company to BOCI Financial Products Limited and Evolution Master Fund Ltd. SPC, Segregated Portfolio M. For further details of the BOC Convertible Bonds, please refer to the announcement of the Company dated 24 October 2007.

The CW Convertible Bonds in the aggregate principal amount of HK$180,050,000 with the rights to convert into 1,200,333,333 Shares at an initial conversion price of HK$0.15 were issued by the Company to Good Outlook Investments Limited, a wholly owned subsidiary of China Water. Pursuant to an agreement dated 22 September 2008, Good Outlook Investments Limited has agreed to sell and Global Business Investment Enterprises Limited, a wholly owned subsidiary of Prime, has agreed to acquire the CW Convertible Bonds in principal amount of HK$25,000,000 at a consideration of HK$30,000,000. For further details of the CW Convertible Bonds, please refer to the announcement and circular of the Company dated 12 July 2007 and 24 September 2007 respectively and the announcement of Prime dated 22 September 2008. China Water has undertaken that it will procure that the CW Convertible Bonds will not be converted into Shares prior to the completion of the Open Offer.

Save for the Shares, the Share Options, the BOC Convertible Bonds and the CW Convertible Bonds mentioned above, there are no outstanding Shares, warrants or share options or securities or derivatives that are convertible or exchangeable into Shares or confer any right to subscribe for Shares as at the Latest Practicable Date.

Subscription Price

The Subscription Price for the Offer Shares is HK$0.08 per Offer Share, payable in full when a Qualifying Shareholder accepts his/her/its provisional allotment under the Open Offer or applies for excess Offer Shares.

The Subscription Price represents:

(i) a discount of approximately 15.79% to the closing price of HK$0.095 per Share as quoted on the Stock Exchange on 14 November 2008;

(ii) a discount of approximately 20.32% to the average closing price of HK$0.1004 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including 14 November 2008, being the Last Trading Date;

(iii) a discount of approximately 11.11% to the theoretical price of HK$0.09 per Share based on the closing price of HK$0.095 as quoted on the Stock Exchange on 14 November 2008, being the Last Trading Date;

(iv) a discount of approximately 34.33% to the closing price of HK$0.122 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(v) a discount of approximately 84.90% to the net asset value per Share of approximately HK$0.53 based on the unaudited consolidated net asset value of the Group as at 30 June 2008 as shown in the interim report of the Company for the six months ended 30 June 2008 and the number of Shares in issue immediately before completion of the Open Offer and assuming there will neither be any exercise of the Share Options nor conversion of the BOC Convertible Bonds and/or the CW Convertible Bonds.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to, among other things, the generally decreasing trend of the price of the Shares. The Group needs additional funds to finance its operations and business activities. In view of the recent financial conditions of the Group as mentioned above and taking into consideration of the theoretical price per Share, in order to increase the attractiveness of the Open Offer to the Qualifying Shareholders, the Directors consider that the proposed discount of the Subscription Price is appropriate. Each Qualifying Shareholder is entitled to subscribe for the Offer Shares at the same price in proportion to his/her/its existing shareholding in the Company. The Directors consider the Subscription Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions of the Open Offer

The Open Offer is conditional upon the following conditions being fulfilled:

(a) the passing by the Independent Shareholders at the EGM of the necessary resolution(s) (such vote shall be taken by way of poll) to approve the Loan Capitalisation and the Whitewash Waiver;

(b) the delivery to the Stock Exchange and registration with the Registrar of Companies in Hong Kong respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) not later than the Prospectus Posting Date and otherwise in compliance with the Listing Rules and the Companies Ordinance;

(c) the posting of the Prospectus Documents to Qualifying Shareholders on the Prospectus Posting Date;

(d) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in all the Offer Shares;

(e) compliance with and performance of all the undertakings and obligations of the Company under the Underwriting Agreement;

(f) compliance with and performance of all the undertakings and obligations of China Water under the Underwriting Agreement;

(g) the Executive granting the Whitewash Waiver to the Underwriter and parties acting concert with it and the satisfaction of all conditions (if any) attached to the Whitewash Waiver and the consent;

(h) the Open Offer and the transactions contemplated thereunder not being regarded as a reverse takeover under Rule 14.06 of the Listing Rules; and

(i) all necessary consents and approval to be obtained by the Underwriter having been duly obtained.

If any of the conditions of the Open Offer are not fulfilled on or before 25 March 2009 (or such later time and/or date as the Company and the Underwriter may determine), neither the Company nor the Underwriter shall have any rights or be subject to any obligations arising from the Underwriting Agreement and the Open Offer will not proceed.

Status of the Open Offer

The Offer Shares, when allotted, issued and fully-paid, will rank pari passu with the Shares in issue in all respects. Holders of such Offer Shares will be entitled to receive full future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Offer Shares. The Offer Shares will be traded in board lot of 4,000 Shares which is the same as the board lot size for trading in Shares on the Stock Exchange.

Qualifying Shareholders

The Open Offer is only available to the Qualifying Shareholders. The Company will send (i) the Prospectus Documents to Qualifying Shareholders and (ii) the Prospectus, for information only, to the Prohibited Shareholders and the holders of Share Options.

To qualify for the Open Offer, the Shareholder must be registered as a member of the Company on the Record Date and must not be a Prohibited Shareholder.

In order to be registered as a member of the Company on the Record Date, Shareholders must lodge any transfers of the Shares (with the relevant share certificate(s)) with the Registrar, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by no later than 4:00 p.m. on the Latest Lodging Date. Holders of Share Options who wish to participate in the Open Offer should exercise their Share Options in accordance with their respective terms no later than the Latest Lodging Date.

Closure of register of members

The Company's register of members will be closed from 2 March 2009 to 5 March 2009, both dates inclusive, for the purpose of, among other things, establishing entitlements to the Open Offer. No transfer of Shares will be registered during this period.

Rights of Overseas Shareholders and Prohibited Shareholders

If at the close of business on the Record Date, a Shareholder's address on the Company's register of members is in a place outside of Hong Kong, that Shareholder may not be eligible to take part in the Open Offer. The Prospectus Documents will not be registered or filed under the applicable securities or equivalent legislation of any jurisdiction other than that in Hong Kong.

In compliance with Rule 13.36(2) of the Listing Rules, the Directors will make enquiries as to whether the issue of Offer Shares to the Overseas Shareholder may contravene the applicable securities legislation of the relevant overseas places or the requirements of the relevant regulatory body or stock exchange. If, after making such enquiry, the Directors are of the opinion that it would be necessary or expedient, on account either of the legal restrictions under the laws of the relevant place or any requirement of the relevant regulatory body or stock exchange in that place, not to offer the Offer Shares to such Overseas Shareholders, no provisional allotment of Offer Shares will be made to such Overseas Shareholders. Accordingly, the Open Offer will not be extended to the Prohibited Shareholders. The Company will disclose the results of the enquiry in the Prospectus regarding the legal restrictions on the issue and allotment of Offer Shares to the Overseas Shareholders.

The Prohibited Shareholders will be entitled to vote at the EGM to consider and, if thought fit, for the resolution(s) approving, among other things, the Open Offer.

Fractional entitlement to the Offer Shares

No fractional entitlements or allotments are expected to arise as a result of the Open Offer.

Application for excess Offer Shares

Qualifying Shareholders are entitled to apply for any unsold entitlements of the Prohibited Shareholders and any Offer Shares not taken up by the Qualifying Shareholders by completing the form of application for excess Offer Shares and lodging the same with a separate remittance for the excess Offer Shares being applied for.

The Directors will allocate the excess Offer Shares at their discretion on a fair and equitable basis on the suggestions given by the Registrar but will give preference to topping-up odd lots to whole board lots of Shares. The same basis of allocation of the excess Offer Shares will be applied to all Qualifying Shareholders including China Water.

Shareholders with Shares held by a nominee company are advised to consider whether they would like to arrange for registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

Share certificates for the Offer Shares and refund cheques

Subject to the fulfillment of the conditions of the Open Offer, share certificates for all Offer Shares are expected to be posted to the Qualifying Shareholders who have accepted and applied for (where appropriate), and paid for the Offer Shares on or before 1 April 2009 by ordinary post at their own risk. Refund cheques in respect of wholly or partially unsuccessful applications for excess Offer Shares are also expected to be posted on or before 1 April 2009 by ordinary post at their own risk.

Application for listing of the Offer Shares on the Stock Exchange

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares.

Reasons for the Open Offer and the use of proceeds

The Group is principally engaged in the production and distribution of snack food and convenience frozen food products and in cultivation of seabuckthorn seedlings, manufacture, sales, research and development of seabuckthorn-related health products.

Upon the full subscription of the Offer Shares and assuming no further Shares have been allotted and issued from the date hereof to the Record Date, the gross proceeds would be approximately HK$27.7 million. Assuming all Share Options have been exercised and the BOC Convertible Bonds have been fully converted into Shares from the date hereof to the Record Date, the Company will receive a maximum proceeds of approximately HK$33.2 million. The Group needs additional funds to finance its operations and activities for expanding its businesses and the Loan was made by China Water to the Group as general working capital. While the Group intends to continue to pursue its principal business, the Directors intend to apply the net proceeds of the Open Offer towards general working capital of the Group.

The Directors have considered other alternative fund raising methods such as issue of new shares and bank borrowings and consider that the Open Offer has the benefits of allowing the Qualifying Shareholders to maintain their respective pro rata shareholdings if they take up their entitled Offer Shares and participate in the future growth of the Group.

Upon completion of the Open Offer and if the Underwriter becomes the controlling Shareholder, the Underwriter will maintain the current business of the Company and will not introduce any major changes to the business including redeployment of fixed assets of the Group. The Underwriter has no intention to change the management and other employees of the Group.

Despite the material changes as mentioned in pages 101 and 102 of this circular, with the contingency plans implemented by the Company and the expected recovery of the global economy in future, it is expected that the business of the Company will keep growing in the long run, which justifies the long-term interests of the Underwriter.

UNDERWRITING ARRANGEMENT

Undertakings from China Water

Pursuant to the Underwriting Agreement, China Water, who is indirectly holding 133,000,000 Shares, have undertaken not to transfer or otherwise dispose any Shares between the date of the Underwriting Agreement and the Latest Acceptance Date.

China Water also undertakes that between the date of the Underwriting Agreement and the Latest Acceptance Date, they will procure there be no conversion of any CW Convertible Bonds into the Shares.

Pursuant to the Underwriting Agreement, China Water has irrevocably undertaken to accept or procure acceptance of its entitlement under the Open Offer for 66,500,000 Offer Shares.

Save for the undertakings under the Underwriting Agreement as disclosed above, the Board had not received any information or irrevocable undertakings from any substantial Shareholders of their intention to take up the securities of the Company to be offered to them under the Open Offer.

Underwriting Agreement

Date:	17 November 2008 (as supplemented by the supplemental agreements dated 6 January 2009 and 11 February 2009)
Underwriter:	China Water China Water is a listed company with the issued shares of which listed on the main board of the Stock Exchange. China Water is a substantial Shareholder of the Company indirectly holding 133,000,000 Shares.
Number of Offer Shares underwritten:	Not less than 279,468,750 Offer Shares and not more than 348,540,428 Offer Shares upon full exercise of Share Options and full conversion of the BOC Convertible Bonds.
Commission:	No underwriting commission will be payable by the Company to the Underwriter under the Underwriting Agreement.

Pursuant to the Underwriting Agreement, China Water has conditional agreed to underwrite 279,468,750 Offer Shares (and not more than 348,540,428 Offer Shares if all the Share Options have been exercised and the BOC Convertible Bonds have been fully converted) respectively, on the terms and subject to the conditions set out in the Underwriting Agreement. The Open Offer (other than the Offer Shares undertaken to be taken up by China Water) will be fully underwritten by the Underwriter on the terms and subject to the conditions set out in the Underwriting Agreement.

LOAN CAPITALISATION

Pursuant to the Underwriting Agreement, China Water and the Company have agreed that the aggregate Subscription Price required to be paid by China Water and its associates under its underwriting obligation of the Underwriting Agreement and the Open Offer will be deemed to be paid by way of the full or partial capitalisation of the Loan of up to HK$27,677,500 in first place and the remaining balance of the Subscription Price (if any) will be settled in cash. The exact amount of the Loan to be capitalised for such aggregate Subscription Price depends on the number of Offer Shares to be taken up by the Qualifying Shareholders.

The completion of the Loan Capitalisation is subject to the same conditions of the Underwriting Agreement. Completion of the Loan Capitalisation shall take place simultaneously with the issue of the Offer Shares by the Company pursuant to the terms of the Open Offer.

Reason for the Loan Capitalisation

The Directors consider that the Loan Capitalisation will enable the Group to repay part or whole of the liabilities of the Company without cash outflow and will allow the Group to reduce its gearing level. The Directors accordingly consider that the Loan Capitalisation is in the interests of the Company and the Shareholders as a whole.

Implications under Listing Rules

Since China Water is a substantial Shareholder holding 133,000,000 Shares, representing approximately 19.22% of the issued share capital of the Company as at the Latest Practicable Date, the Loan Capitalisation constitutes a connected transaction on the part of the Company under Chapter 14A of the Listing Rules and requires the approval of the Independent Shareholders.

WARNING OF THE RISK OF DEALING IN SHARES

The Open Offer is conditional upon the obligations of the Underwriter under the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof. Shareholders and potential investors should therefore exercise caution when dealing in Shares, and if they are in any doubt about their positions, they should consult their professional advisers.

Shareholders should note that Shares will be dealt in on an ex-entitlement basis commencing from 26 February 2009 and that dealings in Shares will take place while the conditions to which the Open Offer is subject remain unfulfilled. Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled, will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares who is in any doubt about his/her/its position is recommended to consult his/her/its own professional adviser.

CHANGES IN SHAREHOLDING STRUCTURE

The following is the shareholding structure of the Company immediately before and after completion of the Open Offer, assuming no Share Options have been exercised and no BOC Convertible Bonds have been converted:

Shareholders	Immediately before completion of the Open Offer		Immediately after completion of the Open Offer (assuming no Qualifying Shareholders shall take up his/her/its entitlements under the Open Offer)		Immediately after completion of the Open Offer (assuming all Qualifying Shareholders shall take up his/her/its entitlements under the Open Offer)	
	No. of Shares	*Approximate %*	*No. of Shares*	*Approximate %*	*No. of Shares*	*Approximate %*
Mr. But Ka Wai and his associates	151,562,000	21.90	151,562,000	14.60	227,343,000	21.90
China Water and its concert parties	133,000,000	19.22	478,968,750	46.15	199,500,000	19.22
Atlantis Investment Management Limited	69,292,000	10.01	69,292,000	6.68	103,938,000	10.01
Public Shareholders						
BOCI Financial Products Limited and its associates	3,120,000	0.45	3,120,000	0.30	4,680,000	0.45
Prime	15,292,000	2.22	15,292,000	1.47	22,938,000	2.22
Other Shareholders	319,671,500	46.20	319,671,500	30.80	479,507,250	46.20
Total	691,937,500	100.00	1,037,906,250	100.00	1,037,906,250	100.00

The following is the shareholding structure of the Company immediately before and after completion of the Open Offer, assuming all Share Options have been exercised and all BOC Convertible Bonds have been converted:

Shareholders	Immediately before completion of the Open Offer		Immediately after completion of the Open Offer (assuming no Qualifying Shareholders shall take up his/her/its entitlements under the Open Offer)		Immediately after completion of the Open Offer (assuming all Qualifying Shareholders shall take up his/her/its entitlements under the Open Offer)	
	No. of Shares	*Approximate %*	*No. of Shares*	*Approximate %*	*No. of Shares*	*Approximate %*
Mr. But Ka Wai and his associates	151,562,000	18.26	151,562,000	12.17	227,343,000	18.26
China Water and its concert parties	133,000,000	16.02	548,040,428	44.01	199,500,000	16.02
Atlantis Investment Management Limited	69,292,000	8.35	69,292,000	5.57	103,938,000	8.35
BOCI Financial Products Limited and its associates	76,983,636	9.27	76,983,636	6.18	115,475,454	9.27
Public Shareholders						
Prime	15,292,000	1.84	15,292,000	1.23	22,938,000	1.84
Other Shareholders	383,951,221	46.26	383,951,221	30.84	575,926,831	46.26
Total	830,080,857	100.00	1,245,121,285	100.00	1,245,121,285	100.00

The Company will ensure that sufficient public float be maintained in compliance with Rule 8.08(1)(a) of the Listing Rules by taking all necessary appropriate steps.

EFFECT OF BAD WEATHER ON THE LATEST ACCEPTANCE DATE

The Latest Acceptance Date will be postponed if there is:

1. a tropical cyclone warning signal number 8 or above, or

2. a "black" rainstorm warning

in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on 20 March 2009. Instead, the Latest Acceptance Date will be rescheduled to 12:00 noon on the next Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 12:00 noon. If the Latest Acceptance Date is postponed in accordance with the foregoing, the dates mentioned in the section headed "EXPECTED TIMETABLE" in this circular may be affected. An announcement will be made by the Company in such event.

ADJUSTMENTS IN RELATION TO THE SHARE OPTIONS AND THE BOC CONVERTIBLE BONDS AND THE CW CONVERTIBLE BONDS

As at the Latest Practicable Date, 31,500,000 outstanding Share Options have been granted by the Company under the Share Option Scheme entitling the holders thereof to subscribe for up to an aggregate of 31,500,000 Shares.

The issue of the Offer Shares will cause adjustments to the exercise price of the Share Options, the conversion price of the BOC Convertible Bonds and the CW Convertible Bonds. The Company will instruct its auditors to review and certify the basis of such adjustments as soon as possible. Further announcement will be made by the Company in respect of such adjustments as and when appropriate.

FUNDS RAISING ACTIVITIES OF THE COMPANY IN THE PAST TWELVE MONTHS

Save for the issue of the BOC Convertible Bonds, the Company has not performed any fund raising activities in the past twelve months from the date of the Announcement. There is no change in the intended use of proceeds for the issue of the BOC Convertible Bonds.

WHITEWASH WAIVER

In the event that upon completion of the Open Offer, assuming no Qualifying Shareholders take up any Offer Shares and before full conversion of the BOC Convertible Bonds and exercise of the Share Options, the Underwriter, as the underwriter of the Open Offer, will be required to subscribe for and take up all the Offer Shares that are not taken up by the Qualifying Shareholders under the Open Offer, which will result the Underwriter and its concert parties holding an aggregate of 478,968,750 Shares, representing approximately 46.15% of the entire issued share capital of the Company as enlarged by the Open Offer. In the event that upon completion of the Open Offer, assuming no Qualifying Shareholders take up any Offer Shares and all the Share Options have been exercised and all BOC Convertible Bonds have been converted, the Underwriter will be required to subscribe for and take up all the Offer Shares that not taken up by the Qualifying Shareholders under the Open

Offer, which will result the Underwriter and its concert parties holding an aggregate of 548,040,428 Shares, representing approximately 44.01% of the entire issued share capital of the Company as enlarged by the Open Offer. China Water also undertakes that between the date of the Underwriting Agreement and the Latest Acceptance Date, they will procure there be no conversion of any CW Convertible Bonds into the Shares. Accordingly, the underwriting by the Underwriter may trigger an obligation for the Underwriter and parties acting concert with it to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares (other than those already owned or agreed to be acquired by it and its concert parties).

As at the Latest Practicable Date, other than the CW Convertible Bonds with the principal amount of HK$155,050,000 and 133,000,000 Shares beneficially owned by the Underwriter and the parties acting in concert with it, the Underwriter and the parties acting in concert with it do not hold any other shares, convertible securities, warrants or options of the Company, or any outstanding derivative in respect of securities in the Company. Save for the disposal of the CW Convertible Bonds with principal amount of HK$25,000,000 to Prime as disclosed in the announcement of Prime dated 22 September 2008, the Underwriter and the parties acting in concert with it have not acquired any voting rights of the Company and have not dealt in any Shares, warrants, options, derivatives and securities carrying conversion or subscription rights into Shares of the Company in the six months prior to the date of the Announcement up to the Latest Practicable Date.

An application has been made by the Underwriter to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll, which the Underwriter and the parties acting in concert with it and those who are involved in or interested in the Open Offer, the Whitewash Waiver and the Loan Capitalization will abstain from voting on the relevant resolution. It is a condition precedent to the completion of the Open Offer that the Whitewash Waiver is granted by the Executive. If the Whitewash Waiver is not granted by the Executive, the Open Offer will not proceed. **The Executive has agreed, subject to approval by Independent Shareholders, to waive any obligations to make a general offer which might result from the underwriting as a result of the Open Offer. This condition to the Open Offer is not waivable.**

The Directors (including the independent non-executive Directors) believe that the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

GENERAL

Pursuant to the Listing Rules, the Loan Capitalisation is conditional on, among other things, the approval by the Independent Shareholders. The EGM will be held for the Independent Shareholders to consider and, if thought appropriate, approve the Loan Capitalisation. As China Water, being the Underwriter to the Open Offer, is deemed to have a material interest in the Open Offer and the Loan Capitalisation, China Water and its concert parties and those who are involved in or interested in the Open Offer, the Whitewash Waiver and the Loan Capitalisation will abstain from voting on the respective resolutions at the EGM for approving the Whitewash Waiver and the Loan Capitalisation. The voting at the EGM will be taken by way of poll. To the best of the Directors' knowledge, other than China Water and its associates and parties acting in concert with it, no Shareholders have a material interest in the Open Offer, the Whitewash Waiver and the Loan Capitalisation and are required to abstain from voting at the EGM.

The Independent Board Committee, which comprises all non-executive Directors and independent non-executive Directors in compliance with Rule 2.8 of the Takeovers Code in respect of the Open Offer and the Whitewash Waiver and all independent non-executive Directors in compliance with Rule 13.39(6)(i) of the Listing Rules in respect of the Loan Capitalisation, has been established to advise the Independent Shareholders as to whether the terms of the Open Offer, the Whitewash Waiver and the Loan Capitalisation are fair and reasonable and whether the Open Offer, the Whitewash Waiver and the Loan Capitalisation are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote. The Independent Financial Advisers have also been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Open Offer, the Whitewash Waiver and the Loan Capitalisation. Please refer to their recommendation and advices as disclosed in this circular for further details.

FINANCIAL AND TRADING PROSPECT OF THE GROUP

Market uncertainty brought about by the U.S. financial crisis, as well as concerns over inflation and possible economic downturn in Mainland China have adversely affected both the business environment and consumer confidence. However, with the continuous rise in national income and consumer spending, China's food and healthcare market will continue to grow rapidly. The Group remains optimistic about its business outlook in the second half of 2008 and beyond.

As a leading manufacturer and provider of a comprehensive range of seabuckthorn-related products and healthcare products with a strong sense of commitment, the Group always strives to strengthen its market presence by providing premium products to customers, with a view to creating value for shareholders.

With the growing demand in the emerging healthcare market in the PRC, it is believed that seabuckthorn-related products will become the key growth driver in the medium to long-term. The Group is well-positioned to capitalise on the promising prospects by broadening the domestic retail network and penetrating further into all major cities in the PRC. It also plans to launch new series of seabuckthorn healthcare products, including seabuckthorn fruit juice under the "Conseco Seabuckthorn" brand to be distributed through key sales channels.

In August 2008, the Group proposed to acquire the entire equity interest in Guangdong Kangli Pharmaceutical Company Limited through Shenzhen Conseco Seabuckthorn Biotechnology Company Limited. Upon completion of the proposed acquisition, the Group will gain immediate access to direct sales business of healthcare products with ready available license, which will enable it to tap immense market potential and extend market reach via direct sales channels.

The Group is also set to launch and promote seabuckthorn fruit juice and fruit pulp in Hong Kong by the end of 2008. By leveraging on its established distribution channels and excellent relationship with all key chains and retailers, the Group will endeavour to tap the booming healthcare market in Hong Kong.

In addition, the Group will continue to offer quality packaged and convenience food products. By enhancing its capabilities in production and product development, the Group is confident that its packaged food business will generate steady and recurring income. With strong distribution channels and an excellent brand reputation in the industry, the Group will further strengthen cooperation with key retailers in both Hong Kong and the PRC, bringing innovative and tasty foods to consumers. Against the backdrop of the Beijing Olympics 2008, the Group will put emphasis on promoting its brand image in affluent areas so as to further promote sales growth.

Given the overseas market has demonstrated growth potential in the long term, the Group will further expand export business by collaborating with Sojitz and other distribution agencies to explore business opportunities. Besides, the Group will continue to expand and upgrade its production facilities in order to meet market demand for quality food and pet products in overseas market.

EGM

A notice convening the EGM at 2nd Floor, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong on 4 March 2009 at 9:30 a.m. is set out on pages 137 to 138 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's share registrars, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for the holding of the meeting or the adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting thereof (as the case may be) should you so desire.

RECOMMENDATION

The Directors believe that the terms of the Open Offer, the Whitewash Waiver and the Loan Capitalisation are fair and reasonable and in the interests of the Company and the Shareholders as a whole and recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM. You are advised to read carefully the letter from the Independent Board Committee regarding the Open Offer, the Whitewash Waiver and the Loan Capitalisation on page 29 of this circular. The Independent Board Committee, having taken into account the advice of the Independent Financial Advisers, the text of which is set out on pages 30 to 45 of this circular, considers that the terms of the Open Offer, the Whitewash Waiver and the Loan Capitalisation are in the interests of the Company and the Shareholders as a whole are fair and reasonable insofar as the Independent Shareholders are concerned.

FURTHER INFORMATION

Your attention is drawn to the information set out in the appendices to this circular.

By the order of the Board
China Botanic Development Holdings Limited
But Ka Wai
Chairman

The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Open Offer and the Whitewash Waiver.

中國植物開發控股有限公司
CHINA BOTANIC DEVELOPMENT HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2349)

16 February 2009

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED OPEN OFFER IN THE PROPORTION OF ONE OFFER SHARE FOR EVERY TWO SHARES HELD ON THE RECORD DATE;

CONNECTED TRANSACTION: LOAN CAPITALISATION AND APPLICATION FOR WHITEWASH WAIVER

We refer to the circular of the Company dated 16 February 2009 (the "Circular") of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders as to whether the terms of the Open Offer and the Whitewash Waiver are fair and reasonable insofar as the Independent Shareholders are concerned. REXCAPITAL and AsiaVest Partners have been appointed as the Independent Financial Advisers to advise you and us in this respect.

Having taken into account the principal reasons and factors considered by, and the advice of, the Independent Financial Advisers as set out in its letter of advice to you and us on pages 30 to 45 of the Circular, we are of the opinion that the Open Offer and the Whitewash Waiver and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole and the terms of which are fair and reasonable insofar as the Company and the Independent Shareholders are concerned. We are also of the view that the grant of the Whitewash Waiver is fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Whitewash Waiver.

Yours faithfully,
For and on behalf of the Independent Board Committee

Madam Leung Wai Ling	**Ms. Wang Fang**	**Mr. Cheung Yu Yan, Tommy**	**Mr. Ip Shing Tong, Francis**	**Mr. Ku Siu Fung, Stephen**	**Mr. Chen Ziqiang**

The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Loan Capitalisation.

中國植物開發控股有限公司
CHINA BOTANIC DEVELOPMENT HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2349)

16 February 2009

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED OPEN OFFER IN THE PROPORTION OF ONE OFFER SHARE FOR EVERY TWO SHARES HELD ON THE RECORD DATE;

CONNECTED TRANSACTION: LOAN CAPITALISATION AND APPLICATION FOR WHITEWASH WAIVER

We refer to the circular of the Company dated 16 February 2009 (the "Circular") of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders as to whether the terms of the Loan Capitalisation are fair and reasonable insofar as the Independent Shareholders are concerned. RexCapital and AsiaVest have been appointed as the Independent Financial Advisers to advise you and us in this respect.

Having taken into account the principal reasons and factors considered by, and the advice of, the Independent Financial Advisers as set out in its letter of advice to you and us on pages 30 to 45 of the Circular, we are of the opinion that the Loan Capitalisation is in the interests of the Company and the Shareholders as a whole and the terms of which are fair and reasonable insofar as the Company and the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Loan Capitalisation.

Yours faithfully,
For and on behalf of the Independent Board Committee

Mr. Cheung Yu Yan, Tommy	**Mr. Ip Shing Tong, Francis**	**Mr. Ku Siu Fung, Stephen**	**Mr. Chen Ziqiang**

The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders received from the Independent Financial Advisers prepared for the purpose of inclusion in this circular:

REXCAPITAL (Hong Kong) Limited

ASIA VEST PARTNERS
Asia Vest Partners Limited

16 February 2009

To the Independent Board Committee and
the Independent Shareholders

Dear Sirs,

PROPOSED OPEN OFFER
CONNECTED TRANSACTION: LOAN CAPITALISATION
AND
APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the joint independent financial advisers to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Open Offer, the Loan Capitalisation, and the Whitewash Waiver, details of which are contained in the Letter from the Board (the "Letter") in the circular dated 16 February 2009 (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same respective meanings as defined in the Circular unless the context requires otherwise.

On 19 November 2008, the Board announced that it was proposing to raise not less than approximately HK$27.7 million before expenses by issuing not less than 345,968,750 Offer Shares and not more than 415,040,428 Offer Shares at the Subscription Price of HK$0.08 per Offer Share on the basis of one Offer Share for every two Shares held on the Record Date. The minimum number of Offer Shares to be issued pursuant to the terms of the Open Offer represents 50% of the Company's existing issued share capital and approximately 33.3% of the Company's issued share capital as enlarged by the issue of the Offer Shares.

As set out in the Letter, as at the Latest Practicable Date, save for the Shares Options, the BOC Convertible Bonds and the CW Convertible Bonds, there are no outstanding warrants or share options or securities or derivatives that are convertible or exchangeable into Shares or confer any right to subscribe for Shares. The CW Convertible Bonds in the aggregate principal amount of HK$180,050,000 with maturity date in 2017 and the rights to convert into 1,200,333,333 Shares at an initial conversion price of HK$0.15 were issued by the Company to Good Outlook Investments Limited, a wholly owned subsidiary of China Water. Pursuant to an agreement dated 22 September 2008, Good Outlook Investments Limited has agreed to sell and Global Business Investment Enterprises

Limited, a wholly owned subsidiary of Prime, has agreed to acquire the CW Convertible Bonds in principal amount of HK$25,000,000 at a consideration of HK$30,000,000. For further details of the CW Convertible Bonds, please refer to the announcement and circular of the Company dated 12 July 2007 and 24 September 2007 respectively and the announcement of Prime dated 22 September 2008. China Water has undertaken that it will procure that the CW Convertible Bonds will not be converted into Shares prior to the completion of the Open Offer.

Pursuant to the Underwriting Agreement, China Water, being the Underwriter, and the Company have agreed that the aggregate Subscription Price required to be paid by China Water and its concert parties on (i) China Water's irrevocable undertakings (the "Irrevocable Undertakings") to accept or procure acceptance of their entitlements under the Open Offer; and (ii) China Water's underwriting obligation under the Underwriting Agreement, will be deemed to be paid by way of the full or partial capitalisation of the Loan of up to HK$27,677,500 in first place and the remaining balance of the Subscription Price (if any) will be settled in cash. The exact amount of the Loan to be capitalised for such aggregate Subscription Price depends on the number of Offer Shares to be taken up by the Qualifying Shareholders. As the Underwriter is a substantial Shareholder, the Loan Capitalisation constitutes a connected transaction pursuant to Chapter 14A of the Listing Rules.

As set out in the Letter, in the event that no Qualifying Shareholders take up their respective entitlements under the Open Offer and China Water, as the underwriter of the Open Offer, pursuant to the Underwriting Agreement will be required to take up all the Offer Shares that are not taken up by the Qualifying Shareholders under the Open Offer, which in aggregate with the subscription of Offer Shares under the Irrevocable Undertakings will result China Water and its concert parties holding approximately 46.15% (or approximately 44.01% in the event all Share Options and all BOC Convertible Bonds have been converted in full) of the entire issued share capital of the Company upon completion of the Open Offer in the event that none of the Share Options and BOC Convertible Bonds have been converted. In such case, an obligation on the part of China Water and its concert parties to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares not already owned by or agreed to be acquired by it and its concert parties will arise. An application has been made by China Water to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll.

Pursuant to the Listing Rules, the Loan Capitalisation is conditional on, among other things, the approval by the Independent Shareholders. As China Water is deemed to have a material interest in the Open Offer and the Loan Capitalisation, China Water and its concert parties and those who are involved in or interested in the Open Offer, the Whitewash Waiver and the Loan Capitalisation will abstain from voting on the respective resolutions at the EGM for approving the Whitewash Waiver and the Loan Capitalisation. The voting at the EGM will be taken by way of poll.

We have been retained by the Company to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the Open Offer, the Loan Capitalisation and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole; (ii) whether the terms of the Open Offer, the Loan Capitalisation and the Whitewash Waiver are arm's length, on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) how the Independent Shareholders should vote in respect of the relevant resolutions to approve the Loan Capitalisation and the Whitewash Waiver at the EGM.

The Independent Board Committee comprising all non-executive Directors and independent non-executive Directors in respect of the Open Offer and the Whitewash Waiver and comprising all independent non-executive Directors in respect of the Loan Capitalisation has been established for the purpose of advising the Independent Shareholders on the terms of the Open Offer, the Loan Capitalisation and the Whitewash Waiver.

BASIS OF OPINION

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and senior management of the Company. We have assumed that all information and representations that have been provided by the Directors and senior management of the Company, for which they are solely and wholly responsible, are true, complete and accurate in all material respects at the time when they were made and continue to be so as at the date of the despatch of the Circular. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiries and careful considerations.

We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our recommendation in compliance with Rule 13.80 of the Listing Rules and Note 2 to Rule 2 of the Takeovers Code.

The Directors and the Underwriter have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquires, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading. We consider that we have been provided sufficient information to reach an informed view and to provide a reasonable basis for our recommendation. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Open Offer, the Loan Capitalisation and the Whitewash Waiver.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders, we have taken into consideration, inter alia, the following principal factors and reasons. Our conclusions are based on the results of all analyses taken as a whole.

1. Background and Reasons for the Open Offer

The Group is principally engaged in the production and distribution of snack food and convenience frozen food products and in cultivation of seabuckthorn seedlings, manufacture, sales, research and development of seabuckthorn-related health products.

As advised by the Company, China Water has made a loan of approximately HK$13 million on 11 November 2008 to the Company. Pursuant to an announcement of the Company dated 23 January 2009, the Board announced that due to an inadvertent clerical error of the Company, the undated cheque of HK$12,677,500 issued by China Water, being part of the Loan, was not collected by the Company until 23 January 2009 and was deposited into the accounts of the Company on 11 February 2009. As advised by the Company, the purposes of the above two loans were to strengthen the capital base of the Company, smoothen the financial flexibility on its operation and working capital and made partial repayment on its bank borrowings to release the pressure placed by the bank creditors at that time. As further advised by the Company, the above two loans together with the HK$2 million current account balance with China Water made up the Loan of approximately HK$27,677,500 as at the Latest Practicable Date.

We were advised by the management of the Company that they have considered alternative methods to raise funds including open offer, rights issue and placement of new shares at that time, however, given the recent financial crisis has resulted in a difficult situation for the Group to secure financing facilities from financial institutions and/or raised funds from the market by means of placement of new securities and the limited time to make partial bank borrowings repayment as demanded by bank creditors, the Company considered financial assistance from China Water is possibly the only alternative under such relevant period. Having taken into account the difficulty in conducting equity fund raising as a result of global financial crisis at that time and the stressful situation of the Company on repayment on its bank borrowings, we concur with the Company that the financial assistance from China Water at that time is fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

As it was the consensus of the Company and China Water that the Company will repay the Loan within a short period of time, after considering the outstanding bank borrowings amounted to approximately HK$122 million and the cash and bank balance of approximately HK$45.89 million as at 30 November 2008, the Company proposed to raise fund by the Open Offer for financing its operations and activities for expanding its businesses. Nevertheless, given the recent market sentiment, the Company was unable to procure any potential underwriters. Eventually, after arm's length negotiation between the Company and China Water, China Water agreed to be the Underwriter for the Open Offer and settle the Loan by way of Loan Capitalisation.

As set out in the Letter, the Directors have considered other alternative fund raising methods such as issue of new shares and bank borrowings and consider that the Open Offer has the benefits of allowing the Qualifying Shareholders to maintain their respective pro rata shareholdings if they take up their entitled Offer Shares and participate in the future growth of the Group. The Directors believe that the Open Offer is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Our analyses on other alternatives to the Open Offer has been set out under the section headed "**4. Alternatives to the Open Offer**" below.

As advised by the Company, the Loan owed by the Company to China Water amounted to approximately HK$27.68 million as at the Latest Practicable Date. Also advised by the Company, the maximum gross proceeds arising from the Open Offer will be approximately HK$27.68 million in the event that none of the Share Options and the BOC Convertible Bonds have been exercised before the Record Date and approximately HK$33.20 million in the event that all Share Options and the BOC Convertible Bonds have been exercised in full before the Record Date.

We were advised by the Company that the proceeds raised from the Open Offer will be used as follows:

In the event none of the Share Options and the BOC Convertible Bonds have been exercised before the Record Date:

	All Qualifying Shareholders have taken up their respective entitlements under the Open Offer	**No Qualifying Shareholders has taken up their respective entitlements under the Open Offer**
	HK$'000,000	*HK$'000,000*
Gross proceeds	27.68	27.68
Net proceeds	26.48	26.48
Less: Loan Capitalisation	5.32	27.68
Remaining proceeds	21.16	0

In the event all Share Options and the BOC Convertible Bonds have been exercised in full before the Record Date:

	All Qualifying Shareholders have taken up their respective entitlements under the Open Offer	**No Qualifying Shareholders has taken up their respective entitlements under the Open Offer**
	HK$'000,000	*HK$'000,000*
Gross proceeds	33.20	33.20
Net proceeds	32.0	32.0
Less: Loan Capitalisation	5.32	27.68
Remaining proceeds	26.68	4.32

As set out in the Letter, the Group needs additional funds to finance its operations and activities for expanding its businesses. While the Group intends to continue to pursue its principal business, the Directors intend to apply the net proceeds of the Open Offer, if any, towards general working capital of the Group.

The following is a summary of the financial results extracted from the interim report 2008 (the "IR 2008") and the annual report 2007 (the "AR 2007") of the Company.

	For the six months ended 30 June 2008	**For the year ended 31 December 2007**
	HK$'000	*HK$'000*
	(Unaudited)	*(Audited)*
Turnover	128,136	281,054
Gross profit	39,174	85,537
Gain from changes in fair value of biological assets less estimated point-of-sales costs	60,211	72,927
Finance cost	20,186	16,234
Profit/(loss) before tax	47,788	105,468
Profit/(loss) after tax	43,816	97,237

	As at 30 June 2008	**As at 31 December 2007**
Net asset value	468,227	413,220
Bank balances and cash	103,891	134,649

As set out in the above table, the gain from changes in fair value of biological assets less estimated point-of-sales costs, which generated no cashflow to the Group, represented approximately 69.15% and approximately 126.00% of the Group's profit before tax for the year ended 31 December 2007 and the six months ended 30 June 2008 respectively.

We noted from the Company's announcement dated 24 October 2007 in respect of the BOC Convertible Bonds that each holder of BOC Convertible Bonds (the "BOC CB Holders") will have the right to require the Company to redeem in whole or in part of the BOC Convertible Bonds after the second anniversary of the date of issue of the BOC Convertible Bonds, which is 28 November 2009. Given (i) significant portion of the profits which resulted from the revaluation gain of fair value adjustment of biological assets of the Group contributing no cash inflow to the Group; and (ii) the Group had cash and bank balance of approximately HK$32 million as at 31 December 2008 whereas the Group also had an outstanding bank borrowings amounted to approximately HK$116 million as at 31 December 2008, based on the existing situation, we consider the Company may have a potential financial stress on its liquidity position in 2009 if the BOC CB Holders exercise the above-mentioned early redemption option to fully redeem the BOC Convertible Bonds with aggregate principal amount of HK$122 million immediate after 28 November 2009 or any other creditors who decide to demand for repayment of their facilities maintained with the Group at a short notice.

In view that the Open Offer which may provide funds for the working capital of the Company and the Loan Capitalisation which will reduce cash outflow and gearing simultaneously for the Group (further analyses on the Loan Capitalisation has been set out under the section headed "**9. Loan Capitalisation**" below), we believe that the Open Offer and Loan Capitalisation are in the interest of the Company. However, given the financial uncertainty of the Company, one of which being the potential redemption of BOC Convertible Bonds, Independent Shareholders should aware the risk associated with their further investment in the Company by means of subscribing to the Open Offer.

2. Principal terms of the Open Offer

Basis

The Open Offer is on the basis of provisional allotment of one Offer Shares for every two existing Shares held by the Qualifying Shareholders on the Record Date at the Subscription Price. The Offer Shares (when allotted, fully paid and issued) will rank pari passu with the Shares in issue in all respects. Holders of the Offer Shares will be entitled to receive full future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Offer Shares.

Subscription Price

As stated in the Letter, HK$0.08 per Offer Share shall be payable in full when a Qualifying Shareholder accepts the relevant provisional allotment of Offer Shares or applies for excess Offer Shares.

The Subscription Price represents:

(i) a discount of approximately 15.79% to the closing price of HK$0.095 per Share as quoted on the Stock Exchange on the Last Trading Date;

(ii) a discount of approximately 20.32% to the average closing price of HK$0.1004 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Date;

(iii) a discount of approximately 11.11% to the theoretical price of HK$0.09 per Share based on the closing price of HK$0.095 as quoted on the Stock Exchange on the Last Trading Date; and

(iv) a discount of approximately 84.90% to the net asset value per Share of approximately HK$0.53 based on the unaudited consolidated net asset value of the Group as at 30 June 2008 as shown in the IR 2008 and the number of Shares in issue immediately before completion of the Open Offer and assuming there will neither be any exercise of the Share Options nor conversion of the BOC Convertible Bonds and/or the CW Convertible Bonds.

As stated in the Letter, the Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to, among other things, the generally decreasing trend of the price of the Shares. The Group needs additional funds to finance its operations and business activities. In view of the recent financial conditions of the Group and taking into consideration of the theoretical price per Share, in order to increase the attractiveness of the Open Offer and to encourage the existing Shareholders to participate in the Open Offer, the Directors consider that the proposed discount of the Subscription Price is appropriate.

Given each Qualifying Shareholder is entitled to subscribe for the Offer Shares at the same price in proportion to his/her/its existing shareholding in the Company and also entitled to excess application, the Directors consider the Subscription Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

To enhance the attractiveness of an open offer exercise and to encourage the existing shareholders to participate in an open offer, the subscription price of an open offer is normally set at a discount to the prevailing market prices of the relevant share. Hence, the fact that the Subscription Price is at a discount of the market prices of the Shares is in line with the general market practice with the reasons stated above and is acceptable.

Share price performance

The average daily closing prices, the monthly highest recorded closing price and the monthly lowest recorded closing price of the Shares traded on the Stock Exchange in each of the twelve calendar months commencing from 1 December 2007 up to and including the Latest Practicable Date (the "Review Period") are shown below:

Period	**Average daily closing price per Share in the Review Period**	**The Subscription Price of HK$0.08 per Offer Share being discount to the average daily closing price per Share in the Review Period**	**Highest closing price per Share in the Review Period**	**Lowest closing price per Share in the Review Period**
	(approx. HK$)	*(%)*	*(HK$)*	*(HK$)*
2007				
December	1.215	93.42	1.340	1.100
2008				
January	1.319	93.94	1.420	1.240
February	1.108	92.78	1.300	1.000
March	0.772	89.63	1.120	0.465
April	0.532	84.97	0.610	0.500
May	0.529	84.87	0.570	0.495
June	0.441	81.84	0.500	0.400
July	0.370	78.40	0.405	0.340
August	0.336	76.21	0.375	0.305
September	0.245	67.36	0.300	0.150
October	0.185	56.67	0.249	0.100
November	0.095	15.67	0.120	0.077
December	0.097	17.53	0.110	0.079
2009				
January	0.114	29.82	0.123	0.101
February (up to and including the Latest Practicable Date)	0.117	31.62	0.123	0.110

Source: The Stock Exchange of Hong Kong Limited

As shown in the table above, the average daily closing price of the Shares has experienced a gradual downward trend since January 2008. The price per Share recorded a high of HK$1.42 on 14 January 2008 and reached its low of HK$0.077 on 25 November and 28 November 2008 during the Review Period. The closing price of the Share on the Last Trading Date was quoted at HK$0.095.

In view that (i) the closing prices of HK$0.095 per Share on the Last Trading Date and the average closing price of HK$0.1004 per Share for the 5 consecutive trading days up to and including the Last Trading Date represented discounts of approximately 93.31% and approximately 92.93% respectively to the highest recorded closing price of HK$1.42 on 14 January 2008 during the Review Period; and (ii) during the Review Period, the Subscription Price represented a maximum discount of 93.94% to the average daily closing price per Share in January 2008 and discounts of more than 76% to the average daily closing price per Share before the market tumbled significantly since mid-September as a result of the global financial crisis, we consider a slight discount to the market prices around the date of the Underwriting Agreement is sufficient to encourage the Qualifying Shareholders to participate in the Open Offer.

To conclude, give (i) it is in line with market practice to set the Subscription Price at a discount to the market price; (ii) the discount is sufficient to encourage the Qualifying Shareholders to participate in the Open Offer; and (iii) all Qualifying Shareholders are offered an equal opportunities to subscribe the Offer Shares and to apply for excess application at the Subscription Price, we consider the Subscription Price and the terms of the Open Offer are fair and reasonable and in the interest of the Company and its Shareholders as whole.

3. Underwriting arrangements

We have reviewed the Underwriting Agreement and set out below are the major terms thereof.

Underwriting Commission

Pursuant to the Underwriting Agreement, no underwriting commission will be paid to China Water for its underwriting commitment. As such, we consider the underwriting commission is fair and reasonable so far as the Independent Shareholders are concerned.

Application for excess Offer Shares

Any Qualifying Shareholders who choose not to take up in full their provisional allotments under the Open Offer will have their shareholdings in the Company diluted by up to 33.33%. On the other hand, those Qualifying Shareholders who wish to increase their shareholdings in the Company through the Open Offer may acquire additional Offer Shares in the market and/or apply for excess Offer Shares through the excess application arrangement. Given the fact that there will be sufficient arrangements for the Shareholders to apply for excess Offer Shares through the excess application, we are of the opinion that such arrangements are fair and reasonable.

Termination

Subject to the fulfillment of the conditions contained in the Underwriting Agreement, it should also be noted that the Open Offer would not be proceeded if the Underwriter exercise their termination rights under the Underwriting Agreement, details of the provisions granting the Underwriter such termination rights are included in the section headed "**Termination of the Underwriting Agreement**" in the Letter. In the view that it is common to have termination clause incorporated in underwriting agreements, we consider such provisions are normal commercial terms and in line with the normal market practice.

After reviewing the Underwriting Agreement and having consider the above, we are of the view that the terms of the Underwriting Agreement are fair and reasonable and in the interest of the Company and Shareholders as a whole.

4. Alternatives to the Open Offer

The Directors advised that they have considered other methods of funds raising such as rights issue, placement of new Shares and bank borrowing. Taking into account that (i) rights issue has a higher cost and take a longer time to complete as compared to open offer; (ii) debt financing and bank borrowing will increase the gearing and incur further interest burden to the Company; (iii) any placing of new Shares without first offering the existing Shareholders the opportunity to participate in the Company's equity raising exercise would result in dilution of shareholding of and per Share value to the existing Shareholders; and (iv) the Open Offer will enable the Shareholders to maintain their proportionate interests in the Company should they so wish, we concur with the Directors' view that fund raising by way of the Open Offer is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

5. Risks associated with the Open Offer

Shareholders should note that, as stated in the Letter, the Open Offer is conditional upon, among other things, the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the sub-paragraph headed "**Termination of the Underwriting Agreement**" in the Letter). As such, the Open Offer may or may not proceed. The Shareholders and potential investors should exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

6. Potential dilution effect of the Open Offer on shareholding interests

As the Open Offer is offered to all Qualifying Shareholders on the same basis, the Qualifying Shareholders will be able to maintain their proportional interests in the Company if they take up their allotments under the Open Offer in full. In addition, for those Qualifying Shareholders who apply for excess Offer Shares through the excess application arrangement, they may increase their shareholdings in the Company through the Open Offer if there are any provisionally allotments under the Open Offer not taken up by other Qualifying Shareholders upon the time for acceptance of and payment for the Offer Shares is closed. Any Qualifying Shareholders who choose not to take up in full their assured entitlements under the Open Offer will have their shareholdings in the Company diluted by up to a maximum of approximately 33.33% from their shareholding interest of approximately 45.33% to approximately 30.22% in the event no Share Options and BOC Convertible Bonds have been exercised and approximately 45.53% to approximately 30.35% in the event all Share Options and BOC Convertible Bonds have been exercised in full.

In all cases of rights issues and open offers, the dilution on the shareholding of those Qualifying Shareholders who do not take up in full their assured entitlements under the Open Offer is inevitable. In fact, the dilution magnitude of any rights issues or open offers depends mainly on the extent of the basis of entitlement under such exercises since the higher offering ration of new shares to existing shares is the greater the dilution on the shareholding would be.

Taking into account (i) the inherent dilutive nature of open offer in general; and (ii) the Open Offer enables the Qualifying Shareholders to maintain their proportionate interests in the Company should they wish to at a lower price as compared to the historical and prevailing market price of the Shares, we are of the view that such potential dilution of the Open Offer on the shareholding of the Shareholders is acceptable.

7. Financial effects of the Open Offer

Net asset value

Based on the statement of unaudited pro forma financial information set out in Appendix II of the Circular, the unaudited pro forma adjusted consolidated net tangible assets of the Group amounts to approximately HK$190,017 million upon completion of the Open Offer, representing an increase of HK$21,157 million as compared to the audited consolidated net tangible asset value of the Group of approximately HK$168,860 million as at 31 December 2007.

Gearing Ratio

On the basis that the unaudited total liabilities of the Group and the unaudited total asset of the Group as at 30 June 2008 were approximately HK$478.41 million and HK$946.64 million respectively, the gearing ratio, which is calculated by dividing the total liabilities by the total assets of the Group, was about 0.51 as at 30 June 2008. Immediately following the Open Offer, the total asset of the Group will be increased by the net proceeds of the Open Offer while the total liabilities will be reduced by the full or partial Loan Capitalisation and accordingly, the gearing ratio of the Group will be improved as a result of the Open Offer.

Given the above analyses on the Open Offer, we consider the terms of the Open Offer are fair and reasonable and in the interest of the Company. However, as mentioned earlier, Independent Shareholders should aware the risk associated with their further investment in the Company by means of subscribing to the Open Offer given the financial uncertainty as a result of the potential redemption of BOC Convertible Bonds.

8. Whitewash Waiver

In the event that China Water is required to perform its underwriting commitment under the Underwriting Agreement in full, the aggregate shareholding of China Water and its concert parties will increase from approximately 19.22% to approximately 46.15% in the event no Share Options and BOC Convertible Bonds have been exercised and from approximately 16.02% to approximately 44.01% in the event all Share Options and BOC Convertible Bonds have been exercised in full. Accordingly, China Water will be obliged under Rule 26.1 of the Takeovers Code to make a mandatory general offer for all of the Shares which are not owned by or agreed to be acquired by it and its concert parties. The Underwriter has applied to the Executive for the Whitewash Waiver under Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll.

As stated in the Letter, the Open Offer is conditional upon, among other things, the Executive granting the Whitewash Waiver to China Water and its concert parties. Based on our analysis of the terms of the Open Offer as set out above, we consider that the terms of the Open Offer are fair and reasonable and the Open Offer which will reduce the liquidity pressure of the Company on its working capital and Loan repayment is in the interests of the Company and the Shareholders as a whole. If the Whitewash Waiver is not granted by the Executive or not approved by the Independent Shareholders, the Open Offer will not proceed. Given (i) the abovementioned positive impacts on the Group as a result of the Open Offer; (ii) all Qualifying Shareholders will be provided with an equal opportunity to take up their Offer Shares in accordance with their provisional entitlements under the Open Offer and their respective interests in the Company will not be diluted if they elect to take up in full their provisional allotments under the Open Offer; and (iii) Qualifying Shareholders who wish to increase their shareholdings in the Company through the Open Offer may apply for excess Offer Shares through the excess application arrangement, we are of the opinion that, for the purposes of implementing the Open Offer as discussed above, the application of the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

9. Loan Capitalisation

As mentioned in the section headed "1. Background and Reasons for the Open Offer", China Water made a loan of approximately HK$13 million on 11 November 2008 to the Company. Pursuant to an announcement of the Company dated 23 January 2009, the Board announced that due to an inadvertent clerical error of the Company, the undated cheque of HK$12,677,500 issued by China Water, being part of the Loan, was not collected by the Company until 23 January 2009 and was deposited into the accounts of the Company on 11 Februray 2009. As advised by the Company, the purposes of the above two loans were to strengthen the capital base of the Company, smoothen the financial flexibility on its operation and working capital and made partial repayment on its bank borrowings to release the pressure placed by the bank creditors at that time. As further advised by the Company, the above two advances together with the HK$2 million current account balance with China Water made up the Loan of approximately HK$27,677,500 as at the Latest Practicable Date.

We were advised by the management of the Company that they have considered alternative methods to raise funds including open offer, rights issue and placement of new shares at that time, however, given the recent financial crisis has resulted in a difficult situation for the Group to secure financing facilities from financial institutions and/or raised funds from the market by means of placement of new securities and the limited time to make partial bank borrowings repayment as demanded by bank creditors, the Company considered financial assistance from China Water is possibly the only alternative under such relevant period.

It was also the consensus of the Company and China Water that the Company will repay the Loan within a short period of time. As a result of the recent market sentiment, the Company attempted but failed to procure any underwriters for the proposed Open Offer. Eventually, after arm's length negotiation between the Company and China Water, China Water agreed to be the Underwriter for the Open Offer and settle the Loan by way of Loan Capitalisation.

Pursuant to the Underwriting Agreement, China Water and the Company have agreed that the aggregate Subscription Price required to be paid by China Water and its associates under its underwriting obligation of the Underwriting Agreement and the Open Offer will be deemed to be paid by way of the full or partial capitalisation of the Loan of up to HK$27,677,500 in first place and the remaining balance of the Subscription Price (if any) will be settled in cash. The exact amount of the Loan to be capitalized for such aggregate Subscription Price depends on the number of Offer Shares to be taken up by the Qualifying Shareholders.

The Directors consider that the Loan Capitalisation will enable the Group to repay part or whole of the liabilities of the Company without cash outflow and will allow the Group to reduce its gearing level, the Directors accordingly consider that the Loan Capitalisation as opposed to cash payment is in the interests of the Company and the Shareholders as a whole.

As advised by the Company, the intercompany balance due by the Company to China Water in aggregate amounted to approximately HK$27.8 million, comprising the Loan and accrued interest of approximately HK$130,000, as at the Latest Practicable Date. The Loan carries an interest of 1% per annum over the Hong Kong dollar prime rate and is repayable on demand.

Taking into account that (i) the liquidity position, with cash and bank balance of approximately HK$32 million and total bank borrowings of approximately HK$116 million as at 31 December 2008, of the Company is severely tight; (ii) the Company has resorted to China Water for the Loan in a difficult situation and timing where alternative financing is impossible; (iii) the Company has agreed with China Water to repay the Loan in a short period of time; (iv) the Company had been unable to procure any potential underwriters for the Open Offer; (v) the Loan Capitalisation enables the Group to repay its liabilities without cash outflow and to lower its gearing level; and (vi) fair and equal subscription and excess application rights have been incorporated in the terms of the Open Offer, which means that rights of minority shareholders would not be prejudiced even if the Loan Capitalisation is in place, we consider the Loan Capitalisation is fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

10. Financial effects of both the Open Offer and the Loan Capitalisation

Net assets and gearing

As set out in AR 2007 and IR 2008, the Group had an audited consolidated net assets of approximately HK$413.22 million as at 31 December 2007 and an unaudited consolidated net assets of approximately HK$468.23 million as at 30 June 2008 respectively.

As advised by the Company, upon completion of the Open Offer and the Loan Capitalisation, the consolidated total liabilities of the Group will be reduced as a result of the Loan Capitalisation and the consolidated net assets of Group will be improved by the net proceeds from the Open Offer. On such basis, the consolidated net assets of the Group is expected to increase and the gearing ratio (defined as total liabilities over total assets) of the Group is expected to reduce immediately upon completion of the Open Offer and the Loan Capitalisation.

Liquidity

As discussed with the Company, the Loan Capitalisation will relieve the Group from the burden of repayment of the Loan in cash. As such, the Loan Capitalsiation is expected to have a positive effect on the liquidity position of the Group.

RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the terms of the Open Offer and the Loan Capitalisation are fair and reasonable and the overall impact on the Company arising from the Open Offer, the Loan Capitalisation and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole and we advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favor of the ordinary resolutions approving the Loan Capitalisation and the Whitewash Waiver at the EGM. However, given the financial uncertainty of the Company, one of which being the potential redemption of BOC Convertible Bonds, Independent Shareholders should aware the risk associated with their further investment in the Company by means of subscribing to the Open Offer.

Yours faithfully,

For and on behalf of	For and on behalf of
REXCAPITAL (Hong Kong) Limited	**AsiaVest Partners Limited**
Gregory Ho	**Raymond Lo CF**
Head of Corporate Finance	*Managing Partner*

I. SUMMARY FINANCIAL INFORMATION

The financial information for the interim results of the Group for the six months ended 30 June 2007 and 2008 have been extracted from the interim report of the Group for the six months ended 30 June 2008, the financial information for the annual results of the Group for the years ended 31 December 2005, 31 December 2006 and 31 December 2007 have been extracted from the respective published audited financial statements of the Group. The auditors have expressed an unqualified opinion on those financial statements in their report for the years ended 31 December 2005, 31 December 2006 and 31 December 2007, respectively.

(i) Results

	Year ended			Six months ended	
	31 December 2005	**31 December 2006**	**31 December 2007**	**30 June 2007**	**30 June 2008**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000* *(unaudited)*
Turnover	207,551	202,130	281,054	110,014	128,136
Cost of sales	(143,154)	(131,307)	(195,517)	(74,678)	(88,962)
Gross profit	64,397	70,823	85,537	35,336	39,174
Gain arising from initial recognition of biological assets at fair value less estimated point-of-sales costs	–	–	72,927	–	60,211
Other operating income and net gain	8,951	3,675	11,720	954	2,756
Selling and distribution expenses	(22,254)	(25,268)	(19,723)	(12,229)	(13,388)
Administrative expenses	(21,998)	(18,093)	(28,759)	(8,857)	(20,779)
Profit from operations	29,096	31,137	121,702	15,204	67,974
Finance costs	(11,021)	(12,242)	(16,234)	(6,016)	(20,186)
Profit before tax	18,075	18,895	105,468	9,188	47,788
Income tax expenses	(7,859)	(5,865)	(8,231)	(1,868)	(3,972)
Profit for the year	10,216	13,030	97,237	7,320	43,816
Attributable to:					
Equity holders of the Company	–	–	51,892	7,320	16,124
Minority interests	–	–	45,345	–	27,692
Profit for the year	–	–	97,237	7,320	43,816
Dividends	–	–	–	–	–
Earnings per share					
– Basic	5.04	3.52	9.19	1.36	2.33
– Diluted	–	–	2.92	1.35	1.10

(ii) Assets and liabilities

	31 December 2005 HK$'000	31 December 2006 HK$'000	31 December 2007 HK$'000	30 June 2008 HK$'000
Non-current assets				
Prepaid lease payments	2,227	2,140	3,147	3,191
Property, plant and equipment	106,244	111,607	174,508	205,130
Biological assets	–	–	74,909	139,893
Intangible assets	–	–	532	832
Deposits paid on acquisition of a subsidiary	–	–	6,000	–
Deposits paid on acquisition of property, plant and equipment	–	–	17,391	–
Goodwill	–	–	171,613	182,340
	108,471	113,747	448,100	531,386
Current assets				
Inventories	47,680	57,720	64,794	88,836
Trade and other receivables	177,286	178,487	215,354	189,626
Pledged bank deposits	16,805	21,459	23,622	32,898
Bank balances and cash	15,072	36,366	134,649	103,891
	256,843	294,032	438,419	415,251
Current liabilities				
Trade and other payables	28,863	28,326	49,285	30,074
Obligations under finance leases	6,623	5,092	9,830	6,845
Tax payable	1,758	3,121	5,742	3,267
Amounts due to minority shareholders	–	–	5,493	7,959
Amount due to a shareholder	–	–	11,626	2,000
Borrowings	132,779	138,674	119,346	156,486
	170,023	175,213	201,322	206,631
Net current assets	86,820	118,819	237,097	208,620
Total assets less current liabilities	195,291	232,566	685,197	740,006
Non-current liabilities				
Obligations under finance leases	3,305	5,903	3,666	1,429
Borrowings	42,047	32,030	23,098	16,426
Convertible notes	–	–	244,834	253,495
Deferred tax liabilities	400	90	379	429
	45,752	38,023	271,977	271,779
NET ASSETS	149,539	194,543	413,220	468,227
Capital and reserves				
Share capital	2,140	5,350	6,919	6,919
Reserves	147,399	189,193	333,554	360,747
Equity attributable to equity holders of the Company	149,539	194,543	340,473	367,666
Minority interests	–	–	72,747	100,561
TOTAL EQUITY	149,539	194,543	413,220	468,227

II. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2007

Set out below are the audited consolidated income statement, consolidated balance sheet, consolidated statement of change in equity and consolidated cash flow statement of the Group and the balance sheet of the Company and notes to the financial statements reproduced from the audited financial statements published in the Company's annual report for the year ended 31 December 2007.

Consolidated Income Statement
For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Turnover	7	281,054	202,130
Cost of sales		(195,517)	(131,307)
Gross profit		85,537	70,823
Gain arising from initial recognition of biological assets at fair value less estimated point-of-sales costs	7	72,927	–
Other operating income and net gain	7	11,720	3,675
Selling and distribution expenses		(19,723)	(25,268)
Administrative expenses		(28,759)	(18,093)
Profit from operations	8	121,702	31,137
Finance costs	9	(16,234)	(12,242)
Profit before tax		105,468	18,895
Income tax expenses	11	(8,231)	(5,865)
Profit for the year		97,237	13,030
Attributable to:			
Equity holders of the Company		51,892	13,030
Minority interests		45,345	–
Profit for the year		97,237	13,030
Dividends	12	–	–
Earnings per share	13		
Basic		9.19 Cents	3.52 Cents
Diluted		2.92 Cents	N/A

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

Consolidated Balance Sheet
At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Prepaid lease payments	14	3,147	2,140
Property, plant and equipment	15	174,508	111,607
Biological assets	17	74,909	–
Intangible assets	18	532	–
Deposit paid on acquisition of a subsidiary	19	6,000	–
Deposit paid on acquisition of property, plant and equipment	20	17,391	–
Goodwill	21	171,613	–
		448,100	113,747
CURRENT ASSETS			
Inventories	22	64,794	57,720
Trade and other receivables	23	215,354	178,487
Pledged bank deposits		23,622	21,459
Bank balances and cash		134,649	36,366
		438,419	294,032
CURRENT LIABILITIES			
Trade and other payables	24	49,285	28,326
Obligations under finance leases	25	9,830	5,092
Tax payables		5,742	3,121
Amounts due to minority shareholders	26	5,493	–
Amount due to a shareholder	26	11,626	–
Borrowings	27	119,346	138,674
		201,322	175,213
NET CURRENT ASSETS		237,097	118,819
TOTAL ASSETS LESS CURRENT LIABILITIES		685,197	232,566

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT LIABILITIES			
Obligations under finance leases	25	3,666	5,903
Borrowings	27	23,098	32,030
Convertible notes	28	244,834	–
Deferred tax liabilities	32	379	90
		271,977	38,023
NET ASSETS		413,220	194,543
CAPITAL AND RESERVES			
Share capital	29	6,919	5,350
Reserves		333,554	189,193
Equity attributable to equity holders of the Company		340,473	194,543
Minority interests		72,747	–
TOTAL EQUITY		413,220	194,543

Balance Sheet
At 31 December 2007

	Notes	**2007** *HK$'000*	**2006** *HK$'000*
NON-CURRENT ASSET			
Interests in subsidiaries	*16*	479,229	171,137
CURRENT ASSET			
Deposits and prepayment		200	–
Bank balances		185	54
		385	54
CURRENT LIABILITIES			
Other creditors and accruals		1,386	889
Amount due to a shareholder	*26*	2,000	–
Borrowings		–	433
		3,386	1,322
NET CURRENT LIABILITIES		(3,001)	(1,268)
TOTAL ASSETS LESS CURRENT LIABILITIES		476,228	169,869
NON-CURRENT LIABILITY			
Borrowings	*27*	20,000	31,000
Convertible notes	*28*	244,834	–
		264,834	31,000
NET ASSETS		211,394	138,869
CAPITAL AND RESERVES			
Share capital	*29*	6,919	5,350
Reserves	*31*	204,475	133,519
		211,394	138,869

Consolidated Statement of Changes in Equity
For the year ended 31 December 2007

	Share capital	Share premium	Convertible notes equity reserve	Share options reserve	Special reserve	PRC statutory reserve	Translations reserves	Accumulated profits	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2006	2,140	41,105	–	–	10,816	23,051	(4,251)	76,678	–	149,539
Issue of rights shares *(note 29)*	3,210	28,890	–	–	–	–	–	–	–	32,100
Share issue expenses	–	(1,444)	–	–	–	–	–	–	–	(1,444)
Profit for the year	–	–	–	–	–	–	–	13,030	–	13,030
Transfer	–	–	–	–	–	866	–	(866)	–	–
Translation exchange differences	–	–	–	–	–	–	1,318	–	–	1,318
As at 31 December 2006 and 1 January 2007	5,350	68,551	–	–	10,816	23,917	(2,933)	88,842	–	194,543
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	27,402	27,402
Issue of shares *(note 29)*	1,330	18,620	–	–	–	–	–	–	–	19,950
Issue of shares upon exercise of share options	239	4,698	–	(238)	–	–	–	–	–	4,699
Share issue expenses	–	(5,986)	–	–	–	–	–	–	–	(5,986)
Recognition of equity component of convertible notes	–	–	58,645	–	–	–	–	–	–	58,645
Share-based option expenses	–	–	–	4,128	–	–	–	–	–	4,128
Profit for the year	–	–	–	–	–	–	–	51,892	45,345	97,237
Transfer	–	–	–	–	–	1,648	–	(1,648)	–	–
Translation exchange differences	–	–	–	–	–	–	12,602	–	–	12,602
At 31 December 2007	6,919	85,883	58,645	3,890	10,816	25,565	9,669	139,086	72,747	413,220

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.

Consolidated Cash Flow Statement
For the year ended 31 December 2007

	2007	2006
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Profit before tax	105,468	18,895
Adjustments for:		
Interest expenses	16,234	12,242
Interest income	(1,451)	(1,310)
Depreciation	9,889	8,714
Amortisation of prepaid lease payments	176	153
Gain on disposal on property, plant and equipment	(139)	(74)
Share-based option expenses	4,128	–
Gain arising from initial recognition of biological assets at fair value less estimated point-of-sale costs	(72,927)	–
Operating cash flows before movements in working capital	61,378	38,620
Increase in inventories	5,556	(10,040)
Increase in trade and other receivables	(22,434)	(1,201)
Decrease in trade and other payables	(2,384)	(537)
Cash generated from operations	42,116	26,842
Interest paid	(14,805)	(12,242)
Hong Kong Profits Tax paid, net	(321)	(1,340)
PRC Enterprise Income Tax paid	(7,252)	(3,472)
NET CASH GENERATED FROM OPERATING ACTIVITIES	19,738	9,788
INVESTING ACTIVITIES		
Increase in pledged bank deposits	(2,163)	(4,654)
Purchase of property, plant and equipment	(1,289)	(10,569)
Deposit paid on acquisition of a subsidiary	(6,000)	–
Deposit paid on acquisition of property, plant and equipment	(17,391)	–
Acquisition of subsidiaries, net of cash and cash equivalents acquired	10,335	–
Increase in intangible assets	(532)	–
Interest received	1,451	1,310
Proceeds from disposal of property, plant and equipment	159	215
NET CASH USED IN INVESTING ACTIVITIES	(15,430)	(13,698)

	2007	2006
	HK$'000	*HK$'000*
FINANCING ACTIVITIES		
Borrowings raised	218,590	130,978
Repayment of bank borrowings	(246,298)	(146,026)
Exercise of share options	4,699	–
Capital element of finance leases	2,501	1,067
Proceeds from issue of ordinary shares, net of expenses	–	30,656
Advances from a shareholder	1,992	–
Advances from minority shareholders	155	–
Proceeds from issue of convertible notes	116,014	–
NET CASH GENERATED FROM FINANCING ACTIVITIES	97,653	16,675
NET INCREASE IN CASH AND CASH EQUIVALENTS	101,961	12,765
Effect of foreign exchange rate change	624	(2,397)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	20,784	10,416
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	123,369	20,784
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	134,649	36,366
Bank overdrafts	(11,280)	(15,582)
	123,369	20,784

Notes to the Financial Statements

For the year ended 31 December 2007

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 and in cultivation of seabuckthorn seedlings, manufacture, sales, research and development of seabuckthorn-related health products. Details of the principal subsidiaries are set out in note 42.

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

In the current year, the Group has applied, for the first time, the following new standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are either effective for accounting periods beginning on or after 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK (IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions[2]
HK(IFRIC) – Int 12	Service Concession Arrangements[3]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimun Funding Requirements and their Interaction[3]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 January 2008
4 Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these new standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

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.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition 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 Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Goodwill

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 January 2005 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 ("FVTPL"), 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designed as at FVTPL, of which interest income is included in net gains or losses.

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 FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or
- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

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.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

Financial liabilities and equity instruments

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 Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL has two subcategories, including financial liabilities held for trading and those designated at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Convertible notes

Convertible notes issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the notes into equity, is included in equity (convertible notes equity reserve).

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes equity reserve until the embedded option is exercised. Where the option remains unexercised at the expiry date, the balance stated in convertible notes equity reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest 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 receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable 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

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 each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to 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.

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.

Impairment losses on tangible and intangible assets 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.

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.

Intangible assets

Expenditure on development activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development expenditure or trademark fee, patent fee and development cost is recognised only if it is anticipated that the development costs incurred on a clearly defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life when the asset is available for use.

The amount initially recognised for internally generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Biological assets

Biological assets represent Seabuckthorn bushes held under the Forest Tree Rights. Seabuckthorn bushes held under the Forest Tree Rights are stated at fair value less estimated point-of-sales 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 assets at fair value less estimated point-of-sales costs, or from a change in the fair value less estimated point-of-sales costs of the biological assets is included in the income statements for the period in which it arises.

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 financials 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.

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 OBJECTIVES AND POLICIES

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 management

Certain borrowings, trade and other receivables and trade and other payables 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.

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. 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 arises.

The carrying amounts of the Group's major foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities	**Assets**
	2007	**2007**
	HK$'000	*HK$'000*
Renminbi ("Rmb")	94,142	291,110

The following table shows the sensitivity analysis of a 5% increase/decrease in Rmb against the Hong Kong dollars, the effect in the profit for the year is as follows:

	Impact of Rmb
	2007
	HK$'000
Increase/decrease in profit for the year	9,848

Liquidity risk management

Internally generated cash flow and bank borrowings are the general sources of funds to finance the operations of the Group. The majority of the Group's banking facilities are subject to floating rate and are renewable annually. The Group liquidity risk management includes making available standby banking facilities and diversifying the funding sources. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations.

Credit risk management

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2007 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 management

The Group

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing position, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shifts is useful for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

The Group currently does not use any interest rate swaps to hedge its exposure to interest rate risk. However, the Group will consider hedging significant interest rate exposure should the needs arise.

As at 31 December 2007, if interest rates on borrowings had been 1% higher/lower with all other variables held constant, profit for the current year have been HK$1,385,000 lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

The Company

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company has no significant interest-bearing assets. The Company's exposure to changes in interest rates is mainly attributable to its borrowings. Borrowings at variable rates expose the Company to cash flow interest-rate risk.

As at 31 December 2007, if interest rates on borrowings had been 1% higher/lower with all other variables held constant, profit for the current year have been HK$200,000 lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Price risk management

The Group's investments held-for-trading are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

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

During the year, the Group has redefined its classification of business segments so as to better align its segment information disclosure to its current operations. The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

– Wah Yuen Foods Business Segment engages in production and distribution of snack food, convenience frozen food and other food products.

– Seabuckthorn Business Segment engages in cultivation of seabuckthorn seedings, as well as manufacture, sales, research and development of seabuckthorn-related health products.

	Wah Yuen Foods Business		Seabuckthorn Business		Eliminations		Consolidated	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE								
External sales	257,816	202,130	23,238	–	–	–	281,054	202,130
Inter–segment sales	27,837	26,566	–	–	(27,837)	(26,566)	–	–
Total revenue	285,653	228,696	23,238	–	(27,837)	(26,566)	281,054	202,130
RESULT								
Segment results	31,123	27,462	15,058	–	–	–	46,181	27,462
Gain arising from initial recognition of biological assets at fair value less estimated point-of-sales costs	–	–	72,927	–	–	–	72,927	–
Unallocated corporate income							7,132	3,675
Unallocated corporate expense							(4,538)	–
Profit from operations							121,702	31,137
Finance costs							(16,234)	(12,242)
Profit before tax							105,468	18,895
Income tax expense							(8,231)	(5,865)
Profit for the year							97,237	13,030

	Wah Yuen Foods Business		Seabuckthorn Business		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	381,469	349,954	346,773	–	728,242	349,954
Unallocated corporate assets	–	–	–	–	158,277	57,825
Consolidated total assets					886,519	407,779
LIABILITIES						
Segment liabilities	36,359	31,550	35,786	–	72,145	31,550
Unallocated corporate liabilities	–	–	–	–	401,154	181,686
Consolidated total liabilities					473,299	213,236
OTHER INFORMATION						
Capital expenditures	696	10,569	593	–	1,289	10,569
Depreciation	9,339	8,714	550	–	9,889	8,714
Amortisation of prepaid lease payments	165	153	11	–	176	153

(b) Geographical segments

The following table provides an analysis of the Group's sales and results by geographical segment, irrespective of the origins of the goods or services.

	Sales revenue by geographical segment		Segment results by geographical segment	
	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
The PRC	157,484	120,120	114,268	22,492
Hong Kong	151,407	108,576	4,840	4,970
	308,891	228,696	119,108	27,462
Eliminations	(27,837)	(26,566)	–	–
	281,054	202,130	119,108	27,462
Unallocated corporate income			7,132	3,675
Unallocated corporate expense			(4,538)	–
Profit from operations			121,702	31,137
Finance costs			(16,234)	(12,242)
Profit before tax			105,468	18,895
Income tax expense			(8,231)	(5,865)
Profit for the year			97,237	13,030

	Hong Kong		The PRC		Consolidated	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	214,208	41,021	514,034	308,933	728,242	349,954
Unallocated corporate assets	–	–	–	–	158,277	57,825
Consolidated total assets					886,519	407,779
LIABILITIES						
Segment liabilities	9,730	9,148	62,415	22,402	72,145	31,550
Unallocated corporate liabilities	–	–	–	–	401,154	181,686
Consolidated total liabilities					473,299	213,236
OTHER INFORMATION						
Capital additions	505	1,107	784	9,462	1,289	10,569
Depreciation	881	585	9,008	8,129	9,889	8,714
Amortisation of prepaid lease payments	6	6	170	147	176	153

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:

	2007	**2006**
	HK$'000	*HK$'000*
Sales of goods to outside customers	281,054	202,130
Gain arising from initial recognition of biological assets at fair value less estimated point-of-sales costs	72,927	–
Other operating income and net gain:		
Interest income from bank deposits	1,451	1,310
Exchange gain	4,885	–
Sundry income	5,384	2,365
	11,720	3,675
Total income	365,701	205,805

8. PROFIT FROM OPERATIONS

	2007	2006
	HK$'000	*HK$'000*
Profit from operations has been arrived at after charging:		
Staff costs, including directors' emoluments *(note 10)*	17,069	17,894
Retirement benefits scheme contributions, including Contributions for directors *(note 33)*	1,261	943
Total staff costs	18,330	18,837
Auditors' remuneration	800	430
Amortisation of land use rights and leasehold land	176	153
Depreciation		
– owned assets	7,827	6,702
– assets held under finance leases	2,062	2,012
Share-based option expenses	4,128	–
Gain arising from initial recognition of biological assets at fair value less estimated point-of-sales costs	(72,927)	–
Gain on disposal of property, plant and equipment	(139)	(74)
Operating lease rentals paid in respect of rented premises	2,024	1,689

9. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
Interest expense on bank loans, overdrafts and other borrowings wholly repayable within five years	13,064	11,552
Interest expense on obligations under finance leases	986	690
Effective interest expense on convertible notes	2,184	–
	16,234	12,242

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

For the year ended 31 December 2007

Emoluments	Fees	Other emoluments: Salaries and other Benefits	Other emoluments: Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
EXECUTIVE DIRECTORS				
Mr. But Ching Pui	–	360	–	360
Mr. But Ka Wai	–	360	18	378
Mr. But Chai Tong	–	360	18	378
NON-EXECUTIVE DIRECTORS				
Ms. Leung Wai Ling	50	–	–	50
Mr. Ngai Chun Kong, Stephen	50	–	–	50
INDEPENDENT NON-EXECUTIVE DIRECTORS				
Mr. Cheung Yu Yan, Tommy	100	–	–	100
Mr. Ip Shing Tong, Francis	50	–	–	50
Mr. Ku Siu Fung, Stephen	50	–	–	50
Total for 2007	300	1,080	36	1,416

For the year ended 31 December 2006

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

(b) Employees' emoluments

The five highest paid individuals for the year ended 31 December 2007 included three (2006: three) executive directors of the Company. The emoluments of the remaining two (2006: two) individuals are as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Salaries and other benefits	1,320	1,210
Retirement benefit schemes contributions	84	59
	1,404	1,269

The emoluments of each of the two (2006: 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 EXPENSES

	2007	**2006**
	HK$'000	*HK$'000*
The charge comprises:		
Current tax:		
Hong Kong Profits Tax		
Current year	1,098	558
Under (over) – provision in prior years	368	(10)
PRC Enterprise Income Tax		
Current year	6,476	5,373
Under-provision in prior years	–	254
Current tax charge for the year	7,942	6,175
Deferred tax charge/(credit) for the year *(note 32)*	289	(310)
	8,231	5,865

Hong Kong Profits Tax is calculated at 17.5% (2006: 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:

	2007	2006
	HK$'000	*HK$'000*
Profit before tax	105,468	18,895
Tax at PRC Enterprise Income Tax rate of 27% (2006: 27%)	28,476	5,102
Tax effect of expenses not deductible for tax purposes	8,842	1,815
Tax effect of income not taxable for tax purposes	(30,182)	(578)
Tax effect on temporary differences not recognised	317	–
Under-provision in respect of prior year	368	244
Tax effect on tax losses not recognised	1,031	3
Utilisation of tax losses not previously recognised	(25)	15
Effect of different tax rates of subsidiaries operating in other jurisdictions	(596)	(736)
Tax charge for the year	8,231	5,865

12. DIVIDENDS

The directors do not recommend the payment of a dividend for the years ended 31 December 2006 and 2007.

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$51,892,000 (2006: HK$13,030,000) and on the weighted average ordinary share of 564,506,592 (2006: 370,542,466) deemed to be in issue during the year.

The calculation of diluted earnings per share is based on the following data:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Earnings:		
Earnings for the purposes of basic earnings per share	51,892	13,030
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	2,184	–
Earnings for the purpose of dilutive earnings per share	54,076	13,030
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	564,506,592	370,542,466
Effect of dilutive potential ordinary shares:		
Convertible notes	1,285,648,018	N/A
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,850,154,610	N/A

No dilution effect was resulted from outstanding options as the exercises prices of options are higher than the average market price of the shares for both year ended 31 December 2007 and 2006.

14. PREPAID LEASE PAYMENTS

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

	2007	2006
	HK$'000	*HK$'000*
At cost		
At 1 January	3,353	3,253
Exchange difference	275	100
Acquisition of subsidiaries	1,012	–
At 31 December	4,640	3,353
Accumulated amortisation		
At 1 January	1,213	1,026
Exchange difference	104	34
Amortisation for the year	176	153
At 31 December	1,493	1,213
Net book values		
At 31 December	3,147	2,140

Note: The land use rights and leasehold land of the Group as at 31 December 2007 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 31 December 2005 and 1 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 and 1 January 2007	53,884	25,794	6,854	98,162	1,393	189	186,276
Exchange difference	4,815	1,223	117	8,524	90	–	14,769
Acquisition of subsidiaries	30,458	1,837	1,732	27,625	44	–	61,696
Additions	–	480	–	262	547	–	1,289
Transfer in/(out)	–	905	–	569	(1,474)	–	–
Disposals	–	–	(538)	–	–	–	(538)
At 31 December 2007	89,157	30,239	8,165	135,142	600	189	263,492
ACCUMULATED DEPRECIATION							
At 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 and 1 January 2007	9,986	18,310	6,330	39,893	–	150	74,669
Exchange difference	840	621	124	3,359	–	–	4,944
Provided for the year	1,546	1,606	173	6,560	–	4	9,889
Eliminated on disposals	–	–	(518)	–	–	–	(518)
At 31 December 2007	12,372	20,537	6,109	49,812	–	154	88,984
NET BOOK VALUES							
At 31 December 2007	76,785	9,702	2,056	85,330	600	35	174,508
At 31 December 2006	43,898	7,484	524	58,269	1,393	39	111,607

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

	2007	2006
	HK$'000	*HK$'000*
Motor vehicles	88	362
Plant and machinery	17,365	18,100
	17,453	18,462

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2007	2006
	HK$'000	*HK$'000*
Unlisted shares, at cost	74,772	73,992
Amounts due from subsidiaries	404,457	97,145
	479,229	171,137

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 principal subsidiaries as at 31 December 2007 are set out in note 42.

17. BIOLOGICAL ASSETS

	THE GROUP Seabuckthorn bushes
	HK$'000
At 1 January 2007	–
Gain arising from initial recognition of biological assets at fair value less estimated point-of-sales costs	72,927
Exchange adjustment	1,982
At 31 December 2007	74,909

Biological assets represented seabuckthorn bushes plant on land with Forest Tree Rights and situate in Inner Mongolia Autonomous Region, Shannxi Province and Shanxi Province. In accordance with the valuation report issued by CB Richard Ellis, an independent professional valuer, the fair value less estimated point-of-sale costs of the seabuckthorn bushes are determined with reference to the present value of the expected excess earning attributable to the biological assets.

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). The products 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.

18. INTANGIBLE ASSETS

The amount of intangible assets represent trademark fee, patent fee and development costs of seabuckthron products:

THE GROUP

	Trademark and Patent	**Development Costs**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
COST			
Additions	156	376	532
At 31 December 2007	156	376	532

19. DEPOSIT PAID ON ACQUISITION OF A SUBSIDIARY

In December 2007, the Group entered into an agreement and paid an amount of HK$6 million in cash as deposit for the acquisition of entire equity interest in 上海華源藍科生物制品營銷有限公司 (Shanghai Worldbest Lanke Biological Product Sales Company Limited), a PRC company principally engaged in the sale of omega fatty acids related food, health products and cosmetic products in the PRC.

20. DEPOSITS PAID ON ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The deposits were paid by the Group in connection with the acquisition of property, plant and equipment for pet foods production facilities. The related capital commitments are included in note 38.

21. GOODWILL

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

THE GROUP

	HK$'000
COST	
At 1 January 2007	–
Acquisition of subsidiaries	171,613
At 31 December 2007	171,613
CARRYING VALUES	
At 31 December 2007	171,613

Goodwill acquired through business combinations have been allocated to the Seabuckthorn Business cash-generating unit, which are reportable segment, for impairment testing.

The recoverable amount of the Seabuckthorn Business cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 13% and cash flows beyond five-year period are extrapolated using a growth rate of 3% which are the same as the long-term average growth rate of the same industry.

22. INVENTORIES

	THE GROUP	
	2007	**2006**
	HK$'000	*HK$'000*
Raw materials	20,659	19,172
Work in progress	2,383	5,840
Finished goods	41,752	32,708
	64,794	57,720

23. 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 ageing analysis of trade receivables (net of allowance for bad and doubtful debts) is as follows:

	THE GROUP	
	2007	**2006**
	HK$'000	*HK$'000*
Within 90 days	78,174	70,274
91 to 180 days	30,606	35,274
Over 180 days	60,406	51,009
Trade receivables	169,186	156,557
Deposits, prepayments and other receivables	46,168	21,930
	215,354	178,487

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

24. TRADE AND OTHER PAYABLES

An ageing analysis of trade payables is as follows:

	THE GROUP	
	2007	**2006**
	HK$'000	*HK$'000*
Within 90 days	11,325	8,414
91 to 180 days	1,809	4,750
Over 180 days	7,731	5,016
Trade payables	20,865	18,180
Other payables	28,420	10,146
	49,285	28,326

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

25. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable under finance leases:				
Within one year	10,380	5,770	9,830	5,092
In the second to fifth year inclusive	3,804	6,283	3,666	5,903
	14,184	12,053	13,496	10,995
Less: Future finance charges	(688)	(1,058)	N/A	N/A
Present value of lease obligations	13,496	10,995	13,496	10,995
Less: Amount due for settlement within twelve months (shown under current liabilities)			(9,830)	(5,092)
Amount due for settlement after twelve months			3,666	5,903

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 three 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.

26. AMOUNT DUE TO A SHAREHOLDER/AMOUNTS DUE TO MINORITY SHAREHOLDERS

The amount due to a shareholder/amounts due to minority shareholders are unsecured, interest-free and have no fixed terms of repayment.

27. BORROWINGS

	THE GROUP	
	2007	**2006**
	HK$'000	*HK$'000*
Trust receipts loans	59,327	39,616
Bank overdrafts	11,280	15,582
Bank loans	68,087	115,506
Other loan	3,750	–
	142,444	170,704
Analysis as:		
Secured	111,164	123,689
Unsecured	31,280	47,015
	142,444	170,704
The maturity profile of the above borrowings is as follows:		
On demand or within one year	119,346	138,674
More than one year, but not exceeding two years	23,098	32,030
	142,444	170,704
Less: amount due within one year shown under current liabilities	(119,346)	(138,674)
	23,098	32,030

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 approximates their fair value.

The bank loans of the Company in the amount of HK$20,000,000 (2006: HK$31,000,000) are guaranteed by two wholly-owned subsidiaries on a joint and several basis.

28. CONVERTIBLE NOTES

On 13 November 2007, the Company issued convertible notes with a principal amount of HK$180,050,000 ("2017 Notes"), which bear coupon interest rate at 3% per annum payable semi-annually in arrears. The 2017 Notes was issued as part of the consideration for the acquisition of entire issued share capital of China Environmental Water Holdings Limited ("CEWH"). The 2017 Notes due on 13 November 2017 is convertible into fully paid ordinary shares with a par value of HK$0.01 each of the Company at an initial conversion price of HK$0.15, subject to adjustment.

On 28 November 2007, the Company issued 3% convertible notes with aggregate principal amounts of HK$122,000,000 ("2010 Notes") through a placing agent to certain independent third parties. Unless previously redeemed, converted or purchased and cancelled, the 2010 Notes will be redeemed at 135.32% of the principal amount on the maturity date. The 2010 Notes are convertible at any time on or after 28 November 2007 until 10 business days prior to the maturity date by the noteholders into fully paid ordinary shares of HK$0.01 each of the the Company. Subject to adjustments upon the occurrence of dilution events or other features stipulated in the placing agreement, the conversion price for the 2010 Notes will be HK$1.43 per share. Details of the issue of 2010 Notes were disclosed in the Company's announcements dated 24 October 2007 and 28 November 2007.

According to the terms of conditions of 2010 Notes, on the date falling twenty-four months following the issue date, the noteholders will have the right, at such noteholder's option, to require the Company to redeem in whole or in part the 2010 Notes at a price at which a yield of 13% per annum calculated for each HK$100,000 of unpaid principal amount of the 2010 Notes on a semi-annual basis ("Early Redemption Price") from 28 November 2007 up to the relevant redemption date.

According to the terms and condition of 2010 Notes, on the date falling eighteen months following issue date, the Company may redeem in whole but not in part at the Early Redemption Price in the event that (i) the closing price of the shares exceeds the conversion price for at least thirty consecutive trading days prior to the date upon which notice of such redemption is given or (ii) at least 90% in principal amount of 2010 Notes has already been redeemed, converted, repurchased or cancelled.

The fair value of the liability component was determined at issuance of the notes. The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible note. The residual amount represent the value of the equity component and is included in shareholders' equity. The effective interest rates of the liability component are ranging from 7.55% to 14.10% per annum. The movement of the liability component and equity component of 2017 Notes and 2010 Notes for the year is set out below:

	THE GROUP AND THE COMPANY	
	2007	**2006**
	HK$'000	*HK$'000*
Fair value of convertible notes at issue date	302,050	–
Equity component	(58,645)	–
Liability components	243,405	–
Interest charged based on the effective interest rate	2,184	–
Interest paid	(755)	–
Carrying amount at the end of the year	244,834	–

29. SHARE CAPITAL

	Number of ordinary shares	Amount HK$'000
Ordinary share of HK$0.01 each		
Authorised:		
At 1 January 2006, 31 December 2006 and 31 December 2007	4,000,000,000	40,000
Issued and fully paid:		
At 1 January 2006	214,000,000	2,140
Issue of rights shares on 7 July 2006 *(note i)*	321,000,000	3,210
At 31 December 2006 and 1 January 2007	535,000,000	5,350
Issue of shares for acquisitions of subsidiaries *(note ii)*	133,000,000	1,330
Issue of shares upon exercise of share options *(note iii)*	23,937,500	239
As at 31 December 2007	691,937,500	6,919

Note:

i) 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.

ii) On 13 November 2007, the Company alloted and issued 133,000,000 new shares of HK$0.01 each as part of consideration for the acquisition of entired issued share capital of CEWH. Details of the acquisitions are set out in note 35.

iii) Details of shares issued upon exercise of options can be referenced to note 30.

All the shares issued during the year ended 31 December 2007 rank pari passu with the then existing shares in all respects.

30. 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 2007:

Category	**Date of grant**	**Exercise price**	**Exercise period**	**At 1 January 2007**	**Granted during the year**	**Lapsed during the year**	**Exercised during the year**	**At 31 December 2007**
		HK$						
Employees	14.12.2004	0.238	14.12.2004 to 13.12.2007	13,281,250	–	–	(13,281,250)	–
	18.7.2007	1.32	18.7.2007 to 17.7.2010	–	8,000,000	(1,500,000)	–	6,500,000
	26.11.2007	1.21	26.11.2008 to 26.11.2010	–	6,000,000	–	–	6,000,000
	14.12.2007	1.12	14.12.2008 to 14.12.2010	–	2,000,000	–	–	2,000,000
Consultants	14.12.2004	0.238	14.12.2004 to 13.12.2007	2,656,250	–	–	(2,656,250)	–
	15.3.2007	0.143	15.3.2007 to 15.3.2010	–	8,000,000	–	(8,000,000)	–
	18.7.2007	1.320	18.7.2007 to 18.7.2010	–	5,000,000	–	–	5,000,000
Total				15,937,500	29,000,000	(1,500,000)	(23,937,500)	19,500,000

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 13,281,250 shares and 2,656,250 shares respectively at HK23.8 cents per share. The total amount of consideration received from the participants for taking up the options granted was HK$7. All these share options were exercised during the year ended 31 December 2007.

The Group issues equity-settled share-based payments to certain employees and consultant. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Total consideration received during the year from directors and employees for taking up the options granted amounted to HK$19 (2006: HK$6).

The fair value of the total options granted in the year was measured as at the date of grant on 15 March 2007, 18 July 2007, 26 November 2007 and 14 December 2007 respectively was HK$9,470,979. The following significant assumptions were used to derive the fair value using the Black-Scholes-Merton Formula:

1. an expected volatility in range: (51.02% – 68.99%);
2. expected no annual dividend yield;
3. the estimated expected life of the options granted in range: (1.50 – 2.5 years); and
4. the risk-free rate in range: (2.013% – 4.321%).

The Black-Scholes-Merton option pricing model requires the input of highly subjective assumptions, including the volatility of share price. As changes in subjective input assumptions can materially affect the fair value estimated, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

31. RESERVES

	Share premium	Contributed surplus	Convertible notes equity reserve	Share options reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	41,105	71,463	–	–	(2,855)	109,713
Issue of rights shares *(note 29)*	27,446	–	–	–	–	27,446
Loss for the year	–	–	–	–	(3,640)	(3,640)
At 31 December 2006 and 1 January 2007	68,551	71,463	–	–	(6,495)	133,519
Issue of shares *(note 29)*	18,620	–	–	–	–	18,620
Issue of shares upon exercise of share options	4,698	–	–	(238)	–	4,460
Recognition of equity component of convertible notes	–	–	58,645	–	–	58,645
Share-based option expenses	–	–	–	4,128	–	4,128
Share issue expenses	(5,986)	–	–	–	–	(5,986)
Loss for the year	–	–	–	–	(8,911)	(8,911)
At 31 December 2007	85,883	71,463	58,645	3,890	(15,406)	204,475

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$204 million as at 31 December 2007 (2006: HK$134 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.

32. 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 2006	489	(89)	400
(Credited) to the income statement for the year *(note 11)*	(63)	(247)	(310)
At 31 December 2006 and 1 January 2007	426	(336)	90
Charged to the income statement for the year *(note 11)*	18	271	289
As at 31 December 2007	444	(65)	379

As at 31 December 2007, the Group had unused tax losses of HK$15,412,000 (2006: HK$11,684,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK374,000 (2006: HK$1,920,000) of such losses. No deferred tax has been recognised in respect of the remaining HK$15,038,000 (2006: HK$9,764,000) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

33. 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.

34. MAJOR NON-CASH TRANSACTIONS

The major non-cash transaction of the Group during the year was the issue of 133,000,000 ordinary shares of the Company and the convertible note in principal amount of HK$180,050,000 as the consideration for the acquisition of CEWH, the details of which are disclosed in note 35.

The major non-cash transaction of the Group in 2006 represented the 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.

35. ACQUISITION OF SUBSIDIARIES

On 12 July 2007, the Group acquired 100% of the issued share capital of China Environmental Water Holdings Limited for consideration of HK$200,000,000. The consideration for the acquisition has satisfied by the Company issuing 133,000,000 ordinary shares for HK$0.15 each and the convertible notes in principal amount of HK$180,050,000. The acquisition has been accounted for using the purchase method.

The net assets acquired in the transaction are as follows:

	Fair value	Acquiree's carrying amount before combination
	HK$'000	*HK$'000*
Net assets acquired:		
Property, plant and equipment	61,696	61,696
Prepaid lease payments	1,012	1,012
Deposits paid on acquisition of property, plant and equipment	5,544	5,544
Inventories	12,630	12,630
Trade and other receivables	8,889	8,889
Bank balances and cash	14,246	14,246
Trade and other payables	(23,343)	(23,343)
Amounts due to a shareholder of subsidiaries	(5,338)	(5,338)
Amount due to China Water Affairs Group	(28,893)	(28,893)
Tax payable	(2,252)	(2,252)
Other borrowings	(3,750)	(3,750)
	40,441	
Minority interests	(27,402)	
Waiver of amount due to China Water Affairs Group	19,259	
Goodwill	171,613	
Total consideration	203,911	
Satisfied by:		
Issue of new shares	19,950	
Issue of convertible notes	180,050	
Direct transaction costs attributable to the acquisition	3,911	
	203,911	
Net cash inflow arising from acquisition:		
Cash consideration paid	(3,911)	
Bank balance and cash acquired	14,246	
	10,335	

Since its acquisition, CEWH contributed HK$23,238,457 to the Group's consolidated turnover and a profit of HK$90,281,000 to the Group's consolidated profit for the year ended 31 December 2007. Had the combination take place at the beginning of the year, the Group's consolidated turnover and a profit for the year ended 31 December 2007 would have been HK$31,574,848 and HK$101,338,000 respectively.

36. 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:

	2007	2006
	HK$'000	*HK$'000*
Land and buildings together with relevant land use rights situated in the PRC	48,043	45,474
Land and buildings situated in Hong Kong	526	562
Plant and machinery	5,224	57,248
Trade receivables of subsidiaries	2,296	2,956
Bank deposits	23,622	21,459
	79,711	127,699

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

37. OPERATING LEASES COMMITMENTS

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

	THE GROUP		THE COMPANY	
	2007	2006	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	2,938	1,322	760	–
In the second to fifth years inclusive	1,843	1,166	538	–
More than five years	5,250	–	–	–
	10,031	2,488	1,298	–

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.

38. CAPITAL COMMITMENTS

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	10,460	–

39. CONTINGENT LIABILITIES

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

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 guarantees issued is the facility drawn down by the subsidiaries of HK$115,424,000 (2006: HK$125,163,000).

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

40. POST BALANCE SHEET EVENTS

(a) On 28 March 2008, the Board announced the proposal to change the name of the Company from "Wah Yuen Holdings Limited 華園控股有限公司" to "China Botanic Development Holdings Limited 中國植物開發控股有限公司". The proposed change of Company name is subject to the Company shareholders' approval at the general meeting convened to be held on 9 May 2008 and the Registrar of Companies in the Cayman Islands approving the change of the Company name.

(b) On 11 January 2008, the Group was entered into a joint venture agreement among Conseco Seabuckthorn Company Limited, a non-wholly owned subsidiary of the Company, Wah Yuen Health Products Company Limited and Wah Yuen Foods Company Limited with respect to formation of a joint venture in Shenzhen. The registered capital of joint venture will be RMB80 million and it principally engaged in cultivation of seabuckthorn seedlings, as well as manufacture, sale, research and development of seabuckthorn related health products.

41. 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:

		2007	**2006**
	Notes	*HK$'000*	*HK$'000*
Rentals paid to:			
– Lucky Fair Investment Limited	*(i) & (ii)*	180	180
– Profit Horn Development Limited	*(i) & (ii)*	–	156
– Tai Tung Supermarket Limited	*(i) & (ii)*	228	228
– 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.

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2007 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	Principal activities
Directly hold:				
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
Top Rainbow Investments Limited	British Virgin Islands/ Hong Kong	Ordinary shares USD1	100%	Investment holding
Top Harbour Development Limited	British Virgin Islands/ Hong Kong	Ordinary shares USD1	100%	Investment holding
In-directly hold:				
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 shares 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

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	Principal activities
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 *Note (iii)*	100%	Manufacturing, distribution and marketing of snack food products and convenience frozen food products
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 (ii)*	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 *Note (i)*	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 (i)*	PRC	Registered and contributed capital USD2,810,000	100%	Manufacturing, distribution and marketing of snack food products
Guangzhou Lekker Pet Foods Company Limited 廣州市俐嘉寵物食品有限公司 *Note (i)*	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 (i)*	PRC	Registered and contributed capital HK$500,000	100%	Trading
China Environmental Water Holdings Limited 中國水環境控股有限公司	Hong Kong	Ordinary share HK$10	100%	Investment holdings

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	Principal activities
Wah Yuen Health Products Company Limited 華園健康產品有限公司	Hong Kong	Ordinary share HK$10,000	100%	Investment holdings
Conseco Seabuckthorn Co., Limited 高原聖果沙棘制品有限公司	PRC	Registered and contributed capital RMB30,500,000	50%	Sales and Manufacturing, seabuckthorn related food and health products and comestic products
Erdos Plateau Seabuckthorn Ecological Construction and Development Limited 鄂爾多斯市高原聖果生態建設開發有限公司	PRC	Registered and contributed capital RMB20,000,000	50%	Sales and Manufacturing seabuckthorn related food and health products and cosmetic products
准格爾旗高原聖果沙棘有限公司	PRC	Registered and contributed capital RMB500,000	45%	Cultivation of seabuckthorn related food and health products and cosmetic products
達拉特旗高原聖果沙棘有限公司	PRC	Registered and contributed capital RMB500,000	45%	Cultivation of seabuckthorn related food and health products and cosmetic products
陝西果聖水土保持建設有限公司	PRC	Registered and contributed capital RMB5,000,000	45%	Cultivation of seabuckthorn related food and health products and cosmetic 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	Principal activities
高原聖果(北京)沙棘營銷有限公司	PRC	Registered and contributed capital RMB5,000,000	30%	Sales of seabuckthorn related food and health products and cosmetic products
甘肅高原聖果沙棘開發有限公司	PRC	Registered and contributed capital RMB5,000,000	30%	Cultivation of seabuckthorn related food and health products and cosmetic products
鄂爾多斯市高原植物資源開發有限公司	PRC	Registered and contributed capital RMB1,000,000	47%	Cultivation of seabuckthorn related food and health products and cosmetic products
鄂爾多斯市准格爾旗高原植物資源開發有限公司	PRC	Registered and contributed capital RMB1,000,000	47%	Cultivation of seabuckthorn related food and health products and cosmetic products
榆林市高原植物資源開發有限公司	PRC	Registered and contributed capital RMB1,000,000	43%	Cultivation of seabuckthorn related food and health products and cosmetic products

(i) 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.

(ii) 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.

(iii) None of the subsidiaries had any debt securities outstanding as at 31 December 2007 or at any time during the year.

III. UNAUDITED CONDENSED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2008

Set out below is the condensed consolidated income statement, condensed consolidated balance sheet, condensed consolidated statement of change in equity and the condensed consolidated cash flow statement of the Group and notes on such financial statements reproduced from the unaudited financial statements published in the Company's interim report for the six months ended 30 June 2008.

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2008	**2007**
		(unaudited)	*(unaudited)*
	Note	*HK$'000*	*HK$'000*
Turnover	*3*	128,136	110,014
Cost of sales		(88,962)	(74,678)
Gross profit		39,174	35,336
Gain from changes in fair value of biological assets less estimated point-of-sales costs	*9*	60,211	–
Other operating income		2,756	954
Selling and distribution expenses		(13,388)	(12,229)
Administrative expenses		(20,779)	(8,857)
Profit from operations	*4*	67,974	15,204
Finance costs	*5*	(20,186)	(6,016)
Profit before taxation		47,788	9,188
Taxation	*6*	(3,972)	(1,868)
Profit for the period		43,816	7,320
Attributable to:			
– Equity holders of the Company		16,124	7,320
– Minority interests		27,692	–
		43,816	7,320
Earnings per share	*7*		
– Basic		2.33 Cents	1.36 Cents
– Diluted		1.10 Cents	1.35 Cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2008 (unaudited) HK$'000	As at 31 December 2007 (audited) HK$'000
NON-CURRENT ASSETS			
Prepaid lease payments		3,191	3,147
Property, plant and equipment		205,130	174,508
Biological assets	9	139,893	74,909
Intangible assets		832	532
Deposits paid on acquisition of a subsidiary		–	6,000
Deposits paid on acquisition of property, plant and equipment		–	17,391
Goodwill		182,340	171,613
		531,386	448,100
CURRENT ASSETS			
Inventories		88,836	64,794
Trade and other receivables	10	189,626	215,354
Pledged bank deposits		32,898	23,622
Bank balances and cash		103,891	134,649
		415,251	438,419

	Note	As at 30 June 2008 *(unaudited)* *HK$'000*	As at 31 December 2007 *(audited)* *HK$'000*
CURRENT LIABILITIES			
Trade and other payables	*11*	30,074	49,285
Obligations under finance leases		6,845	9,830
Tax payable		3,267	5,742
Amounts due to minority shareholders		7,959	5,493
Amount due to a shareholder		2,000	11,626
Borrowings		156,486	119,346
		206,631	201,322
NET CURRENT ASSETS		208,620	237,097
TOTAL ASSETS LESS CURRENT LIABILITIES		740,006	685,197
NON-CURRENT LIABILITIES			
Obligations under finance leases		1,429	3,666
Borrowings		16,426	23,098
Convertible notes	*12*	253,495	244,834
Deferred tax liabilities		429	379
		271,779	271,977
		468,227	413,220
CAPITAL AND RESERVES			
Share capital	*13*	6,919	6,919
Reserves		360,747	333,554
Equity attributable to equity holders of the Company		367,666	340,473
Minority interests		100,561	72,747
TOTAL EQUITY		468,227	413,220

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited six months ended 30 June 2008										
	Share capital	Share premium	Convertible notes equity reserve	Special reserve	PRC statutory reserves	Share option reserve	Translation reserves	Accu-mulated profits	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2008	6,919	85,883	58,645	10,816	25,565	3,890	9,669	139,086	340,473	72,747	413,220
Equity-settled share option arrangement	–	–	–	–	–	2,465	–	–	2,465	–	2,465
Exchange differences	–	–	–	–	–	–	8,604	–	8,604	122	8,726
Profit for the period	–	–	–	–	–	–	–	16,124	16,124	27,692	43,816
At 30 June 2008	6,919	85,883	58,645	10,816	25,565	6,355	18,273	155,210	367,666	100,561	468,227

	Unaudited six months ended 30 June 2007										
	Share capital	Share premium	Convertible notes equity reserve	Special reserve	PRC statutory reserves	Share option reserve	Translation reserves	Accu-mulated profits	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2007	5,350	68,551	–	10,816	23,917	–	(2,933)	88,842	194,543	–	194,543
Equity-settled share option arrangement	–	–	–	–	–	153	–	–	153	–	153
Issue of shares	186	3,640	–	–	–	(153)	–	–	3,673	–	3,673
Share issue expenses	–	(8)	–	–	–	–	–	–	(8)	–	(8)
Exchange differences	–	–	–	–	–	–	1,021	–	1,021	–	1,021
Profit for the period	–	–	–	–	–	–	–	7,320	7,320	–	7,320
At 30 June 2007	5,536	72,183	–	10,816	23,917	–	(1,912)	96,162	206,702	–	206,702

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2008	**2007**
	(unaudited)	*(unaudited)*
	HK$'000	*HK$'000*
NET CASH USED IN OPERATING ACTIVITIES	(26,500)	(1,560)
NET CASH USED IN INVESTING ACTIVITIES	(29,121)	(7,816)
NET CASH FROM FINANCING ACTIVITIES	15,546	11,720
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(40,075)	2,344
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	123,441	20,784
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(2,849)	(4,363)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	80,517	18,765
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	103,891	28,755
Bank overdrafts	(23,374)	(9,990)
	80,517	18,765

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the period ended 30 June 2008

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. In preparing this interim financial report, the significant judgements made by management, in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those that were applied to the annual financial statements for the year ended 31 December 2007.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 December 2007. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs", which term collectively includes HKASs and Interpretations).

The interim financial report has been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2007 and the Group adopted the following new interpretations for the accounting period beginning on or after 1 January 2008:

HK(IFRIC) – Int 11	HKFRS 2 – Group and treasury share transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

The adoption of these new interpretations do not have a significant impact on the Group's results and financial position. The Group has not early adopted the new/revised standards and interpretations to existing standards that have been issued but not yet effective for the financial year beginning 1 January 2008. The Group is in the process of assessing their impact to the Group's results and financial position.

2. FINANCIAL RISK MANAGEMENT

All aspects of the Group's financial risk management objectives and policies are consistent with those disclosed in the annual financial statements for the year ended 31 December 2007.

3. TURNOVER AND SEGMENT INFORMATION

Segment information is presented in respect of the Group's business segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting system. Turnover represents the sales value of goods sold less returns, discounts, value added taxes and other sale taxes. The Group is engaged in the following main business segments:

(i) Wah Yuen Foods Business Segment engages in production and distribution of snack food, convenience frozen food and other food products.

(ii) Seabuckthorn Business Segment engages in cultivation of seabuckthorn seedlings, as well as manufacture, sales, research and development of seabuckthorn-related health products.

	Wah Yuen Foods Business Six months ended 30 June		Seabuckthorn Business Six months ended 30 June		Eliminations Six months ended 30 June		Consolidated Six months ended 30 June	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE								
External sales	118,550	110,014	9,586	–	–	–	128,136	110,014
Inter-segment sales	9,653	10,450	–	–	(9,653)	(10,450)	–	–
Total revenue	128,203	120,464	9,586	–	(9,653)	(10,450)	128,136	110,014
SEGMENT RESULTS	17,381	14,250	50,302	–			67,683	14,250
Unallocated corporate income							2,756	954
Unallocated corporate expenses							(2,465)	–
Finance costs							(20,186)	(6,016)
Taxation							(3,972)	(1,868)
Profit for the period							43,816	7,320

4. PROFIT FROM OPERATIONS

The Group's profit from operations is stated after charging/(crediting) the followings:

	For the six months ended 30 June	
	2008	**2007**
	(unaudited)	*(unaudited)*
	HK$'000	*HK$'000*
Cost of inventories sold	88,962	74,678
Gain from changes in fair value of biological assets less estimated point-of-sales costs	(60,211)	–
Depreciation and amortisation	5,831	3,139
Equity-settled share option expenses	2,465	153
Operating lease rental in respect of rental premises	1,287	790

5. FINANCE COSTS

	For the six months ended 30 June	
	2008	**2007**
	(unaudited)	*(unaudited)*
	HK$'000	*HK$'000*
Interest expense on bank borrowings wholly repayable within five years	6,673	5,453
Interest expense on obligations under finance leases	321	563
Effective interest expense on convertible notes	13,192	–
	20,186	6,016

6. TAXATION

	For the six months ended 30 June	
	2008	**2007**
	(unaudited)	*(unaudited)*
	HK$'000	*HK$'000*
Current income tax:		
Hong Kong Profits Tax		
– current period	540	495
– under provision in prior periods	–	368
PRC Enterprise income Tax		
– current period	3,382	1,005
Current tax charge for the period	3,922	1,868
Deferred tax charge for the period	50	–
	3,972	1,868

Hong Kong Profits Tax was provided at rate of 16.5% (six months ended 30 June 2007: 17.5%) on the estimated assessable profits arising in or derived from Hong Kong. In June 2008, the Hong Kong Special Administrative Region Government enacted a change in the profits tax rate from 17.5% to 16.5% commencing the fiscal year 2008/2009.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("New Law") which has taken effect on 1 January 2008. As a result of the New Law, the Company's subsidiaries in the PRC are subject to statutory income tax rate of 25% since then.

In accordance with the relevant tax laws and regulations of the PRC, certain subsidiaries in the PRC are entitled to exemption from income tax for the first two years starting from the year in which a taxable income is made after the offset of deductible losses incurred in prior years, and thereafter will be entitled to a 50% reduction in income tax rate for the following three years.

According to the New Law, the existing preferential tax rate currently enjoyed by the Group is gradually transited to the new standard rate of 25% over a five-year transitional period. The applicable income tax rate under the preferential tax policy of the Group's subsidiaries in the PRC expires at the shorter of the existing preferential tax period and the five-year transitional period.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	For the six months ended 30 June	
	2008	**2007**
	(unaudited)	*(unaudited)*
	HK$'000	*HK$'000*
Earnings:		
Earnings for the purpose of basic earnings per share	16,124	7,320
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	4,691	–
Earnings for the purpose of dilutive earnings per share	20,815	7,320

	For the six months ended 30 June	
	2008	**2007**
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	691,937,500	538,371,720
Effect of dilutive potential ordinary shares:		
– share options	2,183,908	2,490,234
– convertible notes	1,200,333,333	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,894,454,741	540,861,954

The computation of the dilutive earnings per share for last period does not assume the conversion of the Company's outstanding convertible notes since their exercise would result in an increase in earnings per share.

8. INTERIM DIVIDEND

The Board do not recommend the payment of an interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

9. BIOLOGICAL ASSETS

Seabuckthorn Bushes	**As at 30 June 2008** *(unaudited)* *HK$'000*	**As at 31 December 2007** *(audited)* *HK$'000*
At beginning of period	74,909	–
Gain from changes in fair value of biological assets less estimated point-of-sales costs	60,211	72,927
Exchange adjustment	4,773	1,982
At end of period	139,893	74,909

Biological assets represented seabuckthorn bushes plant on land with Forest Tree Rights and stituate in Inner Mongolia Autonomous Region, Shaanxi Province and Shanxi Province and were independently valued by CB Richard Ellis ("CBRE"), an independent professional valuer. In accordance with the valuation report issued by CBRE for the period ended 30 June 2008, the fair value less estimated point-of-sale costs of the seabuckthorn bushes are determined with reference to the present value of the expected excess earning attributable to the biological assets.

The leaves and young branches and berries are used as functional food for their nutrition content 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). The products 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.

10. 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:

	As at 30 June 2008 *(unaudited)* *HK$'000*	**As at 31 December 2007** *(audited)* *HK$'000*
Within 90 days	62,445	78,174
91 to 180 days	34,181	30,606
Over 180 days	46,004	60,406
Trade receivables	142,630	169,186
Deposits, prepayments and other receivables	46,996	46,168
	189,626	215,354

The carrying amounts of the Group's trade and other receivables approximated their fair value.

11. TRADE AND OTHER PAYABLES

An aged analysis of the trade payables is as follows:

	As at 30 June 2008 (unaudited) HK$'000	As at 31 December 2007 (audited) HK$'000
Within 90 days	6,633	11,325
91 to 180 days	2,523	1,809
Over 180 days	2,247	7,731
Trade payables	11,403	20,865
Other payables	18,671	28,420
	30,074	49,285

The carrying amounts of the Group's trade and other payables approximated their fair value.

12. CONVERTIBLE NOTES

On 13 November 2007, the Company issued convertible notes with a principal amount of HK$180 million ("2017 Notes"), which bear coupon interest rate at 3% per annum payable semi-annually in arrears. The 2017 Notes was issued as part of the consideration for the acquisition of entire issued share capital of China Environmental Water Holdings Limited ("CEWH"). The 2017 Notes due on 13 November 2017 is convertible into fully paid ordinary shares with a par value of HK$0.01 each of the Company at an initial conversion price of HK$0.15, subject to adjustment.

On 28 November 2007, the Company issued 3% convertible notes with aggregate principal amounts of HK$122 million ("2010 Notes") through a placing agent to certain independent third parties. Unless previously redeemed, converted or purchased and cancelled, the 2010 Notes will be redeemed at 135.32% of the principal amount on the maturity date. The 2010 Notes are convertible at any time on or after 28 November 2007 until 10 business days prior to the maturity date by the noteholders into fully paid ordinary shares of HK$0.01 each of the Company. Subject to adjustments upon the occurrence of dilution events or other features stipulated in the placing agreement, the conversion price for the 2010 Notes will be HK$1.43 per share.

The fair value of the liability component was determined at issuance of the notes. The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible note. The residual amount represent the value of the equity component and is included in shareholders' equity. The effective interest rates of the liability component are ranging from 7.55% to 14.10% per annum. The movement of the liability component and equity component of 2017 and 2010 Notes for the period is set out below:

	As at 30 June 2008 *(unaudited)* *HK$'000*	**As at 31 December 2007** *(audited)* *HK$'000*
Equity components		
Carrying value at beginning of period	58,645	–
Fair value of convertible notes at issue date	–	58,645
Carrying value at end of period	58,645	58,645
Liability components		
Carrying value at beginning of period	244,834	–
Fair value of convertible notes at issue date	–	243,405
Interest charged based on the effective interest rate	13,192	2,184
Interest paid	(4,531)	(755)
Carrying value at end of period	253,495	244,834

13. SHARE CAPITAL

	Note	**Number of Shares**	**Amount** *HK$'000*
Ordinary Shares			
Authorised:			
Ordinary shares of HK$0.01 each at 31 December 2007 and 30 June 2008		4,000,000,000	40,000
Issued and fully paid:			
Ordinary shares of HK$0.01 each at 1 January 2007		535,000,000	5,350
Issue of shares for acquisitions of subsidiaries	*(i)*	133,000,000	1,330
Issue of shares upon exercise of share options	*(ii)*	23,937,500	239
At 31 December 2007 and 30 June 2008		691,937,500	6,919

Notes:

(i) On 13 November 2007, the Company allotted and issued 133,000,000 new shares of HK$0.01 each as part of consideration for the acquisition of entire issued share capital of CEWH.

(ii) The subscription rights attaching to 23,937,500 share options were exercised during the year ended 31 December 2007 that resulted 23,937,500 shares of HK$0.01 each were issued for a total consideration of approximately HK$4,937,000. The related weighted average share price at the time of exercise was approximately HK$0.21 per share.

(iii) All shares rank pari passu in all respects at 30 June 2008.

14. BUSINESS COMBINATION

In March 2008, the Group completed the acquisition of the entire issued share capital of 上海華源藍科生物製品營銷有限公司 (Shanghai Worldbest Lanke Biological Product Sales Co. Ltd.) ("Lanke Biological") for a cash consideration of RMB5,210,000 (equivalent to approximately HK$5,519,000). Lanke Biological is principally engaged in the sale of omega fatty acids related food, health and cosmetic products in the PRC.

Details of net assets acquired and goodwill recognised in the business combination are as follows:

	Fair value	**Acquiree's carrying amount before combination**
	HK$'000	*HK$'000*
Net assets acquired:		
Property, plant and equipment	228	228
Inventories	994	994
Trade and other receivables	6,096	6,096
Bank balance and cash	308	308
Trade and other payables	(12,834)	(12,834)
	(5,208)	
Goodwill	10,727	
Total consideration	5,519	
Net cash inflow arising from acquisition:		
Cash consideration paid	(5,519)	
Bank balance and cash acquired	308	
Net outflow of cash and cash equivalents in respect of the acquisition	(5,211)	

Lanke Biological contributed profit of approximately HK$992,000 to the Group for the period from the acquisition date to 30 June 2008. Had the combination take place at the beginning of the year, the Group's consolidated revenue and a profit for the period ended 30 June 2008 would have been HK$2,210,000 and HK$846,000 respectively.

IV. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis of the group reproduced from the Company's interim report for the six months ended 30 June 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Operation Review

China Botanic is the largest manufacturer and provider of seabuckthorn as well as a leading provider of seabuckthorn-related products and healthcare products in the PRC. Since November 2007, the Group has established a dominant market presence and gained a strong foothold in the seabuckthorn market in China.

The Group is also involved in food manufacturing, research and development, and sales and distribution. It offers over 200 types of quality snack products in unique asian flavour under the "Wah Yuen", "Rocco" and "采楓" brands.

The Group's revenue for the six months ended 30 June 2008 amounted to HK$128,136,000, representing an increase of 16.5% as compared to the same period last year. Profit attributable to the equity holders increased substantially by 120% to HK$16,124,000.

The satisfactory results were attributable to the stable sales performance of "Wah Yuen" food products as well as the profitable seabuckthorn and healthcare products. During the period, food manufacturing remained as the core revenue contributor of the Group and amounted to 92.5% of the Group's revenue. However, it is expected that seabuckthorn and healthcare products will become key growth driver in coming years.

Business Review

Seabuckthorn and seabuckthorn – related health products

In November 2007, the Group successfully completed a milestone acquisition of 100% equity interest in CEWH. CEWH holds 50% equity stake in Conseco Seabuckthorn Company Limited ("Seabuckthorn Company"). Through Seabuckthorn Company and its subsidiaries, the Group has gained immediately access to the profitable seabuckthorn seedlings, and manufacturing and sale of seabuckthorn related health product businesses in the PRC. This marked a new chapter of the Group's development and helped strengthen its revenue base and financial position.

During the period under review, revenue from the seabuckthorn business amounted to HK$9,586,000, representing 7.5% of total turnover. Performance was attributable to growth in sales, stronger demand for seabuckthorn and healthcare products, as well as contribution from the Group's newly acquired business, Lanke Biological.

The Group continued to market and promote seabuckthorn products. Seabuckthorn is known for its high contents of protein, vitamin C and E and amino acids. Currently, the Group has an extensive product portfolio of over 30 seabuckthorn and related healthcare products, including seabuckthorn fruit pulp, seabuckthorn juice, healthcare and cosmetic products. The products are widely distributed to major supermarkets, healthcare chains and other retail outlets in major provinces and cities.

"Conseco Seabuckthorn" has also achieved high brand recognition and is widely accepted by health-conscious consumers in the PRC. In June 2008, the Group's seabuckthorn fruit juice product "Conseco Seabuckthorn" was granted "The Award of Innovative Product" by SIAL China, an organisation known nationwide.

Packaged food and convenience frozen food products

During the period under review, the Group achieved satisfactory performance, raking in HK$118,550,000 in revenue, which represented a stable 7.8% growth in this period. The result was attributable to improvement of the product mix and distribution channels in Hong Kong and the PRC, as well as healthy growth of consumer spending. Despite the earthquake in Sichuan and the snowstorm in Central China have taken a toll on the whole consumption sector and although there was mounting pressure from the rise in raw material costs and overheads in the country, the Group was able to manage effectively its highly efficient operations, and the segment result from operations stayed at a satisfactory level of HK$17,381,000 (30 June 2007: HK$14,250,000).

The Group continued to enhance its market presence through cooperation with key retail chains and by launching joint promotion programmes and special packages. It successfully marketed a variety of snack food and convenience food products, such as Beancurd Roll with abalone sauce, Fried Turnip Cake with XO sauce and Chilli Fried Fish. With an extensive retail network in both Hong Kong and the PRC, the Group has further fortified its market position as one of the quality packaged food brands most favoured by consumers in the region.

Business partnership with Sojitz Corporation was in good progress. Through providing manufacturing services to Sojitz and exporting its premium products to Japan, the Group has successfully improved sales in the overseas market. However, during the period, the "poisoned dumpling incident" in Shandong, the PRC set back China's effort to shore up confidence in its product safety after a string of warnings and recalls abroad. The government imposed more strict inspection requirement for all export companies in the PRC. As a result, the Group's export volume and shipment time have been affected by such regulatory requirement. The pet food business was run smoothly and the Group secured an encouraging amount of sales orders from the U.S and Korea via overseas distributors and sourcing agents.

Production Facilities

Currently, the Group operates three production facilities, which are located in Hong Kong and at Huadu District of Guangzhou in Guangdong Province while, the Group has its own seabuckthorn cultivation bases in Erdos Plateau, Loess Plateau and seedling bases over a total area of about 340,000 hectares in Beijing, Inner Mongolia Autonomous Region, Shaanxi province and Shanxi province, and the total planting area will increase at a speed of over 10% annually according to our plan of planting 40,000 hectares per year.

Accredited the internationally recognized Hazard Analysis and Critical Control Point (HACCP) certificate as well as the ISO 9001 and ISO 9002 certificates, the Group's highly efficient production lines maintained smooth operation, delivering quality products in compliance with excellent hygiene standard.

Future Plans and Prospects

Market uncertainty brought about by the U.S. financial crisis, as well as concerns over inflation and possible economic downturn in Mainland China have adversely affected both the business environment and consumer confidence. However, with the continuous rise in national income and consumer spending, China's food and healthcare market will continue to grow rapidly. The Group remains optimistic about its business outlook in the second half of 2008 and beyond.

As a leading manufacturer and provider of a comprehensive range of seabuckthorn-related products and healthcare products with a strong sense of commitment, the Group always strives to strengthen its market presence by providing premium products to customers, with a view to creating value for shareholders.

With the growing demand in the emerging healthcare market in the PRC, it is believed that seabuckthorn-related products will become the key growth driver in the medium to long-term. The Group is well-positioned to capitalise on the promising prospects by broadening the domestic retail network and penetrating further into all major cities in the PRC. It also plans to launch new series of seabuckthorn healthcare products, including seabuckthorn fruit juice under the "Conseco Seabuckthorn" brand to be distributed through key sales channels.

In August 2008, the Group proposed to acquire the entire equity interest in Guangdong Kangli Pharmaceutical Company Limited through Shenzhen Conseco Seabuckthorn Biotechnology Company Limited. Upon completion of the proposed acquisition, the Group will gain immediate access to direct sales business of healthcare products with ready available license, which will enable it to tap immense market potential and extend market reach via direct sales channels.

The Group is also set to launch and promote seabuckthorn fruit juice and fruit pulp in Hong Kong by the end of 2008. By leveraging on its established distribution channels and excellent relationship with all key chains and retailers, the Group will endeavour to tap the booming healthcare market in Hong Kong.

In addition, the Group will continue to offer quality packaged and convenience food products. By enhancing its capabilities in production and product development, the Group is confident that its packaged food business will generate steady and recurring income. With strong distribution channels and an excellent brand reputation in the industry, the Group will further strengthen cooperation with key retailers in both Hong Kong and the PRC, bringing innovative and tasty foods to consumers. Against the backdrop of the Beijing Olympics 2008, the Group will put emphasis on promoting its brand image in affluent areas so as to further promote sales growth.

Given the overseas market has demonstrated growth potential in the long term, the Group will further expend its export business by collaborating with Sojitz and other distribution agencies to explore business opportunities. Besides, the Group will continue to expend and upgrade its production facilities in order to meet market demand for quality food and pet products in overseas market.

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 30 June 2008, the Group had total assets of HK$947,735,000 which were financed by current liabilities of approximately HK$207,729,000, long term liabilities of HK$271,729,000 and total equity of HK$468,277,000.

The cash and bank balance including pledged bank deposits is HK$136,789,000 and total borrowing of HK$434,681,000. Most of these borrowings were dominated in Hong Kong and Renminbi and bearing floating interest rates. The gearing ratio of the Group as at 30 June 2008 was 31% (31 December 2007: 27%), calculated on the basis of total borrowings less cash over total assets.

FOREIGN EXCHANGE EXPOSURE

As at 30 June 2008, the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

MATERIAL ACQUISITIONS AND DISPOSALS

During the six months ended 30 June 2008, the Group has no material acquisitions and disposals.

PLEDGED OF ASSETS AND CONTINGENT LIABILITIES

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

POST BALANCE SHEET EVENT

On 18 August 2008, the Group has entered into an agreement to acquire the entire equity interest in 廣東康力醫藥有限公司 (Guangdong Kangli Pharmaceutical Company Limited) ("Guangdong Kangli") for a cash consideration of RMB23,600,000. Guangdong Kangli possesses the direct sale license regarding direct sale of health products and equipments. The license was issued by Ministry of Commerce of the PRC, which mainly covers the direct sales of health care products and equipments. Details of the transaction is set out in a circular issued by the Group on 12 September 2008.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2008, the total number of employees of the Group was approximately 700. The total staff costs for the period under review were approximately HK$9,819,200 (six months ended 30 June 2007: HK$8,630,540). The Group offers comprehensive remuneration and employees' benefits package to its employees. In additions, share options and discretionary bonuses are also granted to eligible staff based on their performance and the results of the Group.

INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

V. INDEBTEDNESS

(a) Borrowings

At the close of business on 31 December 2008, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had total borrowings of HK$402,595,000 (not including the cheque of HK$12,677,500 as announced on 23 January 2009), comprising short-term bank borrowings of approximately HK$10,732,000, long-term secured bank loans of approximately HK$77,664,000, long-term unsecured bank loans of approximately HK$22,840,000, obligations under finance leases of approximately HK$4,917,000, other secured borrowings of approximately HK$3,830,000, amounts due to minority shareholders of approximately HK$6,900,000, amount due to a shareholder of approximately HK$15,000,000 and convertible notes of approximately HK$260,712,000.

(b) Security and guarantees

At 31 December 2008, the Group's bank borrowings were secured by the following:

(i) Charges on certain land and buildings held by the Group with a carrying value of approximately HK$47,000,000;

(ii) Charges on certain plant and machinery of the Group with a carrying value of approximately HK$5,240,000;

(iii) Assignment of certain trade receivables of the Group with a carrying value of approximately HK$5,441,000;

(iv) Charges on certain bank deposits of the Group with a carrying value of approximately HK$19,386,000;

(v) Corporate guarantees executed by certain members of the Group.

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

(c) Commitments and Contingent liabilities

As at 31 December 2008, the Group had total future minimum lease payments under non-cancelable operating leases in respect of rented premises amounting to approximately HK$1,280,000.

As at 31 December 2008, the Group had capital commitment in relation to the acquisition of the entire equity interest in Guangdong Kangli of approximately HK$27,126,437.

As at 31 December 2008, there were no guarantees given by the Group in respect of banking facilities available to associates of the Group.

(d) Disclaimers

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Group did not have any loan capital issued or agreed to be issued, bank overdrafts, or loans, or other similar indebtedness debt securities issued and outstanding, and authorised or otherwise created but unissued and term loans or other borrowings, indebtedness in the nature of borrowings, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities outstanding at the close of business on 31 December 2008.

Save as disclosed above, the directors have confirmed that there have been no material changes in the indebtedness or similar indebtedness and contingent liabilities of the Group since 31 December 2008, up to and including in the Latest Practicable Date.

VI. WORKING CAPITAL

The directors are of the opinion that, following completion of the Open Offer, after taking into account the financial resources available to the Group, including internally generated funds and the available banking facilities, the Group has sufficient working capital for its present requirements for at least the next 12 months from the date of this circular, in the absence of unforeseeable circumstances.

VII. MATERIAL CHANGE

In accordance with Rule 10.11 of the Takeovers Code, the Directors and the Independent Financial Advisers have reviewed, among other things, the financial position of the Company (including the latest consolidated management accounts, financial condition, capital and other commitments, contingent liabilities and future cash flow and financing requirements) and the trading position with respect to the Company's suppliers and customers.

Set out below are the material changes that the Board aware as at the Latest Practicable Date:

1. The Group faced a challenging year as the unprecedented credit crisis took its toll on the manufacturing sector across the territory. Though the Government of HKSAR advised the banking sector assist the enterprises in financing, the tightened bank credit is by no means over and the Group had been requested to repay certain bank borrowings ahead of original repayment schedule in last few months. The Group had endeavored to resort to China Water for a loan of approximately HK$13 million on 11 November 2008 to the Company to strengthen the capital base of the Company, smoothen the financial flexibility on its operation and working capital and made partial repayment on its bank borrowings to release the pressure placed by the bank creditors and then to banks to reschedule payment terms for the remaining borrowings that will alleviate the impact on the cash outflow and allow a favourable repayment prospect to the Group. After such rescheduling, the Group's bank borrowing portfolio is in a much healthier position.

   Due to inadvertent clerical error of the Company, the undated cheque of HK$12,677,500 issued by China Water, being part of the Loan, was not collected by the Company until 23 January 2009. Such cheque has been deposited into the accounts of the Company on 11 February 2009.

As a result of the tightened credit environment together with the worsened economy outlooks and trading results, the Group's cash and bank balances as at the latest practicable date has dropped significantly as compared to that as at 31 December 2007, the date to which the latest published audited financial statements of the Group were made up.

2. The Group expected the revenue would be worsened by the volatility in the economy. The unprecedented volatility caused financial strain to our customers that led the Group to adopt a tightened credit management policy and control the delivery of products, which resulted in a lower sales volume in the second half of 2008. The volatility in commodity prices had also created a difficult pricing environment in our business, which impacted on the profit margins in 2008. The interest expenses on convertible notes resulted in a significantly increased finance costs which also impacted on the profit in 2008.

3. Although it is difficult to forecast the length and depth of a downturn, the Group continues to implement contingency plans that will scrutinize our capital expenditure with existing available working capital. Even though the Group still contemplates the possible acquisition of equity interest in Guangdong Kangli Pharmaceutical Company Limited ("Guangdong Kangli"), which possesses the distribution channel of the seabuckthorn products, a significant source of income of the Group in the future, the Group will adopt a prudent and conservative approach in such acquisition until it has better visibility in terms of market demand and a more stabilized economic environment. As a result, if such proposed acquisition is either cancelled or put on hold, the Group may explore the possibility in marketing the seabuckthorn products through other means of marketing cooperation such as allying with Guangdong Kangli or other direct sales licensers. Sales of seabuckthorn products may, therefore, be affected.

4. The Group noticed that the holders of BOCI convertible notes might determine to redeem all or part of the outstanding notes as of the scheduled early redemption date in November 2009 and, as a consequence, it may cause financial difficulty for the Group at such time. Further, if any creditors who decide to demand for repayment of their facilities maintained with the Group at a short notice, it may also cause financial difficulty to the Group.

As at the Latest Practicable Date, save as disclosed above, the Directors are not aware of any material change in the financial or trading position or outlook of the Group since 31 December 2007, the date to which the latest published audited financial statements of the Group were made up.

1. STATEMENT OF UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is the unaudited pro forma statement of adjusted consolidated net tangible assets (the "Unaudited Pro Forma Financial Information") of the Group which has been prepared in accordance with Rule 4.29 of the Listing Rules to illustrate the effects of the Open Offer on the consolidated net tangible assets of the Group as if the Open Offer had taken place on 31 December 2007.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2007 or any future date.

	Consolidated net tangible assets of the Group as at 31 December 2007	**Add: Estimated net proceeds from the Open Offer**	**Pro forma adjusted consolidated net tangible assets of the Group as at 31 December 2007**
	(Audited)		*(Unaudited)*
	HK$'000	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	
	168,860	21,157	190,017
Consolidated net tangible assets per Share immediately before completion of the Open Offer *(Note 3)*			0.244
Unaudited pro forma adjusted consolidated net tangible assets per Share immediately after completion of the Open Offer *(Note 4)*			0.183

Notes:

1. The figure is based on the audited consolidated balance sheet of the Group as at 31 December 2007 as extracted from the published annual report of the Company for the year ended 31 December 2007.

2. The estimated net proceeds from the Open Offer are based on 345,968,750 Offer Shares issued at the Subscription Price of HK$0.08 per Offer Share after deduction of share issue expenses of approximately HK$1,200,000 and the estimated loan capitalisation amount of HK$5,320,000 and takes no account of any additional Offer Shares to be issued upon the exercise of any outstanding Share Options and the conversion of Convertible Notes on or before the Latest Lodging Date. Pursuant to underwriting agreement, China Water has irrevocably undertaken to accept the Open Offer for 66,500,000 Offer Shares; it will be paid by the way of the Loan.

3. Based on 691,937,500 Shares in issue immediately before completion of the Open Offer, assuming that no outstanding Share Options had been exercised and no conversion of Convertible Notes on or before the Latest Lodging Date.

4. Based on 1,037,906,250 Shares, on basis that 691,937,500 Shares were in issue as at 31 December 2007 and 345,968,750 Offer Shares were issued (assuming the Open Offer had been completed on 31 December 2007 and without taking account of any additional Offer Shares to be issued upon the exercise of any outstanding share Options and the conversion of Convertible Notes on or before the Latest Lodging Date).

5. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2007.

2. REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

恒健會計師行
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The Directors
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Dear Sirs

ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

INTRODUCTION

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets (the "Unaudited Pro Forma Financial Information") of China Botanic Development Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the Open Offer (as defined in the Circular) might have affected the net tangible assets of the Group as if the Open Offer had taken place at 31 December 2007, for inclusion in the Company's circular dated 16 February 2009 (the "Circular"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Appendix II of the Circular.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 13 of Appendix IB and Rule 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.

It is our responsibility to form an opinion, as required by Rule 4.29(7) 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 engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying 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 Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 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, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2007 or any future date.

OPINION

In our opinion:

a. the 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 Group; and

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

HLM & Co.
Certified Public Accountants
Hong Kong

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Takeovers Code and the Listing Rules for the purpose of giving information with regard to the Group and the Underwriter.

The Directors jointly and severally accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular concerning the Company and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained in this circular the omission of which would make any statement herein misleading.

SHARE CAPITAL

Authorised capital:		*HK$*
4,000,000,000	ordinary shares of HK$0.01 each	40,000,000
Issued and fully paid or credited as fully paid:		
691,937,500	ordinary shares of HK$0.01 each as at the Latest Practicable Date	6,919,375.00
345,968,750	Offer Shares to be issued	3,459,687.50
1,037,906,250		10,379,062.50

As at the Latest Practicable Date, save for the 31,500,000 Share Options, the BOC Convertible Bonds and the CW Convertible Bonds, there were no outstanding options, warrants, derivatives or convertible securities which may confer any right to the holder thereof to subscribe for, convert or exchange into new Shares.

All existing issued Shares rank pari passu in all respect as to return of capital, dividends and voting. No Shares have been issued since 31 December 2007, being the date on which the latest audited financial statement of the Company were made up.

All the Shares in issue and the Offer Shares (when allotted and fully paid) to be issued rank pari passu in all respects with each other including as regards to dividends and voting rights. The Shares in issue are listed on the Stock Exchange.

No part of the securities of the Company is listed or dealt in, nor is listing or permission to deal in the securities of the Company being or proposed to be sought, on any other stock exchange.

There is no arrangement under which future dividends are/will be waived or agreed to be waived.

As at the Latest Practicable Date, no share or loan capital of the Company or any members of the Group has been put under option or agreed conditionally or unconditionally to be put under option and no warrant or conversion right affecting the Shares has been issued or granted or agreed to be issued or granted, except for the Share Options, the BOC Convertible Bonds and the CW Convertible Bonds and the Offer Shares.

DISCLOSURE OF INTERESTS

(a) Director's and chief executive's interests in the Company

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executives and their associates in the shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company or any of its associated corporations) and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or that was required to be recorded 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 were as follows:

Name	Position	Capacity and nature of interest	Number of Shares held	Approximately Percentage of the Company's issued share capital
Mr. But Ka Wai	Long	through a controlled corporation	151,562,000	21.90%

Note: Among these Shares, as of 151,250,000 Shares are held by Able Success Group Limited, the entire issued share capital of which is beneficially owned by Mr. But Ka Wai. Mr. But Ka Wai is personally interested in 312,000 Shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

(b) Substantial shareholders and other persons' interests in Shares and underlying Shares

As at the Latest Practicable Date, according to the register kept by the Company pursuant to section 336 of SFO, and so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or a chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital, including options in respect of such capital, carrying voting rights to vote in all circumstances at general meeting of any member of the Group:

(i) Substantial shareholders of the Company:

Name of Shareholders	Nature of interest	Total number of Shares held	Percentage of the issued share capital of the Company (%)
Able Success *(Note 1)*	Beneficial interest	151,250,000(L)	21.85
Sharp Profit Investments Limited *(Note 2)*	Beneficial interest	133,000,000(L)	19.22
Good Outlook Investments Limited *(Note 3)*	Beneficial interest	1,033,666,666(L)	149
China Water Affairs Group Limited *(Note 2 and 3)*	Held by controlled corporation	1,166,666,666(L)	168
Ms. Chan Yuk Ha *(Note 4)*	Interest of spouse	151,562,000(L)	21.90
BOCI Financial Products Limited *(Note 5 and 6)*	Beneficial interest	3,120,000(L)	0.45
	Beneficial interest	73,863,636(L)	10.67
Bank of China Limited *(Note 5 and 6)*	Held by controlled corporation	76,983,636(L)	11.12
Atlantis Investment Management Limited	Investment Manager	69,292,000(L)	10.01

(L) Long position

Notes:

(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) Sharp Profit Investments Limited is a wholly-owned subsidiary of China Water Affairs Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda with Limited liability whose shares are listed on the main board of the Stock Exchange (stock code : 855).

(3) The CW Convertible Bonds with the right to convert up to 1,200,333,333 Shares at an initial conversion price of HK$0.15 each were issued to Good Outlook Investments Limited, a wholly owned subsidiary of China Water Affairs Group Limited. Pursuant to an agreement dated 22 September 2008, Good Outlook Investments Limited has agreed to sell and Global Business Investment Enterprises Limited, a wholly owned subsidiary of Prime, has agreed to acquire the CW Convertible Bonds in principal amount of HK$25,000,000 at a consideration of HK$30,000,000. For further details of the CW Convertible Bonds, please refer to the announcement and circular of the Company dated 12 July 2007 and 24 September 2007 respectively and the announcement of Prime dated 22 September 2008.

(4) Ms. Chan Yuk Ha, the spouse of Mr. But Ka Wai, is deemed to be interested in the 151,562,000 Shares held by Mr. But Ka Wai.

(5) The 3,120,000 Shares are held by BOCI Financial Products Limited, a wholly owned subsidiary of Bank of China Limited.

(6) The BOC Convertible Bonds with the right to convert into 73,863,636 shares at adjusted conversion price of HK$1.144 each were issued to BOCI Financial Products Limited, a wholly owned subsidiary of Bank of China Limited.

Save as disclosed above and so far as is known to the Directors or chief executive of the Company, there is no person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital, including options in respect of such capital, carrying rights to vote in all circumstances at general meeting of any other member of the Group.

DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

None of the Directors have service contract with the Company or any or its subsidiaries or associated companies (i) which (including both continuous and fixed term contract) have been entered into or amended within 6 months before the date of the Announcement; (ii) which are continuous contracts with a notice period of 12 months or more; or (iii) which are fixed term contracts with more than 12 months to run irrespective of the notice period.

DIRECTORS' INTEREST IN ASSETS

None of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2007 (being the date to which the latest published audited consolidated financial statements of the Group were made up) and up to the Latest Practicable Date, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

DIRECTORS' INTEREST IN CONTRACT OR ARRANGEMENT

So far as the Directors are aware of, none of themselves or the substantial Shareholders (as defined in the Listing Rules) of the Company or their respective associates had any interest in a business which competes or may compete with the business of the Group or any other conflicts of interest with the Group.

COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was involved in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

EXPERTS AND CONSENTS

The following is the qualification of the experts who have given opinion or advice which is contained in this circular:

Name	Qualifications
REXCAPITAL	a licensed corporation under the SFO licensed to conduct type 6 regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders
AsiaVest Partners	a licensed corporation under the SFO licensed to conduct type 4, type 6 and type 9 regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders
HLM	Certified Public Accountants

Each of REXCAPITAL, AsiaVest Partners and HLM has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or its name in the form and context in which they respective appear.

Each of REXCAPITAL, AsiaVest Partners and HLM does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of REXCAPITAL, AsiaVest Partners and HLM does not have any direct or indirect interests in any assets which have been, since 31 December 2007 (being the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by or leased to, any member of the Group, or which are proposed to be acquired or disposed of by or leased to, any member of the Group.

MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of its subsidiaries within the two years immediately preceding the date of the announcement of the Company dated 19 November 2008 and are or may be material:

1. the conditional sale and purchase agreement dated 29 June 2007 between China Water Group Limited, a wholly owned subsidiary of China Water, China Water, Top Harbour Development Limited, a wholly owned subsidiary of the Company, and the Company in relation to the acquisition of the entire issued share capital of China Environmental Water Holdings Limited for a total consideration of HK$200,000,000;

2. the placing agreement dated 22 October 2007 entered into between the Company and BOCI Asia Limited in relation to the placing of the BOC Convertible Bonds in the principal amount of HK$122,000,000;

3. the sale and purchase agreement dated 6 December 2007 entered into between Top Harbour Development Limited, a wholly owned subsidiary of the Company, and Jiang Hai Century Investment Management (Beijing) Co., Ltd. in relation to the acquisition of 10% equity interest in Conseco Seabuckthorn Co. Ltd., whose equity capital is currently held 50% indirectly by the Company, for a total consideration of HK$40,000,000;

4. the sale and purchase Agreement dated 18 December 2007 entered into between Wah Yuen Health Products Limited, a wholly owned subsidiary of the Company, and Shanghai Worldbest Lanke Health Products Co. Ltd. in relation to the acquisition of the entire equity interests in Shanghai Worldbest Lanke Biological Products Sales Co., Ltd for a consideration of RMB5,210,000;

5. the joint venture agreement dated 11 January 2008 entered into among Wah Yuen Health Products Limited, a subsidiary of the Company, Wah Yuen Foods Company Limited, a subsidiary of the Company, and Conseco Seabuckthorn Company Limited in relation to the formation of Shenzhen Conseco Seabuckthorn Company Limited with a total investment of RMB80,000,000;

6. the sale and purchase agreement dated 18 August 2008 entered into between Shenzhen Conseco Seabuckthorn Biotechnology Company Limited, a wholly owned subsidiary of the Company, and Hui Ching Yu in relation to the acquisition of the entire equity interests of Guangdong Kangli Pharmaceutical Company Limited for a consideration of RMB23,600,000; and

7. the Underwriting Agreement.

EXPENSES

The expenses in connection with the Open Offer, including financial advisory fees, printing, registration, translation, legal and accountancy charges are estimated to amount approximately HK$1,200,000 and are payable by the Company.

MARKET PRICES

The table below shows the closing prices of the Shares as recorded on the Stock Exchange on (i) the last day on which dealings took place in each of the six months immediately preceding the date of the Announcement; (ii) the Last Trading Day; and (iii) the Latest Practicable Date.

Date	Closing price of the Shares (HK$)
30 May 2008	0.495
30 June 2008	0.430
31 July 2008	0.365
29 August 2008	0.305
30 September 2008	0.260
31 October 2008	0.110
14 November 2008 (the Last Trading Date)	0.095
30 November 2008	0.077
31 December 2008	0.099
30 January 2009	0.116
13 February 2009 (the Latest Practicable Date)	0.122

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the period commencing from 19 June 2008, being the date six months preceding the date of the Announcement, and ending on the Latest Practicable Date were HK$0.45 as quoted on 25 June 2008 and HK$0.077 as quoted on 28 November 2008 respectively.

CORPORATE INFORMATION

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
Authorised representatives	Mr. But Ka Wai Mr. But Chai Tong
Company Secretary	Mr. Chui Wing Fai, a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants

Qualified accountant	Mr. Chong Ching Hei
Legal advisor to the Company	As to Hong Kong Law: Michael Li & Co 14th Floor, Printing House 6 Duddell Street Central Hong Kong
Auditors and reporting accountants	HLM & Co. Room 305, Arion Commercial Centre, 2-12 Queen's Road West, Hong Kong
Underwriter	China Water
Principal share registrar	Bank of Bermuda (Cayman) Limited P.O. Box 513 GT Strathvale House North Church Street George Town Grand Cayman Cayman Islands
Hong Kong branch share registrar	Tricor Tengis Limited 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong

ADDITIONAL INFORMATION OF THE UNDERWRITER

As at the Latest Practicable Date, the board of China Water comprises two executive directors, being Mr. Duan Chuan Liang and Mr. Li Ji Sheng, four non-executive directors, being Mr. Wu Jiesi, Mr. Chen Guo Ru, Mr. Zhao Hai Hu and Mr. Zhou Wen Zhi, and four independent non-executive directors, being Ms. Huang Shao Yun, Ms. Liu Dong, Mr. Chau Kam Wing and Mr. Ong King Keung.

The registered office of China Water is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The head office and principal place of business of the China Water in Hong Kong is located at Suite 6408, 64/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following person had, or was deemed to have, interests or short positions in the shares of China Water (including any interests in options in respect of such capital) which would fall to be disclosed to the Underwriter and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the group of China Water:

Name of shareholder of China Water	Total number of shares in the share capital of China Water held	Percentage of the issued share capital of the China Water (%)
Duan Chuan Liang *(Note)*	160,276,301(L)	13.28
Atlantis Investment Management Limited	254,394,000(L)	21.08
Norges Bank	60,682,000(L)	5.03

Note:

These 160,276,301 Shares consist of 112,336,301 Shares held by Asset Full Resources Limited and 100,000 Shares held by Tat Chi International Inc. both of which are companies wholly and beneficially owned by Duan Chuan Liang, and 47,840,000 Shares held by Duan Chuan Liang personally.

MISCELLANEOUS

(a) As at the Latest Practicable Date, there was no benefit to be given to any Director as compensation for loss of office or otherwise in connection with the Open Offer and Whitewash Waiver.

(b) Saved for the Underwriting Agreement, there were no contract or agreement entered into by Underwriter or any member of the Group subsisting as at the Latest Practicable Date in which any of the Directors has a material personal interest and which is significant in relation to the business of the Group as a whole.

(c) This circular and the accompanying form of proxy have been prepared in both English and Chinese. In the case of any discrepancies, the English texts shall prevail over their respective Chinese texts.

ADDITIONAL DISCLOSURE OF INTERESTS AND DEALINGS IN THE SECURITIES OF THE COMPANY

(1) Save for the disposal of part of the CW Convertible Bonds to Prime as disclosed in the announcement of Prime dated 22 September 2008, none of the Underwriter and parties acting in concert with any of them have dealt in the Shares and convertible securities, warrants, options or derivatives in respect of the Shares during the Relevant Period.

(2) As at the Latest Practicable Date, no person had irrevocably committed themselves to vote for or against the resolutions to be proposed at the EGM to approve (i) the Open Offer, (ii) the Loan Capitalisation, and (iii) the Whitewash Waiver.

(3) As at the Latest Practicable Date, no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between the Underwriter or parties acting in concert with it and other person(s).

(4) As at the Latest Practicable Date, no agreement, arrangement or understanding (including any compensation arrangement) existed between (i) the Underwriter or parties acting in concert with it; and (ii) any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Open Offer, the Loan Capitalisation and the Whitewash Waiver.

(5) As at the Latest Practicable Date, none of (i) the subsidiaries of the Company; (ii) the pension fund of the Company or of any of its subsidiaries; nor (iii) any adviser to the Company (as specified in class (2) of the definition of "associate" under the Takeovers Code) had any shareholding interest in the Company and/or had dealt in the Securities of the Company during the Relevant Period.

(6) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code.

(7) As at the Latest Practicable Date, no Securities of the Company were managed on a discretionary basis by any fund managers connected with the Company, nor did any such fund managers deal in any Securities of the Company during the Relevant Period.

(8) As at the Latest Practicable Date, save for the Underwriting Agreement, there was no agreement, arrangement or undertaking between any of the Directors and any other person which is conditional or dependent on the outcome or the completion of or otherwise connected with the Open Offer and the Whitewash Waiver.

(9) As at the Latest Practicable Date, save for the undertakings under the Underwriting Agreement, the Board had not received any information from any substantial Shareholders or Directors of their voting intention in respect of the resolutions in relation to the Loan Capitalisation and the Whitewash Waiver at the EGM or intention to take up the Securities of the Company to be provisionally allotted or offered to them under the Open Offer.

(10) As at the Latest Practicable Date, there was no contract or arrangement entered into by the Underwriter and parties acting in concert with it in which the Directors has a material interest.

(11) As at the Latest Practicable Date, no benefit had been given or would be given to any Director as compensation for loss of office or otherwise in connection with the Open Offer and the Whitewash Waiver.

(12) There is no agreement, undertaking, understanding and arrangement that any Securities acquired in pursuance of the Open Offer will be transferred, charged or pledged to any other persons.

(13) As at the Latest Practicable Date, no Shares have been borrowed or lent by (i) the Underwriter and parties acting in concert with any of it; or (ii) the Company and the Directors.

(14) Neither the Company nor any of the Directors have any interest in the Securities of the Underwriter nor dealt in the Securities of the Underwriter during the Relevant Period.

(15) As at the Latest Practicable Date, the Company did not have any interest in the Securities of China Water and had no dealings in the Securities of China Water during the Relevant Period.

(16) Save as disclosed in the section headed Disclosure of Interests, none of the Directors have any interests in the Securities of the Company.

(17) None of the Directors had dealt for value in the Securities of the Company or the Underwriter during the Relevant Period.

(18) As at the Latest Practicable Date, save for 133,000,000 Shares and the CW Convertible Bonds with principal amount of HK$155,050,000, neither the Underwriter nor any parties acting in concert with them held any Securities in the Company.

(19) As at the Latest Practicable Date, none of the directors of China Water had any interest in the Securities of the Company or had dealt in the Securities of the Company during the Relevant Period.

EXECUTIVE DIRECTORS

Mr. BUT Ching Pui, aged 82, is the honorary Chairman and the founder of the Group. He is responsible for the overall strategic planning and product development of the Group. Mr. But has over 45 years of experience in the snack food manufacturing business since founding the Group in 1958. He was named as an honorary citizen of Huadu District, Guangzhou, Guangdong Province, the PRC by the local authority in 1996 for his contribution to the Huadu District. Mr. But is the husband of Ms. Leung Wai Ling and the father of Mr. But Ka Wai and Mr. But Chai Tong.

Mr. BUT Ka Wai, aged 50, is the Chairman and an executive Director. He is the son of Mr. But Ching Pui and Ms. Leung Wai Ling and the younger brother of Mr. But Chai Tong. He has over 20 years of experience in the snack food manufacturing business. From 1978 to 1989, Mr. But was responsible for production and general administration of the Group. He has been responsible for the overall strategic development and formulation of corporate policies of the Group since 1989. He is presently a standing member of the committee of the Huadu District Chinese People's Political Consultative Conference. He was also named as an honorary citizen of Huadu District, Guangzhou, Guangdong Province, the PRC, by the local authority in 1998 for his contribution to the Huadu District. He joined the Group in 1978.

Mr. BUT Chai Tong, aged 54, is the Vice Chairman and an executive Director. He is the son of Mr. But Ching Pui and Ms. Leung Wai Ling and the elder brother of Mr. But Ka Wai. He has over 20 years of experience in the snack food manufacturing business. From 1980 to 1989, Mr. But was responsible for financial management and marketing of the Group. He has been responsible for strategic planning, marketing and sales activities, maintenance of business relationships with the Group's customers and overseeing the general operation of the Group since 1989. He is presently a standing member of the committee of the Huadu District Chinese People's Political Consultative Conference. Mr. But is also a member of the Association of Restaurant Managers Limited. He joined the Group in 1980.

Mr. YING Wei, aged 42, is the General Manager of China Botanic Development Holdings Limited. Mr. Ying holds a master degree of Business Administration from University of San Francisco and a bachelor degree of Economics from the Zhejiang Gongshang University (浙江工商大學) (formerly known as Hangzhou Institute of Commerce (杭州商學院)). He is a non-practicing member of the China Institute of Certified Public Accountants. Prior to joining the Group, Mr. Ying has worked in one subsidiary of China Resources Group for 18 years as executive director and vice president.

Ms. GAO Jihong, aged 46, is an associate professor of economics, she holds a master degree of Business Administration from School of Business, Renmin University of China (中國人民大學商學院) and a bachelor degree from Foreign Trade & Foreign Language Department of Inner Mongolia Finance and Economics College (內蒙古財經學院貿易經濟系). Ms. Gao was appointed as director of department of study of party school of the Inner Mongolia Autonomous Region (內蒙古自治區黨校管理研究部) and vice president of Beijing Dongcheng Administration Manage Institute (北京市東城行政管理學院), and was a former visiting professor of business college of Beijing Union University. Ms. Gao is currently responsible for sales and marketing of seabuckthorn section in the PRC.

NON-EXECUTIVE DIRECTORS

Ms. LEUNG Wai Ling, aged 80, is a non-executive Director. She is the wife of Mr. But Ching Pui and the mother of Mr. But Ka Wai and Mr. But Chai Tong. Ms. Leung is not responsible for daily operations of the Group. Her role in the Group is to advise on the Group's overall strategic planning. Ms. Leung has over 45 years of experience in the snack food manufacturing business. Ms. Leung joined the Group in 1960 and was appointed as a non-executive Director for a term of two years.

Ms. WANG Fang, aged 39, graduated from Shaanxi Institute of Technology (陝西工學院) majoring in management of industrial enterprises. She has more than 18 years of working experience in manufacturing and selling related business, she was responsible for finance, selling and operation. Ms. Wang is currently the chairman of Shanghai Huayuan Lanke Biological (上海華源藍科生物制品營銷有限公司), a wholly owned subsidiary of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHEUNG Yu Yan, Tommy, *J.P.*, aged 58, is an independent non-executive Director. He is currently a member of the Legislative Council of Hong Kong. Mr. Cheung is also the chairman of the Hong Kong Catering Industry Association and the honorary life president of the Association of Restaurant Managers Limited. Mr. Cheung has over 25 years of experience in restaurant and food related business. He joined the Group in May 2003 and was appointed as an independent non-executive Director for a term of two years.

Mr. IP Shing Tong, Francis, aged 63, is an independent non-executive Director. Mr. Ip served in the Government of Hong Kong from 1963 to 2001, and retired from the position of Superintendent of Environment Health of the Food and Environmental Hygiene Department of the Government of Hong Kong in 2001. He has over 30 years of work experience in the environmental hygiene area. He joined the Group in May 2003 and was appointed as an independent non-executive Director for a term of two years. Mr. Ip is one of the audit committee members of the Company.

Mr. KU Siu Fung, Stephen, aged 53, is an independent non-executive Director. Mr. Ku is a member of The Hong Kong Institute of Architects. He is also a director of Chau, Ku & Leung Architects & Engineers Limited since 1991. Mr. Ku has over 20 years of experience in architecture. He joined the Group in May 2003 and was appointed as an independent non-executive Director for a term of two years. Mr. Ku is one of the audit committee members of the Company.

Mr. CHEN Ziqiang, aged 62, a professor-level senior engineer, is the chairman of Jianghe Water Development Center Company Limited (江河水利開發中心有限責任公司). After graduated from the North China University of Water Conservancy and Electric Power (華北水利水電學院) (formerly known as Beijing University of Water Conservancy and Electric Power (北京水利水電學院)), Mr. Chen had served as the University's Secretary of Youth League Committee for 22 years. Mr. Chen is very enthusiastic to the development of water resources; he served as director of Department of Personnel, Labor and Education of the Ministry of Water Resources of the People's Republic of China, vice president of the Chinese Association of Education of Water Resources (中國水利教育協會), vice president of the Chinese Society on Ideological and Political Work for Water Sector (中國水利思想政治研究會), and the Expert of Professional Certification Committee of the Ministry of Education (教育部工程專業認證專家委員會).

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) during normal business hours on any weekday (except for public holidays) at the head office and principal place of business of the Company in Hong Kong at 2nd Floor, On Shing Industrial Building, 2 - 16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong and (ii) of the website of the Company at www.wahyuenfoods.com, from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for the years ended 31 December 2005, 2006 and 2007 respectively and the interim report of the Company for the six months ended 30 June 2008;

(c) the material contracts as referred to in the paragraph headed "Material contracts" in this appendix including the Underwriting Agreement;

(d) the written consents referred to in the paragraph headed "Qualifications and consents of experts" in this appendix;

(e) the letter from HLM in respect of the unaudited pro forma consolidated net tangible assets of the Group, the text of which is set out on Appendix II of this circular;

(f) the letter from the Independent Board Committee, the text of which is set out on page 27 of this circular;

(g) the letter of advice from the Independent Financial Advisers, the text of which is set out on pages 30 to 45 of this circular; and

(h) a copy of each of the circulars issued pursuant to the requirements set out in Chapter 14 and/or Chapter 14A of the Listing Rules which have been issued by the Company since 31 December 2007 (the date to which the latest published audited consolidated financial statements of the Group were made up).

中國植物開發控股有限公司
CHINA BOTANIC DEVELOPMENT HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2349)

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the "**EGM**") of China Botanic Development Holdings Limited (the "**Company**") will be held at 9:30 a.m. on Wednesday, 4 March 2009 at 2nd Floor, On Shing Industrial Building, Nos. 2-16 Wo Liu Hang Road, Fo Tan, Shatin, New Territories, Hong Kong for the following purpose of considering and, if thought fit, passing with or without amendments, the following resolutions:

ORDINARY RESOLUTIONS

1. "**THAT** the terms of the application for a waiver (the "**Whitewash Waiver**") granted or to be granted by the Executive Director (the "**Executive**") of the Corporate Finance Division of the Securities and Futures Commission to China Water Affairs Group Limited ("**China Water**" or the "**Underwriter**") and parties acting in concert with it pursuant to Note 1 on the Dispensations from Rule 26 of the Code (the "**Takeovers Code**") on Takeovers and Mergers of Hong Kong from an obligation to make a general mandatory offer for the shares of the Company not already owned by them as a result of the Open Offer (as defined below) be and are hereby approved and the directors (the "**Directors**") of the Company be and are hereby authorised to do all such things and acts and execute all documents which they consider necessary, desirable or expedient to implement or to give effect to any matters relating to or in connection with the Whitewash Waiver.

   For the purpose of the resolutions to be proposed at the EGM, "**Open Offer**" means the proposed issue by way of open offer of not less than 345,968,750 shares (each a "**Share**") of HK$0.01 each in the share capital of the Company and not more than 415,040,428 Shares (the "**Offer Shares**") at a subscription price of HK$0.08 per Offer Share to the shareholders of the Company subject to the fulfilment or waiver of the conditions and terms set out in the underwriting agreement dated 17 November 2008 (the "**Underwriting Agreement**", including, if any, all supplemental agreements or deeds relating thereto) entered into between the Company and China Water (a copy of the Underwriting Agreement having been produced to the meeting marked "A" and initialled by the chairman of the EGM for the purpose of identification)."

2. "**THAT** the Underwriting Agreement pursuant to which the aggregate subscription price for up to 345,968,750 Offer Shares at the subscription price of HK$0.08 per Offer Share to be issued under the Open Offer payable by the Underwriter will be satisfied by way of full or partial capitalisation (the "**Loan Capitalisation**") of the loan (the "**Loan**") due from the Company to the Underwriter of up to HK$27,677,500 and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified and any of the Directors be and are hereby authorised to do all such things and acts and execute all documents which they consider necessary, desirable or expedient to implement or to give effect to any matters relating to or in connection with the Loan Capitalisation and the Underwriting Agreement."

By the order of the Board
China Botanic Development Holdings Limited
But Ka Wai
Executive Director

Hong Kong, 16 February 2009

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

Principal place of business in Hong Kong:
2nd Floor, On Shing Industrial Building
2 - 16 Wo Liu Hang Road
Fo Tan, Shatin
New Territories
Hong Kong

Notes:

1. A member entitled to attend and vote at the EGM is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. Whether or not you intend to attend the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof, should he so wish.

3. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority must be deposited at the Company's branch share registrar 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 appointed for holding the EGM or any adjournment thereof.

4. In the case of joint holders of shares, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holder are present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.