THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

中國植物開發控股有限公司

CHINA BOTANIC DEVELOPMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2349)

(1) PROPOSED OPEN OFFER IN THE PROPORTION OF FIVE OFFER SHARES FOR EVERY ONE SHARE HELD ON THE RECORD DATE; AND (2) INCREASE IN THE AUTHORISED SHARE CAPITAL

Underwriter

國泰君安證券(香港)有限公司

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

Independent Financial Adviser

VC CAPITAL LIMITED

滙盈融資有限公司

A letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders of the Company is set out on pages 24 to 40 of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders is set out on page 23 of this circular.

It should be noted that the Underwriting Agreement contains provisions granting the Underwriter the right to terminate the obligations of the Underwriter thereunder on the occurrence of certain events. These certain events are set out in the paragraph headed "Termination of the Underwriting Agreement" on page 7 to 8 of this circular. If the Underwriting Agreement is terminated by the Underwriter or does not become unconditional, the Open Offer will not proceed.

A notice convening the EGM to be held at Unit 1816-17, 18/F., Sun Hung Kai Centre, 30 Harbour Road, Wan Chai, Hong Kong at 10:00 a.m. on Monday, 21 September 2009 is set out on pages 123 to 125 of this circular. A form of proxy for use at the meeting is enclosed. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrars of the Company in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so desire.

4 September 2009

EXPECTED TIMETABLE

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

	2009
Despatch of Circular	4 September
Last day of dealing in Shares on a cum-entitlement basis	11 September
First day of dealing in Shares on an ex-entitlement basis	14 September
Latest time for lodging transfer of Shares in order to be qualified for the Open Offer	4:30 p.m. on 15 September
Register of members of the Company closes (both dates inclusive)	16 September to 21 September
Latest time for lodging the form of proxy	10:00 a.m. on 19 September
EGM	10:00 a.m. on 21 September
Record Date	21 September
Register of members for the Shares reopens	22 September
Despatch of Prospectus Documents	22 September
Latest time for acceptance of and payment for Offer Shares	4:00 p.m. on 7 October
Latest time for the Open Offer to become unconditional	4:00 p.m. on 12 October
Announcement of the results of the Open Offer	15 October
Share certificates for Offer Shares to be posted	15 October
Dealing in Offer Shares commences	19 October

All times stated in this circular refer to Hong Kong times. Dates stated in this circular for events in the timetable are indicative only and may be extended or varied. Any changes to the anticipated timetable for the Open Offer will be announced as appropriate.

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE OPEN OFFER

The latest time for acceptance of and payment for the Open Offer will not take place if there is:

- a tropical cyclone warning signal number 8 or above, or
- a "black" rainstorm warning

(i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on 7 October 2009. Instead the latest time of acceptance of and payment for the Open Offer will be extended to 5:00 p.m. on the same Business Day;

(ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on 7 October 2009. Instead the latest time of acceptance of and payment for the Open Offer will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m..

If the latest time for acceptance of and payment for the Open Offer does not take place on 7 October 2009, the dates mentioned in the section headed "Expected timetable" in this circular may be affected. A press announcement will be made by the Company in such event.

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

"Amendments of CB Terms"	the alteration of the terms of BOC Convertible Bonds as announced in the announcement of the Company dated 7 July 2009
"Announcement"	the announcement of the Company dated 10 August 2009 in relation to the Open Offer
"associates"	has the meaning ascribed to this term under the Listing Rules
"Board"	the board of Directors
"BOC Convertible Bonds"	the 3% convertible bonds issued by the Company with principal amount of HK$122,000,000 issued in accordance with the placing agreement dated 22 October 2007
"Business Day"	a day (other than a Saturday, Sunday or public holiday or days on which) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"China Water"	China Water Affairs Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the issued shares of which are listed on the Stock Exchange
"Companies Ordinance"	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong
"Company"	China Botanic Development Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Stock Exchange
"connected person(s)"	has the meaning ascribed to this term under the Listing Rules
"CW Convertible Bonds"	the convertible bonds with outstanding principal amount of HK$165,050,000 with an initial conversion price of HK$0.15 per Share and is beneficially owned by China Water and its associates in the principal amount of HK$155,050,000 and Prime Investments Holdings Limited in the principal amount of HK$10,000,000 respectively

"CW Undertaking"	the irrevocable undertaking given by China Water in favour of the Company and the Underwriter, details of which are set out in the paragraph headed "Undertaking given by China Water" in the letter from the Board in this circular
"Director(s)"	director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened and held for the Shareholders to consider and approve the Open Offer and the Increase in Authorised Share Capital and the transactions contemplated thereunder
"Group"	the Company and its subsidiaries
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	Hong Kong Special Administrative Region of the People's Republic of China
"Independent Board Committee"	the independent board committee comprising all the independent non-executive Directors for the purpose of advising the Independent Shareholders as to the terms of the Open Offer
"Independent Financial Adviser" or "VC Capital"	VC Capital Limited, a licensed corporation under the SFO to conduct type 1 and type 6 regulated activities and appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Open Offer are fair and reasonable and are in the interests of the Company and the Shareholders as a whole
"Independent Shareholders"	Shareholders other than the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates
"Independent Third Party"	any person or company and their respective ultimate beneficial owner(s), to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons
"Increase in Authorised Share Capital"	the proposed increase in the authorised share capital of the Company from HK$40,000,000 divided into 4,000,000,000 Shares to HK$200,000,000 divided into 20,000,000,000 Shares

"Last Trading Day"	6 August 2009, being the last trading day for the Shares before the date of the Announcement
"Latest Practicable Date"	2 September 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
"Latest Lodging Date"	4:30 p.m. on 15 September 2009 as the latest time for lodging transfer of Shares in order to qualify for the Open Offer
"Latest Time for Acceptance"	4:00 p.m. on 7 October 2009 or such later time or date as may be agreed between the Company and The Underwriter, being the latest time for acceptance of, and payment for, the Offer Shares
"Latest Time for Termination"	4:00 p.m. on the third business day after the Latest Time for Acceptance or such later time or date as may be agreed between the Company and The Underwriter, being the latest time to terminate the Underwriting Agreement
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Offer Share(s)"	not less than 5,689,531,245 new Shares and not more than 7,705,364,580 new Shares proposed to be offered to the Qualifying Shareholders for subscription on the basis of five (5) Offer Shares for every one (1) existing Share held on the Record Date and payable in full on acceptance pursuant to the Open Offer
"Open Offer"	the proposed issue of the Offer Shares by way of Open Offer to the Qualifying Shareholders on the terms to be set out in the Prospectus Documents and summarised herein
"Options"	the share options granted or to be granted under the share option schemes adopted by the Company
"Overseas Letter"	a letter from the Company to the Prohibited Shareholders explaining the circumstances in which the Prohibited Shareholders are not permitted to participate in the Open Offer
"Overseas Shareholders"	the Shareholders with registered addresses on the register of members of the Company which are outside Hong Kong on the Record Date

"Prohibited Shareholder(s)"	those Overseas Shareholder(s) to whom the Board, after making enquires, considers it necessary or expedient on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place not to offer the Offer Shares to them
"Prospectus"	the prospectus to be issued by the Company in relation to the Open Offer
"Prospectus Documents"	the Prospectus, the application form in respect of the assured allotment of Offer Shares
"Prospectus Posting Date"	22 September 2009 or such later date as may be agreed between the Underwriter and the Company for the despatch of the Prospectus Documents
"Qualifying Shareholders"	the Shareholders, other than the Prohibited Shareholders, whose names appear on the register of members of the Company as at the close of business on the Record Date
"Record Date"	21 September 2009, being the date by reference to which entitlements to the Open Offer will be determined
"Registrar"	Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, being the Company's Hong Kong branch share registrar
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.01 in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Specified Event"	an event occurring or matter arising on or after the date hereof and prior to the Latest Time for Termination which if it had occurred or arisen before the date hereof would have rendered any of the warranties contained in the Underwriting Agreement untrue or incorrect in any material respect
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	The Hong Kong Code on Takeovers and Mergers

"Underwriting Agreement"	the underwriting agreement dated 6 August 2009 entered into among the Company, the Underwriter and China Water in relation to the Open Offer
"Underwriter"	Guotai Junan Securities (Hong Kong) Limited, a licensed corporation to carry out regulated activities under the Securities and Futures Ordinance in Hong Kong
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	per cent.

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

Basis of the Open Offer:	Five (5) Offer Shares for every one (1) Share held on the Record Date
Subscription Price	HK$0.05 per Offer Share payable in fully upon acceptance
Number of Shares in issue as at the Latest Practicable Date	1,137,906,249 Shares
Number of Offer Shares:	Not less than 5,689,531,245 Offer Shares and not more than 7,705,364,580 Offer Shares
Amount to be raised by the Open Offer	approximately HK$275 million
Basis of entitlement	Offer Shares will be allotted in the proportion of five (5) Offer Shares for every one (1) Share held by the Qualifying Shareholders on the Record Date. No Offer Shares will be offered to the Prohibited Shareholders (if any)

TERMINATION OF THE UNDERWRITING AGREEMENT

If, prior to the Latest Time for Termination (provided that for the purposes of the Underwriting Agreement if the date of the Latest Time for Termination shall be a Business Day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is or remains hoisted in Hong Kong between 9.00 a.m. and 4.00 p.m. on that day, the date of the Latest Time for Termination shall be the next Business Day on which no tropical cyclone warning signal no. 8 or above or no black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day):

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

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

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

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

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

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

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

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

The Underwriter shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

The Underwriter shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination:

(1) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or

(2) any Specified Event comes to the knowledge of the Underwriter.

Any such notice shall be served by the Underwriter prior to the Latest Time for Termination and thereupon the obligations of all parties under the Underwriting Agreement shall terminate and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

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

Executive Directors:
Mr. But Ka Wai *(Chairman)*
Mr. But Chai Tong *(Vice Chairman)*
Mr. Sun Zhen Yu
Mr. Ren Qian

Non-executive Director:
Mr. Zhou Kun

Independent non-executive Directors:
Mr. Ku Siu Fung, Stephen
Mr. Chen Ziqiang
Mr. Tam Pei Qiang
Ms. Li Ling

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

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

4 September 2009

To the Shareholders

Dear Sir or Madam,

(1) PROPOSED OPEN OFFER IN THE PROPORTION OF FIVE OFFER SHARES FOR EVERY ONE SHARE HELD ON THE RECORD DATE; AND (2) INCREASE IN THE AUTHORISED SHARE CAPITAL

INTRODUCTION

Reference is made to the Announcement of the Company dated 10 August 2009 in relation to, among other matters, the Open Offer and the Increase in Authorised Share Capital.

The purpose of this circular is to give (i) details of the Open Offer and the Increase in Authorised Share Capital; (ii) the recommendations of the Independent Board Committee in relation to the Open Offer; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer; and (iv) notice convening the EGM.

PROPOSED OPEN OFFER

Issue statistics

Basis of the Open Offer:	Five (5) Offer Shares for every one (1) existing Share held on the Record Date and payable in full on acceptance
Subscription Price:	HK$0.05 per Offer Share
Number of Shares in issue as at the Latest Practicable Date:	1,137,906,249 Shares
Number of Shares to be allotted and issued upon full conversion of BOC Convertible Bonds and the CW Convertible Bonds held by Prime:	371,666,666 Shares
Number of Shares to be allotted and issued upon the exercise of the rights for all outstanding Options granted:	31,500,000 Shares
Number of Offer Shares:	Not less than 5,689,531,245 Offer Shares and not more than 7,705,364,580 Offer Shares (assuming full conversion of the BOC Convertible Bonds and the CW Convertible Bonds (other than those held by China Water and its associates) prior to the Record Date)
Number of Offer Shares undertaken to be taken up or procured to be taken up by China Water and its associates	China Water has given the CW Undertaking under the Underwriting Agreement in favour of the Company and the Underwriter that (i) not to dispose of, or agree to dispose of, any Shares held by it and its associates from the date of the Underwriting Agreement to the Latest Time for Termination; (ii) to subscribe for or procure subscriptions for 1,653,921,810 Offer Shares to which China Water and its associates are entitled under the Open Offer; and (iii) the CW Convertible Bonds in the principal amount of HK$155,050,000 will remain unconverted and registered in the name of and beneficially owned by China Water and its associates up to and including the Latest Time for Termination

Number of Offer Shares underwritten by the Underwriter:	Not less than 3,868,942,770 Offer Shares and not more than 6,051,442,770 Offer Shares, being the number of the Offer Shares less the aggregate number of the Offer Shares agreed to be taken up under the CW Undertaking
Number of Shares in issue upon completion of the Open Offer:	Not less than 6,627,437,496 Shares and not more than 9,246,437,496 Shares

As at the Latest Practicable Date, the Amendment of CB Terms has become effective.

As at the Latest Practicable Date the Company has (i) 31,500,000 outstanding Options entitling the holders thereof to subscribe for 31,500,000 Shares; (ii) 1,100,333,333 underlying Shares to be issued and allotted upon the exercising of the conversion rights attaching to the CW Convertible Bonds; and (iii) 305,000,000 underlying Shares to be issued and allotted upon the exercising of the conversion rights attaching to the BOC Convertible Bonds. Save for the Options, the CW Convertible Bonds and BOC Convertible Bonds, the Company has no other outstanding warrants, options or convertible securities as at the Latest Practicable Date.

Qualifying Shareholders

The Open Offer is only available to the Qualifying Shareholders. The Company will send (i) the Prospectus Documents to the Qualifying Shareholders and (ii) the Overseas Letter together with the Prospectus, for information only, to the Prohibited Shareholders. To qualify for the Open Offer, the Shareholders must at the close of business on the Record Date:

(i) be registered on the register of members of the Company; and

(ii) not be the Prohibited Shareholders.

In order to be registered as members of the Company on the Record Date, the Shareholders must lodge any transfer of the Shares (with the relevant share certificates) for registration with the Registrar by 4:30 p.m. on 15 September 2009. The address of the Registrar is at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

The invitation to subscribe for the Offer Shares to be made to the Qualifying Shareholders will not be transferable.

Closure of register of members

The register of members of the Company will be closed from 16 September 2009 to 21 September 2009, both dates inclusive, to determine the eligibility of the Open Offer. No transfer of Shares will be registered during this period.

Subscription Price

The Subscription Price is HK$0.05 per Offer Share, payable in full on application. The Subscription Price represents:

(i) a discount of approximately 83.61% to the closing price of HK$0.305 per Share as quoted on Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 45.95% to the theoretical ex-entitlement price of approximately HK$0.0925 per Share based on the closing price of HK$0.305 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 82.01% to the average of the closing prices of HK$0.278 per Share for the last five consecutive trading days including and up to the Last Trading Day;

(iv) a discount of approximately 86.11% to the closing price of HK$0.36 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(v) a positive figure as against the negative figure of audited consolidated net tangible assets deficiency of approximately HK$0.0102 per share as 31 December 2008 (based on the audited consolidated net tangible assets deficiency of the Group of approximately HK$11,576,000 as at 31 December 2008 and 1,137,906,249 shares in issue.)

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to, among other things, the current market conditions, the expected fund raising amount and also the net asset value per Share. In order to increase the attractiveness of the Open Offer to the Qualifying Shareholders, the Directors (including the independent non-executive Directors) consider that the proposed discount of the Subscription Price to the market price is appropriate. Each Qualifying Shareholder is entitled to subscribe for the Offer Shares at the same price in proportion to his/her/its existing shareholding in the Company. The Directors (including the independent non-executive Directors) consider the Subscription Price is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Status of the Offer Shares

The Offer Shares (when allotted, fully paid and issued) will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Offer Shares. Holders of the Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Offer Shares.

Certificates of the Offer Shares

Subject to fulfilment of the conditions of the Open Offer, share certificates for the Offer Shares are expected to be posted on or before 15 October 2009 to those entitled thereto by ordinary post at their own risk.

Rights of the Overseas Shareholders

If, at the close of business on the Record Date, a Shareholder's address on the register of member of the Company is in a place outside Hong Kong, that Shareholder may not be eligible to take part in the Open Offer as the Prospectus Documents will not be registered and/or filed under the applicable securities legislation of any jurisdictions other than Hong Kong. The Board will make enquiries to its lawyers as to whether the issue of Offer Shares to the Overseas Shareholders may contravene the applicable securities legislation of the relevant overseas places or the requirements of the relevant regulatory body or stock exchange pursuant to the Listing Rules. If, after making such enquiry, the Board is of the opinion that it would be necessary or expedient not to Offer Shares to such Overseas Shareholders, no provisional allotment of Offer Shares will be made to such Overseas Shareholders. Accordingly, the Open Offer will not be extended to the Prohibited Shareholders. The enquiry results will be included in the Prospectus to be despatched to the Shareholders.

Application for excess Offer Shares

The Company shall not make available for subscription by the Qualifying Shareholders by means of excess application of any excess Offer Shares.

Application for listing

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

Subject to the granting of listing of, and permission to deal in, the Offer Shares on the Stock Exchange, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

UNDERWRITING ARRANGEMENT

Underwriting Agreement

Date:	6 August 2009	
Parties	Underwriter:	GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED
	Issuer:	The Company
	China Water	

Number of Offer Shares underwritten:	Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite the Offer Shares (other than the Offer Shares agreed to be taken up under the CW Undertaking) which have not been taken up. Accordingly, the Open Offer is fully underwritten.

To the best of the Directors' knowledge, information and belief, the Underwriter and its ultimate beneficial owners are Independent Third Parties.

The Underwriter shall be entitled to an underwriting commission of 1.5% of the aggregate Subscription Price in respect of 3,868,942,770 Offer Shares and the Company will also reimburse the Underwriter reasonable legal fees and other reasonable expenses in respect of the Open Offer.

Undertaking given by China Water

China Water has given the CW Undertaking under the Underwriting Agreement in favour of the Company and the Underwriter that (i) not to dispose of, or agree to dispose of, any Shares held by it and its associates from the date of the Underwriting Agreement to the Latest Time for Termination; (ii) to subscribe for or procure subscriptions for 1,653,921,810 Offer Shares to which China Water and its associates are entitled under the Open Offer; and (iii) the CW Convertible Bonds in the principal amount of HK$155,050,000 will remain unconverted and registered in the name of and beneficially owned by China Water and its associates up to and including the Latest Time for Termination.

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

Conditions of the Open Offer

The Open Offer is conditional upon:

(a) the passing by the Shareholders at the EGM the necessary resolution to approve the Increase in Authorised Capital;

(b) the passing by the Independent Shareholders at the EGM of the necessary resolution(s) to approve the Open Offer;

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

(d) the posting of the Prospectus Documents to Qualifying Shareholders and the posting of the Prospectus if required by the Listing Rules, and a letter to the Prohibited Shareholders, if any, for information purpose only, explaining the circumstances in which they are not permitted to participate in the Open Offer on or before the Prospectus Posting Date;

(e) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in all the Offer Shares by no later than the first day of their dealings;

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

(g) compliance with and performance of all the undertakings and obligations of China Water under the CW Undertaking of the Underwriting Agreement.

The conditions precedent are incapable of being waived. If the conditions precedent are not satisfied in whole or in part by the Company by the Latest Time for Termination or such other date as the Company and the Underwriter may agree, the Underwriting Agreement shall terminate and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

REASONS FOR THE OPEN OFFER AND USE OF PROCEEDS

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

The estimated gross proceeds from the Open Offer will be not less than approximately HK$284 million. It is estimated that the net proceeds from the Open Offer will amount to approximately HK$275 million. The net Subscription Price per Offer Share is approximately HK$0.049. The expenses on connection with the Open Offer are estimated to approximately HK$9 million and are payable by the Company. The Board intends to apply such proceeds from the Open Offer for financing possible diversified investments of the Group including but not limited to purchase and development of properties located in the PRC from China Water and/or other Independent Third Parties. The Group is currently studying the feasibility of investment in various PRC properties and up to the date hereof, no understanding, arrangement or agreement has been reached and the Company will make further announcement in compliance with the Listing Rules as and when appropriate.

The estimated expense in relation to the Open Offer, including financial, legal and other professional advisory fees, underwriting commission, printing and translation expenses will be borne by the Company. Having considered other fund raising alternatives for the Group, such as bank borrowings and placing of new Shares, and taking into account the benefits and cost of each of the alternatives, the Open Offer allows the Group to strengthen its balance sheet without facing the increasing interest rates. The Board considers that the Open Offer is in the interest of the Company and the Shareholders as a whole as it offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company and continue to participate in the future development of the Company should they wish to do so. **However, those Qualifying Shareholders who do not take up the Offer Shares to which they are entitled should note that their shareholdings in the Company will be diluted.**

The Directors (including the independent non-executive Directors) consider that the Open Offer is fair and reasonable and in the interests of the Company and the Shareholders as a whole having taken into account the terms of the Open Offer.

Adjustments to Options and Convertible Bonds

As at the Latest Practicable Date, there are (i) 31,500,000 outstanding Options granted under the share option schemes adopted by the Company entitling the holders thereof to subscribe for a total of 31,500,000 Shares; (ii) the CW Convertible Bonds entitling the holders thereof to convert into 1,100,333,333 Shares; and (iii) the BOC Convertible Bonds entitling the holders thereof to convert into 305,000,000 Shares. Save for the Options, the CW Convertible Bonds and the BOC Convertible Bonds, the Company has no other outstanding options, warrants or other securities convertible into Shares.

Adjustments to the conversion price of the outstanding CW Convertible Bonds and BOC Convertible Bonds in issue and the exercise prices and numbers of the outstanding Options may be required under the relevant terms of the instruments constituting the CW Convertible Bonds and the BOC Convertible Bonds and the share option schemes of the Company. An approved merchant bank or the auditors of the Company will be appointed to certify the necessary adjustments, if any, to the conversion prices of the outstanding CW Convertible Bonds and the outstanding BOC Convertible Bonds and the exercise prices and numbers of the outstanding Options. Further announcement will be made by the Company in this regard.

INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of the Company is HK$40,000,000 divided into 4,000,000,000 Shares of HK$0.01 each of which 1,137,906,249 Shares have been allotted and issued and fully paid or credited as fully paid. In order to accommodate the Open Offer and also future expansion and growth of the Group, the Directors propose to increase the authorised share capital of the Company from HK$40,000,000 divided into 4,000,000,000 Shares of HK$0.01 each to HK$200,000,000 divided into 20,000,000,000 Shares of HK$0.01 each.

The Increase in Authorised Share Capital is subject to and conditional upon the passing of an ordinary resolution by the Shareholders approving the Increase in Authorised Share Capital at the EGM.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Save as disclosed below, the Company has not conducted any other fund raising activities in the past twelve months before the date of the announcement of the Company dated 10 August 2009.

Date of announcement	Event	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds
19 November 2008	Open Offer of 345,968,750 new Shares	HK$21.1 million	general working capital	general working capital

EFFECTS ON SHAREHOLDING STRUCTURE

The existing and enlarged shareholding structures of the Company immediately before and after the completion of the Open Offer are set out below (assuming that no Shares will be issued and allotted as a result of the exercise of the rights attaching to the outstanding Options, the CW Convertible Bonds and/or the BOC Convertible Bonds on or before the Record Date):

	As at the Latest Practicable Date		Immediately after completion of the Open Offer (assuming no Qualifying Shareholders take up his/her/its entitlements under the Open Offer)		Immediately after completion of the Open Offer (assuming all Qualifying Shareholders take up his/her/its entitlements under the Open Offer)	
	No. of Shares	*Approx. percentage*	*No. of Shares*	*Approx. percentage*	*No. of Shares*	*Approx. percentage*
China Water and its associates	330,784,362	29.07%	1,984,706,172	29.07%	1,984,706,172	29.07%
Mr. But Ka Wai and his associates	60,000,000	5.27%	60,000,000	0.88%	360,000,000	5.27%
Prime Investments Holdings Limited	84,089,999	7.39%	84,089,999	1.23%	504,539,994	7.39%
Public Shareholders:						
Underwriter and/ or sub-underwriters	–	–	4,035,609,435	59.11%	–	–
Other public Shareholders	663,031,888	58.27%	663,031,888	9.71%	3,978,191,328	58.27%
	1,137,906,249	100.00%	6,827,437,494	100.00%	6,827,437,494	100%

The shareholding structures of the Company immediately before and after the completion of the Open Offer are set out below (assuming that the full conversion of the outstanding Options, the CW Convertible Bonds and the BOC Convertible Bonds except those covered in the CW Undertaking):

	Immediately before completion of the Open Offer		**Immediately after completion of the Open Offer (assuming no Qualifying Shareholders take up his/her/its entitlements under the Open Offer)**		**Immediately after completion of the Open Offer (assuming all Qualifying Shareholders take up his/her/its entitlements under the Open Offer)**	
	No. of Shares	*Approx. percentage*	*No. of Shares*	*Approx. percentage*	*No. of Shares*	*Approx. percentage*
China Water and its associates	330,784,362	21.47%	1,984,706,172	21.47%	1,984,706,172	21.47%
Mr. But Ka Wai and his associates	60,000,000	3.89%	60,000,000	0.65%	360,000,000	3.89%
Prime Investments Holdings Limited	150,756,665	9.78%	150,756,665	1.63%	904,539,990	9.78%
Public Shareholders:						
Underwriter and/or sub-underwriters	–	–	6,051,442,765	65.45%	–	–
Holder(s) of the BOC Convertible Bonds	305,000,000	19.79%	305,000,000	3.30%	1,830,000,000	19.79%
Holders of the Options	31,500,000	2.05%	31,500,000	0.34%	189,000,000	2.05%
Other public Shareholders	663,031,888	43.02%	663,031,888	7.16%	3,978,191,328	43.02%
	1,541,072,915	100.00%	9,246,437,490	100.00%	9,246,437,490	100.00%

The Underwriter has entered into binding sub-underwriting arrangements with sub-underwriters, which, to the best of knowledge and information of the Underwriter and the Company, are Independent Third Parties and none of the sub-underwriters will hold 10% or more of the issued share capital of the Company as enlarged by the Open Offer.

The Underwriter intends to place the Offer Shares with 17 sub-underwriters and to the best of the Directors' knowledge and information, the sub-underwriters will hold the Offer Shares for investment purposes. It is expected that the sub-underwriters will in aggregate sub-underwrite all the Offer Shares to be underwritten by the Underwriter.

GENERAL

Pursuant to Rule 7.24 of the Listing Rules, any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates will abstain from voting in favour of the resolutions relating to the Open Offer. As at the Latest Practicable Date, there are no controlling Shareholders holding 30% or more issued share capital in the Company, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates will abstain from voting in favour of the resolutions relating to the Open Offer. As at the Latest Practicable Date, save for 60,000,000 Shares held by Mr. But Ka Wai, an executive Director, through a corporation controlled by him, none of the Directors, the chief executive of the Company and their respective associates have any shareholding in the Company.

The Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders as to whether the terms of the Open Offer are fair and reasonable and whether the Open Offer are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote, taking into account the recommendations of the Independent Financial Adviser. In this connection, VC Capital has been appointed the Independent Financial Adviser to advise the independent board committee and the Independent Shareholders as to whether the terms of the Open Offer are fair and reasonable.

The Open Offer and the Increase in Authorised Share Capital are subject to, among other matters, the approval of the Shareholders or the Independent Shareholders at the EGM.

FINANCIAL AND TRADING PROSPECT OF THE GROUP

Market uncertainty brought about by the U.S. financial crisis, as well as concerns over inflation and possible economic downturn in 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. The Company is prudently optimistic in its business outlook and development and well-positioned to capitalize on the promising prospects in the long run. In relation to the diversification of its business in PRC property development, the Company has established a management team to undertake the business plan in conducting property development business in the PRC though there is no concrete plan concluded as at the Latest Practicable Date. The possible diversified investments might include but not limited to purchase and development of properties located in the PRC from China Water and/or other independent third parties.

RISK FACTORS IN RELATION TO PROPERTY DEVELOPMENT IN THE PRC

The Company sets out below certain risk factors in relation to the property development in the PRC for the Shareholders' attention. Additional risks and uncertainties not presently known to the Directors, or not expressed or implied below, or that the Directors currently deem immaterial, may also adversely affect the Group's business, operating results and financial condition in a material aspect.

The prospect of property development business is dependent on the growth of the property market in the PRC

The success of the diversification of business will depend on the property market in the PRC and accordingly, any adverse movements in the supply of, or demand for, properties in the PRC would have an adverse effect on the success of the Group in diversification. Although demand for residential and commercial properties in PRC has been growing rapidly in recent years, such growth has been coupled with volatility in market conditions and fluctuations in market prices. Demand for properties in the PRC has also been affected, and is expected to continue to be subject to the macro-economic control measures implemented by the PRC Government from time to time. The Company cannot assure that property development and investment activities will continue at past levels or that the Company will be able to benefit from future growth, if any, in the property development market the PRC. In addition, future demand for different types of residential or commercial properties in the PRC is uncertain. If the Company fails to respond to changes in market conditions in a timely manner, the success of diversification may be adversely affected.

The Company may not be able to obtain lands and sites that are suitable for development

The revenue stream from PRC property development depends on the completion of, and our ability to sell, those property developments. The Company will be required to obtain proper land reserve with suitable sites for development. The ability to identify and acquire suitable land reserves and sites is subject to a number of factors that are beyond the control of the Company. The diversification of business may be adversely affected if the Group is unable to obtain lands or sites for development at prices that allow the Group to achieve reasonable returns.

The PRC property development business is subject to relevant Government policies, regulations and measures

The PRC property development business is subject to relevant PRC Government policies, regulations and measures and such policies, regulations and measures may adversely affect the PRC property development business. The PRC Government controls all new land supply in the PRC and regulates land sales in the secondary market. As a result, the policies of the PRC Government towards land supply may adversely affect the ability of the Group to acquire land use rights for sites the Group seeks to develop and could increase the costs of any acquisition. The PRC central and local governments may regulate the means by which property developers obtain land sites for property developments.

Intense competition within the PRC property development market

The PRC property development industry is subject to intense competition and the success of the Group will depend on its capacity and capability to expand its market share. If the Group fails to maintain its competitiveness against other competitors, this will affect the profitability and the successfulness of the Group in tapping in the PRC property development market.

Sufficient funds and financing for PRC property development

The property development business is capital intensive. The Group intends to finance its land acquisitions and property developments primarily through a combination of internal funds, borrowings from banks and third parties and proceeds from the Open Offer. There is no assurance that the Group will have sufficient cash flow available for land acquisitions or property developments. In addition, there is no assurance to secure external financing on terms acceptable to the Company or at all.

Despite aforesaid, in light of the continuous growth in the PRC property market in the past years with the expertise of the management of the Group in PRC property development, the Directors is of the view that the future prospect of the PRC property development market is assured. Together with the estimated net proceeds of not less than HK$270 million as a result of the Open Offer, the Directors consider that the Group has sufficient funds and management expertise to tap into this growing market and therefore considers that it is fair and reasonable and in the interests of the Company and its Shareholders as a whole to diversify its business to property development in the PRC.

EGM

A notice convening the EGM at Unit 1816-17, 18/F., Sun Hung Kai Centre, 30 Harbour Road, Wan Chai, Hong Kong on Monday, 21 September 2009 at 10:00 a.m. is set out on pages 123 to 125 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's share registrars, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not later than 48 hours before the time appointed for the holding of the meeting or the adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting thereof (as the case may be) should you so desire.

RECOMMENDATION

The Directors believe that the terms of the Open Offer are fair and reasonable and in the interests of the Company and the Shareholders as a whole and recommend the Independent Shareholders to vote in favour of the resolution approving the Open Offer to be proposed at the EGM. You are advised to read carefully the letter from the Independent Board Committee regarding the Open Offer on page 23 of this circular. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, the text of which is set out on pages 24 to 40 of this circular, considers that the terms of the Open Offer are fair and reasonable insofar as the Independent Shareholders are concerned.

The Board also considers that the Increase in Authorised Share Capital is in the interests of the Company and the Shareholders as a whole and recommends the Shareholders to vote in favour of the resolution approving the Increase in Authorised Share Capital at the EGM.

FURTHER INFORMATION

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

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

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

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)

4 September 2009

To the Independent Shareholders

Dear Sir or Madam,

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

We refer to the circular of the Company dated 4 September 2009 (the "**Circular**") of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders as to whether the terms of the Open Offer are fair and reasonable insofar as the Independent Shareholders are concerned. VC Capital has been appointed as the Independent Financial Adviser to advise you and us in this respect.

Having taken into account the principal reasons and factors considered by, and the advice of, the Independent Financial Adviser as set out in its letter of advice to you and us on pages 24 to 40 of the Circular, we are of the opinion that the terms of the Open Offer are in the interests of the Company and the Shareholders as a whole and the terms of which are fair and reasonable insofar as the Company and the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Open Offer.

Yours faithfully,
For and on behalf of the Independent Board Committee
Mr. Ku Siu Fung Stephen **Mr. Chen Ziqiang** **Mr.Tam Pei Qiang** **Ms. Li Ling**

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

VC CAPITAL LIMITED
滙盈融資有限公司

4 September 2009

To the Independent Board Committee and the Independent Shareholders of China Botanic Development Holdings Limited

Dear Sir or Madam,

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

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Open Offer, details of which are set out in the letter from the Board (the "**Letter from the Board**") as contained in the circular of the Company dated 4 September 2009 (the "**Circular**"), of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 10 August 2009, the Company announced its intention to raise funds by way of the Open Offer of not less than 5,689,531,245 Offer Shares and not more than 7,705,364,580 Offer Shares at the Subscription Price of HK$0.05 per Offer Share, payable in full on application, on the basis of five (5) Offer Shares for every one (1) Share held on the Record Date. The Open Offer is fully underwritten.

As the Open Offer will increase the issued share capital and the market capitalisation of the Company by more than 50% within the 12 month period immediately preceding the date of the Announcement, pursuant to the Rule 7.24(5) of the Listing Rules, the Open Offer must be made conditional upon approval by Independent Shareholders at the EGM and any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour of the relevant resolution(s) relating to the Open Offer at the EGM. The Company had no controlling Shareholders as at the Latest Practicable Date. Mr. But Ka Wai, being the Chairman of the Company and an executive Director and his associates who held an aggregate of 60,000,000 Shares, representing approximately 5.27% of the existing issued share capital of the Company at the Latest Practicable Date, will abstain from voting in favour of the relevant resolution(s) relating to the Open Offer at the EGM.

The Independent Board Committee, comprising all the independent non-executive Directors who are considered independent in respect of the Open Offer, namely Mr. Ku Siu Fung, Stephen, Mr. Chen Ziqiang, Mr. Tam Pei Qiang and Ms. Li Ling, has been formed to advise the Independent Shareholders as to whether the terms of the Open Offer and the Underwriting Agreement are normal commercial terms, whether they are fair and reasonable so far as the Independent Shareholders are concerned and whether they are in the interests of the Company and the Shareholders as a whole.

In our capacity as the Independent Financial Adviser, our role is to give an independent opinion as to whether the terms of Open Offer and the Underwriting Agreement are on normal commercial terms, whether they are fair and reasonable so far as the Independent Shareholders are concerned and whether they are in the interests of the Company and the Shareholders as a whole.

VC Capital Limited ("**VC Capital**") is not associated with the Company and its substantial Shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, is considered eligible to give independent advice on the Open Offer. Apart from normal professional fees payable to us in connection with this engagement, no arrangement exists whereby VC Capital will receive any fees or benefits from the Company or its substantial Shareholders or any party acting, or presumed to be acting, in concert with any of them.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information and facts supplied and the opinions expressed by the executive Directors and senior management of the Group. We have also assumed that the information and representations contained or referred to in the Circular were true and accurate at the time they were prepared or made and will continue to be so up to the date of the EGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations made to us by the executive Directors and senior management of the Group. We have also been advised by the executive Directors that no material facts have been omitted from the Circular and the information provided to us.

We consider we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business and affairs or the future prospects of the Group, nor have we carried out any independent verification of the information supplied.

All the executive Directors have confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and that there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Open Offer and the Underwriting Agreement are on normal commercial terms, whether they are fair and reasonable so far as the Independent Shareholders are concerned and whether they are in the interests of the Company and the Shareholders as a whole, we have taken into account the following principal factors and reasons:

(1) Reasons for the Open Offer

The Group is principally engaged in (i) the production and distribution of snack food, convenience frozen food and other food products; and (ii) the cultivation of seabuckthorn seedlings and the manufacture, sales, research and development of seabuckthorn-related products.

As stated in the Letter from the Board, the Board intends to apply the net proceeds from the Open Offer for financing possible diversified investments of the Group including but not limited to purchase and development of properties in the PRC from China Water and/or other Independent Third Party(ies). The Group is currently studying the feasibility of investment in various PRC properties and up to the date of this letter, no understanding, arrangement or agreement has been reached by the Company.

To assess whether the diversification of the Group's business into the property development business in the PRC is fair and reasonable so far as the Independent Shareholders are concerned and whether it is in the interests of the Company and the Shareholders as a whole, we have taken into account the following factors and reasons:

1.1 Financial performance of the Group

The table below summaries the audited consolidated financial results of the Group for each of the two years ended 31 December 2008 as extracted from the annual report of the Company (the "**2008 Annual Report**"):

Table 1: Extract of consolidated income statement of the Group (2007-2008)

	For the year ended 31 December 2008	**For the year ended 31 December 2007**
	HK$'000	*HK$'000*
Turnover	239,632	281,054
Cost of Sales	(196,163)	(195,517)
Gross Profit	43,469	85,537
Net (loss)/profit attributable to the Shareholders	(293,583)	51,892

For the year ended 31 December 2008, the Group's total revenue decreased by approximately 14.74% to approximately HK$239.6 million and the Group's gross profit decreased by approximately 49.18% to approximately HK$43.5 million. The gross profit margin also decreased from approximately 30.43% in 2007 to approximately 18.14% in 2008. As stated in the 2008 Annual Report, the decrease in total revenue was mainly due to the economic downturn and poor market sentiment brought about by the global financial crisis in the second half of 2008 and the decrease in gross profit was mainly due to the volatility in commodity prices and surging production costs.

For the year ended 31 December 2008, the Group has recorded a net loss attributable to the Shareholders of approximately HK$293.5 million as against a net profit attributable to the Shareholders of approximately HK$51.9 million in 2007. As stated in the 2008 Annual Report, the substantial loss was mainly due to the volatility in the economy leading to deterioration in trading conditions at the consumer level which induced financial strain to their customers, which resulted in lower sales volume in the second half of 2008, and volatility in commodity prices which had created a difficult pricing environment in the Group's business.

The table below summarises the audited consolidated results of the different business segments of the Group for each of the two years ended 31 December 2008 as extracted from the 2008 Annual Report:

Table 2: Extract of consolidated results of different business segments of the Group (2007-2008)

	Packaged and frozen food products		**Seabuckthorn and related healthcare products**	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE				
External sales	200,913	257,816	38,719	23,238
Inter-segment sales	37,841	27,837	78	–
Total revenue	238,754	285,653	38,787	23,238
RESULT				
Segment (loss)/profit	(24,712)	31,123	(27,855)	15,058

Packaged and frozen food product segment

For the year ended 31 December 2008, the total revenue of the Group's packaged and frozen food product segment decreased by approximately 16.42% to approximately HK$238.7 million. While this line of business recorded an operating profit in 2007, it turned into an operating loss in 2008. As stated in the 2008 Annual Report, the decrease in revenue was mainly due to keen competition in the market, the unprecedented volatility in the economy and the sudden shrink in consumption in the second half of 2008. The substantial increase in operating loss was mainly due to the stringent inspection requirements of all export companies in China after the "poisoned dumplings incident" and the "tainted milk" incident and additional measures on export imposed by the government of the PRC during the Beijing Olympics, which has affected the Group's export volume and shipment time.

Seabuckthorn and related healthcare product segment

For the year ended 31 December 2008, the total revenue of the Group's seabuckthorn and related healthcare product segment increased by approximately 66.91% to approximately HK$38.8 million. While this line of business recorded an operating profit in 2007, it turned into an operating loss in 2008. As stated in the 2008 Annual Report, the increase in revenue was mainly due to immediate access to the seabuckthorn markets in China and the substantial increase in operating loss 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 the new business set up to necessitate the Group's development.

As advised by the Directors, notwithstanding the challenges faced by the Group in its existing businesses, it is intended that the Company will continue with its existing businesses with the possible diversification into other business(es) as a way aiming to maximise shareholders' value when appropriate opportunities arise.

Given that the Group's existing businesses are heavily dependent on the consumption sector and are facing various challenges including keen competition in the market, and uncertainties after the financial turmoil in the second half of 2008 might continue to have an adverse effect on the existing businesses of the Group, we consider it justifiable for the Group to diversify its business and finance any possible diversified investment(s) through the Open Offer.

1.2 Real estate market in the PRC

(a) Macro-economic situation in the PRC

The PRC economy has grown significantly since the introduction of economic reform in the late 1970s. The "Open Door Policy" has encouraged foreign trade and foreign investments in the PRC, the growth and pace of development were exceptionally high and have been sustainable for most of the time. In 2001, the accession to the World Trade Organization has further accelerated the continuing economic reform and the growth of the PRC economy.

The table below illustrates selective economic statistics of the PRC over the past eight years:

Table 3: Selective statistics of the economy in the PRC (2001 – 2008)

	2001	2002	2003	2004	2005	2006	2007	2008
Nominal GDP (RMB in billions)	10,965.5	12,033.3	13,582.3	15,987.8	18,321.7	21,192.3	25,730.6	30,067.0
Per capita GDP (RMB)	8,622.0	9,398.0	10,542.0	12,336.0	14,053.0	16,165.0	18,934.0	22,698.0
Investment in development of real estate (RMB in billions)	634.4	779.1	1,015.4	1,316.0	1,591.0	1,942.3	2,528.9	3,058.0

Source: China Statistical Yearbook 2001-2008, National Bureau of Statistics of China

Over the past eight years, the gross domestic product of the PRC (the "**GDP**") has increased from approximately RMB10,965.5 billion in 2001 to approximately RMB30,067.0 billion in 2008 at a compound annual growth rate ("**CAGR**") of approximately 15.50%. The investment in development of real estate has increased from approximately RMB634.4 billion in 2001 to approximately RMB3,058.0 billion in 2008 at a CAGR of approximately 25.19%, which is higher than the CAGR of the GDP of approximately 15.50%. The proportion of investment in development of real estate to the total GDP has increased from approximately 5.79% in 2001 to approximately 10.17% in 2008. The increase in proportion of the investment in development of real estate to the total GDP and the increasing growth of the investment in development of real estate indicate that the real estate sector is becoming a pillar in the growth of the GDP.

(b) Real estate market development in the PRC in recent years

With reference to a research study dated 27 June 2009 titled "Analysis, review and preview of property market in the PRC 2008 – 2009" which was conducted by China Internet Information Centre, the reform of real estate market in the PRC did not commence until late 1990s, prior to which the real estate market was part of the government's planned economy. During 1998, which was marked as a cornerstone of the real estate reform, the "Circular on further deepening the urban housing system reform and accelerating housing construction（No. 23 1998）of the State Council《關於進一步深化城鎮住房制度改革加快住房建設的通知》(國發〔1998〕23號) was released by the State Council of the PRC. As stated in the aforesaid circular, a series of reforms including the abolition of housing allocation by the State, commercialisation of housing, provision of financing and subsidies for housing, development of mortgage financing and support and development of property development and management have encouraged private ownership of properties and have directly contributed to the rapid and sustainable growth of the real estate market in the PRC.

The table below illustrates selective statistics of supply and demand of residential housings by enterprises over the past eight years:

Table 4: Selective statistics of the supply and demand of residential housings by enterprises in the PRC (2001 – 2008)

	2001	2002	2003	2004	2005	2006	2007	2008
Supply indicator of housings								
Investment in residential housings (RMB in billions)	421.7	522.8	677.7	883.7	1,086.1	1,363.8	1,800.5	2,208.1
Total gross floor area (G.F.A) of residential housings which commenced construction during the year (in million sq.m)	305.3	347.2	438.5	479.5	551.9	644.0	788.0	798.9
Demand indicator of housings								
Total gross floor area (G.F.A) of residential housings sold (in million sq.m)	199.4	237.0	297.8	338.2	495.9	554.2	701.4	558.9
Average price of residential housings (RMB per sq.m)	2,017.0	2,092.0	2,197.0	2,608.0	2,937.0	3,119.0	3,645.0	3,655.0
Sales revenue generated from real estate development (RMB in billions)	547.2	707.8	913.7	1,331.5	1,476.9	1,804.7	2,339.7	Not Available

Source: China Statistical Yearbook 2001-2008, National Bureau of Statistics of China

As only some (and not all) of the information as appeared in the above Tables 3 and 4 for the first six months of 2009 are available in the public domain, only data from 2001 to 2008 is adopted in the above tables for the purpose of information completeness.

The investment in residential housings by enterprises for real estate development amounted to approximately RMB2,208.1 billion in 2008, which represented a substantial increase of approximately 423.62% as compared with that in 2001. The total gross floor area ("**G.F.A**") of residential housings which commenced construction in 2008 amounted to approximately 798.9 million sq.m, which represented an increase of approximately 161.68% as compared with that in 2001 and a total of approximately 558.9 million sq.m of G.F.A of residential housings were sold in 2008, which represented an increase of approximately 180.29% as compared with that in 2001.

The upward trend in the market is evidenced by the increase of average price of residential housings and the sales revenue generated from real estate development. The average price of residential housings in the PRC was approximately RMB3,655.0 per sq.m in 2008, which represented an increase of approximately 81.21% as compared with that in 2001. The sales revenue generated from real estate development was approximately RMB2,339.7 billion in 2007, which represented a substantial increase of approximately 327.60% as compared with that in 2001.

Notwithstanding that the total G.F.A of residential housings which commenced construction in each of the years during the period of 2001 to 2008 was greater than the total G.F.A of residential housings sold, the percentage increase in the growth of total G.F.A of residential housings sold of approximately 180.29% during the period of 2001 to 2008 is greater than the percentage increase of total G.F.A of residential housings which commenced construction of approximately 161.68% during the same period. This, together with the increase in average price of residential housings and sales revenue by approximately 81.21% and 327.60% respectively during the same period, is evidence of the substantial growth in the PRC property market which induces more players to participate in the market.

Having considered the rapid growth of the economy of the PRC, the continuous growth of the real estate market and the amount of revenue generated from real estate development over the past years, and with the reliance of the Company's existing businesses on the consumption sector, which is subject to keen competition and could be adversely affected by any deterioration of the consumption market, we consider that it is justifiable and reasonable for the Group to diversify its business into, for instance, the property market in the PRC which has experienced substantial growth in the previous years, and finance any possible diversified investment(s) through the Open Offer.

(c) Risk factors of the real estate market in the PRC

The real estate market in the PRC, particularly in major cities, has grown rapidly in recent years but such growth could come with volatility in market conditions and fluctuation in real estate prices. Since revenue generated from the private real estate market is heavily dependent upon market demand, it would be difficult to predict the sustainability of the growth of demand in the future, as many factors including social, political and economic factors and regulatory measures could affect the development of the real estate market in the PRC as a whole. Over the past few years, the PRC government has introduced a series of policies and measures to curb the rapid growth of the economy and prevent the economy from over-heating in certain sectors, including the real estate sector, with an aim of achieving a more sustainable level of growth in the long term. Also, the approach in monetary and economic policies from time to time by the PRC government (for example, the increase of interests rates) will adversely affect the attractiveness of mortgage financing and, hence, property demand. The sudden change of global economic conditions like the financial turmoil in the second half of 2008 would also add additional risks and uncertainties to the development and the demand of the private real estate market in the PRC.

Therefore, Independent Shareholders are reminded to note that the diversification of the Group's business into the property development business in the PRC would bring new risks and uncertainties to the businesses of the Group which could have an impact on the performance and profitability of the Group in the future.

1.3 Appointment of new Directors

The Company has announced on 30 July 2009 the appointment of new Directors to prepare for diversification of the Group's business into property development in the PRC. The Board has appointed two executive Directors, namely Mr. Sun Zhen Yu and Mr. Ren Qian, a non-executive Director, namely Mr. Zhou Kun, and an independent non-executive Director, namely Ms. Li Ling to the Board. Each of the Director's credentials have been disclosed in the section headed "Particulars of Directors" in Appendix III to the Circular. Each of the new Directors has substantial experience in property development and management in the PRC. As the Group has never been involved in property development, we are of the view that the appointment of new Directors is a positive step by the Company to prepare for diversification into its new business in the future.

Despite the risks and uncertainties in relation to the real estate market in the PRC, having considered the continuous growth in the economy and sustainable development of the real estate market in the PRC so far, we are of the view that the Group's diversification into property development in the PRC is justifiable and strategically appropriate and the raising of capital through the Open Offer to finance such new business is in the interests of the Company and the Shareholders as a whole.

(2) Financing alternatives available to the Group

Having discussed with the management of the Company, we understand that the Company has considered alternative financing means to the Group, such as rights issue, the placing of new Shares and debt financing. It is considered that financing by way of rights issue will be less cost effective and more time-consuming than an open offer as it involves trading of nil-paid rights during the period of rights issue. Existing Shareholders may not be able to participate in a placing of new Shares and be given the opportunity to maintain their proportionate interests in the Company, which may thereby result in a dilution of their interests.

Debt financing is also not considered as the optimal approach to raise funds to finance the new business of the Group as it would involve additional interest expenses. On the other hand, the Open Offer will strengthen the Group's capital base, allow the Group to raise the necessary funds for diversification of its business, and provide an opportunity to its existing Shareholders to maintain their proportionate interests in the Company.

Having considered the above, we are of the view that the Open Offer is a more desirable means for the Group to finance the diversification of its business into property development in the PRC and is in the interests of the Company and Shareholders as a whole.

(3) Proposed Open Offer

The Company proposes to offer the Qualifying Shareholders new Shares for subscription by way of the Open Offer, in the proportion of five (5) Offer Shares for every one (1) Share held on the Record Date at the Subscription Price of HK$0.05 per Offer Share, payable in full on application. The Open Offer is conditional upon, among other things, (i) the fulfillment (or, where appropriate, waiver) of the conditions as contained in the Underwriting Agreement; and (ii) the passing of the relevant resolution(s) to approve the Open Offer by the Independent Shareholders at the EGM. China Water has undertaken to the Company and Underwriter to subscribe for or procure subscription for the Offer Shares to which China Water and its associates are entitled under the Open Offer, being a total of 1,653,921,810 Offer Shares.

3.1 Major terms of the Open Offer

(a) The Subscription Price

The Subscription Price of HK$0.05 per Offer Share represents:

(i) a discount of approximately 83.61% to the closing price of HK$0.305 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 45.95% to the theoretical ex-entitlement price of approximately HK$0.0925 per Share based on the closing price of HK$0.305 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 82.01% to the average closing price of HK$0.278 per Share for the last five consecutive trading days as quoted on the Stock Exchange up to and including the Last Trading Day;

(iv) a discount of approximately 86.11% to the closing price of HK$0.36 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(v) a positive figure as against a negative figure of audited consolidated net tangible assets deficiency of approximately HK1.02 cents per Share as at 31 December 2008 (based on a negative figure of audited consolidated net tangible assets deficiency of the Group of approximately HK$11,576,000 as at 31 December 2008 and 1,137,906,249 Shares in issue).

As stated in the Letter from the Board, the Subscription Price was determined after arm's length negotiation between the Company and the Underwriter with reference to, among other things, the prevailing market conditions. The Directors consider that the discounts of the Subscription Price to the market price would encourage Qualifying Shareholders to participate in the Open Offer so they can maintain their proportionate interests in the Company in order to participate in the future growth in the businesses of the Group. The Directors consider the terms of the Open Offer, including the Subscription Price, are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

In assessing whether the Subscription Price is fairly and reasonably determined, we have considered the following factors:

(b) Comparison with recent open offers and rights issues

We have reviewed 39 open offer and rights issue transactions announced by companies whose shares are listed on the Main Board of the Stock Exchange from 7 February 2009, being six months prior to the date of the Underwriting Agreement, and up to and including the date of the Underwriting Agreement (the "**Review Period**") and selected 8 open offer and rights issue transactions (the "**Comparable Transactions**") for comparison purposes. Since the stock market has been recovering from the global financial turmoil during the past six months and the number of fundraising exercises from listed companies has increased, we consider that it is appropriate to review the fundraising exercises by way of open offer and rights issue in the past six months as it provides a benchmark to the current market situation. The Comparable Transactions are selected on the basis that (i) the relevant open offer and rights issue transaction would increase the issued share capital of the subject listed company by 50% or more upon completion of the open offer or rights issue; (ii) the relevant open offer or rights issue transaction is fully underwritten by the underwriter(s) who is/are independent third party(ies); and (iii) the shares of the listed companies have not been subjected to prolonged suspension of trading, being more than six months, immediately before the announcement of the relevant open offer or rights issue transaction within the Review Period. Set out below are the key terms of the Comparable Transactions during the Review Period:

Table 5: Comparable Transactions during the Review Period

Date of announcement	Company name (stock code)	Basis of entitlement	Premium/ (discount) of subscription price over/ to share closing price as at the last trading day prior to release of the announcement	Premium/ (discount) of subscription price over/to theoretical ex-entitlement price as at the last trading day prior to release of the announcement	Underwriting commission
			%	%	%
13-Feb-09	Wang On Group Limited (1222)	3 for 1	(83.33)	(33.33)	2.50%
14-Feb-09	SHK Hong Kong Industries Limited (formerly known as Yu Ming Investments Limited) (666)	1 for 1	0.00	0.00	2.50%
23-Feb-09	China Sci-Tech Holdings Limited (985)	5 for 1	(87.76)	(54.55)	2.50%
3-Mar-09	Singamas Container Holdings Limited (716)	2 for 1	(53.90)	(28.60)	4.00%
17-Mar-09	ITC Corporation Limited (372)	4 for 1	(82.76)	(48.98)	2.50%
24-Mar-09	Sun Innovation Holdings Limited (547)	5 for 1	(79.73)	(40.00)	2.00%
27-Apr-09	RBI Holdings Limited (566)	4 for 1	(86.11)	(55.36)	2.50%
30-Apr-09	PYI Corporation Limited (498)	2 for 1	(72.70)	(47.10)	3.00%
Average			**(68.29)**	**(38.49)**	**2.69%**
Median			**(81.25)**	**(43.55)**	**2.50%**
Maximum			**0.00**	**0.00**	**4.00%**
Minimum			**(87.76)**	**(55.36)**	**2.00%**
10-Aug-09	The Company	5 for 1	(83.61)	(45.95)	1.50%

Source: the Stock Exchange

As illustrated in the table above, we note that the premium/discount of the respective subscription prices to the respective closing prices as quoted on the respective last trading days prior to the release of the announcements of the Comparable Transactions range from a discount of approximately 87.76% to nil discount, with a median discount of approximately 81.25%. The premium/discount of the respective subscription prices to the respective theoretical ex-entitlement prices as quoted on the respective last trading days prior to the release of the announcements of the Comparable Transactions range from a discount of approximately 55.36% to nil discount with a median discount of approximately 43.55%. We note that the discount of approximately 83.61% of the Subscription Price to the closing price as quoted on the Last Trading Day and the discount of approximately 45.95% of the Subscription Price to the theoretical ex-entitlement price are within the range of the discounts of the Comparable Transactions.

As the discounts of the Subscription Price to the closing price as quoted on the Last Trading Day and to the theoretical ex-entitlement price as stated above fall within the respective range of discounts of the Comparable Transactions, and that such discounts are only slightly higher than the median of the respective discounts of the Comparable Transactions, we are of the view that the discounts of the Subscription Price to the closing price as quoted on the Last Trading Day and to the theoretical ex-entitlement price are not excessive and that the Subscription Price is fair and reasonable.

(c) Underwriting Commission

The Company will pay the Underwriter an underwriting commission of an amount equal to 1.50% of the aggregate Subscription Price for the Underwritten Shares (the "**Underwriting Commission**"). As confirmed by the Directors, the Underwriting Commission was determined after arm's length negotiations between the Company and the Underwriter based on normal commercial terms with reference to market rates and the substantial discounts of the Subscription Price to the closing price as quoted on the Last Trading Day and to the theoretical ex-entitlement price. To this end, we consider that it is justifiable and beneficial for the Company to pay a lower Underwriting Commission to engage the Underwriter to participate in the Open Offer and we are of the view that the Underwriting Commission is fair and reasonable.

In the view of the fact that (i) it is a general market practice to offer discount to enhance the attractiveness of an open offer and a lower subscription price will be more likely to attract more Qualifying Shareholders to participate in the Open Offer; (ii) the Qualifying Shareholders will have an equal opportunity to participate in the Open Offer and take up their respective entitlements in full on the same basis; and (iii) the Open Offer will allow the Company to enlarge its capital base in order to finance possible diversified investments of the Group, we are of the view that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned and that it is in the interests of the Company and the Shareholders as a whole.

(d) No arrangement for application for excess Offer Shares

There will be no arrangement for application for excess Offer Shares for the Qualifying Shareholders. Having considered that (i) each Qualifying Shareholder will have an equal opportunity to participate in the Company's future development by subscribing for their proportionate entitlement under the Open Offer; (ii) excess application arrangement will incur extra administrative costs and further administrative effort on the part of the Company, which will not be cost effective from the Company's point of view; (iii) the Subscription Price is attractive enough to encourage all Qualifying Shareholders to take up their assured entitlements; and (iv) the Underwriting Agreement ensures that any Offer Shares not taken up by the Qualifying Shareholders will be subscribed by the Underwriter, we consider that the absence of application arrangement for excess Offer Shares is reasonable.

(4) Effect on the shareholding structure of the Company

The table below illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after completion of the Open Offer (assuming no Qualifying Shareholder takes up his/her/its entitlement under the Open Offer); and (iii) immediately after completion of the Open Offer (assuming all Qualifying Shareholders takes up his/her/its entitlement under the Open Offer), assuming that none of the holders of the outstanding Options, the CW Convertible Bonds and the BOC Convertible Bonds exercise their rights attaching thereto and no Shares are allotted and issued as a result on or before the Record Date:

Table 6A: Shareholding structure of the Company (assuming no exercise of rights attaching to the outstanding Options and no conversion of the CW Convertible Bonds and the BOC Convertible Bonds on or before the Record Date)

Names of Shareholders	As at the Latest Practicable Date		Immediately after completion of the Open Offer (assuming no Qualifying Shareholder takes up his/her/its entitlement under the Open Offer)		Immediately after completion of the Open Offer (assuming all Qualifying Shareholders take up his/her/its entitlement under the Open Offer)	
	Number of Shares	*Approx.%*	*Number of Shares*	*Approx.%*	*Number of Shares*	*Approx.%*
China Water and its associates	330,784,362	29.07%	1,984,706,172	29.07%	1,984,706,172	29.07%
Mr. But Ka Wai and his associates	60,000,000	5.27%	60,000,000	0.88%	360,000,000	5.27%
Prime Investments Holdings Limited	84,089,999	7.39%	84,089,999	1.23%	504,539,994	7.39%
Public Shareholders:						
Underwriter and/or sub-underwriters	–	–	4,035,609,435	59.11%	–	–
Other public Shareholders	663,031,888	58.27%	663,031,888	9.71%	3,978,191,328	58.27%
Total	1,137,906,249	100.00%	6,827,437,494	100.00%	6,827,437,494	100.00%

The table below illustrates the shareholding structure of the Company (i) immediately before completion of the Open Offer; (ii) immediately after completion of the Open Offer (assuming no Qualifying Shareholder takes up his/her/its entitlement under the Open Offer); and (iii) immediately after completion of the Open Offer (assuming all Qualifying Shareholders take up his/her/its entitlement under the Open Offer), assuming that Shares are allotted and issued as a result of the exercise in full of the rights attaching to the outstanding Options and the full conversion of the CW Convertible Bonds and the BOC Convertible Bonds, except those covered in the CW Undertaking, on or before the Record Date:

Table 6B: Shareholding structure of the Company (assuming exercise in full of the rights attaching to the outstanding Options and full conversion of the CW Convertible Bonds and the BOC Convertible Bonds on or before the Record Date)

Name of Shareholders	Immediately before completion of the Open Offer		Immediately after completion of the Open Offer (assuming no Qualifying Shareholders take up his/her/its entitlement under the Open Offer)		Immediately after completion of the Open Offer (assuming all Qualifying Shareholders take up his/her/its entitlement under the Open Offer)	
	Number of Shares	*Approx. %*	*Number of Shares*	*Approx. %*	*Number of Shares*	*Approx. %*
China Water and its associates	330,784,362	21.47%	1,984,706,172	21.47%	1,984,706,172	21.47%
Mr. But Ka Wai and his associates	60,000,000	3.89%	60,000,000	0.65%	360,000,000	3.89%
Prime Investments Holdings Limited	150,756,665	9.78%	150,756,665	1.63%	904,539,990	9.78%
Public Shareholders:						
Underwriter and/or sub-underwriters	–	–	6,051,442,765	65.45%	–	–
Holder(s) of the BOC Convertible Bonds	305,000,000	19.79%	305,000,000	3.30%	1,830,000,000	19.79%
Holders of the Options	31,500,000	2.05%	31,500,000	0.34%	189,000,000	2.05%
Other public Shareholders	663,031,888	43.02%	663,031,888	7.16%	3,978,191,328	43.02%
	1,541,072,915	100.00%	9,246,437,490	100.00%	9,246,437,490	100.00%

The Open Offer is offered to all Qualifying Shareholders on the same basis. All Qualifying Shareholders should note that each of them is entitled to subscribe for the Offer Shares so that they can maintain their proportionate interests in the Company. For those Qualifying Shareholders who choose to take up their respective entitlements in full under the Open Offer, their shareholding interests in the Company will remain unchanged upon completion of the Open Offer.

For those Qualifying Shareholders who choose not to take up their respective entitlements in full under the Open Offer, depending on the extent to which they take up their respective entitlements, their shareholding interests in the Company will be diluted. For illustrative purpose, according to the above Table 6A, assuming that none of the holders of the outstanding Options, the CW Convertible Bonds and the BOC Convertible Bonds exercise their rights attaching thereto and no Shares are allotted and issued as a result on or before the Record Date, and that none of the Qualifying Shareholders except China Water and its associates and the Underwriter take up their respective entitlements in the Open Offer, the Qualifying Shareholders' shareholding interests in the Company upon completion of the Open Offer will be diluted from approximately 70.93% as at the Latest Practicable Date to approximately 11.82% immediately upon completion of the Open Offer. According to the above Table 6B, assuming that Shares are allotted and issued as a result of the exercise in full of the rights attaching to the outstanding

Options and the full conversion of the CW Convertible Bonds and the BOC Convertible Bonds, except those covered in the CW Undertaking, on or before the Record Date, and that none of the Qualifying Shareholders except China Water and its associates and the Underwriter take up their respective entitlements in the Open Offer, the Qualifying Shareholders' shareholding interests in the Company upon completion of the Open Offer will be diluted from approximately 78.53% immediately before completion of the Open Offer to approximately 13.08% immediately upon completion of the Open Offer.

Notwithstanding the aforesaid dilution effects of the Open Offer assuming that none of the Qualifying Shareholders (other than China Water and its associates) participate in the Open Offer, we consider that the interests of the Qualifying Shareholders will not be prejudiced since all Qualifying Shareholders are provided with an opportunity to participate in the Open Offer and maintain their respective shareholdings in an equitable manner, and their interests will not be diluted if they choose to take up their respective entitlements in full under the Open Offer.

(5) Financial effects on the Company

As stated in the Letter from the Board, the net proceeds of the Open Offer is expected to be approximately HK$275.5 million, after deducting expenses in relation to the Open Offer, and will be used in financing possible diversified investment(s) of the Group, including but not limited to purchase and development of properties located in the PRC from China Water and/or other Independent Third Party(ies).

Effect on net tangible assets

Pursuant to the unaudited pro forma financial information as set out in Appendix II to the Circular, had the Open Offer been completed on 31 December 2008, the Group would have a net tangible assets attributable to the Shareholders of approximately HK$263.9 million, as compared with a negative figure of consolidated net tangible assets deficiency attributable to the Shareholders of approximately HK$11.6 million as at 31 December 2008. The Group's unaudited pro forma adjusted consolidated net tangible asset value ("**NTAV**") per Share will be approximately HK3.87 cents upon completion of the Open Offer, as compared with a negative figure of consolidated net tangible assets deficiency per Share attributable to the Shareholders of approximately HK1.02 cents as at 31 December 2008. We are of the view that the Open Offer will bring a positive impact to the Group's NTAV per Share, having considered the significant improvement of the Group's NTAV per Share upon completion of the Open Offer.

Effect on gearing ratio

As stated in the audited consolidated financial statements of the Group for the year ended of 31 December 2008 as set out in Appendix I to the Circular, the amounts of the equity attributable to the Shareholders and total borrowings of the Group were approximately HK$62.9 million and HK$378.8 million respectively (being the total amount of borrowings of HK$116.6 million and outstanding convertible notes of HK$262.2

million). The Group's gearing ratio (being total borrowings divided by equity attributable to the Shareholders) was approximately 6.02 times. Since the Open Offer will result in an increase in net assets of the Group, it is expected that the gearing ratio of the Group will improve upon completion of the Open Offer.

Effect on liquidity

As at 31 December 2008, the total bank balances and cash of the Group were approximately HK$21.2 million. Given that the estimated net proceeds of approximately HK$275.5 million are expected to be received upon completion of the Open Offer, the Group's liquidity position is expected to improve upon completion of the Open Offer.

Shareholders should note that the above analyses are only for illustrative purposes and do not purport to represent the financial position of the Group upon completion of the Open Offer.

Having considered that the completion of the Open Offer will bring positive effects to the Group's general working capital, net tangible assets position, gearing and liquidity, we are of the view that the Open Offer is in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having considered the above-mentioned principal factors and reasons, we consider that the Open Offer and the Underwriting Agreement are on normal commercial terms, that they are fair and reasonable so far as the Independent Shareholders are concerned and that they are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution(s) to approve the Open Offer at the EGM.

Yours faithfully
For and on behalf of
VC Capital Limited

Philip Chau
Managing Director

Keith Lou
Executive Director

I. SUMMARY FINANCIAL INFORMATION

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

(i) Results

	Year ended		
	31 December 2006	**31 December 2007**	**31 December 2008**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	202,130	281,054	239,632
Cost of sales	(131,307)	(195,517)	(196,163)
Gross profit	70,823	85,537	43,469
Gain arising from initial recognition of biological assets at fair value less estimated point-of-sales costs	–	72,927	10,308
Other operating income and net gain	3,675	11,720	8,908
Selling and distribution expenses	(25,268)	(19,723)	(29,527)
Administrative expenses	(18,093)	(28,759)	(78,935)
Finance costs	(12,242)	(16,234)	(37,300)
Operating profit (loss) before impairment charges	18,895	105,468	(83,077)
Impairment on goodwill	–	–	(108,859)
Impairment on trade receivables	–	–	(41,538)
Write-off of inventories	–	–	(34,607)
Changes in fair values less estimated point-of-sales costs of biological assets	–	–	(59,542)
Profit before tax	18,895	105,468	(327,623)
Income tax expenses	(5,865)	(8,231)	1,342
Profit for the year	13,030	97,237	(326,281)
Attributable to:			
Equity holders of the Company	–	51,892	(293,583)
Minority interests	–	45,345	(32,698)
Profit for the year	–	97,237	(326,281)
Dividends	–	–	–
Earnings per share			
– Basic	3.52	9.19	(42.43)
– Diluted	N/A	2.92	N/A

(ii) Assets and liabilities

	31 December 2006 HK$'000	31 December 2007 HK$'000	31 December 2008 HK$'000
Non-current assets			
Prepaid lease payments	2,140	3,147	3,079
Property, plant and equipment	111,607	174,508	195,856
Biological assets	–	74,909	27,844
Intangible assets	–	532	1,014
Deposits paid on acquisition of a subsidiary	–	6,000	–
Deposits paid on acquisition of property, plant and equipment	–	17,391	–
Goodwill	–	171,613	73,480
Deferred tax assets	–	–	660
	113,747	448,100	301,933
Current assets			
Inventories	57,720	64,794	43,395
Trade and other receivables	178,487	215,354	162,763
Tax recoverable	–	–	2,010
Derivative financial instruments	–	–	6,864
Pledged bank deposits	21,459	23,622	15,294
Bank balances and cash	36,366	134,649	21,189
	294,032	438,419	251,515
Current liabilities			
Trade and other payables	28,326	49,285	44,929
Obligations under finance leases	5,092	9,830	3,999
Tax payable	3,121	5,742	1,831
Derivative financial instruments	–	–	302
Amounts due to minority shareholders	–	5,493	5,652
Amount due to a shareholder	–	11,626	15,000
Borrowings	138,674	119,346	98,781
	175,213	201,322	170,494
Net current assets	118,819	237,097	81,021
Total assets less current liabilities	232,566	685,197	382,954
Non-current liabilities			
Obligations under finance leases	5,903	3,666	996
Borrowings	32,030	23,098	17,845
Convertible notes	–	244,834	262,156
Deferred tax liabilities	90	379	–
	38,023	271,977	280,997
NET ASSETS	194,543	413,220	101,957
Capital and reserves			
Share capital	5,350	6,919	6,919
Reserves	189,193	333,554	55,999
Equity attributable to equity holders of the Company	194,543	340,473	62,918
Minority interests	–	72,747	39,039
TOTAL EQUITY	194,543	413,220	101,957

II. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2008

Set out below are the audited consolidated income statement, consolidated balance sheet, consolidated statement of change in equity and consolidated cash flow statement of the Group and the balance sheet of the Company and notes to the financial statements reproduced from the audited financial statements published in the Company's annual report for the year ended 31 December 2008.

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

	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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Share capital	Share premium	Convertible notes equity reserve	Share options reserve	Special reserve	PRC statutory reserve	Translations reserves	Accumulated profits (loss)	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2007	5,350	68,551	–	–	10,816	23,917	(2,933)	88,842	–	194,543
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.

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

	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.

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.

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.

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.

Property, plant and equipment

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

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

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

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

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

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

Prepaid lease payments

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

Inventories

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

Financial instruments

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

Financial assets

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

Effective interest method

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

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

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

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

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

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

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

Financial liabilities and equity

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.

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.

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.

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 foreign 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 Provisions, 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.

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.

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 initial 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.

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.

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

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	**Within 1 year**	**2-5 years**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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	**Within 1 year**	**2-5 years**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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

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).

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.

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.

(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

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

(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.

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

		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	–	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

For the year ended 31 December 2007

Emoluments	Fees	Other emoluments 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.

(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	2007
	HK$'000	*HK$'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.

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

	2008	2007
	HK$'000	*HK$'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	2007
	HK$'000	*HK$'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.

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	**2007**
	HK$'000	*HK$'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	Furniture and equipment	Motor vehicles	Plant and machinery	Construction In progress	Loose tools and moulds	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST							
At 1 January 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

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.

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

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	2007
	HK$'000	*HK$'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.

25. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2008	**2007**	**2008**	**2007**
	HK$	*HK$*	*HK$*	*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 HK$'000	2007 HK$'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:

	2008 HK$'000	2007 HK$'000
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.

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

30. SHARE OPTION SCHEME

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

The maximum number of securities which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the share capital of the Company in issue from time to time. The total number of shares which may be allotted and issued upon the exercise of all options to be granted under the Scheme of the Group must not in aggregate exceed 10% of the shares in issue on 25 June 2003, being the date on which the Company's shares were listed on the Stock Exchange. For the purpose of calculating the above, options lapsed in accordance with the Scheme shall not be counted.

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

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

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

Category	Date of grant	Exercise price	Exercise period	As at 1 January 2008	Granted during the year	Lapsed during the year	Exercised during the year	As at 31 December 2008
		HK$						
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

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	Contributed surplus	Convertible notes equity reserve	Share options reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'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	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*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.

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	**Acquiree's carrying amount before combination**
	HK$'000	*HK$'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.

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

The net assets acquired in the transaction are as follows:

	Fair value	Acquiree's carrying amount before combination
	HK$'000	*HK$'000*
Net assets acquired:		
Property, plant and equipment	61,696	61,696
Prepaid lease payments	1,012	1,012
Deposits paid 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:

		2008	**2007**
	Notes	*HK$'000*	*HK$'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.

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

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
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

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
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
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

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
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.

III. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis of the group reproduced from the Company's annual report for the year ended 31 December 2008.

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.

IV. INDEBTEDNESS

(a) Borrowings

At the close of business on 31 July 2009, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had total borrowings of HK$386,037,000, comprising unsecured short-term bank borrowings of approximately HK$1,250,000, long-term secured bank loans of approximately HK$57,895,000, long-term unsecured bank loans of approximately HK$24,003,000, obligations under finance leases of approximately HK$2,070,000, other secured borrowings of approximately HK$3,830,000, unsecured amounts due to minority shareholders of approximately HK$7,523,000, unsecured amount due to a shareholder of approximately HK$16,659,000 and unsecured convertible notes of approximately HK$272,807,000.

(b) Security and guarantees

At 31 July 2009, the Group's bank borrowings were secured by the following:

(i) Charges on certain land and buildings held by the Group with a carrying value of approximately HK$48,496,000;

(ii) Charges on certain plant and machinery of the Group with a carrying value of approximately HK$5,181,000;

(iii) Charges on certain bank deposits of the Group with a carrying value of approximately HK$12,730,000;

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

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

(c) Contingent liabilities

As at 31 July 2009, the Group had total future minimum lease payments under non-cancelable operating leases in respect of rented premises amounting to approximately HK$3,318,000.

As at 31 July 2009, the Group had capital commitment in relation to the acquisition of the entire equity interest in Guangdong Kangli of approximately HK$27,126,437.

As at 31 July 2009, there were no guarantees given by the Group in respect of banking facilities available to associates of the Group.

(d) Disclaimers

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, and authorised or otherwise created but unissued and term loans or other borrowings, indebtedness in the nature of borrowings, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities outstanding at the close of business on 31 July 2009.

Save as disclosed above, the directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 31 July 2009, up to and including in the Latest Practicable Date.

V. WORKING CAPITAL

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

VI. MATERIAL ADVERSE CHANGE

At the Latest Practicable Date, as disclosed in the announcement of the Company dated 6 August 2009, the Board is aware that the Group will likely record a loss in operating results for the six months ended 30 June 2009. As most of the Group's markets and customers have continued to weaken in the first half of 2009 against the background of deteriorating economic conditions, the Group suffered fall in revenue as a result of containment measures in delivery of products through its tightened credit management policy. The implementation of containment measures also impacted the utilization of capacity that led profit margins to be depressed. In addition to the deterioration of revenue and profit margins, the interest expenses on convertible notes also contributed to results falling for the six months ended 30 June 2009.

As at the Latest Practicable Date, save as disclosed, the Directors are not aware of any material adverse change in the financial or trading position or outlook of the Group since 31 December 2008, the date to which the latest published audited financial statements of the Group were made up.

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

The following is the unaudited pro forma statement of adjusted consolidated net tangible assets (the "Unaudited Pro Forma Financial Information") of the Group which has been prepared in accordance with Rule 4.29 of the Listing Rules to illustrate the effects of the Open Offer on the consolidated net tangible assets deficiency of the Group as if the Open Offer had taken place on 31 December 2008. The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2008 or any future date.

	Consolidated net tangible assets deficiency of the Group as at 31.12.08 (audited)	**Add: Estimated net proceeds from the Open Offer**	**Pro forma adjusted consolidated net tangible assets of the Group as at 31.12.08**
	HK$'000	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	
	11,576	275,476	263,900
Consolidated net tangible assets deficiency per Share immediately before Completion of the Open Offer			HK Cents (1.02)
Unaudited pro forma adjusted consolidated net tangible assets per Share immediately after completion of the Open Offer			HK Cents 3.87

Notes:

1. The pro forma adjusted consolidated net tangible assets of the Group is based on the audited consolidated balance sheet of the Group as at 31 December 2008, the equity attributable to equity holders of the Company HK$62,918,000 minus the goodwill HK$73,480,000 and the intangible assets HK$1,014,000, the total amount is deficiency of HK$11,576,000, as extracted from the published annual report of the Company for the year ended 31 December 2008.

2. The estimated net proceeds from the Open Offer are based on 5,689,531,245 Offer Shares issued at the Subscription Price of HK$0.05 per Offer Share after deduction of share issue expenses of approximately HK$9,000,000 and takes no account of any additional Offer Shares to be issued upon the exercise of any outstanding Share Options and the conversion of Convertible Notes on or before the Latest Lodging Date.

3. Based on 1,137,906,249 Shares in issue immediately before completion of the Open Offer, assuming that no outstanding Share Options had been exercised and no conversion of Convertible Notes on or before the Latest Lodging Date.

4. Based on 6,827,437,494 Shares, on basis that (i) 691,937,500 Shares were in issue as at 31 December 2008; (ii) 345,968,750 Offer Shares were issued in previous open offer as at 3 April 2009; (iii) 99,999,999 shares were issued upon the conversion of Convertible Notes held by Prime; and (iv) 5,689,531,245 new Offer Shares were issued (assuming the Open Offer had been completed on 31 December 2008 and without taking account of any additional Offer Shares to be issued upon the exercise of any outstanding share Options and the conversion of Convertible Notes on or before the Latest Lodging Date).

5. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2008.

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

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

Room 305, Arion Commercial Centre
2-12 Queen's Road West, Hong Kong.
香港皇后大道西2-12號聯發商業中心305室
Tel 電話: (852) 3103 6980
Fax 傳真: (852) 3104 0170
E-mail 電郵: hlm@hlm.com.hk

The Directors
China Botanic Development Holdings Limited
Rm 1816-17, 18/F,
Sun Hung Kai Centre,
30 Harbour Road,
Wanchai,
Hong Kong

Dear Sirs

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

INTRODUCTION

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets (the "Unaudited Pro Forma Financial Information") of China Botanic Development Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the Open Offer (as defined in the Circular) might have affected the net tangible assets of the Group as if the Open Offer had taken place at 31 December 2008, for inclusion in the Company's circular dated 4 September 2009 (the "Circular"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Appendix II of the Circular.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 13 of Appendix IB and Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by Rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

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

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2008 or any future date.

OPINION

In our opinion:

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

b. such basis is consistent with the accounting policies of the Group; and

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

HLM & Co.
Certified Public Accountants
Hong Kong

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

SHARE CAPITAL

Authorised capital:		*HK$*
4,000,000,000	ordinary Shares of HK$0.01 each (before the Increase in Authorised Share Capital)	40,000,000
20,000,000,000	ordinary Shares of HK$0.01 each (after the Increase in Authorised Share Capital)	200,000,000

Issued and fully paid or credited as fully paid:		
1,137,906,249	ordinary Shares of HK$0.01 each as at the Latest Practicable Date	11,379,062.49
5,689,531,245	Offer Shares to be issued	56,895,312.45
6,827,437,494		68,274,374.94

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

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

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

DISCLOSURE OF INTERESTS

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

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executives and their associates in the shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company or any of its associated corporations) and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or that was required to be recorded pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name	Capacity and nature of interest	Number of Shares held	Approximately Percentage of the Company's issued share capital
Mr. But Ka Wai	through a controlled corporation	60,000,000	5.27%

Note: Among these Shares, as of 60,000,000 Shares are held by Able Success Group Limited, the entire issued share capital of which is beneficially owned by Mr. But Ka Wai.

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

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

As at the Latest Practicable Date, according to the register kept by the Company pursuant to section 336 of SFO, and so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or a chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital, including options in respect of such capital, carrying voting rights to vote in all circumstances at general meeting of any member of the Group:

(i) *Substantial shareholders of the Company:*

Name of Shareholders	**Nature of interest**	**Total number of Shares held**	**Percentage of the issued share capital of the Company (%)**
Able Success *(Note 1)*	Beneficial interest	60,000,000(L)	5.27
Sharp Profit Investments Limited *(Note 2)*	Beneficial interest	199,500,000(L)	17.53
Good Outlook Investments Limited *(Note 3)*	Beneficial interest	1,033,666,666(L)	90.84
China Water Affairs Group Limited *(Note 2 and 3)*	Beneficial interest	131,284,362(L)	11.54
	Beneficial interest and held by controlled corporation	1,364,451,028(L)	119.91
Global Business Investments Enterprises Limited *(Note 3 and 7)*	Beneficial interest	66,666,666(L)	5.86
Prime Investments Holdings Limited *(Note 3 and 7)*	Beneficial interest	110,340,000(L)	9.70
	Beneficial interest and held by controlled corporation	177,006,666(L)	15.56
Ms. Chan Yuk Ha *(Note 4)*	Interest of spouse	60,000,000(L)	5.27
BOCI Financial Products Limited *(Note 5 and 6)*	Beneficial interest	1,380,000(L)	0.12
	Beneficial interest	211,250,000(L)	18.56
Bank of China Limited *(Note 5 and 6)*	Held by controlled corporation	212,630,000(L)	18.68
Atlantis Investment Management Limited	Investment Manager	157,701,999(L)	13.86

(L) Long position

Notes:

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

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

(3) The CW Convertible Bonds with the right to convert up to 1,100,333,333 Shares at an initial conversion price of HK$0.15 each were issued to Good Outlook Investments Limited, a wholly owned subsidiary of China Water Affairs Group Limited. Pursuant to an agreement dated 22 September 2008, Good Outlook Investments Limited has agreed to sell and Global Business Investment Enterprises Limited, a wholly owned subsidiary of Prime, has agreed to acquire the CW Convertible Bonds in principal amount of HK$25,000,000 at a consideration of HK$30,000,000. For further details of the CW Convertible Bonds, please refer to the announcement and circular of the Company dated 12 July 2007 and 24 September 2007 respectively and the announcement of Prime dated 22 September 2008.

(4) Ms. Chan Yuk Ha, the spouse of Mr. But Ka Wai, is deemed to be interested in the 60,000,000 Shares held by Mr. But Ka Wai.

(5) The 1,380,000 Shares are held by BOCI Financial Products Limited, a wholly owned subsidiary of Bank of China Limited.

(6) The BOC Convertible Bonds with the right to convert into 211,250,000 shares at adjusted conversion price of HK$0.40 each were issued to BOCI Financial Products Limited, a wholly owned subsidiary of Bank of China Limited.

(7) Global Business Investment Enterprises Limited converted the CW Convertible Bonds in principal amount of HK$10,000,000 and HK$5,000,000 into 66,666,666 shares and 33,333,333 shares at 21 June 2009 and 19 August 2009 respectively at the initial conversion price of HK$0.15 each in name of Prime Investments Holdings Limited.

Save as disclosed above and so far as is known to the Directors or chief executive of the Company, there is no person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital, including options in respect of such capital, carrying rights to vote in all circumstances at general meeting of any other member of the Group.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTEREST IN ASSETS

None of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2008 (being the date to which the latest published audited consolidated financial statements of the Group were made up) and up to the Latest Practicable Date, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

DIRECTORS' INTEREST IN CONTRACT OR ARRANGEMENT

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

COMPETING INTERESTS

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

LITIGATION

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

EXPERTS AND CONSENTS

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

Name	**Qualifications**
VC Capital	a licensed corporation under the SFO licensed to conduct type 1 and type 6 regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders
HLM & Co.	Certified Public Accountants

Each of VC Capital and HLM & Co. has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or its name in the form and context in which they respective appear.

Each of VC Capital and HLM & Co. does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of VC Capital and HLM & Co. does not have any direct or indirect interests in any assets which have been, since 31 December 2008 (being the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by or leased to, any member of the Group, or which are proposed to be acquired or disposed of by or leased to, any member of the Group.

MATERIAL CONTRACTS

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

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

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

3. the sale and purchase agreement dated 6 December 2007 entered into between Top Harbour Development Limited and Jiang Hai Cnetury Investment Management (Beijing) Co., Ltd. in relation to the acquisition of 10% equity interest in Conseco Seabuckthorn Co. Ltd. for a total consideration of HK$40,000,000;

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

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

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

7. the underwriting agreement dated 17 November 2008 entered into between the Company and China Water in relation to the open offer of 345,968,750 shares on the basis of one offer Share for every two Shares at a subscription price of HK$0.08 per Share; and

8. the Underwriting Agreement.

EXPENSES

The expenses in connection with the Open Offer, including financial advisory fees, printing, registration, translation, legal and accountancy charges are estimated to amount approximately HK$9 million and are payable by the Company.

CORPORATE INFORMATION

Registered Office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office and principal place of business in Hong Kong	2nd Floor On Shing Industrial Building Nos. 2 – 16 Wo Liu Hang Road Fo Tan, Shatin New Territories Hong Kong
Authorised representatives	Mr. But Ka Wai Mr. But Chai Tong
Company Secretary	Mr. Chui Wing Fai, CPA
Legal advisor to the Company	As to Hong Kong Law Michael Li & Co 14th Floor, Printing House 6 Duddell Street Central Hong Kong
As to Cayman Islands law:	Conyers Dill & Pearman 2901, One Exchange Square 8 Connaught Place Central Hong Kong

Auditors and reporting accounts	HLM & Co. *Certified Public Accountants* Room 305, Arion Commercial Centre, 2-12 Queen's Road West, Hong Kong
Underwriter	Guotai Junan Securities (Hong Kong) Limited 27/F Low Block, Grand Millennium Plaza 181 Queen's Road Central, Hong Kong
Principal share registrar	HSBC Trustee (Cayman) Limited P.O. Box 484 HSBC House 68 West Bay Road Grand Cayman KY1-1106 Cayman Islands
Hong Kong branch share registrar	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

PARTICULARS OF DIRECTORS

(a) Name and address of Directors

Executive Directors

Mr. But Ka Wai	2/F On Shing Industrial Building 2-16 Wo Liu Hang Road Fo Tan Shatin Hong Kong

Mr. But Chai Tong	2/F On Shing Industrial Building 2-16 Wo Liu Hang Road Fo Tan Shatin Hong Kong
Mr. Sun Zhen Yu	2/F On Shing Industrial Building 2-16 Wo Liu Hang Road Fo Tan Shatin Hong Kong
Mr. Ren Qian	2/F On Shing Industrial Building 2-16 Wo Liu Hang Road Fo Tan Shatin Hong Kong
Non-executive Director	
Mr. Zhou Kun	2/F On Shing Industrial Building 2-16 Wo Liu Hang Road Fo Tan Shatin Hong Kong
Independent non-executive Directors	
Mr. Ku Siu Fung, Stephen	2/F On Shing Industrial Building 2-16 Wo Liu Hang Road Fo Tan Shatin Hong Kong
Mr. Chen Ziqiang	2/F On Shing Industrial Building 2-16 Wo Liu Hang Road Fo Tan Shatin Hong Kong
Mr. Tam Pei Qiang	2/F On Shing Industrial Building 2-16 Wo Liu Hang Road Fo Tan Shatin Hong Kong
Ms. Li Ling	2/F On Shing Industrial Building 2-16 Wo Liu Hang Road Fo Tan Shatin Hong Kong

(b) Profiles of Directors

Executive Directors

Mr. BUT Ka Wai, aged 51, is the Chairman and an executive Director. He is the younger brother of Mr. But Chai Tong. He has over 20 years of experience in the snack food manufacturing business. From 1978 to 1989, Mr. But was responsible for production and general administration of the Group. He has been responsible for the overall strategic development and formulation of corporate policies of the Group since 1989. He is presently a standing member of the committee of the Huadu District Chinese People's Political Consultative Conference. He was also named as an honorary citizen of Huadu District, Guangzhou, Guangdong Province, the PRC, by the local authority in 1998 for his contribution to the Huadu District. He joined the Group in 1978.

Mr. BUT Chai Tong, aged 54, is the Vice Chairman and an executive Director. He is the 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. SUN Zhen Yu, aged 43, graduated from the Anhui University majoring in Mathematics in 1987 and obtained a Master Degree of Economics majoring in industrial economics management from the Renmin University of China in 1992. He has over sixteen years of experience in the real estate industry in the PRC. Mr. Sun was general manager of Sanya Yintai Real Property Limited# (海南三亞銀泰房地產有限公司) and the deputy general manager of Shenzhen Mount Lu Real Estate Limited# (深圳市廬山置業有限公司). Mr. Sun is currently the general manager of Jiangxi Nanchang Honggutan City Investment Group Limited# (江西省南昌市紅穀灘城市投資集團有限公司). He joined the Group in 2009.

Mr. REN Qian, aged 49, graduated from the North China University of Water Conservancy And Electronic Power majoring in Agricultural Water (農水系) in 1983 and obtained a Master of Business Administration from the Beijing Normal University in 2001. He has nearly thirty years of experience in the water resources management industry, the housing and urban-rural development industry and the real estate industry in the PRC. Mr. Ren was the secretary of the office minister of The Ministry of Water Resources of the PRC and The Ministry of Housing and Urban-Rural Development of the PRC respectively. Mr. Ren was also the deputy mayor of The People's Government of Hebei Province, Langfang City and the deputy general manager of The Housing and Urban-Rural Development Huatong Real Estate Limited# (建設部華通置業有限公司) from 1995 to 2003. Mr. Ren is currently the senior advisor of the board chairman of Beijing Yinghe Real Property Company# (北京盈和房地產公司). He joined the Group in 2009.

Non-executive Director

Mr. ZHOU Kun, aged 42, graduated from the Xian Institute of Industry majoring in fine arts technology in 1987. He has over twenty years of experience in media, advertising and real estate industry in Shenzhen of the PRC. Mr. Zhou was the art director of Shenzhen Legal System Newspaper# (深圳法制報) and the general manager of Shenzhen Xinli Chuanren Advertising Limited# (深圳市信立傳人廣告有限公司). Mr. Zhou is currently the board chairman of Shenzhen Juzhitang Property Consulting Limited# (深圳市聚智堂地產顧問有限公司). He joined the Group in 2009.

Independent non-executive Directors

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

Mr. CHEN Ziqiang, aged 62, a professor-level senior engineer, is the chairman of Jianghe Water Development Center Company Limited (江河水利開發中心有限責任公司). After graduated from the North China University of Water Conservancy and Electric Power (華北水利水電學院) (formerly known as Beijing University of Water Conservancy and Electric Power (北京水利水電學院)), Mr. Chen had served as the University's Secretary of Youth League Committee for 22 years. Mr. Chen is very enthusiastic to the development of water resources; he served as director of Department of Personnel, Labor and Education of the Ministry of Water Resources of the People's Republic of China, vice president of the Chinese Association of Education of Water Resources (中國水利教育協會), vice president of the Chinese Society on Ideological and Political Work for Water Sector (中國水利思想政治研究會), and the Expert of Professional Certification Committee of the Ministry of Education (教育部工程專業認證專家委員會). He joined the Group in 2008.

Mr. TAM Pei Qiang, aged 35, graduated from the Hong Kong Polytechnic University in 1999, he has over nine years of experience in accounting and finance. Mr. Tam is a member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants in the United Kingdom. Mr. Tam is the financial controller, company secretary of Green Energy Group Limited, a company listed on the main board of the Stock Exchange. He joined the Group in 2009. Mr. Tam is a member of the audit committee, remuneration committee and nomination committee of the Company.

Ms. LI Ling, aged 35, was qualified as a lawyer in the PRC in 1995 and obtained a Master in Professional Laws in Civil Action (民事訴訟法專業法學碩士學位) from the Henan University in 2001. Ms. Li was the research officer in the Institute of Social Sciences of the Henan Province (河南省社會科學院). She worked in the real property management office (房地產業管理處) of the Shenzhen Municipal Bureau of Land Resources and Housing Management Office (深圳市國土資源和房產管理局) and was responsible for real property marketing management. Ms. Li currently works in the Shenzhen Municipal Bureau of Land Resources and Housing Management Office# (深圳市國土資源和房產管理局辦公室). She joined the Group in 2009. Ms. Li is a member of the audit committee, remuneration committee and nomination committee of the Company.

DOCUMENTS AVAILABLE FOR INSPECTION

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

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

(b) the annual reports of the Company for the years ended 31 December 2006, 2007 and 2008 respectively;

(c) the material contracts as referred to in the paragraph headed "Material contracts" in this appendix.

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

(e) the letter from HLM & Co. in respect of the unaudited pro forma consolidated net tangible assets of the Group, the text of which is set out on page 109 to 110 of this circular;

(f) the letter from the Independent Board Committee, the text of which is set out on page 23 of this circular;

(g) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 24 to 40 of this circular; and

(h) this circular.

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

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the "**EGM**") of China Botanic Development Holdings Limited (the "**Company**") will be held at 10:00 a.m. on Monday, 21 September 2009 at Unit 1816-17, 18/F., Sun Hung Kai Centre, 30 Harbour Road, Wan Chai, Hong Kong for the following purpose of considering and, if thought fit, passing with or without amendments, the following resolutions:

ORDINARY RESOLUTIONS

1. "**THAT**

(a) subject to and conditional upon fulfilment of the conditions of the Underwriting Agreement (as defined below), the Open Offer (as defined below) and the transactions contemplated thereunder be and are hereby approved;

For the purpose of this resolution, "**Open Offer**" means the proposed issue by way of open offer of not less than 5,689,531,245 offer shares (the "**Offer Shares**") and not more 7,705,364,580 Offer Shares at a subscription price of HK$0.05 per Offer Shares to the qualifying shareholders (the "**Qualifying Shareholders**") of the Company whose names appear on the date by reference to which entitlement under the Open Offer will be determined (other than those shareholders (the "**Prohibited Shareholders**") with registered addresses outside Hong Kong whom the Directors, after making relevant enquiry, consider their exclusion from the Open Offer to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place) in the proportion of five (5) Offer Shares for every one (1) existing Share then held and otherwise pursuant to and subject to the fulfilment of the conditions of terms set out in the underwriting agreement (the "**Underwriting Agreement**" including all supplemental agreements relating thereto) (a copy of which have been produced to this Meeting marked "A" and signed by the chairman of this Meeting for the purpose of identification) dated 6 August 2009 and made between the Company and Guotai Junan Securities (Hong Kong) Limited as underwriter (the "**Underwriter**"); and

(b) the Directors be and are hereby authorised to allot and issue the Offer Shares pursuant to the Open Offer notwithstanding the same may be offered, allotted or issued otherwise than pro rata to the Qualifying Shareholders and, in particular, the Directors may make such exclusions or other arrangements in relation to the Prohibited Shareholders as they deem necessary, desirable or expedient to having regard to any restrictions or obligations under the articles of association of the Company or the laws of, or the rules and regulations of any recognized regulatory body or any stock exchange in, any territory outside Hong Kong;

(c) the Underwriting Agreement and the transactions contemplated thereunder (including but not limited to the arrangements for taking up of the unsubscribed Offer Shares, if any, by the Underwriter or its sub-underwriter(s)) be and are hereby approved, confirmed and ratified;

(d) the absence of arrangements for application for the Offer Shares by the Qualifying Shareholders in excess of their entitlements under the Open Offer be and are hereby approved, confirmed and ratified; and

(e) any Directors be and are hereby authorised to sign or execute such documents and do all acts and things in connection with the allotment and issue of the Offer Shares, the implementation of the Open Offer and the Underwriting Agreement, the exercise or enforcement of any of the Company's rights under the Underwriting Agreement and to make and agree to make such variations of the terms of the Underwriting Agreement as they may in their discretion consider to be appropriate, necessary or desirable and in the interests of the Company and its shareholders."

2. "**THAT**

(i) the increase in the authorised share capital of the Company from HK$40,000,000 divided into 4,000,000,000 Shares of HK$0.01 each to HK$200,000,000 divided into 20,000,000,000 Shares of HK$0.01 each (the "**Increase in Authorised Share Capital**") be and is hereby approved; and

(ii) any one or more of the Directors be and is/are hereby authorised for and on behalf of the Company to execute all such documents, instruments and agreements and to do all such acts or things deemed by him/them to be incidental to, ancillary to or in connection with the matters contemplated in and for completion of the Increase in Authorised Share Capital."

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

Hong Kong, 4 September 2009

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

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

Notes:

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

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

3. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority must be deposited at the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.

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