2008

annual report

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)

CONTENTS

CORPORATE INFORMATION

REGISTERED OFFICE

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On Shing Industrial Building
Nos. 2-16 Wo Liu Hang Road
Fo Tan, Shatin
New Territories
Hong Kong

WEBSITE ADDRESS

www.wahyuenfoods.com

COMPANY SECRETARY

Mr. Chui Wing Fai, CPA

AUTHORISED REPRESENTATIVES

Mr. But Chai Tong
Mr. But Ka Wai

AUDIT COMMITTEE MEMBERS

Mr. Ip Shing Tong, Francis
Mr. Ku Siu Fung, Stephen
Ms. Wang Fang

AUDITORS

HLM & Co.
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
Strathvale House
North Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
16th Floor, The Center
99 Queen's Road Central
Hong Kong

The Hong Kong and Shanghai Banking Corporation Limited
Level 10, HSBC Main Building
1 Queen's Road Central
Hong Kong

Industrial and Commercial Bank of China (Asia) Limited
34th Floor, ICBC Tower
3 Garden Road
Central
Hong Kong

Hong Kong’s best seller of packaged egg rolls
(AC Nielsen)

Hong Kong's best seller of packaged snack meat products
(AC Nielsen)

Hong Kong's "Superbrands"
(Superbrands)

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to report the annual results of China Biotanic Development Holdings Limited (the "Company" or "China Biotanic") and its subsidiaries (collectively referred to as the "Group") for the fiscal year ended 31 December 2008.

MAJOR ACCOMPLISHMENT IN 2008

The successful acquisition of China Environmental Water Holdings Limited ("CEWH") in November 2007 signifies a new chapter of the Group. At the same time, it is pivotal to ensure the maximum synergy is achieved through effective organizational integration into the overall corporate strategies and development goals of the Group. The integration has been smooth and successful and the Group has continued to fortify its market leadership in the seabuckthorn-related healthcare sector in China.

BUSINESS SUMMARY

We were faced with both opportunities and challenges in 2008. The fast growing China economy, coupled with rising living standard and elevating health consciousness of the public, presented solid demand for our products particularly in the first half of the year. Despite of this, our business performance was adversely affected due to the unprecedented global credit crisis. In view of the financial strain faced by our customers, we have swiftly adopted a tightened credit management policy and control the delivery of products. Though a lower sales volume in the second half of 2008 was resulted, we considered this measure necessary and in line with our diligent strategies.

Despite the negative factors, our seabuckthorn business has recorded satisfactory sales growth. Upon the completion of the acquisition of CEWH, we have granted immediate access to the healthcare business in China, bringing comprehensive product portfolio, including seed oil, fruit oil, capsule, fruit pulp, juice, soy and vinegar and cosmetic products to customers. The high quality and renowned brand was widely recognized by the health-conscious consumers in China. In June 2008, our core product "Seabuckthorn Juice" was recognized as "Innovative Product SIAL China 2008".

The Group's packaged food and convenience frozen food products business also faced difficult operation environment in both Hong Kong and China markets. In view of the importance of a sustainable and sound distribution network, we had optimized the marketing channel and upheld our compelling brand advantage in Hong Kong. As for China, the multiple adverse impacts brought by the fall in consumption, costs hikes and food safety issues, among others, impaired the Group's performance in the country.

FUTURE PROSPECTS

The year 2009 and behind presents a complicated backdrop to enterprises around the globe. The international financial crisis continues to pose grave challenges to the world economy. The global markets remained volatile despite a spate of economic data out of the U.S. which pointed to an economy on the verge of recovery. On the other hand, China has made necessary policy adjustments at home, unveiling a number of fiscal stimulus packages and employing a policy of easing monetary restraints.

In April 2009, the Chinese Government published a new medical reform plan, which has been widely hailed as a turning-point for the development of the country's medical sector. This further signifies the growing heath-consciousness of the public, which undoubtedly will bring in a promising healthcare market with immense opportunities. Looking into the future, the Group is optimistic with prudence in its long-term development.

China Biotanic is highly confident in the domestic consumption and healthcare sector in China. The smooth consolidation of the seabuckthorn-related operation into the Group's business has provided us with an integrated platform, from which we are solidifying our business foundation with increased ability and resources to capture the booming health food market in China. Despite the unfavourable external environment in 2008, the growing market potential of the seabuckthorn-related business, witnessed by the increase in the sales volume of our product, is unlimited. Seabuckthorn is widely planted in the northern and north-western China. Such home-grown healthy products make it more acceptable by the Chinese consumers, creating inexhaustible potential to the Group.

Progression and prudence coexist and complement mutually. Bearing the importance of a healthy balance sheet in mind, our financial position and capital resources have been strengthened after the completion of the rights issue in March 2009. Furthermore, the increase of equity stake in the Group by China Water Affairs Group Limited, the major shareholder, has shown its strong confidence in the future of China Biotanic and its seabuckthorn-related business. We are committed to our goal in establishing China Biotanic as a leading manufacturer and supplier of a comprehensive range of food and health-related products. We strive to create value to our business and sustainable returns to our shareholders.

But Ka Wai
Chairman
Hong Kong, 22 April 2009

Participated in The 43th Hong Kong Brands & Products Expo organized by The Chinese Manufacturers' Association of Hong Kong in 2008

Management Discussion and Analysis

China Botanic is the largest manufacturer and provider of seabuckthorn in China, and a leading manufacturer and provider of a comprehensive range of seabuckthorn-related products and healthcare products in the country. Leveraging on its economies of scale and vertically integrated model, the Group is well-positioned to capture the growing potential of the seabuckthorn sector in the healthcare market in China.

The Group is also a leading operator in food manufacturing, sales and distribution, exports, and research and development with over 50 years of experience. It offers over 200 types of quality snack products in unique Asian flavours, enriching people's savours and tastes, under the renowned "Wah Yuen", Rocco" and "采楓" brands.

RESULTS SUMMARY

For the year ended 31 December 2008, the Group reported a turnover of approximately HK$239 million, representing a decrease of approximately 15% over the previous year. The decrease in turnover was mainly attributable to the economic downturn and poor market sentiment brought about by the unprecedented credit crisis in the second half of 2008. In face of low consumer confidence and market uncertainty, the Group had adopted a tightened finance management policy as well as stringent inventory and credit control. Though a lower sales volume in the second half of 2008 was resulted, we considered this measure necessary and in line with our diligent strategies.

The volatility in commodity prices and surging production costs had also created a difficult operating environment in the Group's business, which strongly impacted on the profit margin in 2008. As a result. the overall gross profit margin decreased to approximately 18% from 30% last year and amounted to approximately HK$43 million in 2008.

The net loss attributable to the equity holders of the Company for the year amounted to HK$293.6 million, as compared with a profit of HK$51.9 million in 2007. The loss was mainly attributable to (a) the unprecedented volatility in economy, leading to deterioration in trading conditions at a consumer level which induced financial strain to our customers, and hence the Group adopted a tightened credit management policy and controlled the delivery of products, which resulted in a lower sales volume in the second half of 2008; (b) the volatility in commodity prices which had also created a difficult pricing environment in our business, that in turn impacted the Group's margins in 2008; (c) the surge of administrative and operating expenses from the full-year consolidation of seabuckthorn business acquired in December 2007; (d) the interest charged on convertible notes which attached a significant portion in finance costs; and (e) the impairment charges on goodwill, inventory and trade receivables, and change in fair value of biological assets.

The basic loss per share amounted to HK42.43 cents, against basic earnings per share of HK9.19 cents in 2007.

The Board does not propose any final dividend for the year ended 31 December 2008.

BUSINESS REVIEW

Seabuckthorn and Related Healthcare Products

During the year under review, the seabuckthorn and related business reported revenue of HK$38.8 million, which represented an increase of HK$15.5 million, or 66% over HK$23.2 million in the prior year. However, the gross profit decreased significantly by 75% to HK$3.7 million. The negative impact on profit margin was mainly due to the increase of cultivating costs charged by peasants and peasants' specialty cooperative, together with the rise in the sales and administrative costs attributable to news business set up to necessitate the Group's development.

The successful acquisition of the 100% equity interest in China Environmental Water Holdings Limited in November 2007 has granted the Group the immediate access to the seabuckthorn markets in China. The Group had undertaken steps to review and integrate the new business and operation to ensure smooth and effective consolidation with the overall corporate strategies. The Group's extensive product portfolio covers over 30 seabuckthorn-related healthcare products in various forms and packages, including seed oil, fruit oil, capsule, fruit pulp, juice, soy and vinegar and cosmetic products.

In view of the deteriorating economic environment in the second half of 2008, the Group had reassessed the original marketing and development plans. The Group considered a more prudent approach would be in the best interest of its long-term sustainable growth.

Packaged Food and Convenience Frozen Food Products

For the 12 month ended 31 December 2008, the Group's packaged food and convenience frozen food products business accomplished a mixed results. The production and sales of snack food and convenience frozen food products continued to be the Group's major revenue contributor. However, the total sales decreased by 22% to HK$201 million compared to the same period in 2007. Of which, sales in Hong Kong market reported revenue of HK$155.7 million, comparable to that of last year (2007: HK$151.4 million), which accounted for 65% of total revenue of the Group. The gross profit and gross profit margin was HK$23.9 million and 15% respectively (2007: HK$34.3 million and 23%).

The Group implemented cost control measures to optimize and consolidate the distribution network and sales points, and further strengthened cooperation with a number of key accounts, including supermarkets and convenience stores, maintaining its effective presence in the market. The Group also enhanced and rationalized product mix and launched new quality packaged food, catering to the changing consumer preferences and tastes.

In China, despite increasing spending in food, competition was keen. Furthermore, the worsened economic condition and the resulting sudden shrink in consumption in the second half of 2008 also posted exceptional challenges to the market players. The Group's sales of packaged foods and convenience frozen food products in the PRC recorded a plunge of approximately 57% in revenue to HK$45.3 million, accounting for 19% of the Group's total revenue. The gross profit decreased drastically by 57% to HK$15.8 million. The unprecedented volatility in economy and prices led to deterioration in trading conditions at a consumer level which induced financial strain to our customers, and hence the Group adopted a tightened credit management policy and controlled the delivery of products, which resulted in a lower sales volume in the second half of last year.

The Group provided manufacturing services to overseas distributors and customers. Despite the growth potential of the overseas markets for Asian flavoured food, the "poisoned dumpling incident" in Shandong and the melamine in milk products had aroused exceptional concern by consumers abroad towards food safety in China. The stringent inspection requirement for all export companies in China also affected the Group's export volume and shipment time. During the Beijing Olympics, the government also imposed additional measures in exports. All such unprecedented factors posted significant negative impacts on the Group's export business.

Production Facilities

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 Gansu Province.

The Group is committed to the highest industry standards. Its seabuckthorn products and production facilities had been accredited and certified with Food Safety Management System Certificate, Quality System Certificate, Organic JAS Certificate and the U.S. National Organic Standard, among others. The complete industrial chain, from breeding, seedling, plantation, processing and extracting to packaging and marketing, supported by a dedicated research and development centre, GMP-conformed production facilities and advanced equipments imported from Germany, had laid a solid foundation for the continuing market leadership and compelling competitiveness of the Group.

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

Financial Position

The Group's cash and bank balances together with deposits amounted to HK$36.5 million at 31 December 2008. The Group had total assets of HK$553.4 million and its total current assets was HK$251.5 million. The current and non-current liabilities of the Group amounted to HK$170.5 million and HK$281 million respectively. The amount of bank borrowings was HK$116.6 million (2007: HK$142.4 million). Most of bank borrowings were denominated in Hong Kong dollars and bearing a floating rate of interest. At 31 December 2008, total loan facilities outstanding and convertible notes amounted to HK$121.6 million and HK$262.2 million respectively. Based on a net borrowings of HK$347.3 million at the year end, the Group's gearing ratio (expressed as a ratio of net borrowings to total assets) was 62.7% (2007: 27%). The Group will continue to maintain a healthy gearing ratio and consider reducing its finance costs.

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 China, have adversely affected both the business environment and consumer confidence.

2009 is a year of challenge. In 2009, the Group will focus on strengthening its competitive edge and consolidate the leadership position in developing and marketing seabuckthorn-related products. It will further expand the product offerings to customers, and enhance its product variety and quality. At the same time, the Group will take on prudent development strategy to sustain growth momentum in the long run. Meanwhile, the Group will focus more on the cost control and boost production efficiency, and continue to advance smooth operations. In view of the worsening overseas market condition, the Group will take extra diligence in the export business.

On 19 November 2008, the Company announced to proceed an open offer ("Open Offer") on the basis of one offer share for every two shares held by the shareholders at a price of HK$0.08 each. This was aimed to broaden the capital base of the Group and to enhance the Group's liquidity position. The Open Offer was completed on 1 April 2009 and net proceeds of approximately HK$11.85 million was received following capitalized the amount due to China Water Affairs Group Limited ("China Water") of HK$15.82 million pursuant to terms of underwriting agreement. The increased equity stake in the Group by China Water, the major shareholder, has shown its strong confidence in China Botanic and its seabuckthorn-related business. Besides, the additional capital allows more flexibility in developing new products and expanding marketing team in future, and other strategic measures in fortifying the Group's market leadership in seabuckthorn-related business.

Looking forward, with the continuous rise in national income and the central government's stimulus packages in consumer spending, China's food and healthcare market will continue to grow rapidly. The Group is confident that the domestic market will continue to experience steady growth in the coming years on the back of a healthy and steady economic development in China. China Botanic is prudently optimistic in its business outlook and development and well-positioned to capitalize on the promising prospects in the long run.

EXPOSURE TO FLUCTUATION IN FOREIGN EXCHANGE

Most of the Group's transactions, assets and liabilities are denominated in Hong Kong dollars or Renminbi. The usual treasury policy of the Group is to manage significant currency exposure and minimize currency risk whenever it may have material impact on the Group. During the year under review, the Group entered into foreign currency forward contracts to manage the Group's exposure to fluctuation in exchange rates. The fair value of these contracts amounted to HK$5 million as at 31 December 2008. Other than derivative financial instruments in connection with our daily operations as mentioned above, the Group had not entered into other derivative financial instruments throughout 2008. There was no material foreign exchange exposure to the Group during the year under review.

ACQUISITION OF A SUBSIDIARY

In December 2007, the Group through its wholly owned subsidiary, entered into an agreement to acquire 100% equity interest 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"), a PRC incorporated company engaging in the sales of omega fatty acids related food, health and cosmetic products in the PRC, for a total cash consideration of RMB5.21 million. Upon the completion of the agreement on 31 March 2008, Lanke Biological becomes a wholly owned subsidiary of the Group.

Goodwill arising from the acquisition of Lanke Biological amounted to HK$10.7 million, of which HK$7.1 million was impaired and charged to in the consolidated income statement for the year ended 31 December 2008.

CAPITAL EXPENDITURE

The Group's capital expenditures were related to food production machinery in our factories. There were HK$29.8 million additions to property, plant and equipment in 2008.

CHARGE OF ASSETS

As at 31 December 2008, certain assets of the Group with aggregate carrying value of HK$73 million were pledged with banks for loan facilities.

CONTINGENT LIABILITIES AND COMMITMENTS

There were no material contingent liabilities of the Group as at 31 December 2008. The Group continues to implement contingency plans that will scrutinize its capital expenditure with existing available working capital. On 18 August 2008, the Group had 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 RMB23.6 million. Guangdong Kangli possesses the direct sales license regarding direct sales of health products and equipments. The license was issued by the Ministry of Commerce of the PRC, which mainly covers the direct sales of health care products and equipments. The Group contemplates the possible acquisition of equity interest in Guangdong Kangli before the terms and conditions are fully satisfied and fulfilled. As such, the Group may not consider proceeding with acquisition until it has better visibility in terms of customer commitments and a more stabilized economic environment. As a result, the Group may explore the possibility in development of its products presence in new markets through allying with Guangdong Kangli or other direct sales licensers.

EMPLOYEES AND REMUNERATION POLICIES

As at December 2008, the Group's total number of employees stood at approximately 600. Total staff costs for the year under review were approximately HK$27,395,000. China Botanic offers its workforce comprehensive remuneration and employees' benefits packages.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. BUT Ching Pui (畢清培), 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 (畢家偉), aged 51, 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 (畢濟棠), 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 (應偉), aged 42, he 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 China Resources Textiles (Holdings) Company Limited for 18 years as executive director and vice president.

Ms. GAO Jihong (高繼紅), 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.

DIRECTORS AND SENIOR MANAGEMENT

Non-executive Directors

Ms. LEUNG Wai Ling (梁惠玲), 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 (王芳), aged 40, graduated from Shaanxi Institute of Technology (陜西工學院) 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 a member of the audit committee, remuneration committee and nomination committee of the Company.

Independent non-executive Directors

Mr. CHEUNG Yu Yan, Tommy (張宇人), 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 (葉成棠), 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 a member of the audit committee, remuneration committee and nomination committee of the Company.

Mr. KU Siu Fung, Stephen (古兆豐), 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 a member of the audit committee, remuneration committee and nomination committee of the Company.

Mr. CHEN Ziqiang (陳自強), 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).

Secretary

Mr. Chui Wing Fai (徐永輝), aged 43, is the Company Secretary of the Company. Mr. Chui is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

SENIOR MANAGEMENT

Mr. WANG Xiaojie (王曉捷), aged 38, is the vice general manager of the Group. He is responsible for the seabuckthorn division. He joined the Group in July 2007. Before joining the Group, he has over 15 years experience in company management in Britain, Hong Kong and the PRC.

Mr. Li Yonghai (李永海), aged 45, professor-level senior engineer, is the deputy director of the China National Administration Center for seabuckthorn development, the general manager of the Conseco Seabuckthorn Company Limited, He is responsible for the seabuckthorn planting as well as R&D and production of seabuckthorn products. With 23 years of industry experience, he is among the first group of people engaged in the seabuckthorn industry globally.

Mr. LAI Wing Kuen (黎永權), aged 46, is the general manager of the Hong Kong plant. He is responsible for the general management and administration of the Group. Mr. Lai has over 10 years of experience in financial management and general administration. Prior to joining the Group, Mr. Lai has worked in the credit and marketing departments in various international banks in Hong Kong.

Mr. MA Hok Chung (馬學忠), aged 51, is the factory manager of the Hong Kong plant. He is responsible for overseeing the overall production operations in Hong Kong. He has over 20 years of experience in the food industry in Hong Kong with the Group. He joined the Group in October 1979.

Mr. LI Kwok Wah (李國華), aged 57, is the general manager - sales & marketing. He is responsible for the daily operations in Hong Kong. He joined the Group in July 1991 as sales manager, left in February 1997 but rejoined the Group in April 2003. Mr. Li has over 20 years of sales & marketing experience.

Mr. CHONG Ching Hei (莊清熹), aged 36, is the financial controller of the Group. Mr. Chong received a master degree of professional accounting from the Hong Kong Polytechnic University. He is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chong has over 10 years' working experience in auditing, accounting and corporate finance.

Ms. LAU Sze Man (劉詩敏), aged 39, is the export manager of overseas markets. She is responsible for overall export activities, co-ordination between overseas customers and the production departments at Hong Kong and the PRC, regular customers' visit and developing of potential markets. She joined the Group since July 2002. Prior to joining the Group, she had worked in the trading and marketing industry for 7 years in dealing with local and overseas customers.

Ms. CHE Jia Wan (車嘉文), aged 40, is the vice general manager of the First Huadu plant and the Second Huadu plant. She is responsible for the general management administration of the above two plants in the PRC. Ms. Che has over 15 years of experience in quality control and product development. She joined the Group in January 1991.

Mr. LI Huen (黎煥), aged 36, is the general manager - sales & marketing. He is responsible for the daily operations in the PRC. He has over 10 years of sales & marketing experience with the Group. He joined the Group in August 1994.

Mr. LEI Lu (雷路), aged 40, is the manager of the finance and accounting department of the First Huadu plant and the Second Huadu plant. He holds the title of accountant in the PRC. He is responsible for the financial and accounting management of the above two plants in the PRC. He joined the Group in March 1993, left in May 1999 but rejoined the Group in April 2004. He has over 10 years of experience in accounting.

Mr. CHEN De Xiong (陳德雄), aged 38, is the HACCP and the ISO officer of the First Huadu plant and the Second Huadu plant. He is responsible for the ISO quality control of the above two plants in the PRC. He graduated from the Xiang Tan University (湘潭大學), majoring in food engineering. After graduating, he was the assistant food engineer of a food related company in the PRC for over three years. He later joined the Group in January 1996.

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements of the Company for the year ended 31 December 2008.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at an extraordinary general meeting held on 9 May 2008 and the approval by the Companies Registrar in the Cayman Islands, the name of the Company has been changed 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" with effect from 12 May 2008.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 41 to the consolidated financial statements.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 32.

The directors do not recommend any payment of dividend for the year ended 31 December 2008.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 100 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 29 to the consolidated financial statements.

CONVERTIBLE NOTES

Details of convertible notes issued during the year are disclosed in note 28 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on pages 36 to 37 and note 31 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

Distributable reserves of the Company at 31 December 2008, calculated in accordance with the Cayman Companies Law, amounted to HK$32 million.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:	
But Ching Pui *(Honorary Chairman)*	
But Ka Wai *(Chairman)*	
But Chai Tong *(Vice Chairman)*	
Ying Wei	(appointed on 21 July 2008)
Gao Jihong	(appointed on 4 September 2008)
Non-executive directors:	
Leung Wai Ling	
Wang Fang	(appointed on 4 September 2008)
Ngai Chun Kong, Stephen	(resigned on 3 October 2008)
Independent non-executive directors:	
Cheung, Yu Yan, Tommy	
Ip Shing Tong, Francis	
Ku Siu Fung, Stephen	
Chen Ziqiang	(appointed on 21 July 2008)

In accordance with Article 112 of the Company's Articles of Association, Mr. Ying Wei, Ms. Gao Jihong, Ms. Wang Fang and Mr. Chen Ziqiang shall entire from office by rotation; whereas in accordance with Article 108. Mr. But Ching Pui, Ms. Leung Wai Ling and Mr. Ip Shing Tong, Francis shall retire by rotation. Mr. But Ching Pui and Ms. Leung Wai Ling will not offer themselves for re-relection as directors whereas Mr. Ying Wei, Ms. Gao Jihong, Ms. Wang Fang and Mr. Ip Shing Tong, Francis and Mr. Chen Ziqiang will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACT

None of directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on pages 13 to 14 of this annual report.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31 December 2008, the interests and short positions of each Director and the Chief Executive in shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register maintained by the Company required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

(a) Long positions in ordinary shares of the Company as at 31 December 2008:

Name of Director	**Corporate Interests** (Shares)	**Personal Interests** (Shares)	**Total Interests** (Shares)	**Approximate percentage of issued share capital of the Company** (%)
Mr. But Ka Wai	151,250,000	312,000	151,562,000	21.9

Note: These shares were held by Able Success Group Limited ("Able Success") which is wholly owned by Mr. But Ka Wai.

(b) Long positions in share options of the Company:

Name of Director	**Number of options directly beneficially owned**
Ms. Wang Fang	300,000

Save as disclosed above, as at 31 December 2008, none of the Directors or Chief Executive of the Company had or was deemed to have any interests or short positions in shares, underlying shares or debentures of the Company or its associated corporations as recorded in the register required to be maintained under section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTIONS

Details of the movements in the share options of the Company during the year are set out in note 30 to the consolidated financial statements.

The following table discloses movements in the Company's share options during the year.

				Number of share options			
Category	**Date of grant**	**Exercise price** HK$	**Exercise period**	**As at 1 January 2008**	**Granted during the year**	**Vested during the year**	**As at 31 December 2008**
Employees	18.7.2007	1.320	18.7.2007 to 17.7.2010	6,500,000	–	–	6,500,000
	26.11.2007	1.210	26.11.2007 to 25.11.2010	6,000,000	–	–	6,000,000
	14.12.2007	1.120	14.12.2007 to 13.12.2010	2,000,000	–	–	2,000,000
	25.3.2008	0.53	25.3.2008 to 24.3.2011	–	12,000,000	–	12,000,000
Consultants	18.7.2007	1.320	18.7.2007 to 17.7.2010	5,000,000	–	–	5,000,000
Total				19,500,000	12,000,000	–	31,500,000

Saved as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, Chief Executive or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of transactions during the year between the Group and the related parties or other companies in which the Directors had beneficial interest are set out in note 40 to the consolidated financial statements.

Saved as disclosed above, no contracts of significance in relation to the business of the Group to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31 December 2008, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

Long positions in the shares

Name of substantial Shareholders	Capacity/ Nature of interest	Number of shares held (Shares)	Approximate percentage of issued share capital of the Company (%)
Able Success (note 1)	Beneficial owner	151,562,000	21.90
Ms. Chan Yuk Ha (note 2)	Family interest	151,562,000	21.90
China Water Affairs Group Limited (note 3)	Interest of controlled corporation	133,000,000	19.22
Atlantis Investment Management Limited	Investment manager	69,292,000	10.01
Bank of China (note 5)	Interest of controlled corporation	11,148,000	1.61
Prime Investments Holdings Limited	Interest of controlled corporation	13,492,000	1.95

Long positions in the underlying shares of the Company

Name of substantial Shareholders	Capacity/ Nature of interest	Number of shares held (Shares)	Approximate percentage of issued share capital of the Company (%)
China Water Affairs Group Limited (note 4)	Interest of controlled corporation	1,200,333,333	173.47
Prime Investments Holdings Limited (note 6)	Interest of controlled corporation	166,666,666	24.09
Bank of China (note 7)	Interest of controlled corporation	73,863,636	10.67

Short positions in the shares of the Company

Name of substantial Shareholders	Capacity/ Nature of interest	Number of shares held (Shares)	Approximate percentage of issued share capital of the Company (%)
Bank of China (note 5)	Interest of controlled corporation	2,000,000	0.29

Note:

(1) Mr. But Ka Wai is deemed to be interested in these shares through his wholly owned interest in the issued share capital of Able Success.

(2) Ms. Chan Yu Ha, the spouse of Mr. But Ka Wai, is deemed to be interested in 151,562,000 ordinary shares of the Company.

(3) These shares of the Company held by Sharp Profit Investments Limited, a wholly owned subsidiary of China Water Affairs Group Limited ("China Water Affairs"). Therefore, China Water Affairs was deemed to be beneficially interested in the said shares of the Company held by Sharp Profit Investments Limited for the purposes of the SFO.

(4) Convertible notes in the principal amount of HK$180,050,000 carrying the rights to subscribe for shares at conversion price of HK$0.15 per share was issued by the Company to Good Outlook Investments Limited ("Good Outlook") on 13 November 2007 to satisfy part of the consideration of the acquisition of the entire issued share capital of China Water Environmental Holdings Limited. If the conversion rights attached to the convertible notes had been fully exercised, 1,200,333,333 shares would be issued at the conversion price of HK$0.15 per share. China Water Affairs is deemed to be interested in the said underlying shares by virtue of its wholly owned interest in Good Outlook.

(5) These shares of the Company were held by BOCI Financial Products Limited, a wholly owned subsidiary of BOC International Holdings Limited, which was in turn wholly owned by Bank of China Limited. Central SAFE Investments Limited ("Central SAFE") holds the controlling interest of Bank of China Limited on behalf of State. Accordingly, for the purposes of the SFO, Central SAFE is deemed to have the same interests in the Company as Bank of China. Thus, Central SAFE, BOCI International Holdings Limited, Bank of China Limited and Bank of China were deemed to be interested in the said shares held by BOCI Financial Products Limited for the purposes of the SFO.

(6) These shares of the Company were held by Global Business Investment Enterprises Limited, a wholly owned subsidiary of Prime Investments Holdings Limited ("Prime"). Therefore, Prime was deemed to be beneficially interested in the said shares of the Company held by Global Business Investment Enterprises Limited for the purposes of the SFO.

(7) The 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. By virtue of note (5), Central SAFE, BOCI International Holdings Limited, Bank of China Limited and Bank of China were deemed to be interested in the said underlying shares held by BOCI Financial Products Limited for the purpose of the SFO.

Save as disclosed above, the Company has not been notified by any persons or corporations, other than the Directors or Chief Executives of the Company, who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of Part XV of the SFO as at 31 December 2008.

CONNECTED TRANSACTIONS

Details of the significant related party transactions undertaken by the Group during the year in the ordinary course of business are set out in note 40 to the consolidated financial statements. None of these related party transactions constitute a connected transaction as defined in the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

The top five suppliers in aggregate and the single largest supplier of the Group accounted for approximately 35.2% and 15.8% for the Group's total purchases for the year ended 31 December 2008 respectively.

The top five customers in aggregate and the single largest customer of the Group accounted for approximately 52.4% and 13.6% for the Group's total sales for the year ended 31 December 2008 respectively.

At no time during the year did a Director, an associate of a Director, within the meaning of the Listing Rules, or a shareholder of the Company which to the knowledge of the Directors owns more than 5% of the Company's share capital, have any interest in the Group's five largest suppliers and five largest customers.

PUBLIC FLOAT

On the basis of information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has complied with the public float requirements of the Listing Rules.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

EXPOSURE TO BORROWERS AND OTHER SPECIFIC CIRCUMSTANCES THAT MAY REQUIRE DISCLOSURE

The Company had entered into a loan agreement dated 28 June 2005 which requires the controlling shareholders of the Company to retain their control over the Company throughout the term of the loan agreement, the total amount of the loan involved is HK$3.75 million.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 39 to the consolidated financial statements.

AUDITORS

A resolution will be submiited to the annual general meeting to re-appoint Messrs. HLM & Co. as auditor of the Company.

ON BEHALF OF THE BOARD

But Ka Wai
Chairman

Hong Kong
22 April 2009

CORPORATE GOVERNANCE REPORT

The Company is ensuring to meet the standard of corporate governance in the interests of the shareholders and devotes considerable effort to maintaining the level of business ethics and corporate governance practices.

During the year, the Company endeavours to comply with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "**CG Code**"). The Company considers that it has complied with the CG Code during the year. The Board continues to review and update the practices from time to time to ensure compliance with the legal and commercial standards.

THE BOARD

The Board comprises eleven directors including five executive directors, two non-executive directors, and four independent non-executive directors. The independent non-executive directors possess appropriate academic and professional qualifications or related financial management expertise and have brought a wide range of business and financial experience to the Board. The composition of the Board and the Committees of the Board are given below:

Executive Directors:

Mr. BUT Ching Pui *(Honorary Chairman)*
Mr. BUT Ka Wai *(Chairman)*
Mr. BUT Chai Tong *(Vice Chairman)*
Mr. YING Wei *(appointed on 21 July 2008)*
Ms. GAO Jihong *(appointed on 4 September 2008)*

Non-executive Directors:

Ms. WANG Fang *(member of Audit Committee, Remuneration Committee and Nomination Committee)* *(appointed on 4 September 2008)*
Ms. LEUNG Wai Ling
Mr. NGAI Chun Kong, Stephen *(resigned on 3 October 2008)*

Independent non-executive Directors:

Mr. CHEUNG Yu Yan, Tommy
Mr. IP Shing Tong, Francis *(member of Audit Committee, Remuneration Committee and Nomination Committee)*
Mr. KU Siu Fung, Stephen *(member of Audit Committee, Remuneration Committee and Nomination Committee)*
Mr. CHEN Zigiang *(appointed on 21 July 2008)*

The biographical details of the directors are set out on pages 13 to 14 of this annual report.

Regular Board meetings are held at least four times a year which include two full Board meetings to approve interim and financial results and to propose interim and final dividends, if appropriate. It is also held as and when necessary to discuss significant transactions, including issuance of debt securities, material acquisitions and disposal, and connected transactions, if any. All directors are given an opportunity to include matters in the agenda for Board meetings. The attendance of individual director at the meetings held during the year ended 31 December 2008 is set out below:

	Attendance/Number of meetings			
Name of directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Mr. But Ching Pui	2/11	Not applicable	Not applicable	Not applicable
Mr. But Ka Wai	11/11	Not applicable	Not applicable	Not applicable
Mr. But Chai Tong	11/11	Not applicable	Not applicable	Not applicable
Mr. Ying Wei (appointed on 21 July 2008)	1/11	Not applicable	Not applicable	Not applicable
Ms. Gao Jihong (appointed on 4 September 2008)	1/11	Not applicable	Not applicable	Not applicable
Ms. Leung Wai Ling	2/11	Not applicable	Not applicable	Not applicable
Mr. Ngai Chun Kong, Stephen (resigned on 3 October 2008)	2/11	2/2	1/1	1/1
Ms. Wang Fang (appointed on 4 September 2008)	1/11	Not applicable	Not applicable	Not applicable
Mr. Cheung Yu Yan, Tommy	2/11	Not applicable	Not applicable	Not applicable
Mr. Ip Shing Tong, Francis	2/11	2/2	1/1	1/1
Mr. Ku Siu Fung, Stephen	2/11	2/2	1/1	1/1
Mr. Chen Zigiang (appointed on 21 July 2008)	0/11	Not applicable	Not applicable	Not applicable

The Board sets the Group's overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Company. It also decides on matters such as annual and interim results, major transactions, director appointments or re-appointments, and dividend and accounting policies. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's businesses to the Vice Chairman and the senior management.

Mr. But Ching Pui is the husband of Ms. Leung Wai Ling who has two sons, namely, Mr. But Ka Wai (the Chairman) and Mr. But Chai Tong (the Vice Chairman). Save as aforesaid, there is no financial, business, family or other material or relevant relationship among the directors.

All non-executive directors (including independent non-executive directors) of the Company have been appointed for a term of two years from the date of their appointments. They are eligible for re-appointment and subject to re-election on retirement by rotation in accordance with the articles of association of the Company.

The Company has received from each of its independent non-executive directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and it still considers the independent non-executive directors to be independent.

The amendments to the Articles of Association of the Company have been made to require that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years and all directors appointed to fill a casual vacancy should be subject to election by the Shareholders at the first general meeting after their appointment.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority.

The Chairman is Mr. But Ka Wai. Although there is no Chief Executive Officer, the relevant job responsibilities are taken up by the Vice Chairman, Mr. But Chai Tong. Their respective responsibilities are clearly defined and set out in writing.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

The Vice Chairman focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. He is also responsible for developing strategic plans and formulating the company practices and procedures, business objectives, and risk assessment for the Board's approval.

AUDIT COMMITTEE

The Audit Committee comprises two independent non-executive directors, Mr. Ip Shing Tong, Francis (Chairman of the Audit Committee) and Mr. Ku Siu Fung, Stephen and one non-executive director, Ms. Wang Fang.

The main duties of the Committee are to review the financial information of the Company and oversee the Company's financial reporting system and internal control procedures.

The Audit Committee met twice and reviewed the financial results and reports, financial reporting and compliance procedures and the re-appointment of the external auditors. The Committee has not taken a different view from the Board regarding the selection, appointment, resignation or dismissal of the external auditors.

RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

The directors are responsible for overseeing the preparation of accounts for each financial period with a view to ensuring such accounts give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgment and estimates made are prudent and reasonable.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on page 30 and page 31 of this annual report.

AUDITORS' REMUNERATION

The remuneration in respect of audit service provided by HLM & Co., being the Company's auditors during the year 2008 amounted to HK$750,000.

Besides, the fee for acting as a reporting accountant for the Company in respect of an open offer amounted to to HK$130,000. Save for the above disclosed, HLM & Co. did not provide any substantial non-audit service to the Company.

REMUNERATION COMMITTEE

The Remuneration Committee was set up on 16 September 2005, constituted by one non-executive director and two independent non-executive directors, namely, Mr. Ip Shing Tong, Francis (Chairman of the Committee), Mr. Ku Siu Fung, Stephen and Ms. Wang Fang.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the directors and senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration packages.

The primary goal of the Group's remuneration policy for executive directors is to enable the Company to retain and motivate executive directors by linking their compensation with their individual performance as measured against the corporate objectives and the Group's operating results.

The emoluments paid to each director of the Company for the year ended 31 December 2008 are set out in note 9 to the financial statement.

NOMINATION COMMITTEE

The Nomination Committee was set up on 16 September 2005, constituted by one non-executive director and two independent non-executive directors, namely, Mr. Ip Shing Tong, Francis (Chairman of the Committee), Mr. Ku Siu Fung, Stephen and Ms. Wang Fang.

The Committee from time to time considers replenishing the composition of the Board whenever the Company requires to meet the business demand, opportunities and challenges and to comply with the laws and regulations. No meeting of the Nomination Committee was held during the year. The nomination procedures basically follow Article 111 of the Articles of Association which empowers the Board from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. The directors will select and evaluate the balance of skills, qualification, knowledge and experience of the candidate to the directorship as may be required by the Company from time to time by such means as the Company may deems fit. The directors shall consider the candidate from a wide range of backgrounds, on his/her merits and against objective criteria set out by the Board and taking into consideration his/her time devoted to the position.

All newly appointed director will be provided an induction so as to ensure that he/she has appropriate understanding of the business and operations of the Group and of the responsibilities and obligations under the Listing Rules and other relevant regulatory requirements.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct governing securities transactions by directors on terms no less exacting than that required under the Model Code for Securities Transactions by directors of Listed Issuers (the "Model Code") as contained in Appendix 10 of the Listing Rules. Having made specific enquiry with all directors, each of them confirms that he/she has complied in full with the Model Code regarding directors' securities transactions for the year ended 31 December 2008.

INDEPENDENT AUDITORS' REPORT

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

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TO THE MEMBERS OF CHINA BOTANIC DEVELOPMENT HOLDINGS LIMITED
(Formerly known as Wah Yuen Holdings Limited)
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Botanic Development Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 99 which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLM & Co.
Certified Public Accountants
Hong Kong, 22 April 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Turnover	7	**239,632**	281,054
Cost of sales		**(196,163)**	(195,517)
Gross profit		**43,469**	85,537
Gain arising from initial recognition of biological assets at fair value less estimated point-of-sales costs	7	**10,308**	72,927
Other operating income	7	**8,908**	11,720
Selling and distribution expenses		**(29,527)**	(19,723)
Administrative expenses		**(78,935)**	(28,759)
Finance costs	8	**(37,300)**	(16,234)
Operating (loss) profit before impairment charges		**(83,077)**	105,468
Impairment on goodwill		**(108,859)**	–
Impairment on trade receivables		**(41,538)**	–
Write-off of inventories		**(34,607)**	–
Changes in fair value less estimated point-of-sales costs of biological assets		**(59,542)**	–
(Loss) profit before tax		**(327,623)**	105,468
Income tax credit (expense)	10	**1,342**	(8,231)
(Loss) profit for the year	11	**(326,281)**	97,237
Attributable to:			
Equity holders of the Company		**(293,583)**	51,892
Minority interests		**(32,698)**	45,345
(Loss) profit for the year		**(326,281)**	97,237
Dividends	12	**–**	–
(Loss) earnings per share	13		
Basic		**(42.43) Cents**	9.19 Cents
Diluted		**N/A**	2.92 Cents

All of the Group's operations are classified as continuing. The accompanying notes form an integral part of the these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS			
Prepaid lease payments	14	**3,079**	3,147
Property, plant and equipment	15	**195,856**	174,508
Biological assets	17	**27,844**	74,909
Intangible assets	18	**1,014**	532
Deposit paid on acquisition of a subsidiary		–	6,000
Deposits paid on acquisition of property, plant and equipment		**–**	17,391
Goodwill	19	**73,480**	171,613
Deferred tax assets	32	**660**	–
		301,933	448,100
CURRENT ASSETS			
Inventories	20	**43,395**	64,794
Trade and other receivables	21	**162,763**	215,354
Tax recoverable		**2,010**	–
Derivative financial instruments	22	**6,864**	–
Pledged bank deposits	23	**15,294**	23,622
Bank balances and cash	23	**21,189**	134,649
		251,515	438,419
CURRENT LIABILITIES			
Trade and other payables	24	**44,929**	49,285
Obligations under finance leases	25	**3,999**	9,830
Derivative financial instruments	22	**1,831**	–
Tax payable		**302**	5,742
Amounts due to minority shareholders	26	**5,652**	5,493
Amounts due to a shareholder	26	**15,000**	11,626
Borrowings	27	**98,781**	119,346
		170,494	201,322
NET CURRENT ASSETS		**81,021**	237,097
TOTAL ASSETS LESS CURRENT LIABILITIES		**382,954**	685,197

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT LIABILITIES			
Obligations under finance leases	25	**996**	3,666
Borrowings	27	**17,845**	23,098
Convertible notes	28	**262,156**	244,834
Deferred tax liabilities	32	**–**	379
		280,997	271,977
NET ASSETS		**101,957**	413,220
CAPITAL AND RESERVES			
Share capital	29	**6,919**	6,919
Reserves		**55,999**	333,554
Equity attributable to equity holders of the Company		**62,918**	340,473
Minority interests		**39,039**	72,747
TOTAL EQUITY		**101,957**	413,220

The financial statements on pages 32 to 99 were approved and authorised for issue by the board of directors on 22 April 2009 and are signed on its behalf by:

But Ka Wai	**But Chai Tong**
DIRECTOR	*DIRECTOR*

BALANCE SHEET

At 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSET			
Interests in subsidiaries	16	**314,210**	479,229
CURRENT ASSET			
Deposits and prepayment		**–**	200
Bank balances		**21**	185
		21	385
CURRENT LIABILITIES			
Other creditors and accruals		**7,579**	1,386
Amounts due to a shareholder	26	**2,000**	2,000
		9,579	3,386
NET CURRENT LIABILITIES		**(9,558)**	(3,001)
TOTAL ASSETS LESS CURRENT LIABILITIES		**304,652**	476,228
NON-CURRENT LIABILITY			
Borrowings	27	**3,750**	20,000
Convertible notes	28	**262,156**	244,834
		265,906	264,834
NET ASSETS		**38,746**	211,394
CAPITAL AND RESERVES			
Share capital	29	**6,919**	6,919
Reserves	31	**31,827**	204,475
		38,746	211,394

The financial statements on pages 32 to 99 were approved and authorised for issue by the board of directors on 22 April 2009 and are signed on its behalf by:

But Ka Wai
DIRECTOR

But Chai Tong
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Share capital HK$'000	Share premium HK$'000	Convertible notes equity reserve HK$'000	Share options reserve HK$'000	Special reserve HK$'000	PRC statutory reserve HK$'000	Translations reserves HK$'000	Accumulated profits (loss) HK$'000	Minority interests HK$'000	Total HK$'000
At 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 and 1 January 2008	6,919	85,883	58,645	3,890	10,816	25,565	9,669	139,086	72,747	413,220
Reduction in minority interests on acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	(1,010)	(1,010)
Share-based option expenses	–	–	–	4,930	–	–	–	–	–	4,930
Loss for the year	–	–	–	–	–	–	–	(293,583)	(32,698)	(326,281)
Translation exchange differences	–	–	–	–	–	–	11,098	–	–	11,098
At 31 December 2008	6,919	85,883	58,645	8,820	10,816	25,565	20,767	(154,497)	39,039	101,957

The special reserve represents:

(i) the difference between the nominal value of the share capital issued by Wah Yuen Foods International Limited, a subsidiary of the Company, 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.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

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

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

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

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES			
(Loss)profit before tax		**(327,623)**	105,468
Adjustments for:			
Interest expenses		**37,300**	16,234
Interest income		**(1,312)**	(1,451)
Depreciation		**16,231**	9,889
Amortisation of prepaid lease payments		**196**	176
Gain on disposal on property, plant and equipment		**(35)**	(139)
Share-based option expenses		**4,930**	4,128
Gain arising from initial recognition of biological assets at fair value less estimated point-of-sales costs		**(10,308)**	(72,927)
Changes in fair value less estimated point-of-sales costs of biological assets		**59,542**	–
Write off inventories		**34,607**	–
Impairment loss for goodwill		**108,859**	–
Impairment of trade receivables		**41,538**	–
Net change in fair value of derivative financial instruments		**(5,033)**	–
Operating cash flows before movements in working capital		**(41,108)**	61,378
(Increase) decrease in inventories		**(12,214)**	5,556
Decrease (increase) in trade and other receivables		**17,149**	(22,434)
Decrease in trade and other payables		**(17,187)**	(2,384)
Cash (used in) generated from operations		**(53,360)**	42,116
Interest paid		**(19,978)**	(14,805)
Hong Kong Profits Tax paid, net		**(1,687)**	(321)
PRC Enterprise Income Tax paid		**(5,613)**	(7,252)
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES		**(80,638)**	19,738

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
INVESTING ACTIVITIES			
Decrease (increase) in pledged bank deposits		**19,622**	(2,163)
Acquisition of additional interest in a subsidiary		**(2,174)**	–
Purchase of property, plant and equipment		**(12,444)**	(1,289)
Decrease (increase) in deposits paid for acquisition of a subsidiary	34	**5,519**	(6,000)
Deposits paid for acquisition of property, plant and equipment		**–**	(17,391)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	34	**(5,211)**	10,335
Increase in intangible assets		**(458)**	(532)
Interest received		**1,312**	1,451
Proceeds from disposal of property, plant and equipment		**492**	159
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES		**6,658**	(15,430)
FINANCING ACTIVITIES			
Borrowings raised		**219,439**	218,590
Repayment of bank borrowings		**(246,255)**	(246,298)
Exercise of share options		**–**	4,699
Capital element of finance leases		**(8,501)**	2,501
Advances from a shareholder		**3,374**	1,992
Advances from minority shareholders		**159**	155
Proceeds from issue of convertible notes		**–**	116,014
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES		**(31,784)**	97,653
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(105,764)**	101,961
Effect of foreign exchange rate change		**2,600**	624
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**123,369**	20,784
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**20,205**	123,369
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**21,189**	134,649
Pledged bank deposits		**11,294**	–
Bank overdrafts		**(12,278)**	(11,280)
		20,205	123,369

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

1. GENERAL

China Botanic Development Holdings Limited (Formerly known as Wah Yuen Holdings Limited) ("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. In May 2008, the name of the Company has changed to China Botanic Development Holdings Limited.

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

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

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

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

In the current year, the Group has applied the following new standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are or have become effective for the financial year beginning on 1 January 2008.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
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 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, amendments or interpretations that have been issued but are not yet effective.

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

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

HKFRS 1 and HKAS 27 (Amendments)	Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[1]
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 39 (Amendments)	Eligible Hedged Items [2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HK(IFRIC)– Int 13	Customer Loyalty Programmes[3]
HK(IFRIC)– Int 15	Agreements for the Construction of Real Estate[1]
HK(IFRIC)– Int 16	Hedges of a Net Investment in a Foreign Operation[4]
HK(IFRIC)– Int 17	Distributions of Non-cash Assets to Owners[2]
HK(IFRIC)– Int 18	Transfers of Assets from Customers[2]

Apart from the above, the HKICPA has also issued Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5, and HK(IFRIC)-Int 9, which are effective for annual periods beginning on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for accounting periods beginning on or after 1 January 2009
2 Effective for accounting periods beginning on or after 1 July 2009
3 Effective for accounting periods beginning on or after 1 July 2008
4 Effective for accounting periods beginning on or after 1 October 2008

* Improvements to HKFRSs contain amendments to HKFRS 1, HKFRS 4, HKFRS 5, HKFRS 6, HKFRS 7, HKFRS 8, HKAS 2, HKAS 7, HKAS 8, HKAS 10, HKAS 12, HKAS 14, HKAS 16, HKAS 18, HKAS 19, HKAS 20,HKAS 21, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 33, HKAS 34, HKAS 36, HKAS 37, HKAS 38, HKAS 39, HKAS 40 and HKAS 41, HK(IFRIC)-Int 2.

The directors of the Company are currently assessing the impact of these new and amended HKFRSs upon initial application. So far, the directors of the Company anticipate that the application of these HKFRSs is unlikely to have a significant impact on the Group's results and financial position of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

The interest of minority shareholders in the acquire is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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

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.

Interest expense is recognised on an effective interest basis other than those financial liabilities designated as at FVTPL, of which the interest expense is included in net gains or losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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.

A financial liability other than a financial liability 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 liability 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 continuing 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 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 loan notes

Convertible loan 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Convertible loan notes (Continued)

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 loan notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible loan notes equity reserve).

In subsequent periods, the liability component of the convertible loan 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 loan notes equity reserve until the embedded option is exercised. Where the option remains unexercised at the expiry date, the balance stated in convertible loan 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 loan 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 loan 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.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Derivative financial instruments and hedging

Derivative are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Hedge accounting

The Group designates certain derivatives as either hedges of the fair value of fixed-rate bank borrowings (fair value hedges), hedges of highly probable forecast transactions for foreign currency exposure (cash flow hedges), or hedges of net investments in forign operation.

At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

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.

Contingent liabilities

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At subsequent balance sheet date, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with HKAS 37 Provsions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation (if appropriate).

Contingent assets

Contingent assets are not recognised. If, in subsequent periods, it has become virtually certain that an inflow of economic benefits will arise, the asset and income are recognised in the period in which the change occurs.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

The Group as lessee

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, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Group as lessee (Continued)

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 research and 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, which primarily comprise seabuckthorn plantations, are stated at fair value less estimated point-of-sale cost. Gain or loss arising on intial recognition of plantations at fair value less estimated point-of-sale costs and from change in fair value less estimated point-of-sale costs of plantations at each reporting date are included in the consolidated income statement for the period in which they arise.

The fair value of the plantations is estimated by reference to independent professional valuations using the discounted cash flows of the underlying biological assets. The expected cash flows fro the whole life cycle of the seabuckthorn plantations is determined using the market prices of the estimated yields of the seabuckthorn, net of maintenance and harvesting costs, and any costs required to bring the seabuckthorn plantations to maturity. The estimated yields of the seabuckthorn plantations are dependent on the age of the seabuckthorn and the location of the seabuckthorn, The market price of seabuckthorn is largely dependent on the prevailing market price of seedlings, cortex, fruits, sap and leaves.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 are 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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) Impairment on inventories

The management of the Group reviews an aging analysis at each balance sheet date, and identified obsolete and slow-moving inventory items that are no longer suitable for use in production. The management estimates the net realizable value for such finished goods and work-in-progress based primarily on the latest invoice prices and current market conditions. The Group carries out a review of the inventory review on a product-by-product basis at each balance sheet date and provide impairment on obsolete items.

(c) 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.

(d) Estimated impairment of goodwill

The management of the Group reviews annually to determine whether there is any impairment in the goodwill based on the recoverable amounts of cash-generating units have been determined based on value-in-use calculation.

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 trade receivables of the Group are denominated in foreign currencies 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 arise.

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

	Assets 2008 HK$'000	**Liabilities 2008 HK$'000**	Assets 2007 HK$'000	Liabilities 2007 HK$'000
Renminbi ("RMB")	**221,027**	**126,332**	291,110	94,142

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in RMB against Hong Kong dollar. The following table shows the sensitivity analysis of a 5% increase/decrease in Rmb against the Hong Kong dollars, the effect in the (loss) profit for the year is as follows:

	Impact of Rmb 2008 HK$'000	Impact of Rmb 2007 HK$'000
Increase/decrease in (loss) profit for the year	**4,735**	9,848

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the Group's funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, carrying out fund raising activities and matching the maturity profiles of financial assets and liabilities. The maturity profile of the Group's financial liabilities at the balance sheet date is based on contractual undiscounted payments are summarized below:

	2008			
	On demand HK$'000	**Within 1 year HK$'000**	**2-5 years HK$'000**	**Total HK$'000**
Trade and other payables	**44,929**	**–**	**–**	**44,929**
Obligations under finance leases	**–**	**3,999**	**996**	**4,995**
Derivatives financial instruments	**1,831**	**–**	**–**	**1,831**
Amounts due to minority shareholders	**5,652**	**–**	**–**	**5,652**
Amounts due to a shareholder	**15,000**	**–**	**–**	**15,000**
Tax payables	**302**	**–**	**–**	**302**
Borrowings	**–**	**98,781**	**17,845**	**116,626**
Convertible notes	**133,949**	**–**	**128,207**	**262,156**
	201,663	**102,780**	**147,048**	**451,491**

	2007			
	On demand HK$'000	Within 1 year HK$'000	2-5 years HK$'000	Total HK$'000
Trade and other payables	49,285	–	–	49,285
Obligations under finance leases	–	9,830	3,666	13,496
Amounts due to minority shareholders	5,493	–	–	5,493
Amounts due to a shareholder	11,626	–	–	11,626
Tax payables	5,742	–	–	5,742
Borrowings	–	119,346	23,098	142,444
Convertible notes	120,608	–	124,226	244,834
	192,754	129,176	150,990	472,920

5. FINANCIAL RISK MANAGEMENT ONBJECTIVES AND POLICIES (Continued)

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 2008 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, management of 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 spreading 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.

Management of 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, management of 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, management of the Group will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below, which include interest rate exposure on variable interest-bearing deposits, have been determined based on the exposure to interest rates for of non-derivative instrument at the balance sheet date. For non-bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 100 basis point increase or decrease is used which represents management's assessment of the possible change in interest rates.

If interest rates have been 100 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2008 would increase/decrease by HK$809,000 (2007: HK$1,385,000).

5. FINANCIAL RISK MANAGEMENT ONBJECTIVES AND POLICIES (Continued)

Interest rate risk management (Continued)

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. A 100 basis point increase or decrease is used which represents management's assessment of the possible change in interest rates.

If interest rates have been 100 basis points higher/lower and all other variables were held constant, the Company's loss for the year ended 31 December 2008 would increase/decrease by HK$37,000 (2007: HK$200,000).

Fair values

As at 31 December 2008, the carrying amount of cash and cash equivalents, prepayments, deposits and other receivables, accrued liabilities and other payables approximated their fair values due to the short-term maturities of these assets and liabilities. The Group considers that financial assets at fair value through profit or loss are included in the balance sheet at amounts approximating to their fair values.

Commodity price risk management

The Group is exposed to commodity price risk due to certain factors, such as level of demand and supply in the market and government policy and regulations. . Such exposure mainly arises from its purchase of raw materials and the profit margin on sale of its finished products may be affected if the increase in cost of raw materials increases and the Group is unable to pass such cost increases to its customers. In addition, the Group is also subject to fluctuations in the selling price of its finished products due to competition and market demand.

The Group does not have any formal hedging policy for such exposure. However, the Group will closely monitor the costing and consider to take appropriate action should the need arise.

Price risk management

The Group has no any investment held for trading as at 31 December 2008, therefore, no price risk exposed to the Group at the year ended.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to equity holders, issue new shares or sell assets to reduce debt.

During 2008, the Group's strategy remained unchanged as compared to that of 2007. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total net borrowings divided by total assets.

5. FINANCIAL RISK MANAGEMENT ONBJECTIVES AND POLICIES (Continued)

Capital risk management (Continued)

The Management considers the gearing ratio at the year ended was as follows:

	2008	2007
	HK$'000	HK$'000
Borrowings, net of cash and bank balance	**80,143**	(15,827)
Convertible notes	**262,156**	244,834
Obligations under finance leases	**4,995**	13,496
Net debts	**347,294**	242,503
Total assets	**553,448**	886,519
Net debts to total assets ratio	**0.63**	0.27

The increase in the gearing ratio during 2008 resulted primarily from the decrease in the current and non-current assets.

On 20 March 2009, the open offer to the shareholders of the Company was completed. The net proceeds of the open offer, before deducting expenses for the open offer, were approximately HK$11.85 million. This resulted in an improvement in the gearing ratio of the Group.

6. SEGMENT INFORMATION

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

(A) Business segments

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, as well as manufacture, sales, research and development of seabuckthorn-related health products.

6. SEGMENT INFORMATION (Continued)

(A) Business segments

	Wah Yuen Foods Business		Seabuckthorn Business		Eliminations		Consolidated	
	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	**200,913**	257,816	**38,719**	23,238	**–**	–	**239,632**	281,054
Inter-segment sales	**37,841**	27,837	**78**	–	**(37,919)**	(27,837)	**–**	–
Total revenue	**238,754**	285,653	**38,797**	23,238	**(37,919)**	(27,837)	**239,632**	281,054
RESULT								
Segment operating results before impairment charges	**(24,712)**	31,123	**(27,855)**	15,058	**–**	–	**(52,567)**	46,181
Gain arising from initial recognition of biological assets at fair value less estimated point-of-sales costs	**–**	–	**10,308**	72,927	**–**	–	**10,308**	72,927
Impairment on goodwill	**–**	–	**(108,859)**	–	**–**	–	**(108,859)**	–
Impairment on trade receivables	**(41,538)**	–	**–**	–	**–**	–	**(41,538)**	–
Write-off of inventories	**(34,607)**	–	**–**	–	**–**	–	**(34,607)**	–
Changes in fair value less estimated point-of-sales costs of biological assets	**–**	–	**(59,542)**	–	**–**	–	**(59,542)**	–
Unallocated corporate income							**8,908**	7,132
Unallocated corporate expense							**(12,426)**	(4,538)
(Loss) profit from operations							**(290,323)**	121,702
Finance costs							**(37,300)**	(16,234)
(Loss) profit before tax							**(327,623)**	105,468
Income tax credit (expense)							**1,342**	(8,231)
(Loss) profit for the year							**(326,281)**	97,237

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

6. SEGMENT INFORMATION (Continued)

(A) Business segments (Continued)

BALANCE SHEET

	Wah Yuen foods business		Seabuckthorn business		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
ASSETS						
Segment assets	**310,049**	381,469	**206,916**	346,773	**516,965**	728,242
Unallocated corporate assets					**36,483**	158,277
Consolidated total assets					**553,448**	886,519
LIABILITIES						
Segment liabilities	**20,827**	36,359	**31,568**	35,786	**52,395**	72,145
Unallocated corporate liabilities					**399,096**	401,154
Consolidated total liabilities					**451,491**	473,299
OTHER INFORMATION						
Capital additions	**27,615**	696	**2,220**	593	**29,835**	1,289
Depreciation	**11,823**	9,339	**4,412**	550	**16,235**	9,889
Amortisation of prepaid lease payments	**174**	165	**22**	11	**196**	176

6. SEGMENT INFORMATION (Continued)

(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	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**83,936**	129,647	**(37,178)**	41,341
Hong Kong	**155,696**	151,407	**(15,389)**	4,840
	239,632	281,054	**(52,567)**	46,181

The following is an analysis of the carrying amount of segment assets and capital expenditure, analysed by the geographical areas in which the assets are located:

	Assets		Capital expenditure	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**405,551**	514,034	**28,746**	784
Hong Kong	**111,414**	214,208	**1,089**	505
	516,965	728,242	**29,835**	1,289

The segment assets are excluded the unallocated corporate assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

7. TURNOVER AND OTHER OPERATING INCOME

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

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

	2008	2007
	HK$'000	HK$'000
Sales of goods to outside customers	**239,632**	281,054
Gain arising from initial recognition of biological assets at fair value less estimated point-of-sales costs	**10,308**	72,927
Other operating income:		
Interest income from bank deposits	**1,312**	1,451
Net change in fair value of derivative financial instruments	**5,033**	–
Exchange gain	**–**	4,885
Sundry income	**2,563**	5,384
	8,908	11,720
Total income	**258,848**	365,701

8. FINANCE COSTS

	2008	2007
	HK$'000	HK$'000
Interest expense on bank loans, overdrafts and other borrowings wholly repayable within five years	**10,450**	13,064
Interest expense on obligations under finance leases	**466**	986
Effective interest expense on convertible loan notes	**26,384**	2,184
	37,300	16,234

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

For the year ended 31 December 2008

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	–	409	18	427
Mr. But Chai Tong	–	397	18	415
Ms. Gao Ji Hong	–	175	7	182
Mr. Ying Wei	–	1,105	12	1,117
NON-EXECUTIVE DIRECTORS				
Ms. Leung Wai Ling	50	–	–	50
Mr. Ngai Chun Kong, Stephen	38	–	–	38
Ms. Wang Fang	10	–	–	10
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
Mr. Chen Zi Qiang	15	–	–	15
Total for 2008	313	2,446	55	2,814

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

For the year ended 31 December 2007

		Other emoluments		
Emoluments	Fees	Salaries and other Benefits	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

(b) Employees' emoluments

The five highest paid individuals for the year ended 31 December 2008 included one (2007: three) executive directors of the Company. The emoluments of the remaining four (2007: two) individuals are as follows:

	2008	2007
	HK$'000	HK$'000
Salaries and other benefits	**2,388**	1,320
Retirement benefit schemes contributions	**91**	84
	2,479	1,404

The emoluments of each of the four (2007: two) highest paid individuals were less than HK$1,000,000.

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(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.

10. INCOME TAX (CREDIT) EXPENSE

	2008 HK$'000	2007 HK$'000
The (credit) expense comprises:		
Current tax:		
Hong Kong Profits Tax		
Current year	–	1,098
(Over)under-provision in prior years	(522)	368
PRC Enterprise Income Tax		
Current year	219	6,476
Current tax charge for the year	(303)	7,942
Deferred tax (credit) expense for the year (note 32)	(1,039)	289
	(1,342)	8,231

Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit arising in Hong Kong for the year.

The new Corporate Income Tax Law in PRC increases the corporate income tax rate for foreign investment enterprises from previous preferential rates to 25% with effect from 1 January 2008. Companies established in the PRC before 16 March 2007 and previously taxed at the rate lower than 25% may be offered a gradual increase of tax rate to 25% within 5 years. Certain subsidiaries of the Company established in the PRC will enjoy preferential income tax rate from 2008 to 2011 and be taxed at the rate of 25% from 2012 when the preferential treatment expires.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

10. INCOME TAX (CREDIT) EXPENSES (Continued)

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

	2008 HK$'000	2007 HK$'000
(Loss) profit before tax	**(327,623)**	105,468
Tax at PRC Enterprise Income Tax rate of 25% (2007: 27%)	**(81,906)**	28,476
Tax effect of expenses not deductible for tax purposes	**88,520**	8,842
Tax effect of income not taxable for tax purposes	**(10,341)**	(30,182)
Tax effect on temporary differences not recognised	**(787)**	317
(Over) under-provision in respect of prior year	**(522)**	368
Tax effect on tax losses not recognised	**3,224**	1,031
Utilisation of tax losses not previously recognised	**–**	(25)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**470**	(596)
Tax (credit) charge for the year	**(1,342)**	8,231

11. (LOSS) PROFIT FOR THE YEAR

	2008 HK$'000	2007 HK$'000
(Loss) profit for the year has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments *(note 9)*	**27,395**	17,069
Retirement benefits scheme contributions, including contributions for directors	**2,315**	1,261
Total staff costs	**29,710**	18,330
Auditors' remuneration	**821**	650
Amortisation of land use rights and leasehold land	**196**	176
Depreciation		
– owned assets	**13,996**	7,827
– assets held under finance leases	**2,235**	2,062
Share-based option expense	**4,930**	4,128
Write-off of inventories	**34,607**	–
Impairment on trade receivables	**41,538**	–
Exchange loss	**6,733**	–
Impairment loss for goodwill	**108,859**	–
Changes in fair value less estimated point-of-sales costs of biological assets	**59,542**	–
Gain arising from initial recognition of biological assets at fair value less estimated point-of-sales costs	**(10,308)**	(72,927)
Gain on disposal of property, plant and equipment	**(35)**	(139)
Operating lease rentals paid in respect of rented premises	**3,742**	2,024

12. DIVIDENDS

The directors do not recommend the payment of a dividend for the years ended 31 December 2008 and 2007.

13. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the loss attributable to the equity holders of the Company of approximately HK$293,583,000 (2007: profit of HK$51,892,000) and on the weighted average ordinary share of 691,937,500 (2007: 564,506,592) deemed to be in issue during the year.

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

	The Group	
	2008	2007
	HK$'000	HK$'000
(Loss) earnings:		
(Loss) earnings for the purpose of basic (loss) earnings per share	**(293,583)**	51,892
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	**26,384**	2,184
(Loss) earnings for the purpose of basic earnings per share	**(267,199)**	54,076
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	**691,937,500**	564,506,592
Effect of dilutive potential ordinary shares:		
convertible notes	**1,285,648,018**	1,285,648,018
Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per share	**1,977,585,518**	1,850,154,610

No diluted loss per share for the year ended 31 December 2008 is presented as the dilutive potential ordinary shares in respect of outstanding share options are anti-dilutive.

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For the year ended 31 December 2008

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:

	2008 HK$'000	2007 HK$'000
At cost		
At 1 January	4,640	3,353
Exchange difference	194	275
Acquisition of subsidiaries	–	1,012
At 31 December	4,834	4,640
Accumulated amortisation		
At 1 January	1,493	1,213
Exchange difference	66	104
Amortisation for the year	196	176
At 31 December	1,755	1,493
Net book values		
At 31 December	3,079	3,147

Note: The land use rights and leasehold land of the Group as at 31 December 2008 are held on medium term leases and situated in the PRC and Hong Kong respectively.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Plant and machinery HK$'000	Construction In progress HK$'000	Loose tools and moulds HK$'000	Total HK$'000
COST							
At 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 and 1 January 2008	89,157	30,239	8,165	135,142	600	189	263,492
Exchange difference	3,975	851	128	6,077	35	–	11,066
Acquisition of subsidiaries	–	190	202	–	–	–	392
Additions	229	591	1,528	401	27,086	–	29,835
Transfer in (out)	–	7,566		18,877	(26,443)	–	–
Disposals	–	(381)	(1,113)	(71)	–	–	(1,565)
At 31 December 2008	93,361	39,056	8,910	160,426	1,278	189	303,220
ACCUMULATED DEPRECIATION							
At 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 and 1 January 2008	12,372	20,537	6,109	49,812	–	154	88,984
Exchange difference	520	404	57	2,110	–	–	3,091
Acquisition of subsidiaries	–	62	104	–	–	–	166
Provided for the year	2,184	2,760	627	10,625	–	35	16,231
Eliminated on disposals	–	(285)	(757)	(66)	–	–	(1,108)
At 31 December 2008	15,076	23,478	6,140	62,481	–	189	107,364
NET BOOK VALUES							
At 31 December 2008	78,285	15,578	2,770	97,945	1,278	–	195,856
At 31 December 2007	76,785	9,702	2,056	85,330	600	35	174,508

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	2008	2007
	HK$'000	HK$'000
Motor vehicles	**927**	88
Plant and machinery	**12,446**	17,365
	13,373	17,453

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2008	2007
	HK$'000	HK$'000
Unlisted shares, at cost	**74,772**	74,772
Amounts due from subsidiaries	**243,098**	404,457
Amounts due to subsidiaries	**(3,660)**	–
	314,210	479,229

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 2008 are set out in note 41.

17. BIOLOGICAL ASSETS

	THE GROUP Sea buckthorn bushes	
	2008	2007
	HK$'000	HK$'000
At 1 January	**74,909**	–
Gain arising from initial recognition of biological assets at fair value less estimated point-of-sales costs	**10,308**	72,927
Exchange adjustment	**2,169**	1,982
	87,386	74,909
Changes in fair value less estimated point-of-sales costs of biological asset	**(59,542)**	–
At 31 December	**27,844**	74,909

Biological assets represent seabuckthorn bushes planted on land with Forest Tree Rights and situate in Inner Mongolia Autonomous Region, Shannxi Province, Shanxi Province and Gansu Province. The Forest Tree Rights cover a total land area of 1,106,545 mu and involves 1,478 forest sectors. 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.

Its leaves, 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 sea buckthorn 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, flavour powder, raw juices, concentrate juices, seedlings, seeds, dried berries and tea leaves, finished products including health products such as flavour soft capsules, seed oil soft capsules, pulp oil soft capsules, seed oil, pulp oil, tea in packs and cosmetic series.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

18. INTANGIBLE ASSETS

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

THE GROUP

	Trademark and Patent	**Development costs**	**Total**
	HK$'000	HK$'000	HK$'000
COST			
At 1 January 2007	–	–	–
Additions	156	376	532
At 31 December 2007 and at 1 January 2008	156	376	532
Exchange difference	7	17	24
Additions	33	425	458
At 31 December 2008	196	818	1,014
CARRYING VALUES			
At 31 December 2008	196	818	1,014
At 31 December 2007	156	376	532

19. GOODWILL

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

	HK$'000
COST	
At 1 January 2007	–
Acquisition of subsidiaries	171,613
At 31 December 2007 and 1 January 2008	171,613
Acquisition of a subsidiary	10,726
At 31 December 2008	182,339
IMPAIRMENT	
At 1 January 2007, 31 December 2007 and 1 January 2008	–
Impairment loss recognised	108,859
At 31 December 2008	108,859
CARRYING VALUES	
At 31 December 2008	73,480
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 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 14% (2007: 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.

20. INVENTORIES

	THE GROUP	
	2008	2007
	HK$'000	HK$'000
Raw materials	**13,898**	20,659
Work in progress	**2,841**	2,383
Finished goods	**26,656**	41,752
	43,395	64,794

Inventories of the Group were carried at net realizable value of HK$ Nil (2007: HK$ Nil) at the balance sheet data.

21. 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 up to one year may be granted.

	THE GROUP	
	2008	2007
	HK$'000	HK$'000
Trade receivables	**162,205**	169,186
Less: Provision for doubtful debt	**(41,735)**	–
Trade receivables	**120,470**	169,186
Deposits, prepayments and other receivables	**42,293**	46,168
	162,763	215,354

21. TRADE AND OTHER RECEIVABLES (Continued)

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

	THE GROUP	
	2008	2007
	HK$'000	HK$'000
Within 90 days	**34,577**	78,174
91 to 180 days	**41,305**	30,606
Over 180 days	**44,588**	60,406
Trade receivables	**120,470**	169,186

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

Movement in allowance for trade receivable

	2008	2007
	HK$'000	HK$'000
Balance at beginning of the year	**–**	–
Additions arising from acquisition of a subsidiary	**197**	–
Increase in allowance recognised in consolidated income statement	**41,538**	–
Balance at end of the year	**41,735**	–

22. DERIVATIVES FINANCIAL INSTRUMENTS

	2008 HK$'000	2007 HK$'000
Financial assets		
Foreign currency forward contracts		
At 1 January	–	–
Fair value gains credited to profit or loss	50	–
At 31 December	50	–
Exchange rate swap		
At 1 January	–	–
Fair value gains credited to profit or loss	6,814	–
At 31 December	6,814	–
Total financial assets	6,864	–
Financial liabilities		
Foreign currency forward contracts		
At 1 January	–	–
Fair value losses charged to profit or loss	(1,831)	–
At 31 December	(1,831)	–

At 31 December 2008, the major terms of the listed equity and foreign currency forward contracts are as follows:

Foreign currency forward contracts:

Notional amount	Maturity	Exchange rate
USD5,000,000	13 May 2009	USD 1: CNY 6.6550
USD290,000	23 March 2009	USD 1: HKD 7.7450

Exchange rate swap:

Notional amount	Maturity
USD9,000,000	11 September 2010

The above derivatives were measured at fair value at balance sheet date. In accordance with the valuation report issued by Norton Appraisals, an independent professional valuer, the fair value for the derivatives financial instruments were re-valued using the discounted cash flow method and risk neutral measure assumption. The net change arising on revaluation has been credited to consolidated income statement.

23. CASH AND BANK BALANCES

	THE GROUP	
	2008	2007
	HK$'000	HK$'000
Cash and bank balances	**21,189**	134,649
Pledged bank deposits	**15,294**	23,622
	36,483	158,271

Cash and bank balances carry interest at market rates which range from 0.01% to 4% (2007: 3.5% to 4%) per annum. The pledged fixed deposits carry interest rate 1.1% (2007: 1.1%) per annum.

24. TRADE AND OTHER PAYABLES

An ageing analysis of trade payables is as follows:

	THE GROUP	
	2008	2007
	HK$'000	HK$'000
Within 90 days	**11,287**	11,325
91 to 180 days	**2,095**	1,809
Over 180 days	**5,859**	7,731
Trade payables	**19,241**	20,865
Other payables	**25,688**	28,420
	44,929	49,285

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

25. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2008 HK$	2007 HK$	**2008 HK$**	2007 HK$
Amounts payable under finance leases:				
Within one year	**4,083**	10,380	**3,999**	9,830
In the second to fifth year inclusive	**999**	3,804	**996**	3,666
	5,082	14,184	**4,995**	13,496
Less: Future finance charges	**(87)**	(688)	**N/A**	N/A
Present value of lease obligations	**4,995**	13,496	**4,995**	13,496
Less: Amounts due for settlement within twelve months (shown under current liabilities)			**(3,999)**	(9,830)
Amounts due for settlement after twelve months			**996**	3,666

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.

Finance leases obligations under finance leases are denominated in Hong Kong dollars same as the functional currency of the Group.

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

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

27. BORROWINGS

	THE GROUP	
	2008	2007
	HK$'000	HK$'000
Trust receipts loans	**27,599**	59,327
Bank overdrafts	**12,278**	11,280
Bank loans	**73,510**	68,087
Other loan	**3,239**	3,750
	116,626	142,444
Analysis as:		
Secured	**108,098**	111,164
Unsecured	**8,528**	31,280
	116,626	142,444
The maturity profile of the above borrowings is as follows:		
On demand or within one year	**98,781**	119,346
More than one year, but not exceeding two years	**17,845**	23,098
	116,626	142,444
Less: amount due within one year shown under current liabilities	**(98,781)**	(119,346)
	17,845	23,098

The trust receipts loans, bank overdrafts, bank loans and other loan carry interest at the 1% to 7.5% (2007: 1% to 7.5%).

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

The bank loans of the Company in the amount of HK$3,750,000 (2007: HK$20,000,000) 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. 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 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.

According to the terms of conditions of 2010 Notes, on the date falling 24 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 18 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 of the conversion price for at least 30 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.

During the year ended 31 December 2008, the conversion price of 2010 Notes was adjusted from HK$1.43 to HK$1.144 effective from 28 November 2008 in accordance with the terms set out in the placing agreement.

28. CONVERTIBLE NOTES (Continued)

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 amounts represent the value of the equity component and are is included in shareholders' equity. The effective interest rate of the liability component is 8.85% 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	
	2008	2007
	HK$'000	HK$'000
Proceeds of issue	**302,050**	302,050
Equity component	**(58,645)**	(58,645)
Liability component at dates of issue	**243,405**	243,405
Interest charge	**28,568**	2,184
Interest paid	**(9,817)**	(755)
Carrying amount at the end of the year	**262,156**	244,834

29. SHARE CAPITAL

The Group and the Company

	Number of ordinary shares	Amount
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2007, 31 December 2007, 1 January 2008 and 31 December 2008	4,000,000,000	40,000
Issued and fully paid:		
At 1 January 2007	535,000,000	5,350
Issue of shares	133,000,000	1,330
Issue of shares upon exercise of share options	23,937,500	239
As at 31 December 2007 and 1 January 2008 and 31 December 2008	691,937,500	6,919

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For the year ended 31 December 2008

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.

30. SHARE OPTION SCHEME (Continued)

The following table discloses details of the Company's options under the Scheme held by employees and consultant and the movement during the year ended 31 December 2008:

Category	Date of grant	Exercise price HK$	Exercise period	As at 1 January 2008	Granted during the year	Lapsed during the year	Exercised during the year	As at 31 December 2008
Employees	18.7.2007	1.32	18.7.2007 to 18.7.2010	6,500,000	–	–	–	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	14.6.2008 to 14.12.2010	2,000,000	–	–	–	2,000,000
	25.3.2008	0.53	25.3.2008 to 24.3.2011	–	12,000,000	–	–	12,000,000
Consultants	18.7.2007	1.320	18.7.2007 to 18.7.2010	5,000,000	–	–	–	5,000,000
Total				19,500,000	12,000,000	–	–	31,500,000

The following table discloses details of the Company's options under the Scheme held by employees and consultant and the movement during prior year:

Category	Date of grant	Exercise price HK$	Exercise period	As at 1 January 2007	Granted during the year	Lapsed during the year	Exercised during the year	As at 31 December 2007
Employees	14.12.2004	0.238	14.12.2004 to 13.12.2007	13,281,250	–	–	(13,281,250)	–
	18.07.2007	1.32	18.7.2007 to 17.7.2010	–	8,000,000	(1,500,000)	–	6,500,000
	26.11.2007	1.12	26.11.2008 to 26.11.2010	–	6,000,000	–	–	6,000,000
	14.12.2007	1.12	14.12.2008 to 14.12.2011	–	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

30. SHARE OPTION SCHEME (Continued)

Note:

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 HK$23.8 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 years 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 (2007: HK$19).

The fair value of the total options granted in the year measured as at the 25 Mar 2008 was HK$2,675,416. The following significant assumptions were used to derive the fair value using the Black – Scholes – Merton Formula:

1. an expected volatility was 472.09%.

2. expected no annual dividend yield;

3. the estimated expected life of the options granted in range (3 years); and

4. the risk free rate was 1.225%.

The Black – Scholes – Merton Formula 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 HK$'000	Contributed surplus HK$'000	Convertible notes equity reserve HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
As at 1 January 2007	68,551	71,463	–	–	(6,495)	133,519
Issue of shares	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)
As at 31 December 2007 and 1 January 2008	85,883	71,463	58,645	3,890	(15,406)	204,475
Share-based option expenses	–	–	–	4,930	–	4,930
Loss for the year	–	–	–	–	(177,578)	(177,578)
As at 31 December 2008	**85,883**	**71,463**	**58,645**	**8,820**	**(192,984)**	**31,827**

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$32 million as at 31 December 2008 (2007: HK$204 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 (ASSETS) 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 HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2007	426	(336)	90
Charged to the income statement for the year (note 10)	18	271	289
As at 31 December 2007 and 1 January 2008	444	(65)	379
Charged (credited) to the income statement for the year (note 10)	246	(1,285)	(1,039)
As at 31 December 2008	**690**	**(1,350)**	**(660)**

As at 31 December 2008, the Group had unused tax losses of HK$29,824,000 (2007: HK$15,412,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$660,000 (2007: liability of HK$379,000) of such losses. No deferred tax has been recognised in respect of the remaining HK$29,824,000 (2007: HK$15,038,000) 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.

33. RETIREMENT BENEFITS SCHEME (Continued)

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. ACQUISITION OF SUBSIDIARIES

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 Company Limited) ("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 the net assets acquired and goodwill recognised in the business combination are as follows:

	Fair value HK$'000	Acquiree's carrying amount before combination HK$'000
Net assets acquired:		
Property, plant and equipment	226	226
Inventories	994	994
Trade and other receivables	6,096	6,096
Bank balances and cash	308	308
Trade and other payables	(12,831)	(12,831)
	(5,207)	
Goodwill	10,726	
Total consideration	5,519	
Net cash outflow 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 HK$2,889,185 to the Group's consolidated turnover and HK$1,042,133 to the Group's profit before tax for the period between the date of acquisition and 31 December 2008. Had the combination taken place at the beginning of the year, the Group's consolidated turnover and a profit for the year ended 31 December 2008 would have been HK$3,458,931 and HK$1,169,316 respectively.

34. ACQUISITION OF SUBSIDIARIES (Continued)

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 satisified 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 HK$'000	Acquiree's carrying amount before combination HK$'000
Net assets acquired:		
Property, plant and equipment	61,696	61,696
Prepaid lease payments	1,012	1,012
Deposits paid for 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)
Amount due to a shareholder of subsidiary	(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	(27,401)	
Waiver of amount due to China Water Affairs Group	19,258	
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$15,746,393 to the Group's consolidated turnover and a profit of HK$9,861,555 to the Group's consolidated profit for the year ended 31 December 2007. Had the combination taken 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$24,082,785 and HK$1,661,882 respectively.

35. 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:

	2008	2007
	HK$'000	HK$'000
Land and buildings together with relevant land use rights situated in the PRC	**48,752**	48,043
Land and buildings situated in Hong Kong	**489**	526
Plant and machinery	**5,462**	5,224
Trade receivables of subsidiaries	**3,274**	2,296
Bank deposits	**15,294**	23,622
	73,271	79,711

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

36. 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**	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**1,385**	2,938	**475**	796
In the second to fifth years inclusive	**1,010**	1,843	**–**	538
More than five years	**5,000**	5,250	**–**	–
	7,395	10,031	**475**	1,334

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.

37. CAPITAL COMMITMENTS

	THE GROUP	
	2008	2007
	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

38. CONTINGENT LIABILITIES

Contingent liabilities at 31 December are analysed as follows:

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given in respect of borrowings and other banking facilities for subsidiaries	**–**	–	**55,580**	115,424

The Company has not recognised any deferred income for the guarantees given in respect of borrowing and other banking facilities as their fair value cannot be reliably measured and their transaction price was HK$ Nil.

The directors consider that the above contingent liabilities are unlikely to materialise. No provision was therefore made in this respect as 31 December 2008 and 31 December 2007.

39. POST BALANCE SHEET EVENTS

Subsequent to the financial year end, on 1 April 2009, 345,968,750 ordinary shares of HK$0.01 were issued at HK$0.08 per share by way of an open offer to the shareholders of the Company on the basis of one share for every two ordinance shares held. The net proceeds of the open offer were approximately HK$11.85 million following capitalized the amount due to China Water Affairs of approximately HK$15.82 million pursuant to terms of underwriting agreement. Details are included in the Company's circular to shareholders dated 6 March 2009.

40. 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:

	Notes	**2008** **HK$'000**	2007 HK$'000
Rentals paid to:			
– Lucky Fair Investment Limited	(i) & (ii)	**180**	180
– Tai Tung Supermarket Limited	(i) & (ii)	**288**	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 9.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2008 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 share USD1	100%	Investment holding
Top Harbour Development Limited	British Virgin Islands/ Hong Kong	Ordinary share 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

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

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
Honfine Company Limited 朗耀有限公司	Hong Kong	Ordinary shares HK$10 Non-voting deferred shares HK$2 Note (iii)	100%	Distribution and marketing of snack foods products
Wah Yuen Foods (Hong Kong) Company Limited 華園食品(香港)有限公司	Hong Kong	Ordinary shares HK$1,000 Non-voting deferred shares HK$10,000,000 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 USD5,700,000	100%	Manufacturing, distribution and marketing of snack food products

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

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
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, Mdistribution 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$1	100%	Investment holdings
Wah Yuen Health Products Company Limited 華園健康產品有限公司	Hong Kong	Ordinary share HK$1	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%	Cultivation and sale of seabuckthorn seedlings, and manufacturing and sale of seabuckthorn related products

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

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
Erdos Plateau Seabuckthorn Ecological Construction and Development Limited 鄂爾多斯高原聖果生態建設開發有限公司	PRC	Registered and contributed capital RMB20,000,000	50%	Cultivation and sale of seabuckthorn seedlings, and manufacturing and sale of seabuckthorn related products
准格爾旗高原聖果沙棘有限公司	PRC	Registered and contributed capital RMB500,000	45%	Cultivation and sale of seabuckthorn seedlings
達拉特旗高原聖果沙棘有限公司	PRC	Registered and contributed capital RMB500,000	45%	Cultivation and sale of seabuckthorn seedlings
陝西果聖水土保持建設有限公司	PRC	Registered and contributed capital RMB5,000,000	45%	Cultivation and sale of seabuckthorn seedlings
高原聖果(北京) 沙棘營銷有限公司	PRC	Registered and contributed capital RMB5,000,000	50%	Sales of seabuckthorn related products

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

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
甘肅高原聖沐沙棘開發有限公司	PRC	Registered and contributed capital RMB5,000,000	30%	Cultivation and sale of seabuckthorn seedlings
鄂爾多斯高原植物資源開發有限公司	PRC	Registered and contributed capital RMB1,000,000	47%	Cultivation and sale of seabuckthorn seedlings
鄂爾多斯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 and sale of seabuckthorn seedlings
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 and sale of seabuckthorn seedlings
達拉特旗高原植物資源開發有限責任公司	PRC	Registered and contributed capital RMB1,000,000	47%	Cultivation and sale of seabuckthorn seedlings
上海華源藍科生物制品營銷有限公司	PRC	Registered and contributed capital RMB1,000,000	100%	Selling and distribution of health products

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

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
深圳高原聖果生物科技有限公司	PRC	Registered and contributed capital RMB1,000,000	90%	Technical development of seabuckthorn products; remediation system development of water ecosystem protection; wholesale of commodity and packed food
Cebar Base International Limited	Hong Kong	Ordinary shares HK$10	100%	Technical development of seabuckthorn 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 2008 or at any time during the year.

42. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2004	2005	2006	2007	**2008**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Revenue	210,454	207,551	202,130	281,054	**239,632**
(Loss) profit from operations	26,460	29,096	31,137	121,702	**(290,323)**
Finance costs	(9,803)	(11,021)	(12,242)	(16,234)	**(37,300)**
(Loss) profit before tax	16,657	18,075	18,895	105,468	**(327,623)**
Income tax expenses	(3,598)	(7,859)	(5,865)	(8,231)	**1,342**
(Loss) profit before minority interests	13,059	10,216	13,030	97,237	**(326,281)**
Minority interests	–	–	–	(45,345)	**32,698**
(Loss) profit for the year attributable to the equity holders of the Company	13,059	10,216	13,030	51,892	**(293,563)**
(Loss) earning per share					
– Basic	6.53 cents	5.04 cents	3.52 cents	9.19 cents	**(42.43) cents**
– Diluted	6.51 cents	N/A	N/A	2.92 cents	**N/A**

ASSETS AND LIABILITIES

	As at 31 December				
	2004	2005	2006	2007	**2008**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	348,099	365,314	407,779	886,519	**553,448**
Total liabilities	(216,389)	(215,775)	(213,236)	(473,299)	**(451,491)**
Minority interests	–	–	–	(72,747)	**(39,039)**
Equity attributable to equity holders of the Company	131,710	149,539	194,543	340,473	**62,918**