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 to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Prime Investments Holdings Limited (the "Company"), you should at once hand this circular together with the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

PRIME INVESTMENTS HOLDINGS LIMITED

(incorporated in Cayman Islands and continued in Bermuda with limited liability)

(stock code: 721)

POSSIBLE VERY SUBSTANTIAL ACQUISITION

A notice convening a special general meeting of the Company to be held at Concord Room 3, 8th Floor, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong on Tuesday, 16 December 2008 at 11:00 a.m. is set out on pages 154 to 155 of this circular. Whether or not you are able to attend the special general meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar 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 special general meeting or any adjourned meeting. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the special general meeting if you so wish.

26 November 2008

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

"Announcement"	the announcement of the Company dated 10 October 2008 in relation to the Proposed Conversion
"Asset Full"	Asset Full Resources Limited, a company incorporated in the British Virgin Islands and wholly owned by Mr. Duan Chuan Liang
"associates"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"business day"	means any day (except Saturdays, Sundays or public holidays) on which banks and regulated stock exchanges and markets in Hong Kong are open for business
"China Botanic"	China Botanic Development Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Stock Exchange (Stock Code: 2349)
"China Botanic Group"	China Botanic and its subsidiaries
"China Water Affairs"	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 (Stock Code: 855)
"Company"	Prime Investments Holdings Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the issued Shares are listed on the Stock Exchange
"connected person"	has the same meaning ascribed to it under the Listing Rules
"Conversion Shares"	the 166,666,666 shares of China Botanic which will fall to be issued upon full conversion of the entire Sale Convertible Bonds at the initial conversion price of HK$0.15 per share of China Botanic (subject to adjustment)
"Convertible Bonds"	the convertible bond(s) originally issued by the China Botanic to Good Outlook, with a principal amount of HK$180,050,000 which bear coupon rate at 3% per annum payable semi-annually, become due on 13 November 2017 and is convertible into fully-paid shares of China Botanic at an initial conversion price of HK$0.15 (subject to adjustment), HK$25,000,000 of which was transferred to Global Business on 25 September 2008

"Directors"	the directors of the Company
"Enlarged Group"	the Group as enlarged by the equity interest in China Botanic held by the Group after the Proposed Conversion of the entire Sale Convertible Bonds
"Global Business"	Global Business Investment Enterprises Limited (世貿投資企業有限公司), a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company, which is principally engaged in investment holding
"Good Outlook"	Good Outlook Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of China Water Affairs, the vendor in respect of the Sale Convertible Bonds
"Group"	the Company and all its subsidiaries
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Latest Practicable Date"	21 November 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Proposed Conversion"	the proposed conversion of the entire Sale Convertible Bonds into 166,666,666 shares of China Botanic
"Sale Convertible Bonds"	part of the Convertible Bond(s) with a face value of HK$25,000,000, which constitutes 13.89% of the entire Convertible Bonds and is beneficially owned by Global Business as at the Latest Practicable Date
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	a special general meeting of the Company to be held for the purpose of considering and, if thought fit, approving the Proposed Conversion and the transactions contemplated thereunder
"Share(s)"	ordinary share(s) of HK$0.01 each in the issued share capital of the Company
"Shareholder(s)"	the holder(s) of the Share(s)

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	per cent.

PRIME INVESTMENTS HOLDINGS LIMITED

(incorporated in Cayman Islands and continued in Bermuda with limited liability)
(stock code: 721)

Executive Directors:
Ms. Wang Wen Xia
Mr. Pong Po Lam, Paul

Non-Executive Directors
Mr. Chan Po Fun Peter
Mr. Ding Xiaobin
Mr. Fung Cheuk Nang Clement
Mr. Ma Jie

Independent non-executive Directors:
Mr. Cheung Wai Bun, Charles, *J.P.*
Mr. Zhang Yong
Mr. Zeng Xianggao

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:
Suite 6305, 63/F
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

26 November 2008

To the Shareholders

Dear Sir or Madam

POSSIBLE VERY SUBSTANTIAL ACQUISITION

INTRODUCTION

The Board announced on 10 October 2008 that subject to the approval of the Shareholders, Global Business, a wholly-owned subsidiary of the Company, intended to convert the outstanding principal amount of the Sale Convertible Bonds into shares of China Botanic at the conversion price of HK$0.15 (subject to adjustments) each within 12 months from the date of passing the relevant ordinary Shareholders' resolution at the SGM.

Reference is made to the announcement of the Company dated 22 September 2008 in relation to the acquisition by Global Business of the Sale Convertible Bonds from Good Outlook.

PROPOSED CONVERSION

Upon the entire Sale Convertible Bonds in the principal amount of HK$25,000,000 being converted, 166,666,666 shares of China Botanic, representing 19.41% of the share capital of China Botanic as enlarged by the allotment of the Conversion Shares.

To the best of the Directors' knowledge, information and belief, China Botanic is beneficially owned as to about 19.22% by China Water Affairs as at the Latest Practicable Date. China Water Affairs is in turn beneficially owned as to about 16.97% by Mr. Duan Chuan Liang, who is beneficially interested in about 18.23% of issued Shares of the Company and therefore a substantial Shareholder as at the Latest Practicable Date. A major part of Mr. Duan Chuan Liang's beneficial interest in the Company is held indirectly through, Asset Full. As at the Latest Practicable Date, Asset Full is holding 427,890,908 Shares, representing about 17.23% of the entire issued Shares. The remaining beneficial interest of Mr. Duan Chuan Liang in the Company is held personally by Mr. Duan Chuan Liang.

Despite the above relationship and pursuant to the Listing Rules, China Botanic is not regarded as a connected person of the Company and the Proposed Conversion is not regarded as a connected transaction on the part of the Company.

TERMS OF THE CONVERTIBLE BONDS

Under the terms of the Convertible Bonds, (i) Global Business is not required to pay any consideration for such conversion, (ii) there is no condition precedent to conversion (except for surrender of the relevant certificate of the Sale Convertible Bonds and serving the conversion notice on China Botanic) and (iii) the effective date of conversion is the first business day immediately after the date of serving the conversion notice.

For further details on the Convertible Bonds, please refer to the announcement issued by China Botanic on 12 July 2007.

If there is any stamp duty payable for the allotment and issue of any shares of China Botanic upon the Proposed Conversion, China Botanic will be solely responsible for it. The shares of China Botanic to be issued upon the Proposed Conversion will rank pari passu with the shares of China Botanic then in issue upon the date of allotment and issue of such conversion shares, and accordingly shall be entitled to receive all dividends or other distribution declared, paid or made on or after the relevant conversion date. There is also no restriction on the Group to dispose of the shares of China Botanic issued to it upon any conversion of any part of the Sale Convertible Bonds.

As at the Latest Practicable Date, the Group was holding 15,292,000 shares of China Botanic (all of which have been acquired on the Stock Exchange). After the Proposed Conversion of the entire Sale Convertible Bonds, the Group will in aggregate be holding 181,958,666 shares of China Botanic, representing 21.19% of the share capital of China Botanic as enlarged by the allotment of the Conversion Shares.

INFORMATION ON THE SALE CONVERTIBLE BONDS

The Sale Convertible Bonds is originally part of the Convertible Bonds issued by China Botanic to Good Outlook. The Convertible Bonds (i) bear a coupon rate of 3% per annum payable by the issuer semi-annually in arrears, (ii) is due on 13 November 2017 and (iii) is convertible into fully paid ordinary shares of China Botanic with a par value of HK$0.01 each at the initial conversion price of HK$0.15 (subject to adjustments). The events, among others leading, to adjustment of the conversion price include:

(i) consolidation or subdivision of the shares of China Botanic;

(ii) issue of shares of China Botanic by way of capitalization of profits or reserves;

(iii) capital distribution (including distribution in cash or specie) other than distribution made out of the aggregate of net profits attributable to shareholders of China Botanic;

(iv) offering new Shares of China Botanic by way of rights at price which is less than 80 percent of the current market price at the date of announcement of the relevant terms;

(v) issue of shares of China Botanic for cash or for acquisition at a price which is less than 80 percent of the current market price at the date of announcement of the relevant terms.

However, the issue of shares of China Botanic pursuant to converting any part of the Convertible Bonds, exercise of options granted to the employees of China Botanic are not classified as events leading to adjustment of the conversion price.

The Group acquired such Sale Convertible Bonds from Good Outlook at a total consideration of HK$30,000,000 pursuant to a sale and purchase agreement dated 22 September 2008, and such transfer of Sale Convertible Bonds was completed on 25 September 2008. The consideration of HK$30,000,000 was settled in cash from the Group's internal resources, and was determined after arms-length negotiation between the Group and Good Outlook with regard to the business prospects of China Botanic and the fact that the closing prices of China Botanic quoted on the Stock Exchange were above HK$0.20 for the period from 1 September 2008 to 22 September 2008 (except for 19 September 2008). The consideration of HK$30,000,000 represents 20% premium to the face value of the Sale Convertible Bonds and increases the effective conversion price for each share of China Botanic to HK$0.18 (20% premium to the conversion price of HK$0.15). As mentioned in the section headed "Reasons for the Proposed Conversion" below, the effective conversion price of each share of China Botanic of HK$0.18 generally represents a discount to the closing price of shares of China Botanic quoted on the Stock Exchange for the period from 1 September 2008 to 22 September 2008 (except for 19 September 2008). Moreover, in case the price of shares of China Botanic surges in future, purchasing the Sale Convertible Bonds at a 20% premium to its face value could be a more economical way available to the Company in investing in China Botanic than purchasing the shares of China Botanic in the market. With regard to the market price of shares of China Botanic in September 2008 and future prospects of China Botanic, the Board considers the consideration of HK$30,000,000 for acquiring the Sale Convertible Bonds was fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON CHINA BOTANIC

China Botanic and its subsidiaries are principally engaged in (i) manufacturing, distribution and marketing of snack food products and convenience frozen food products in Hong Kong and the PRC, and (ii) cultivating seabuckthorn seedlings, manufacturing and sale of seabuckthorn related health products in the PRC. Set out below is the audited financial information of China Botanic and its subsidiaries extracted from the audited financial statements of China Botanic and its subsidiaries for the year ended 31 December 2007 prepared in accordance with Hong Kong generally accepted accounting principles:

	From 1 January 2006 to 31 December 2006	**From 1 January 2007 to 31 December 2007**
	HK$'000	*HK$'000*
	(audited)	*(audited)*
Turnover	202,130	281,054
Profit before taxation	18,895	105,468
Profit after taxation	13,030	97,237

The unaudited net assets value of China Botanic as at 30 June 2008 was approximately HK$468,227,000.

REASONS FOR THE PROPOSED CONVERSION

The Group is principally engaged in the investment of listed and unlisted companies established and/or conducting business in Hong Kong and other parts of the PRC. The investment in the Sale Convertible Bonds will generate an annual interest income of around HK$750,000, equivalent to about 3% per annum, to the Company as holder of the Sale Convertible Bonds. Taking into account that the effective price of acquiring one share of China Botanic is HK$0.18 under the Sale Convertible Bonds, which represents (i) a discount of 24.69% to the average closing price of HK$0.239 per share of China Botanic as quoted on the Stock Exchange for the five days immediately preceding the date of the Announcement; and (ii) a discount of 23.40% to the closing price of HK$0.235 per share of China Botanic as quoted on the Stock Exchange on the date immediately preceding the date of the Announcement; and premium of 111.76% to the closing price of HK$0.085 per share of China Botanic as quoted on the Stock Exchange on the Latest Practicable Date. After the recent downturn of the global financial market, the price of shares of China Botanic may surge again, given its closing price was well above HK$0.18 for most of the time in first three quarters in 2008. The Board considers it may be in a better interest of the Company and its Shareholders as a whole to convert any or all part or the Sale Convertible Bonds at the right time.

The Board considers that it is in the interests of the Company and the Shareholders as a whole that the Proposed Conversion of the Sale Convertible Bonds may be converted in several batches within 12 months from the date of passing the relevant ordinary Shareholders' resolution at the SGM, with regard to the then market conditions and the business prospects of China Botanic. Conversion of the entire Sale Convertible Bonds in batches can prevent the Company converting the entire Sale Convertible Bonds in one batch at a time when the price of shares of China Botanic is at a relatively low level (which means missing the opportunity to have a greater return) or at a relatively high level (which means bearing undue high risk of the decline of the price of shares of China Botanic). Therefore the 12-month period for the

Proposed Conversion will give the Board more flexibility and time in finding the most suitable opportunity to convert the Sale Convertible Bonds in order to obtain the highest possible return for the Shareholders while minimizing the risks borne by the Company. The Board considers that the 12-month period for Proposed Conversion can provide better safeguard to the interests of the Company and the Shareholders as a whole. Should there be any remaining Sale Convertible Bonds to be converted after the 12-month period, the Company will comply with all relevant rules of the Listing Rules, make further announcements in this regard and obtain further approval from the Shareholders, where necessary.

The Board's intention is to hold either the Sale Convertible Bonds or the shares of China Botanic as investment. Depending on the financial situation of the Company and the market condition and after seeking the advice from the investment manager of the Company, the Group will only exercise the conversion right attached to the Sale Convertible Bonds if in the opinion of the Director holding the shares in China Botanic will generate a better return than holding the Sale Convertible Bonds. The Board will not convert the Sale Convertible Bonds when (i) the market price of share of China Botanic is equal to or lower than the effective conversion price of HK$0.18, or (ii) the expected annual return after the conversion into shares of China Botanic will be less than the annual amount of interests received as a holder of the Sales Convertible Bonds. Lastly, depending on the market conditions, the Group may dispose of the shares of China Botanic (including any part of the Conversion Shares) it holds at anytime after consulting the investment manager of the Company in case the Board considers it is in the interests of the Company to do so. The Company will comply with relevant requirements of the Listing Rules, if such disposal may trigger any obligations of the Company under the Listing Rules.

FINANCIAL EFFECTS OF THE ACQUISITION

As the Board will strictly follow the requirements mentioned above when converting any part of the Sale Convertible Bonds, upon completion of the Proposed Conversion of the entire Sale Convertible Bonds, it is expected that the total assets of the Group would increase while its total liabilities would materially remain unchanged. The Directors also consider that the Acquisition will contribute to the revenue and earnings base of the Enlarged Group.

LISTING RULES IMPLICATIONS

Upon the entire Sale Convertible Bonds being converted, the Proposed Conversion constitutes a very substantial acquisition of the Company under the Listing Rules. The Proposed Conversion and the transactions contemplated therein are therefore subject to the approval of the Shareholders at a special general meeting of the Company. As at the Latest Practicable Date, Mr. Duan Chuan Liang and his associates (including Asset Full) have material interest in the Proposed Conversion, and therefore Mr. Duan Chuan Liang and his associates (including Asset Full) are required to abstain from the voting at the SGM on the resolution to approve the Proposed Conversion and the transactions contemplated thereunder. Other than the above, no Shareholders are required to abstain from voting at the SGM. There is not any voting trust or other agreement or arrangement or understanding entered into by or binding on Mr. Duan and his associates. There is also no obligation or entitlement of Mr. Duan and his associates as at the Latest Practicable Date, whereby he/it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of his/its Shares to third parties.

SGM

The SGM will be held at Concord Room 3, 8th Floor, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong on Tuesday, 16 December 2008 at 11:00 a.m., the notice of which is set out on pages 154 to 155 of this circular, to consider and, if thought fit, approve the ordinary resolution to approve the Proposed Conversion and the transactions contemplated thereunder.

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

PROCEDURE FOR DEMANDING POLL

According to Bye-law 66, a resolution put to the vote of any general meeting shall be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand of a poll). A poll may be demanded by:

(a) the chairman of the meeting; or

(b) at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

(c) any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

(d) any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right; or

(e) if required by the rules of the Designated Stock Exchange, by the Chairman of such meeting and/or the Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

A demand by a person as proxy of a Shareholder or in the case of a Shareholder being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a Shareholder.

RECOMMENDATION

The Board considers that the Proposed Conversion is fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the ordinary resolution approving the Proposed Conversion as set out in the notice of the SGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the financial information of the Group and China Botanic Group, the valuation report and the other information set out in the appendice to this circular.

For and on behalf of
the board of Directors of
Prime Investments Holdings Limited
Wang Wen Xia
Chairman

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

An unqualified opinion in respect of the audit of the financial statements of the Group has been issued for each of the three years ended 30 June 2008. However, CCIF CPA Limited had issued a modified opinion for the year ended 30 June 2006. A summary of the audited results, assets and liabilities of the Group as extracted from the annual reports of the Company is set out below.

Audited Consolidated Income Statement
For the three year ended 30 June

	2008	**2007**	**2006**
	HK$	*HK$*	*HK$*
Dividend income	171,506	–	–
Interest income	2,929,623	–	–
Realised gains on disposal of financial assets at fair value through profit or loss	11,457,296	–	–
Unrealised losses on financial assets at fair value through profit or loss	(11,219,782)	–	–
Other income	1,254	76,000	2,570
Impairment of available-for-sale financial assets	(7,950,000)	–	(2,500,000)
Administrative expenses	(9,778,531)	(3,456,740)	(3,945,029)
Operating loss	(14,388,634)	(3,380,740)	(6,442,459)
Finance costs	(22,403)	(147,651)	(114,675)
Loss before taxation	(14,411,037)	(3,528,391)	(6,557,134)
Taxation	(86,994)	–	–
Loss attributable to the equity holders of the Company	(14,498,031)	(3,528,391)	(6,557,134)
Loss per share			
Basic	(1.31) cents	(6.11) cents	(13.7) cents
Diluted	N/A	N/A	N/A

Audited Consolidated Balance Sheet
As at 30 June

	2008	2007	2006
	HK$	*HK$*	*HK$*
Non-current assets			
Property, plant and equipment	211,910	45,465	75,837
Available-for-sale financial assets	33,571,905	6,500,000	6,500,000
	33,783,815	6,545,465	6,575,837
Current assets			
Financial assets at fair value through profit or loss	56,199,890	–	–
Amount due from a shareholder	19,110	19,110	–
Prepayments, deposits and other receivables	825,848	224,276	129,481
Cash and cash equivalents	180,817,111	59,691,003	273,821
	237,861,959	59,934,389	403,302
Current liabilities			
Other loans	–	1,920,000	4,300,000
Other payables and accruals	578,820	2,050,747	2,116,139
Amounts due to directors	–	3,587,996	3,205,298
Amount due to a related company	43,349	330,000	–
Tax payable	86,994	–	–
	709,163	7,888,743	9,621,437
Net current assets/(liabilities)	237,152,796	52,045,646	(9,218,135)
Net assets/(liabilities)	270,936,611	58,591,111	(2,642,298)
Capital and reserves			
Share capital	24,835,340	3,951,510	480,000
Reserves	246,101,271	54,639,601	(3,122,298)
Total equity/(capital deficiency)	270,936,611	58,591,111	(2,642,298)

Modified Opinion

Set out below is a reproduction of the independent auditor's report from the annual report of the Company for the year ended 30 June 2006

CCIF
CCIF CPA LIMITED
1/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

To the members
Prime Investments Holdings Limited
(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

We have audited the financial statements on pages 19 to 44 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the basis of preparation. As further explained in Note 2 to the financial statements, which report net liabilities of HK$2,642,298 of the Company and the Group, respectively, at 30 June 2006, have been prepared on the going concern basis, the validity of which is dependent upon the completion of the Subscription as disclosed in Note 25 (ii) to the financial statements and the Company will be able to obtain a shareholder's loan of HK$5 million upon completion of the Subscription. The financial statements do not include any adjustments that would result from the failure to obtain the continued financial support from the shareholder of the Company. We consider that appropriate disclosures and estimates have been made in the financial statements and our opinion is not qualified in this respect.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2006 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 23 October 2006

Choi Man On
Practising Certificate Number P02410

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

The following is the audited financial statements of the Group together with accompanying notes as extracted from the annual report of the Company for the year ended 30 June 2008.

Consolidated Income Statement
For the year ended 30 June 2008

	Notes	**2008** *HK$*	**2007** *HK$*
Dividend income		171,506	–
Interest income		2,929,623	–
Realised gains on disposal of financial assets at fair value through profit or loss	7	11,457,296	–
Unrealised losses on financial assets at fair value through profit or loss	7	(11,219,782)	–
Other income		1,254	76,000
Impairment of available-for-sale financial assets	7, 17	(7,950,000)	–
Administrative expenses		(9,778,531)	(3,456,740)
Operating loss		(14,388,634)	(3,380,740)
Finance costs	8	(22,403)	(147,651)
Loss before taxation	9	(14,411,037)	(3,528,391)
Taxation	11	(86,994)	–
Loss attributable to the equity holders of the Company	12	(14,498,031)	(3,528,391)
Loss per share	13		
Basic		(1.31) cents	(6.11) cents
Diluted		N/A	N/A

Consolidated Balance Sheet
As at 30 June 2008

	Notes	2008 HK$	2007 HK$
Non-current assets			
Property, plant and equipment	15	211,910	45,465
Available-for-sale financial assets	17	33,571,905	6,500,000
		33,783,815	6,545,465
Current assets			
Financial assets at fair value through profit or loss	18	56,199,890	–
Amount due from a shareholder	19	19,110	19,110
Prepayments, deposits and other receivables	20	825,848	224,276
Cash and cash equivalents	21	180,817,111	59,691,003
		237,861,959	59,934,389
Current liabilities			
Other loans	22	–	1,920,000
Other payables and accruals	23	578,820	2,050,747
Amounts due to directors	24	–	3,587,996
Amount due to a related company	25	43,349	330,000
Tax payable		86,994	–
		709,163	7,888,743
Net current assets		237,152,796	52,045,646
Net assets		270,936,611	58,591,111
Capital and reserves			
Share capital	27	24,835,340	3,951,510
Reserves	29	246,101,271	54,639,601
Total equity		270,936,611	58,591,111
Net asset value per share	30	10.9 cents	14.8 cents

Balance Sheet
As at 30 June 2008

	Notes	2008 HK$	2007 HK$
Non-current assets			
Property, plant and equipment	15	211,910	45,465
Interests in subsidiaries	16	33,927,194	6,540,832
		34,139,104	6,586,297
Current assets			
Financial assets at fair value through profit or loss	18	56,199,890	–
Amount due from a subsidiary	16	39,059,409	–
Amount due from a shareholder	19	19,110	19,110
Prepayments, deposits and other receivables	20	527,752	224,276
Cash and cash equivalents	21	138,512,340	59,691,003
		234,318,501	59,934,389
Current liabilities			
Other loans	22	–	1,920,000
Other payables and accruals	23	393,399	2,050,747
Amounts due to directors	24	–	3,587,996
Amount due to a related company	25	43,349	330,000
		436,748	7,888,743
Net current assets		233,881,753	52,045,646
Net assets		268,020,857	58,631,943
Capital and reserves			
Share capital	27	24,835,340	3,951,510
Reserves	29	243,185,517	54,680,433
Total equity		268,020,857	58,631,943

Consolidated Statement of Changes in Equity
For the year ended 30 June 2008

	Share capital *HK$*	Share premium account *HK$*	Capital reserve *HK$*	Share option reserve *HK$*	Exchange reserve *HK$*	Investment revaluation reserve *HK$*	Accumulated losses *HK$*	Total *HK$*
At 1 July 2006	480,000	32,098,292	2,765,838	–	–	(3,500,000)	(34,486,428)	(2,642,298)
Issue of new shares *(note 27(b))*								
– Placing of shares	3,471,510	61,290,290	–	–	–	–	–	64,761,800
Loss for the year	–	–	–	–	–	–	(3,528,391)	(3,528,391)
At 30 June 2007 and 1 July 2007	3,951,510	93,388,582	2,765,838	–	–	(3,500,000)	(38,014,819)	58,591,111
Impairment loss recognised in income statement	–	–	–	–	–	3,500,000	–	3,500,000
Equity settled share-based transactions	–	–	–	1,685,836	–	–	–	1,685,836
Issue of new shares *(note 27(b))*								
– Placing of shares	1,104,278	19,545,722	–	–	–	–	–	20,650,000
– Open offer	19,757,552	179,793,722	–	–	–	–	–	199,551,274
– Exercise of share options	22,000	435,365	–	(105,365)	–	–	–	352,000
Share issue expenses	–	(1,775,216)	–	–	–	–	–	(1,775,216)
Exchange difference on translation of the financial statements of foreign subsidiary	–	–	–	–	2,879,637	–	–	2,879,637
Loss for the year	–	–	–	–	–	–	(14,498,031)	(14,498,031)
At 30 June 2008	24,835,340	291,388,175	2,765,838	1,580,471	2,879,637	–	(52,512,850)	270,936,611

Consolidated Cash Flow Statement

For the year ended 30 June 2008

	2008	2007
	HK$	*HK$*
Cash flows from operating activities		
Loss before taxation	(14,411,037)	(3,528,391)
Adjustments for:		
Interest expenses	22,403	147,651
Interest income	(2,929,623)	–
Dividend income	(171,506)	–
Depreciation	75,515	30,372
Loss on disposal of property, plant and equipment	30,248	–
Realised gains on disposal of financial assets at fair value through profit or loss	(11,457,296)	–
Unrealised losses on trading on financial assets at fair value through profit or loss	11,219,782	–
Impairment of available-for-sale financial assets	7,950,000	–
Share-based payments	1,685,836	–
Operating cash flows before movements in working capital	(7,985,678)	(3,350,368)
Increase in prepayments, deposits and other receivables	(601,572)	(94,795)
Increase in amount due from a shareholder	–	(19,110)
Decrease in other payables and accruals	(1,471,927)	(65,392)
(Decrease)/Increase in amounts due to directors	(3,587,996)	382,698
(Decrease)/Increase in amount due to a related company	(286,651)	330,000
Net cash used in operations	(13,933,824)	(2,816,967)
Interest Income	2,929,623	–
Dividend Income	171,506	–
Net cash used in operating activities	(10,832,695)	(2,816,967)
Cash flows from investing activities		
Purchase of available-for-sale financial assets	(31,521,905)	–
Purchase of financial assets at fair value through profit or loss	(142,027,558)	–
Purchase of property, plant and equipment	(272,208)	–
Proceeds from disposal of financial assets at fair value through profit or loss	86,065,182	–
Net cash used in investing activities	(87,756,489)	–

	2008	2007
	HK$	*HK$*
Cash flows from financing activities		
Proceeds from issue of new shares, net	218,778,058	64,761,800
Prepayment of other loans	(1,920,000)	(2,380,000)
Interest paid	(22,403)	(147,651)
Net cash generated from financing activities	216,835,655	62,234,149
Increase in cash and cash equivalents	118,246,471	59,417,182
Cash and cash equivalents at beginning of the year	59,691,003	273,821
Effect of foreign rate changes	2,879,637	–
Cash and cash equivalents at end of the year	180,817,111	59,691,003
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	180,817,111	59,691,003

Notes to the Financial Statement

For the year ended 30 June 2008

1. GENERAL INFORMATION

Prime Investments Holdings Limited (the "Company") was incorporated on 12 July 2000 in the Cayman Islands under the Companies Law as an exempted company with limited liability. With effect from 9 May 2006, the Company had been de-registered from the Cayman Islands and duly continued in Bermuda as an exempt company under the laws of Bermuda. The address of the registered office of the Company has been changed from Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies to Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda.

The Company's principal place of business is located at Suite 6305, 63/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

The Company is an investment holding company while the Group is principally engaged in the investment of listed and unlisted companies established and/or doing business in Hong Kong and the PRC.

These financial statements are presented in Hong Kong dollars ("HK$") unless otherwise stated.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collectively includes Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period for the Group and the Company. Note 2(r) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

The Group and the Company have not early adopted the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 &1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKFRS 2 (Amendment)	Share-based Payment-Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 12	Service Concession Arrangements[3]
HK(IFRIC) – Int 13	Customers Loyalty Programmes[4]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[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[5]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 January 2008
[4] Effective for annual periods beginning on or after 1 July 2008
[5] Effective for annual periods beginning on or after 1 October 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The directors of the Company anticipate that the applications of other new and revised standards, amendments and interpretations will have no material impact on the results and financial position of the Group.

(b) Basis of preparation of the financial statements

The financial statements have been prepared under the historical cost convention, except as modified by the revaluation of certain available-for-sale financial assets and financial assets at fair value through profit or loss that are stated at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

(c) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 30 June.

(d) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (note 2(f)). The results of the subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(e) Property, plant and equipment and depreciation

All property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of fixed assets and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of fixed assets to its residual value over its estimated useful life. The annual rates used for depreciation are as follows:

Furniture and fixtures	25%
Office equipment	$33^{1}/_{3}$%

The asset's residual values, useful lives and depreciation method are reviewed and adjusted if appropriate, at each balance sheet date.

The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset was greater than its estimated recoverable amount.

The gain or loss on disposal or retirement recognised in the income statement in the year the assets is derecognised, is the difference between the net sales proceeds and the carrying amount of the relevant assets.

(f) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities (other than investments in subsidiaries) and other receivables are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial assets and the estimated future cash flows, discounted at the current market rate of return and for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For trade receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period, the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of principal repayment and amortisation) and current fair value, less any impairment loss on that asset that previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– Property, plant and equipment (other than properties carried at revalued amounts); and

– Interests in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest Group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in the consolidated income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated income statement in the year in which the reversals are recognised.

(g) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

Investments in debt and equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognized in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognized in profit or loss. The net gain or loss recognized in profit or loss does not included any dividends or interest earned on these investments as these are recognized in accordance with the policies set out in note.

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less impairment losses (see note 2f(i)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognized in the balance sheet at cost less impairment losses (see note 2f(i)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognized directly in equity, except foreign exchange gain and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognized directly in profit or loss. Dividend income from these investments is recognized in profit or loss in accordance with policy set out in note and, where these investments are interest-bearing, interest calculated using the effective interest method is recognized in profit or loss in accordance with policy set out in note. When these investments are derecognized or impaired (see note 2(i)), the cumulated gain or loss previously recognized directly in equity is recognized in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investment or they expire.

(h) Financial liabilities

The Group's financial liabilities (including other loans, other payables and accruals, amounts due to directors and amount due to a related company) are subsequently measured at amortised cost, using the effective interest method.

(i) Derecognition

Financial assets are derecognised when the rights to receive cash flow from the asset expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of the 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 or any new asset obtained and the cumulative gain or loss that had been recognised directly in equity is recognised in income statement.

Financial liabilities are derecognised when the obligations 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 including other liabilities assumed is recognised in income statement.

(j) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the consolidated income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(k) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(l) Employee benefits

(i) Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

(ii) Pension scheme and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

(iii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date after taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where the forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until with the options is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(m) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are expensed in the income statement on a straight-line basis over the period the lease.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. Bank overdrafts, if any, that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(o) Foreign currency translation

(i) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation difference on non-monetary financial assets, such as equities classified as available-for-sale are included in the investment revaluation reserve in equity.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

(p) Revenue recognition

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend. Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Interest income is recognised on a time-proportion basis using the effective method.

(q) Related parties

Parties are considered to be related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party:

– controls, is controlled by, or is under common control with, the Group;

– has an interest in the Group that gives it significant influence over the Group; or

– has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a jointly controlled entity;

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

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

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

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

(r) Changes in accounting policies

The HKICPA issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, Financial instruments: Disclosures and the amendment to HKAS 1, Presentation of financial statements: Capital disclosures, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements included expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, Financial instruments: Disclosure and presentation. These disclosures are provided through these financial statements in note 3.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These disclosures are provided through these financial statements, in particular in note 27(c).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, equity price risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Foreign exchange risk

The Group and the Company undertake certain transactions including amounts due from subsidiaries and cash and bank balances, denominated in the currency other than the functional currency of the relevant group entities, hence exposures to exchange rate fluctuations arise.

The Group and the Company currently do not have a foreign currency hedging policy. However, the Group and the Company monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. The Group did not enter into any hedging contracts during the year.

The carrying amount of the Group's and the Company's monetary assets and monetary liabilities which denominated in the currency other than the functional currency of the relevant group entities at the balance sheet date is as follows:

	The Group		The Company	
	2008	**2007**	**2008**	**2007**
	HK$	*HK$*	*HK$*	*HK$*
Renminbi ("RMB")	42,261,616	–	–	–

The Group and the Company are mainly exposed to the currencies in RMB which is not the functional currency of the relevant group entities. The Group's and the Company's cash and bank balances, the exposure is mainly HK$ against RMB, if the exchange rate of RMB against HK$ has been increased/decreased by 5%, the exchange reserve as at 30 June 2008 would have been increased/decreased by HK$2,012,000 (2007: Nil).

(ii) *Interest rate risk*

The Group and the Company are exposed to cash flow interest rate risk through the impact of rate of changes on interest bearing financial assets which are mainly short term bank deposits at market rates.

The sensitivity analyses below, which include interest rate exposure on variable interest bearing bank deposits, have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. A 100 basis point change is used which represents the management's assessment of the possible change in interest rates.

At the balance sheet date, if interest rate had been 100 basis points higher/lower and all other variable were held constant, the Group's loss would increase/decrease by HK$169,000 (2007: HK$79,000) and the Company's loss for the year would increase/decrease by HK$169,000 (2007: HK$79,000). This is mainly attributable to the interest earned from bank balances.

(iii) *Equity price risk*

The Group is exposed to equity price changes arising from equity securities held for trading which are classified financial assets at fair value through profit or loss and available-for-sale financial assets. Other than the unquoted securities held for strategic purposes, all of the other investments are listed. The Group's listed investments are mainly listed on the Stock Exchange of Hong Kong. Decisions to buy or sell financial assets at fair value through profit or loss are rested with assigned investment managers and governed by specific investment guidelines.

Assuming a 10% upward/downward movement in the Hang Seng Index with all other variable held constant at the balance sheet date, the Group's loss before tax would have increased/decreased by an estimated HK$5,619,000 (2007: Nil) in respect of equity securities held for trading.

Subsequent to 30 June 2008, the global financial turmoil has been worsening and as a result, the Hang Seng Index has dropped from 22,102 on 30 June 2008 to 11,015 on 27 October 2008. The management is still evaluating the effect on the investment portfolio of the Group.

(iv) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group and the Company.

The Group's and the Company's financial assets include equity investments, other receivables and cash and bank balances.

The Group's and the Company's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 30 June 2008 in relation to each class of recognised financial assets if the carrying amount of those assets stated in the consolidated and the Company's balance sheet, net of any allowances for losses.

Although the bank balances are concentrated to certain counterparties, the credit risk on liquid funds is limited because the counterparties are bank with good credit ratings assigned. In this regards, the directors consider that the Group's and the Company's credit risk of such authorised institutions is low.

(v) Liquidity risk

Liquidity risk is the risk that the Group and the Company are unable to meet its payment obligations associated with its financial liabilities when they fall due. The Group and the Company manage liquidity risk by maintaining adequate reserves, banking facilities by continuously monitoring forecast and actual cash flows.

Internally generated cash flow is the main source of funds to finance the operations of the Group and the Company. The Group's and the Company's liquidity risk management includes making available standby banking facilities and diversifying the funding sources. The Group and the Company regularly review the major funding positions to ensure adequate financial resources are available to meet their respective financial obligations.

The Group's and the Company's financial liabilities represent other payables (management and performance fee accruals) which are interest free and repayable on demand. In the opinion of the management, no maturity profile is required to be prepared by virtue of its nature.

(b) Fair value of financial instruments

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price for financial assets held by the Group is the current bid price.

The fair values of financial instruments that are not traded in an active market is determined by using valuation techniques, such as estimated discounted cash flows. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The carrying values of the Group's cash and cash equivalents, short-term other receivables, deposits and other loans, other payable and accruals approximate their fair values due to their short maturities.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Fair value of financial instruments

For financial assets held at fair value through profit or loss, the fair value is principally based on their quoted market prices at the balance sheet date. Judgement is required when determining whether the quoted market prices can reflect the fair value of the financial assets. For unquoted investments, the fair value is significantly affected by the combination of the valuation methodologies employed, the parameters used and, if required, the underlying sample chosen. The valuation methodologies adopted by the Group is discussed in note 3(b).

(b) Impairment of available-for-sale financial assets

For available-for-sale financial assets, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the historical data on market volatility as well as the price of the specific investment are taken into account. The Group also takes into account other factors, such as industry and sector performance and financial information regarding the issuer/investee.

(c) Income taxes

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

Recognition of deferred tax assets, which principally related to tax losses, depends on the management's expectation of future taxable profit that will be available against which the tax losses can be utilised. The outcome of their actual utilisation may be different.

(d) Employee benefits – share-based payments

The valuation of the fair value of the share option granted requires judgement in determining the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate during the life of the option and the number of share options that are expected to become exercisable, and details of which are set in note 28 to the financial statements. Where the outcome of the number of share options that are exercisable is different from the previously estimated number of exercisable options, such difference will impact the income statement in the subsequent remaining vesting period to the relevant share options.

5. INVESTMENT MANAGEMENT FEES

(a) Pursuant to an investment management agreement dated 21 February 2006 and subsequently amended on 1 August 2006, Pegasus Fund Managers Limited ("Pegasus"), whereby Pegasus has agreed to provide investment management services to the Company for a period of three years effective from 1 August 2006. Pegasus is entitled to receive a management fee calculated at the following rates:

(i) 2.5% per annum of the net asset value of the Group as at the immediately preceding valuation date on the basis of the actual number of days in the relevant calendar month over a year of 365 days, subject to a monthly minimum fee of HK$41,667.

(ii) 10% of the surplus in net asset value of the Group over a financial year or period, which the surplus in the net asset value should be greater than HK$30,000,000.

Management fee paid to Pegasus for the year ended 30 June 2008 amounted to HK$618,925 (2007: HK$330,000).

(b) On 18 April 2008, the new investment management agreement was entered into by the Company and Altantis Investment Management (Hong Kong) Limited ("Altantis"), whereby Altantis has agreed to provide investment management services to the Company for a period of three years effective from 13 May 2008. Altantis is entitled to receive a management fee calculated at the following rates:

(i) A management fee is payable quarterly in arrears at the rate of 1% per annum of the market value of the portfolio on the last business day of each calendar quarter.

(ii) Atlantis is also entitled to receive a performance-related fee of 10% of the appreciation in the market value of the portfolio above 10% hurdle rate per annum.

Management fee charged by Altantis for the year ended 30 June 2008 amounted to HK$43,349.

6. SEGMENT INFORMATION

The Group is principally engaged in the investment in listed and unlisted companies. Accordingly, no analysis of segmental information by principal activity is presented. No geographical analysis is presented as none of the Group's turnover, results, assets and liabilities are attributable to markets outside the PRC (including Hong Kong).

7. GAINS AND LOSSES ON INVESTMENTS

	Group 2008 HK$	2007 HK$
Sale proceeds of securities held for trading	86,065,182	–
Less: costs of securities disposed	(74,607,886)	–
Realised gains on disposal of financial assets at fair value through profit or loss	11,457,296	–
Unrealised losses on financial assets at fair value through profit or loss	(11,219,782)	–
Impairment of available-for-sale financial assets *(note 17)*	(7,950,000)	–
Total losses on investments	(19,169,782)	–
Total net losses on investments	(7,712,486)	–

Gains and losses presented above exclude dividend income.

8. FINANCE COSTS

	Group 2008 HK$	2007 HK$
Interest expense on borrowings wholly repayable within five years:		
Bank overdraft interest	10,365	–
Other loans	10,000	74,382
Advances from directors	2,038	73,269
	22,403	147,651

9. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	Group 2008 HK$	Group 2007 HK$
Auditor's remuneration		
– audit services	200,000	150,000
– non-audit services	115,000	60,000
Custodian fees	210,917	5,205
Depreciation *(note 15)*	75,515	30,372
Investment management fees *(note 5)*	662,274	330,000
Operating leases charges for premises	738,477	220,380
Staff costs		
Salaries and allowances	3,840,895	1,728,489
Contributions to retirement benefits schemes	41,150	33,125
Share-based payments *(note 28)*	1,685,836	–
	5,567,881	1,761,614

10. DIRECTORS' AND EMPLOYEES' REMUNERATION

Details of emoluments paid or payable by the Group to the directors during the year are as follows:

	Group 2008 HK$	Group 2007 HK$
Salaries, allowances and benefits in kind	3,258,210	1,245,000
Retirement scheme contributions	18,000	12,000
Share-based payments	1,542,157	–
	4,818,367	1,257,000

(a) Directors' and senior management's emoluments

The remuneration of each director for the year ended 30 June 2008 and 2007 is set out below:

	Fees	Salaries and benefits in kind	Retirement scheme contributions	Sub-total	Share-based payments	2008
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Executive directors						
Wang Wen Xia	50,000	2,592,000	12,000	2,654,000	881,233	3,535,233
Pong Po Lam, Paul	37,500	–	–	37,500	57,472	94,972
Wong Kwong Chi, Simon (resigned on 23/5/2008)	23,710	–	–	23,710	23,946	47,656
Non-executive directors						
Chan Po Fun, Peter	37,500	–	–	37,500	23,946	61,446
Ding Xiaobin	30,000	–	–	30,000	23,946	53,946
Fung Cheuk Nang, Clement (appointed on 28/2/2008)	20,000	–	–	20,000	–	20,000
Ma Jie (appointed on 28/2/2008)	20,000	340,000	6,000	366,000	383,145	749,145
Lan Ning (resigned on 28/2/2008)	–	–	–	–	57,472	57,472
Independent non-executive directors						
Cheung Wai Bun, Charles	57,500	–	–	57,500	62,261	119,761
Zhang Yong	30,000	–	–	30,000	14,368	44,368
Zeng Xianggao (appointed on 28/2/2008)	20,000	–	–	20,000	–	20,000
Gu Qiu Rong (resigned on 28/2/2008)	–	–	–	–	14,368	14,368
	326,210	2,932,000	18,000	3,276,210	1,542,157	4,818,367

	Fees	Salaries and benefits in kind	Retirement scheme contributions	Sub-total	Share-based payments	2007
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Executive directors						
Wang Wen Xia	–	1,200,000	12,000	1,212,000	–	1,212,000
Pong Po Lam, Paul	15,000	–	–	15,000	–	15,000
Wong Kwong Chi, Simon	–	–	–	–	–	–
Non-executive directors						
Lan Ning	–	–	–	–	–	–
Chan Po Fun, Peter	15,000	–	–	15,000	–	15,000
Ding Xiaobin	–	–	–	–	–	–
Chan Yan Ting, Gordon	–	–	–	–	–	–
Chan Wing Chung, Eric	–	–	–	–	–	–
Independent non-executive directors						
Cheung Wai Bun, Charles	15,000	–	–	15,000	–	15,000
Zhang Yong	–	–	–	–	–	–
Gu Qiu Rong	–	–	–	–	–	–
	45,000	1,200,000	12,000	1,257,000	–	1,257,000

No directors of the Company waived any emoluments in both years.

No emoluments were paid to any directors as an inducement to join or upon joining the group or as compensation for loss of office during the year ended 30 June 2008 and 2007.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2007: two) directors whose emolument are reflected in the analysis presented above. The emoluments paid to the remaining two (2007: three) individuals during the year are as follows:

	Group	
	2008	**2007**
	HK$	*HK$*
Basic salaries, allowances and benefits in kind	582,685	483,489
Retirement scheme contributions	23,150	21,125
Share-based payments	–	–
	605,835	504,614

The emoluments of the two individuals in 2008 and 2007 fell within the band of HK$Nil to HK$1,000,000.

There were no emoluments paid by the Group to any of the five highest paid employees as an inducement to join, or upon joining of the Group, or as compensation for loss in office in both years.

11. TAXATION

	Group 2008 *HK$*	Group 2007 *HK$*
Current year		
PRC Enterprise Income Tax	86,994	–

The provision for the PRC Enterprise Income Tax for the Group's subsidiary in the PRC, Jiangxi Jianghe Water Affairs Co., Ltd is based on the applicable income tax rate of 25% of the taxable income as determined in accordance with the relevant tax rules and regulations of the PRC during the year.

No provision has been made for Hong Kong Profits Tax as the Group sustained losses in Hong Kong for tax purposed during both years.

The taxation charge for the year can be reconciled to the loss before taxation in the consolidated income statement as follows:

	Group 2008 *HK$*	Group 2007 *HK$*
Loss before taxation	(14,411,037)	(3,528,391)
Income tax calculated at the rates applicable to respective companies comprising the Group	(2,496,561)	(617,468)
Tax effect of non-deductible expenses	1,745,498	–
Tax effect of non-taxable revenue	(289,468)	–
Tax effect of temporary differences not recognised	10,227	4,264
Tax effect of tax losses not recognised	1,117,298	613,204
Taxation for the year	86,994	–

There were no material unprovided deferred tax liabilities for both years.

12. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders is dealt with in the financial statements of the Company included a loss of HK$11,074,980 (2007: HK$3,487,559) which has been dealt with in the financial statements of the Company.

13. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to equity holders of the Company of HK$14,498,031 (2007: loss of HK$3,528,391) and the weighted average number of 1,104,397,512 (2007: 57,755,214) ordinary shares in issue during the year.

Diluted loss per share for the year ended 30 June 2008 was not presented as the effect arising from the outstanding share options would be anti-dilutive. No diluted loss per share for the last year ended 30 June 2007 was presented as there was no dilutive event for the last year.

14. DIVIDENDS

No dividend was paid or declared by the Company for both years.

15. PROPERTY, PLANT AND EQUIPMENT

	Group and Company		
	Furniture and fixtures	**Office equipment**	**Total**
	HK$	*HK$*	*HK$*
Cost:			
At 1 July 2006, 30 June 2007 and 1 July 2007	90,745	23,056	113,801
Disposal	(90,745)	–	(90,745)
Additions	226,185	46,023	272,208
At 30 June 2008	226,185	69,079	295,264
Accumulated depreciation:			
At 1 July 2006	28,358	9,606	37,964
Charge for the year	22,686	7,686	30,372
At 30 June 2007 and 1 July 2007	51,044	17,292	68,336
Charge for the year	61,033	14,482	75,515
Disposal	(60,497)	–	(60,497)
At 30 June 2008	51,580	31,774	83,354
Net book value:			
At 30 June 2008	174,605	37,305	211,910
At 30 June 2007	39,701	5,764	45,465

16. INTERESTS IN SUBSIDIARIES

	Company	
	2008	**2007**
	HK$	*HK$*
Non-current assets:		
Unlisted investment, at cost	41	32
Amounts due from subsidiaries *(note a)*	50,377,153	18,540,800
Less: impairment losses recognised	(16,450,000)	(12,000,000)
	33,927,194	6,540,832
Current assets:		
Amount due from a subsidiary *(note b)*	39,059,409	–

Notes:

(a) The amounts due are unsecured and interest free and in substance form part of the Company's interests in subsidiaries as quasi-equity contributions.

(b) The amounts due are unsecured, interest free and repayable on demand.

The following is a list of subsidiaries held by the Company at 30 June 2008:

Name	Legal form	Place of incorporation	Issued share capital	Interest held Directly	Interest held Indirectly	Principal activities
Double Lucky Investment Co., Ltd.	Corporate	British Virgin Islands ("BVI")	1 ordinary share at US$1.00 each	100%	–	Investment holding
Sun Talent Investment Co., Ltd.	Corporate	BVI	1 ordinary share at US$1.00 each	100%	–	Investment holding
Market Place Investment Co., Ltd.	Corporate	BVI	1 ordinary share at US$1.00 each	100%	–	Investment holding
Glorison Limited	Corporate	BVI	1 ordinary share at US$1.00 each	100%	–	Investment holding
Joy State Holdings Limited	Corporate	Hong Kong	1 ordinary share at HK$1.00 each	100%	–	Investment holding
Globe Capital Resources Investment Limited	Corporate	BVI	1 ordinary share at US$1.00 each	100%	–	Investment holding
Jiangxi Jianghe Water Affairs Co., Ltd	Corporate	PRC	Registered capital US$5,000,000	–	100%	Investment holding

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group 2008 *HK$*	Group 2007 *HK$*
Unlisted investments, at cost	46,521,905	15,000,000
Fair value losses dealt with in investment revaluation reserve	–	(3,500,000)
Impairment loss recognised in income statement	(12,950,000)	(5,000,000)
	33,571,905	6,500,000
Unlisted equity investments, at fair value *(notes (a), (b) and (c))*	2,050,000	6,500,000
Unlisted equity investments, at cost less impairment *(note (d))*	31,521,905	–
	33,571,905	6,500,000

As at 30 June 2008, the Group's available-for-sale equity securities were individually determined to be impaired on the basis of a material prolonged decline in their fair value below cost and adverse changes in the market which these investees operated which indicated the cost of the Group's investment in them may not be recovered. Impairment losses on these investments were recognised in profit or loss in accordance with the accounting policy set in note 2(f)(i).

As at 30 June 2008, the Group held the following principal available-for-sale financial assets:

Name	Place of incorporation	Principal activities	Effective interest attributable to the Group 2008	2007
China Link Investment Group Limited ("China Link") *(note a)*	BVI	Provision of on-line consultant services	22%	22%
Zhongshan Chinese Standard Building Materials Company Limited ("Zhongshan Chinese Standard") *(note b)*	PRC	Manufacturing of window frames	1.97%	1.97%
Sunkock Development Limited ("Sunkock") *(note c)*	Hong Kong	Development of medical products	20%	20%
CWIG Disobingshan Windpower Company Limited ("CWIG") *(note d)*	PRC	Wind power generation	20%	–

Notes:

(a) The Company through a subsidiary, Market Place Investment Co., Ltd holds 22% interest in China Link at cost of HK$5,000,000, the directors considered that the Group cannot exercise significant influence on the financial and operating policies of China Link and accordingly, it is classified as an available-for-sale investment. As at 30 June 2008, the directors of the Company reviewed its carrying amount, taking into account of the global financial turmoil and the present value of the estimated future cash flows expected to arise from the investment and considered that it is unlikely to recover in full the interest in China Link. Accordingly, an impairment loss of HK$4,900,000 (2007: Nil) was recognised in the income statement of which a loss of HK$1,000,000 was removed from equity and recognised in the income statement.

(b) The Company through a subsidiary, Sun Talent Investment Co., Ltd, holds 1.97% interest in Zhongshan Chinese Standard at cost of HK$5,000,000, as at 30 June 2008, the directors of the Company reviewed its carrying amount, taking into account of the macroeconomic policies imposed by PRC government, in particular for the property development industry, and global financial turmoil, and considered that it is unlikely to fully recover the interest in Zhongshan Chinese Standard. Accordingly, an impairment loss of HK$3,050,000 (2007: Nil) was recognised in the income statement of which a loss of HK$2,500,000 was removed from equity and recognised in the income statement.

(c) The Company through a subsidiary, Double Lucky Investment Co., Ltd, holds 20% interest in Sunkock at cost of HK$5,000,000, the directors considered that the Group cannot exercise significant influence on the financial and operating policies of Sunkock and accordingly, it is classified as an available-for-sale investment. The directors of the Company considered that there would be no prospect of a material recoverability of this investment as the research and development of certain potential new medical products had been discontinued by Sunkock. Therefore, full provision for impairment loss on this investment was made in the prior years.

(d) The Company through a subsidiary, Globe Capital Resources Investment Limited, holds 20 % interest in CWIG at cost of HK$31,521,905 the directors considered that the Group cannot exercise significant influence on the financial and operating policies of CWIG and accordingly, it is classified as an available-for-sale investment. CWIG is currently at the stage of final test after completion of the construction. As CWIG has not yet commenced operations, investment is stated at cost less impairment loss at the balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably. No impairment on this investment was considered necessary by the directors at 30 June 2008.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group and Company	
	2008	**2007**
	HK$	*HK$*
Equity securities held for trading:		
– listed in Hong Kong	56,199,890	–

The fair values of the above listed securities held for trading are determined based on the quoted market bid prices available on the relevant exchange at the balance sheet date.

The key components of the portfolio of the listed securities at 30 June 2008 included the following:

China Water Affairs Group Limited ("China Water")

China Water is principally engaged in water supply and water supply infrastructure in the PRC.

As at 30 June 2008, the Group held 10,440,000 shares (2007: Nil) in China Water, representing less than 0.01% (2007: Nil) in the issued share capital in China Water. No dividend was received during the year. Based on the annual report of China Water at 31 March 2008, the net assets of China Water were approximately HK$2,226 million. As at 30 June 2008, the market value of the Group's investment was approximately HK$24 million.

Petrochina Company Limited ("Petrochina")

Petrochina is principally engaged in the exploration, development, production and sale of crude oil and natural gas in the PRC.

As at 30 June 2008, the Group held 900,000 shares (2007: Nil) in Petrochina, representing less than 0.01% in the issued share capital of Petrochina. No dividend was received during the year. Based on the interim report of Petrochina at 30 June 2008, the net assets of Petrochina were approximately HK$848,803 million. As at 30 June 2008, the market value of the Group's investment in Petrochina was approximately HK$9 million.

China Cosco Holdings ("China Cosco")

China Cosco's business include the provision of a range of container shipping, dry bulk shipping, container terminal, container leasing and logistics services all over the world.

As at 30 June 2008, the Group held 518,000 shares (2007: Nil) in China Cosco, representing less than 0.01% in the issued share capital in Cosco. No dividend was received during the year. Based on the interim report of China Cosco at 30 June 2008, the net assets of China Cosco were approximately HK$78,284 million. As at 30 June 2008, the market value of the Group's investment in China Cosco was approximately HK$10 million.

19. AMOUNT DUE FROM A SHAREHOLDER

The amount due from a shareholder, Oceanwide Investments Limited, is unsecured, interest free and payable on demand.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2008	**2007**	**2008**	**2007**
	HK$	*HK$*	*HK$*	*HK$*
Prepayments	147,800	167,295	147,800	167,295
Deposits	297,273	54,314	297,273	54,314
Dividend receivables	78,644	–	78,644	–
Other receivables	302,131	2,667	4,035	2,667
	825,848	224,276	527,752	224,276

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	**2007**	**2008**	**2007**
	HK$	*HK$*	*HK$*	*HK$*
Cash and bank balances	36,603,636	1,691,003	11,434,868	1,691,003
Short-term bank deposits	144,213,475	58,000,000	127,077,472	58,000,000
	180,817,111	59,691,003	138,512,340	59,691,003

The effective interest rates and average maturity of short-term bank deposits are as follows:

	Group		Company	
	2008	**2007**	**2008**	**2007**
Effective interest rate (% per annum)	0.9% to 1.54%	2.6%	0.9% to 1.54%	2.6%

22. OTHER LOANS

Other loans were unsecured, interest free and repayable on demand, except for a loan of HK$1,500,000 due to a former director bore interest at the rate of 3%-8% per annum. All other loans were fully settled in August 2007.

23. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2008	**2007**	**2008**	**2007**
	HK$	*HK$*	*HK$*	*HK$*
Accrued interest payable to directors	–	73,269	–	73,269
Accruals	268,000	213,583	268,000	213,583
Other payables	310,820	1,763,895	125,399	1,763,895
	578,820	2,050,747	393,399	2,050,747

24. AMOUNTS DUE TO DIRECTORS

The amounts due were unsecured, interest-free and repayment on demand, except for amounts of HK$1,150,000 and HK$1,000,000 (2007: HK$1,000,000) due to two directors bore interest at the rate of 4.5% and 2.4% per annum, respectively, which were fully settled in August 2007.

25. AMOUNT DUE TO A RELATED COMPANY

The amount due to a related company is unsecured, interest free and repayable on demand.

26. DEFERRED TAXATION

At the balance sheet date, the Group and the Company had estimated unused tax losses for offsetting against future taxable profits of HK$16,115,318 (2007: HK$9,458,519) and HK$16,115,318 (2007: HK$9,458,519), respectively. The tax losses do not expire under the current tax regulation.

No deferred tax asset has been recognised in relation to such tax losses due to the unpredictability of future relevant taxable profit against which the deductible temporary differences and tax losses can be utilised.

27. SHARE CAPITAL

		2008		2007	
	Notes	*Number of shares*	*HK$*	*Number of shares*	*HK$*
Authorised:					
As at 1 July					
Ordinary shares of HK$0.01 each		2,000,000,000	20,000,000	2,000,000,000	20,000,000
Increase in authorised share capital	(a)	28,000,000,000	280,000,000	–	–
At 30 June					
Ordinary shares of HK$0.01 each		30,000,000,000	300,000,000	2,000,000,000	20,000,000
Issued and fully paid:					
As at 1 July					
Ordinary shares of HK$0.01 each		395,151,037	3,951,510	48,000,000	480,000
Issue of new shares					
– Placing of shares	(b)(i)(ii)	110,427,808	1,104,278	347,151,037	3,471,510
– Open Offer	(b)(iii)	1,975,755,185	19,757,552	–	–
– Exercise of share options	(b)(iv)	2,200,000	22,000	–	–
As at 30 June					
Ordinary shares of HK$0.01 each		2,483,534,030	24,835,340	395,151,037	3,951,510

Notes:

(a) Increase in authorised share capital

By a special resolution passed on 15 August 2007, the Company's authorised share capital was increased from HK$20,000,000 to HK$300,000,000 by the creation of an additional 28,000,000,000 ordinary shares of HK$0.01 each, ranking pari passu with the then existing shares of the Company.

(b) Issue of share capital

(i) Issue of new shares to the shareholder

On 20 June 2007, the Company issued 89,142,857 ordinary shares of HK$0.01 each at a price of HK$0.0897 per share to the shareholder, Poly Good Group Limited. Net proceeds from such issue amounted to HK$7,996,114 out of which HK$891,428 and HK$7,104,686 were recorded in share capital and share premium, respectively.

(ii) Issue of new shares under placing of shares

On 21 June 2007 and 27 March 2008, the Company issued 258,008,180 and 110,427,808 new ordinary shares with a par value of HK$0.01 each at a price of HK$0.22 and HK$0.187 per share to 18 and 9 independent investors, respectively. Net proceeds from such issues amount to HK$56,761,800 and HK$20,651,000, out of which HK$2,580,082 and HK$1,104,278 were recorded in share capital with the balance of HK$54,185,604 and HK$19,545,722 were credited to the share premium account, respectively.

(iii) Issue of new shares under open offer

On 11 November 2007, the Company issued 1,975,755,185 new ordinary shares with a par value of HK$0.01 each at a price of HK$0.101 per share by way of open offer on the basis of five offer shares to every one share to the shareholders of the Company. Net proceeds from such issues amounted to HK$199,551,274 out of which HK$19,757,552 and HK$179,793,722 were recorded in share capital and share premium account, respectively.

(iv) Issue of new shares upon exercise of share options

During the year, share options to subscribe for 2,200,000 shares were exercised, of which HK$22,000 was credited to share capital and the balance of HK$435,365 was credited to the share premium account.

All the new ordinary shares issued during the years ended 30 June 2007 and 2008 rank pari passu in all respects with the then existing ordinary shares of the Company.

(c) Capital management

The Group's objective for capital management is to safeguard the Group's ability to continue as a going concern, to enhance shareholder value and to match the business funding needs. The Group manages its capital structure and makes adjustments to it in line with the changes in economic conditions and business strategies by adjusting the dividend payout ratio, returning capital to shareholders or issuing new shares. During the years ended 30 June 2008 and 2007, the Group consistently followed the objectives and applied the policies and process on managing capital. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Group sets the amount of shareholders' equity in proportion to its overall financing structure. Debts comprises other loans, other payables and accruals, amounts due to directors and amount due to a related company. Shareholders' equity comprise all components of equity attributable to the equity shareholders of the Company.

	Group		Company	
	2008	**2007**	**2008**	**2007**
	HK$	*HK$*	*HK$*	*HK$*
Debts				
– Other loans	–	1,920,000	–	1,920,000
– Other payables and accruals	578,820	2,050,747	393,399	2,050,747
– Amounts due to directors	–	3,587,996	–	3,587,996
– Amount due to a related company	43,349	330,000	43,349	330,000
Total Debts	622,169	7,888,743	436,748	7,888,743
Cash and cash equivalents	180,817,111	59,691,003	138,512,340	59,691,003
Net cash position	(180,194,942)	(51,802,260)	(138,075,592)	(51,802,260)
Shareholders' equity	270,936,611	58,591,111	268,020,857	58,631,943

28. SHARE OPTIONS

Under the share option schemes adopted by the Company on 24 May 2001 (the "Terminated Option Scheme") and 15 January 2008 (the "New Option Scheme"), options were granted to certain directors and consultants during the year entitling them to subscribe for shares of the Company under the New Option Scheme. The Terminated Option Scheme was terminated on 15 January 2008 upon the adoption of the New Option Scheme. There were no outstanding share options under the Terminated Option Scheme.

The New Option Scheme was approved and adopted by shareholders of the Company on 15 January 2008, whereby the directors of the Company are authorised, at their discretion, to invite full time employees of the Group (including executive and non-executive directors of the Company or any of its subsidiaries) and any suppliers, consultants, agents or advisors of the Group, to take up options to subscribe for shares of the Company. The maximum number of shares in respect of which options may be granted under the New Option Scheme, when aggregated with any shares subject to any other schemes, shall not exceed 10% of the issued share capital of the Company on the date of approval and adoption of the New Option Scheme. The New Option Scheme shall be valid and effective for a period of 10 years ending on 14 January 2018 after which no further options will be granted. The exercise price of the options will be at least the higher of:

(a) the closing price of the shares on the Stock Exchange (as stated in the Stock Exchange's daily quotations sheet) on the Offer Date, which must be a business date;

(b) the average closing price of the Shares on the Stock Exchange (as stated in the Stock Exchange's daily quotations sheets) for the five business days immediately preceding the Offer Date; and

(c) the nominal value of a share.

Details of options granted and a summary of the movements of the outstanding options under the New Option Scheme during the current year are as follows:

	Outstanding as at 1 July 2007	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 30 June 2008	Exercise price per share *HK$*	Date of grant
Directors							
Wang Wen Xia	–	18,400,000	–	–	18,400,000	0.16	23.1.2008
Pong Po Lam, Paul	–	1,200,000	–	–	1,200,000	0.16	23.1.2008
Wong Kwong Chi, Simon (resigned on 23/5/2008)	–	500,000	(500,000)	–	–	0.16	23.1.2008
Ding Xiaobin	–	500,000	–	–	500,000	0.16	23.1.2008
Ma Jie (appointed on 28/2/2008)	–	8,000,000	–	–	8,000,000	0.16	23.1.2008
Cheung Wai Bun, Charles	–	1,300,000	–	–	1,300,000	0.16	23.1.2008
Zhang Yong	–	300,000	–	–	300,000	0.16	23.1.2008
Gu Qiu Rong (resigned on 28/2/2008)	–	300,000	–	–	300,000	0.16	23.1.2008
Lan Ning (resigned on 28/2/2008)	–	1,200,000	(1,200,000)	–	–	0.16	23.1.2008
Chan Po Fun, Peter	–	500,000	(500,000)	–	–	0.16	23.1.2008
Other	–	3,000,000	–	–	3,000,000	0.16	23.1.2008
	–	35,200,000	(2,200,000)	–	33,000,000		

(a) On 23 January 2008, a total of 35,200,000 share options were granted. The closing price of the shares of the Company immediately before the date of grant was HK$0.14.

(b) The estimated fair value of the 35,200,000 share options granted during the year ended 30 June 2008 is HK$1,685,836 which was calculated using the Black-Scholes Option Pricing Model (the "Model") as at the date of the grant of the share options. The followings are the inputs to the Model:

Share price:	HK$0.14
Exercise price:	HK$0.16
Expected volatility:	77.22%
Expected dividend yield:	0%
Risk free rate:	1.809%
Expected life of the share options:	3 years

Expected volatility was determined by using the historical volatility of the share prices of the Company.

The Group recognised a total expense of approximately HK$1,685,836 for the year ended 30 June 2008 (2007: Nil) in relation to the share options granted by the Company.

The Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

29. RESERVES

Group

The movements in the Group's reserve for the current and prior years are presented in the consolidated statement of changes in equity on page 22 of the financial statements.

Company

	Share premium account *HK$*	**Capital reserve** *HK$*	**Share option reserve** *HK$*	**Accumulated losses** *HK$*	**Total** *HK$*
As at 1 July 2006	32,098,292	2,765,838	–	(37,986,428)	(3,122,298)
Issue of new shares					
– Placing of shares	61,290,290	–	–	–	61,290,290
Loss for the year	–	–	–	(3,487,559)	(3,487,559)
As at 30 June 2007 and 1 July 2007	93,388,582	2,765,838	–	(41,473,987)	54,680,433
Equity settled share-based transactions	–	–	1,685,836	–	1,685,836
Issue of new shares					
– Placing of shares	19,545,722	–	–	–	19,545,722
– Open offer	179,793,722	–	–	–	179,793,722
– Exercise of share options	435,365	–	(105,365)	–	330,000
Share issue expenses	(1,775,216)	–	–	–	(1,775,216)
Loss for the year	–	–	–	(11,074,980)	(11,074,980)
As at 30 June 2008	291,388,175	2,765,838	1,580,471	(52,548,967)	243,185,517

(a) Share premium

The application of share premium account is governed by Section 40 of the Companies Act 1981 of Bermuda.

(b) Capital reserve

The capital reserve represents the wavier of amount due to a shareholder in 2005.

(c) Share option reserve

The share option reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognized in accordance with the accounting policy adopted for share-based payments.

(d) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies in note 2(o).

(e) Distributable of reserves

In the opinion of the directors, at 30 June 2008, the Company did not have any reserve available for distribution to equity shareholders (2007: Nil).

30. NET ASSET VALUE PER SHARE

The calculation of net asset value per share is based on the net assets attributable to the equity holders of the company of HK$270,936,611 (2007: HK$58,591,111) and 2,483,534,030 (2007: 395,151,037) ordinary shares in issue as at 30 June 2008.

31. OPERATING LEASES COMMITMENTS

At the balance sheet date, the Group and the Company had total future outstanding minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group and Company	
	2008	**2007**
	HK$	*HK$*
Within one year	1,141,080	50,322
In the second to fifth years, inclusive	1,144,170	–
	2,285,250	50,322

32. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed in notes 24 and 25 to the financial statements, the Group entered into the following material related party transactions:

(a) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 10(a) is as follows:

	Group	
	2008	**2007**
	HK$	*HK$*
Salaries and allowances	3,002,000	1,200,000
Retirement scheme contributions	18,000	12,000
Share-based payments	1,264,378	–
	4,284,378	1,212,000

Total remuneration is included in staff cost in note (9).

(b) Transactions with related parties

		Group	
		2008	**2007**
	Notes	*HK$*	*HK$*
Investment management fee paid/payable to Pegasus	(i)	618,925	330,000
Investment management fee paid/payable to Altantis	(ii)	43,349	–
Interest expenses paid/payable to directors	(iii)		
– Wang Wen Xia		2,038	23,999
– Chan Yan Ting, Gordon		–	49,270
		2,038	73,269

Notes:

(i) Pursuant to an investment management agreement dated 21 February 2006 and subsequently amended on 1 August 2006, Pegasus Fund Managers Limited ("Pegasus"), whereby Pegasus has agreed to provide investment management services to the Company for a period of three years effective from 1 August 2006. Pegasus is entitled to a management fee from the Company calculated at the following rates:

– 2.5% per annum of the net asset value of the Group as at the immediately preceding valuation date on the basis of the actual number of days in the relevant calendar month over a year of 365 days, subject to a monthly minimum fee of HK$41,667; and

– 10% of the surplus in net asset value of the Group over a financial year or period, which the surplus in the net asset value should be greater than HK$30,000,000.

Mr. Pong Po Lam, an executive director of the Company, has 92% equity interest in Pegasus.

(ii) On 18 April 2008, the new investment management agreement was entered into by the Company and Altantis Investment Management (Hong Kong) Limited ("Altantis"), whereby Altantis has agreed to provide investment management services to the Company for a period of three years effective from 13 May 2008. Altantis is entitled to receive a management fee calculated at the following rates:

– A management fee is payable quarterly in arrears at the rate of 1% per annum of the market value of the portfolio on the last business day of each calendar quarter.

– Atlantis is also entitled to receive a performance-related fee of 10% of the appreciation in the market value of the portfolio above 10% hurdle rate per annum.

(iii) The interest expenses paid to two directors of the Company related to advances granted, further details of which are set out in note 24 to the financial statements.

33. POST BALANCE SHEET EVENTS

On 22 September 2008, a subsidiary of the Company entered into a sale and purchase agreement with Good Outlook to acquire from Good Outlook the sale convertible bonds issued by China Botanic Development Holdings Limited ("China Botanic") which shares are listed on the main board of the Hong Kong of Stock Exchange Limited (stock code: 2349), with a face value of HK$25,000,000 at a cash consideration of HK$30,000,000. The Company will consider converting the sale convertible bonds into shares of China Botanic at the conversion price of HK$0.15 each in the future. Upon the conversion of the entire convertible bonds in the amount of HK$25,000,000, the Company owns 19.41% of the share capital of China Botanic.

Details of the transactions are set out in the Company's announcement dated 22 September 2008.

3. INDEBTEDNESS

At the close of business on 30 September 2008, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group had no material outstanding mortgages, charges, debentures or other loan capital or bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, debt securities, guarantees or other material contingent liabilities.

4. WORKING CAPITAL

As at the Latest Practicable Date, the Directors after due and careful consideration, taking into account the Enlarged Group's internal resources and in the absence of unforeseen circumstances, the Enlarged Group will have sufficient working capital for its requirements for at least 12 months from the date of this circular.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 30 June 2008 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

6. MANAGEMENT DISCUSSION AND ANALYSIS ON THE GROUP

For the year ended 30 June 2008

Final Results

The Group's audited consolidated net loss attributable to shareholders was HK$14,498,031 for the Year (2007: consolidated net loss of HK$3,528,391). The increase in net loss principally reflected unrealized holding loss from the investment in the Hong Kong listed securities and the impairment loss from the investment in the unlisted companies.

General and administrative expenses increased from HK$3,456,740 reported last year to HK$9,778,531 this Year being in line with the increase in operating activities of the Group.

Dividend

The Board does not recommend the payment of any dividend for the Year.

Business Review

For the Year under review, the Group was principally engaged in the investments in the listed securities for short term and in the unlisted equities for medium and long term. Investment income recognised by the Group during the Year was the proceeds from realised gains on disposal of financial assets at fair value through profit or loss, interest income and dividend income, amounted to HK$14,558,425 (2007: Nil).

The Group has made an investment in wind power plant which consists of 66 wind power generators with an installed capacity of 49.5 million watts in Diaobingshan, Liaoning Province, the People's Republic of China (the "PRC") for the Year, Diaobingshan has a geographical feature of strong wind around the year. Electricity supply is a regulated and controlled industry in the PRC, but wind power is clean, environmental friendly and regenerative, which conforms to the national energy industrial policy development requirement. With the continuing growth of the economy in the PRC, the demand for electricity supply will increase whilst the electricity supply in the PRC is in shortage, and the operation cost of wind power is relatively low when comparing with other means of electricity generation, the Board considers that this investment is a good opportunity for the Group to expand its investment portfolio to the sustained growing industry in the PRC which will generate stable and high return in long-term for the shareholders.

Also, the Group has appointed two reputable investment managers who have unique perspectives and extensive experiences in the investments of international, Hong Kong and PRC markets. With a strong management team of the Group and veteran investment managers, the Group maintains a healthy financial position.

Financial Review

Liquidity, Financial Resource and Funding

As at 30 June 2008, the Group had cash and bank balance of HK$180,817,111 (30 June 2007: HK$59,691,003). Most of the cash and bank balance were placed in Hong Kong dollar deposits with banks in Hong Kong SAR. The current ratio (calculated as the current assets to the current liabilities) of the Group as at 30 June 2008 was approximately 33,541% (30 June 2007: 760%), gearing ratio (calculated as the long term loan to the total shareholders' equity) of the Group as at 30 June 2008 was zero (30 June 2007: zero). The Group maintained a strong working capital position during the Year.

The Group's asset portfolio is mainly financed by the shareholders' funds. As at 30 June 2008, the Group had total equity of HK$270,936,611 (2007: HK$58,591,111). The increase in total equity was mainly from net proceeds of new Shares of approximately HK$218.9 million during the Year raised by subscriptions of approximately HK$21 million and by Open Offer of approximately HK$197.9 million.

Exposure to Fluctuations in Exchange Rates

Since the Group mainly uses Hong Kong dollars and Renminbi to carry out its business transactions, the Board considers that the Group's exposure to fluctuation in exchange rates was insignificant.

Investment Portfolio

The Group's investment portfolio comprised of unlisted investments and listed securities investments. The Group held minority stakes of unlisted companies which are believed to have sound prospects of long-term growth in profits and capital appreciation in the future. As at 30 June 2008, the Group's unlisted investments, valued at cost less impairment, totaling HK$33,571,905 (2007: HK$6,500,000).

As at 30 June 2008, the Group held listed investments, at market value, of HK$56,199,890 (2007: Nil).

Contingent Liabilities

As at 30 June 2008, the Group has no significant contingent liabilities.

Employees and Remuneration Policy

As at 30 June 2008, the Group had 13 employees. The total staff cost of the Group for the Year was HK$5,567,881 (2007: HK$1,761,614). The remuneration package of the employees is determined by various factors including the employees' experience and performance, the market condition, industry practice and applicable employment law.

Future Prospect

Although the recent financial crisis has affected the global economy sharply in the third quarter of 2008, the prices of many listed and unlisted companies become under valued. The Board considers that it is a golden opportunity for the Group to select more valuable companies to acquire and invest with the strong working capital position of the Group.

After the year end, the Group acquired the Convertible Bonds issued by China Botanic Development Holdings Limited ("China Botanic") which shares are listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 2349). The Board considers that the acquisition of the Convertible Bonds will enable the Group to receive a steady income of about HK$750,000 every year until maturity of the Convertible Bonds. Also, when the Convertible Bonds are converted at the appropriate price, it will provide a valuable opportunity for the Group to hold equity interest (i.e. shares) of China Botanic and a more flexible chance for the Group to obtain highest possible return for our shareholders.

Meanwhile, the Group will continue to look at projects with high growth and carefully monitor the investment portfolios to maximize the Group's returns and ensure a stable return for the shareholders.

For the year ended 30 June 2007

Financial Results

The Group recorded a net loss attributable to the equity holders of approximately HK$3.5 million as compared to approximately HK$6.5 million in the previous year.

Dividend

The Board of Directors does not recommend the payment of any dividend for the year ended 30 June 2007.

Overview

During the period under review, the Group engages in two projects: (1) the interest in an unlisted equity investment which engaged in the development of a website providing online professional consultancy services in the PRC; (2) the production and distribution of window frames in the People's Republic of China.

The Group had not made any major investments during the same period due to lack of new capital for investment. Also, the Group's existing investments are all in unlisted equities which are long-term and illiquid in nature.

For the year ended 30 June 2007, the Group recorded no turnover which is in the same position as that for the year ended 30 June 2006. The Company raised net proceeds of approximately HK$64,700,000.00 by way of subscription and new subscriptions by issuing 347,151,037 new shares at a price of HK$0.0897 per share and HK$0.22 per share on 20 June 2007 and 21 June 2007 respectively.

Employees

As at 30 June 2007, the Group has employed 3 employees. The total remuneration paid to staff excluding the directors' remuneration was approximately HK$483,000, during the period under review. The employees were remunerated based on their responsibilities and performance.

Future Prospects

The Group is consolidating its investments and tuning its financial position with an objective in minimizing losses which might arise from unsound investments, while strengthening investments with stable revenues.

With management experts joining the management team to strengthen its leadership and a strengthened financial situation and strong support from the investors through subscription and new subscriptions, we believe that the Company will grow very fast and bring a remarkable return to its shareholders.

For the year ended 30 June 2006

Financial Results

The Group recorded a net loss attributable to shareholders of approximately HK$6.5 million as compared to approximately HK$2.5 million in the previous year.

Dividend

The Board of Directors does not recommend the payment of any dividend for the year ended 30 June 2006.

Overview

During the period under review, the Group engages in two projects: (1) the interest in an unlisted equity investment which engaged in the development of a website providing online professional consultancy services in the PRC; (2) the production and distribution of window frames in the PRC.

The Group had not made any major investments during the same period due to lack of new capital for investment. Also, the Group's existing investments are all in unlisted equities which are long-term and illiquid in nature. For this reason, although the Hong Kong stock market marked a considerable recovery in year 2006, the Group did not benefit from the stock market rally.

On 2 November 2005, the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Company agreed to allot and issue and the Subscriber agreed to subscribe in cash of HK$8,000,000 for a total of 89,142,857 Subscription Shares which represented the subscription price of approximately HK$0.0897 per Subscription Share.

The completion of the Subscription Agreement is conditional upon, the Listing Committee of the Stock Exchange granting approval of the listing and permission to deal in the New Shares in issue and consent in principle of the Stock Exchange to the resumption of trading of New Shares in issue on the Stock Exchange having been obtained.

With effect from 9 May 2006, the Company has been de-registered from the Cayman Islands and duly continued in Bermuda as an exempt company under the laws of Bermuda. The address of the registered office of the Company has been changed from Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies to Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda.

Employees

As at 30 June 2006, the Group has employed 2 employees. The total remuneration paid to staff excluding the directors' remuneration was approximately HK$426,000, during the period under review. The employees were remunerated based on their responsibilities and performance.

Future Prospects

The Group is consolidating its investments and tuning its financial position with an objective in minimizing losses which might arise from unsound investments, while strengthening investments with stable revenues.

During this year, the Group introduced management experts to join the management team to strengthen its leadership. Most of them have PRC background, and may inject profitable projects into the Group. We firmly believe that under the guidance of a capable management team, the Group will surely be able to record remarkable revenues in the coming year, leading our business back on track.

We believe Hong Kong has come through the worst. With the implementation of CEPA, the gradual deregulation of the mainland capital markets and the resulting increase in business activities and opportunities, we are optimistic that the economy and the stock market will recover at a hastened pace, and will benefit Hong Kong as a whole.

1(A) THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2007

The following is the audited financial statements of China Botanic Group together with accompanying notes as extracted from the annual report of China Botanic for the year ended 31 December 2007.

Consolidated Income Statement
For the year ended 31 December 2007

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

Consolidated Balance Sheet
At 31 December 2007

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

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

Balance Sheet
At 31 December 2007

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

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

The special reserve represents:

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

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

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

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

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

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

Consolidated Cash Flow Statement
For the year ended 31 December 2007

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

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

Notes to the Financial Statements

For the year ended 31 December 2007

1. GENERAL

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

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

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

The Company is an investment holding company. The Company's subsidiaries are principally engaged in the production and distribution of snack food and convenience frozen food products and in cultivation of seabuckthorn seedlings, manufacture, sales, research and development of seabuckthorn-related health products. Details of the principal subsidiaries are set out in note 42.

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of Consolidation

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

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

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

Business Combinations

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

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

Goodwill

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

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

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

Investment in Subsidiaries

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

Property, Plant and Equipment

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

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

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

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

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

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

Prepaid Lease Payments

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

Inventories

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

Financial Instruments

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

Financial Assets

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

Effective Interest Method

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

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

Financial Assets at Fair Value through Profit or Loss

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

A financial asset is classified as held for trading if:

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

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

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

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

Loans and Receivables

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

Impairment of Financial Assets

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

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

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

Financial Liabilities and Equity Instruments

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective Interest Method

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

Financial Liabilities at Fair Value through Profit or Loss

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

A financial liability is classified as held for trading if:

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

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

Convertible Notes

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

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

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

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

Equity Instruments

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

Derecognition

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

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

Provisions

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

Equity Settled Share-based Payment Transactions

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

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

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

Revenue Recognition

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

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

Impairment Losses on Tangible and Intangible Assets other than Goodwill

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

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

Leasing

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

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

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

Intangible Assets

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

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

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

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

Biological Assets

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

Taxation

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

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

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

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

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

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

Retirement Benefit Costs

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

Foreign Currencies

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

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

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

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

Cash and Cash Equivalents

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

(a) Depreciation and Amortisation

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

(b) Allowance for Bad and Doubtful Debts

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Currency Risk Management

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

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

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

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

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

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

Liquidity Risk Management

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

Credit Risk Management

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade debt to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Interest Rate Risk Management

The Group

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

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

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

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

The Company

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

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

Price Risk Management

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

6. SEGMENT INFORMATION

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

(a) Business Segments

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

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

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

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

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

(b) Geographical Segments

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

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

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

7. TURNOVER, OTHER OPERATING INCOME AND NET GAIN

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

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

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

8. PROFIT FROM OPERATIONS

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

9. FINANCE COSTS

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

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' Emoluments

For the year ended 31 December 2007

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

For the year ended 31 December 2006

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

(b) Employees' Emoluments

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

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

The emoluments of each of the two (2006: two) highest paid individuals were less than HK$1,000,000.

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

11. INCOME TAX EXPENSES

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

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profit arising in Hong Kong for the year.

In accordance with the relevant tax laws and regulations of the PRC, certain of the Group's PRC subsidiaries are exempted from PRC Enterprise Income Tax for two years starting from the first profit making year after utilisation of the carried forward tax losses and eligible for a 50% relief of the PRC Enterprise Income Tax for the following three years.

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

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

12. DIVIDENDS

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

13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to the equity holders of approximately HK$51,892,000 (2006: HK$13,030,000) and on the weighted average ordinary share of 564,506,592 (2006: 370,542,466) deemed to be in issue during the year.

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

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

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

14. PREPAID LEASE PAYMENTS

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

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

Note: The land use rights and leasehold land of the Group as at 31 December 2007 are held on medium term leases and situated in the PRC and Hong Kong respectively.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture and equipment	Motor vehicles	Plant, and machinery	Construction in progress	Loose tools and moulds	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST							
At 31 December 2005 and 1 January 2006	52,322	24,251	9,408	81,141	6,272	189	173,583
Exchange difference	1,757	435	61	2,892	118	–	5,263
Additions	–	1,108	–	9,370	91	–	10,569
Transfer in/(out)	–	–	–	5,088	(5,088)	–	–
Disposals	(195)	–	(2,615)	(329)	–	–	(3,139)
At 31 December 2006 and 1 January 2007	53,884	25,794	6,854	98,162	1,393	189	186,276
Exchange difference	4,815	1,223	117	8,524	90	–	14,769
Acquisition of subsidiaries	30,458	1,837	1,732	27,625	44	–	61,696
Additions	–	480	–	262	547	–	1,289
Transfer in/(out)	–	905	–	569	(1,474)	–	–
Disposals	–	–	(538)	–	–	–	(538)
At 31 December 2007	89,157	30,239	8,165	135,142	600	189	263,492
ACCUMULATED DEPRECIATION							
At 1 January 2006	8,626	16,557	8,760	33,251	–	145	67,339
Exchange difference	273	210	61	1,069	–	–	1,613
Provided for the year	1,165	1,543	99	5,902	–	5	8,714
Eliminated on disposals	(78)	–	(2,590)	(329)	–	–	(2,997)
At 31 December 2006 and 1 January 2007	9,986	18,310	6,330	39,893	–	150	74,669
Exchange difference	840	621	124	3,359	–	–	4,944
Provided for the year	1,546	1,606	173	6,560	–	4	9,889
Eliminated on disposals	–	–	(518)	–	–	–	(518)
At 31 December 2007	12,372	20,537	6,109	49,812	–	154	88,984
NET BOOK VALUES							
At 31 December 2007	76,785	9,702	2,056	85,330	600	35	174,508
At 31 December 2006	43,898	7,484	524	58,269	1,393	39	111,607

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

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

16. INTERESTS IN SUBSIDIARIES

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

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

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

Particulars of the Company's principal subsidiaries as at 31 December 2007 are set out in note 42.

17. BIOLOGICAL ASSETS

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

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

The leaves and young branches and berries are used as functional food for their nutrition content (such as berries juices and tea leaves) and medicinal and cosmetics products for their pharmaceutical and antioxidant qualities (such as seabuckthorn oil for skin therapy including sun, heat, chemical and radiation burns, eczema and poorly healing wounds). The products are of a wide variety, from raw materials including seed oil, pulp oil, pulp powder, flavone powder, raw juices, concentrate juices, seedlings, seeds, dried berries and tea leaves, finished products including health products such as flavone soft capsules, seed oil soft capsules, pulp oil soft capsules, seed oil, pulp oil, tea in packs and cosmetic series.

18. INTANGIBLE ASSETS

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

THE GROUP

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

19. DEPOSIT PAID ON ACQUISITION OF A SUBSIDIARY

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

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

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

21. GOODWILL

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

THE GROUP

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

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

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

22. INVENTORIES

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

23. TRADE AND OTHER RECEIVABLES

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

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

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

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

24. TRADE AND OTHER PAYABLES

An ageing analysis of trade payables is as follows:

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

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

25. OBLIGATIONS UNDER FINANCE LEASES

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

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

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

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

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

27. BORROWINGS

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

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

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

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

28. CONVERTIBLE NOTES

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

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

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

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

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

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

29. SHARE CAPITAL

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

Note:

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

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

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

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

30. SHARE OPTION SCHEME

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

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

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

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

The following table discloses details of the Company's options under the Scheme held by employees and consultant and the movement during the years ended 31 December 2007:

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

On 14 December 2004, the Company granted share options under the Scheme to certain employees of the Group and a consultant, which entitle them to subscribe for a total of 13,281,250 shares and 2,656,250 shares respectively at HK23.8 cents per share. The total amount of consideration received from the participants for taking up the options granted was HK$7. All these share options were exercised during the year ended 31 December 2007.

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

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

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

1. an expected volatility in range: (51.02% – 68.99%);

2. expected no annual dividend yield;

3. the estimated expected life of the options granted in range: (1.50-2.5 years); and

4. the risk-free rate in range: (2.013% – 4.321%).

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

31. RESERVES

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

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

The Company's reserves available for distribution to its shareholders comprise share premium, contributed surplus and accumulated profits which in aggregate amounted to approximately HK$204 million as at 31 December 2007 (2006: HK$134 million). Under the Companies Law (Revised) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the payment of distributions or dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be payable out of the profits or other reserves, including the share premium account, of the Company.

32. DEFERRED TAX LIABILITIES

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

	Accelerated tax depreciation	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2006	489	(89)	400
(Credited) to the income statement for the year *(note 11)*	(63)	(247)	(310)
At 31 December 2006 and 1 January 2007	426	(336)	90
Charged to the income statement for the year *(note 11)*	18	271	289
As at 31 December 2007	444	(65)	379

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

33. RETIREMENT BENEFITS SCHEME

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

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

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

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

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

34. MAJOR NON-CASH TRANSACTIONS

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

The major non-cash transaction of the Group in 2006 represented the finance lease arrangements in respect of the acquisition of assets with a total capital value at the inception of the leases of HK$7,786,000.

35. ACQUISITION OF SUBSIDIARIES

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

The net assets acquired in the transaction are as follows:

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

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

36. PLEDGE OF ASSETS

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

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

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

37. OPERATING LEASES COMMITMENTS

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

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

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

38. CAPITAL COMMITMENTS

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

39. CONTINGENT LIABILITIES

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

As at the balance sheet date, the directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the balance sheet date under the guarantees issued is the facility drawn down by the subsidiaries of HK$115,424,000 (2006: HK$125,163,000).

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

40. POST BALANCE SHEET EVENTS

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

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

41. CONNECTED AND RELATED PARTY TRANSACTIONS

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

		2007	**2006**
	Notes	*HK$'000*	*HK$'000*
Rentals paid to:			
– Lucky Fair Investment Limited	(i) & (ii)	180	180
– Profit Horn Development Limited	(i) & (ii)	–	156
– Tai Tung Supermarket Limited	(i) & (ii)	228	228
– Mr. But Ching Pui	(ii)	72	72
– The But's Family and Mr. But Chai Leung	(ii)	144	144
– Mr. But Ka Wai and Mr. But Chai Leung	(ii)	156	156
– Mr. But Ching Pui and Ms. Leung Wai Ling	(ii)	156	156

Compensation to key management personnel:

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

Notes:

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

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

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2007 are as follows:

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

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
Million Riches Development Limited 裕億發展有限公司	Hong Kong	Ordinary shares HK$100 Non-voting deferred shares HK$1,000,000 *Note (ii)*	100%	Distribution and marketing of snack foods products
Wah Yuen Foods Company Limited 華園食品廠有限公司	Hong Kong	Ordinary shares HK$20	100%	Investment holding
Wah Yuen (Guangzhou) Foods Company Limited 華園（廣州）食品有限公司 *Note (i)*	PRC	Registered and contributed capital USD4,500,000	100%	Manufacturing, distribution and marketing of snack food products
Rocco Foods Enterprises Company (Guangzhou) Limited 廣州樂高食品企業有限公司 *Note (i)*	PRC	Registered and contributed capital USD2,810,000	100%	Manufacturing, distribution and marketing of snack food products
Guangzhou Lekker Pet Foods Company Limited 廣州市俐嘉寵物食品有限公司 *Note (i)*	PRC	Registered and contributed capital HK$500,000	100%	Manufacturing, distribution and marketing of pet food products
Wide Spread Foods Company Limited 廣州宏嘉食品有限公司 *Note (i)*	PRC	Registered and contributed capital HK$500,000	100%	Trading
China Environmental Water Holdings Limited 中國水環境控股有限公司	Hong Kong	Ordinary share HK$10	100%	Investment holdings
Wah Yuen Health Products Company Limited 華園健康產品有限公司	Hong Kong	Ordinary share HK$10,000	100%	Investment holdings
Conseco Seabuckthorn Co., Limited 高原聖果沙棘制品有限公司	PRC	Registered and contributed capital RMB30,500,000	50%	Sales and Manufacturing, seabuckthorn related food and health products and cosmetic products
Erdos Plateau Seabuckthorn Ecological Construction and Development Limited 鄂爾多斯市高原聖果生態建設開發有限公司	PRC	Registered and contributed capital RMB20,000,000	50%	Sales and Manufacturing seabuckthorn related food and health products and cosmetic products

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
准格爾旗高原聖果沙棘有限公司	PRC	Registered and contributed capital RMB500,000	45%	Cultivation of seabuckthorn related food and health products and cosmetic products
達拉特旗高原聖果沙棘有限公司	PRC	Registered and contributed capital RMB500,000	45%	Cultivation of seabuckthorn related food and health products and cosmetic products
陝西果聖水土保持建設有限公司	PRC	Registered and contributed capital RMB5,000,000	45%	Cultivation of seabuckthorn related food and health products and cosmetic products
高原聖果(北京)沙棘營銷有限公司	PRC	Registered and contributed capital RMB5,000,000	30%	Sales of seabuckthorn related food and health products and cosmetic products
甘肅高原聖果沙棘開發有限公司	PRC	Registered and contributed capital RMB5,000,000	30%	Cultivation of seabuckthorn related food and health products and cosmetic products
鄂爾多斯市高原植物資源開發有限公司	PRC	Registered and contributed capital RMB1,000,000	47%	Cultivation of seabuckthorn related food and health products and cosmetic products
鄂爾多斯市准格爾旗高原植物資源開發有限公司	PRC	Registered and contributed capital RMB1,000,000	47%	Cultivation of seabuckthorn related food and health products and cosmetic products
榆林市高原植物資源開發有限公司	PRC	Registered and contributed capital RMB1,000,000	43%	Cultivation of seabuckthorn related food and health products and cosmetic products

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

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

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

1(B) INDEPENDENT AUDITORS' OPINION

Set out below is a reproduction of the independent auditor's report from the annual report of China Botanic Group for the year ended 31 December 2007

We have audited the consolidated financial statements of Wah Yuen Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 89 which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

2. THE UNAUDITED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

The following information has been extracted from the interim report of the China Botanic Group for the six months ended 30 June 2008.

Condensed Consolidated Income Statement

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

Condensed Consolidated Balance Sheet

	Note	As at 30 June 2008 (unaudited) *HK$'000*	As at 31 December 2007 (audited) *HK$'000*
NON-CURRENT ASSETS			
Prepaid lease payments		3,191	3,147
Property, plant and equipment		205,130	174,508
Biological assets	9	139,893	74,909
Intangible assets		832	532
Deposits paid on acquisition of a subsidiary		–	6,000
Deposits paid on acquisition of property, plant and equipment		–	17,391
Goodwill		182,340	171,613
		531,386	448,100
CURRENT ASSETS			
Inventories		88,836	64,794
Trade and other receivables	10	189,626	215,354
Pledged bank deposits		32,898	23,622
Bank balances and cash		103,891	134,649
		415,251	438,419
CURRENT LIABILITIES			
Trade and other payables	11	30,074	49,285
Obligations under finance leases		6,845	9,830
Tax payable		3,267	5,742
Amounts due to minority shareholders		7,959	5,493
Amount due to a shareholder		2,000	11,626
Borrowings		156,486	119,346
		206,631	201,322
NET CURRENT ASSETS		208,620	237,097
TOTAL ASSETS LESS CURRENT LIABILITIES		740,006	685,197

	Note	As at 30 June 2008 (unaudited) HK$'000	As at 31 December 2007 (audited) HK$'000
NON-CURRENT LIABILITIES			
Obligations under finance leases		1,429	3,666
Borrowings		16,426	23,098
Convertible notes	12	253,495	244,834
Deferred tax liabilities		429	379
		271,779	271,977
		468,227	413,220
CAPITAL AND RESERVES			
Share capital	13	6,919	6,919
Reserves		360,747	333,554
Equity attributable to equity holders of the Company		367,666	340,473
Minority interests		100,561	72,747
TOTAL EQUITY		468,227	413,220

Condensed Consolidated Statement of Changes in Equity

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

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

Condensed Consolidated Cash Flow Statement

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

Notes to the Condensed Consolidated Interim Financial Information

For the period ended 30 June 2008

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

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

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

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

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

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

2. FINANCIAL RISK MANAGEMENT

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

3. TURNOVER AND SEGMENT INFORMATION

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

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

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

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

4. PROFIT FROM OPERATIONS

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

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

5. FINANCE COSTS

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

6. TAXATION

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

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

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

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

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

7. EARNINGS PER SHARE

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

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

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

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

8. INTERIM DIVIDEND

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

9. BIOLOGICAL ASSETS

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

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

The leaves and young branches and berries are used as functional food for their nutrition content and medicinal and cosmetics products for their pharmaceutical and antioxidant qualities (such as seabuckthorn oil for skin therapy including sun, heat, chemical and radiation burns, eczema and poorly healing wounds). The products are of a wide variety, from raw materials including seed oil, pulp oil, pulp powder, flavone powder, raw juices, concentrate juices, seedlings, seeds, dried berries and tea leaves, finished products including health products such as flavone soft capsules, seed oil soft capsules, pulp oil soft capsules, seed oil, pulp oil, tea in packs and cosmetic series.

10. TRADE AND OTHER RECEIVABLES

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

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

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

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

11. TRADE AND OTHER PAYABLES

An aged analysis of the trade payables is as follows:

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

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

12. CONVERTIBLE NOTES

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

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

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

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

13. SHARE CAPITAL

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

Notes:

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

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

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

14. BUSINESS COMBINATION

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

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

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

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

3. MANAGEMENT DISCUSSION ON THE CHINA BOTANIC GROUP

For the year ended 31 December 2005

Business Review

Wah Yuen is the market leader of food manufacture, distribution and retail in Hong Kong and the PRC. With a diversified range of over 200 types of supreme quality snack products with a unique Asian flavour, the Group produces and offers its products under three brands, namely "Wah Yuen", "Rocco" and "采楓", and the OEM model. In addition, the Group also engages in the manufacture of convenience frozen food products under the brand name Wah Yuen and the OEM model.

Hong Kong Market

Benefited from encouraging economic development and the strengthening of consumption power, the Group achieved satisfactory growth in the Hong Kong market in spite of keen market competition.

During the year under review, the Group extended its network coverage and further expanded its sales and distribution channels. With an extensive retail network of a total of 2,300 outlets, Wah Yuen fortified its unrivalled position as one of the most popular packaged food brands in Hong Kong by leveraging on its established and renowned brand equity as well as diversified products with outstanding quality.

For the year ended 31 December 2005, sales in the Hong Kong market amounted to approximately HK$118,862,000, representing an increase of 3% over that of 2004, and accounted for 57% of the Group's total turnover. The sales performance in Hong Kong was mainly attributable to the remarkable progress in product development and effective product promotion.

In 2005, the Group attained impressive progress in new product development. While launching different series of preserved fruits and nuts, as well as new convenience frozen food products such as fried rice, fried noodles and Chinese dim sum, the Group successfully developed new sales channels and set up concessionaires in supermarkets, which also further reinforced the Group's collaboration with key distributors and retail chains.

The PRC Market

For the PRC market, Wah Yuen mainly sells its products under the brand names of "Wah Yuen", "Rocco" and "采楓" through its extensive distribution network spanning across 250 cities in 30 provinces.

Amidst unfavourable market condition with increasing entrants, the Group enhanced its exertions in strengthening the sales and marketing promotion of its products. As such, the Group's marketing and distribution expenses significantly increased. Coupled with severe market competition, the Group's business performance in the PRC was adversely affected.

As a result, the Group's sales in the PRC dropped by 6% and amounted to approximately HK$88,689,000, accounting for approximately 43% of the Group's total turnover for the year ended 31 December 2005.

Despite the decrease in product sales, the Group endeavoured to consolidate its distribution channels and establish intimate relationship with local supermarkets and convenience stores, so as to pave a way for the Group to expedite future growth.

In addition, the Group's persistence in pursuing meticulous quality was accredited the highest level of China Quality Credit Appraise Certificate by the authoritative China Quality Credit Appraisal Centre, which further equipped the Group with unparalleled strength to excel in the PRC market.

Overseas Market

Since its successful development into the Japanese market in the fourth quarter of 2004, the Group has achieved astonishing progress with remarkable growth.

During the year, the Group continued to strengthen the marketing and promotion of diversified convenience frozen food products sold in the Japanese market, including fried rice and a series of Chinese dim sum.

Meanwhile, the Group established a partnership and entered into an agreement with one of the largest conglomerates listed in Japan. In 2005, the representatives of this Japanese conglomerate visited the Group's production facilities in the PRC and accredited an "A Grade Certificate", which demonstrated the Group's production technology has attained the quality standard in Japan.

With the solid foundation established over the past year, Wah Yuen is confident that the Japanese market will become a future growth driver, further fortifying its core competencies and solidify market presence in the region.

Production Facilities

As at 31 December 2005, the Group has three production facilities in Hong Kong and the Huadu District, Guangzhou, Guangdong Province. Capitalizing on the 10 state-of-the-art and highly efficient production lines, the Group manufactures preserved meats, convenience frozen food products, flour, preserved fruits and nuts, seasonings and other products. During the year under review, the Group upgraded its existing equipment and machinery to enhance production capabilities.

In addition to the accreditation of the Hazard Analysis and Critical Control Point certificate (HACCP) as well as the ISO 9001 and ISO 9002 certificates, the Group also successfully obtained the highest level of China Quality Credit Appraise Certificate by the authoritative China Quality Credit Appraisal Centre, enabling the Group to further ameliorate product quality.

Future Prospects

The Group has formulated different business strategies, with an aim of cementing its leading market position, boosting product sales and propelling profit growth.

Looking forward, the Group will allocate abundant resources in developing new products, including both core snack food products and convenience frozen food products, so as to capture arising opportunities brought forth by market changes.

While diversifying and enhancing product portfolio, the Group will expand its sales and distribution channels and consolidate amicable relationships with major distributors as well as retail chains. As such, the Group is capable of further penetrating into the Hong Kong, PRC and Japanese market, and extending its business reach to overseas markets.

By securing the collaboration agreement with a renowned conglomerate listed in Japan, the Group is optimistic towards its business development in this market, which is poised to become the Group's future growth momentum.

In view of the upcoming 2006 World Cup and other major events in the region, the Group will proactively seek for joint promotion opportunities and utilising specially designed new packaging to expedite product sales, creating significant profit contribution to the Group.

Capitalising on its well-established sales and distribution network, comprehensive business foundation, focused marketing strategy and impeccable quality control, Wah Yuen is dedicated to become a leading one-stop food enterprise with a unique market position and to continue to offer a wide range of quality products to food lovers worldwide.

Financial Review

The Group's turnover for the year ended 31 December 2005 amounted to HK$207,551,000, representing a decrease of 1% as compared to HK$210,454,000 for the previous year. The Group's gross profit and profit attributable to the equity holders for the year ended 31 December 2005 recorded HK$64,397,000 and HK$10,216,000 respectively.

Sales of dried meat products which accounted for 44% of total turnover were the major source of the Group's revenue. Sales of convenience frozen food products, flour products and preserved fruits and nuts products accounted for approximately 20%, 8% and 4% respectively of the total turnover, while the remaining was attributable to other products.

Liquidity and Financial Resources

As at 31 December 2005, the Group had total assets of HK$365,314,000 and its total current assets were HK$256,843,000. As at that date, the current and non-current liabilities of the Group totaled to HK$170,023,000 and HK$45,752,000 respectively. The Group's bank borrowings amounted to HK$168,576,000 (2004: HK$164,441,000). Most of these bank borrowings were denominated in Hong Kong dollars and bearing floating interest rates. As at 31 December 2005, the gearing ratio of the Group was 42% (2004: 37%), calculated on the basis of total borrowings less cash over total assets at that date.

Exposure to Fluctuation in Foreign Exchange

The Group's monetary assets and liabilities are denominated in Hong Kong dollars and Renminbi which were relatively stable during the year. The Group is not exposed to any other significant exchange risk.

Capital Expenditure

During the year, the Group invested approximately HK$9,080,000 in fixed assets, of which 74% was used for purchasing production machinery and the remaining related to other assets.

As at 31 December 2005, the Group had capital commitments of approximately HK$4,909,000 in respect of acquisition of new machinery and renovation of a new production line.

Charge on Assets

As at 31 December 2005, certain assets of the Group with aggregate carrying value of approximately HK$112,365,000 were pledged to banks to secure banking facilities granted to the Group.

Employees

As at 31 December 2005, total number of employees of the Group were approximately 71 in Hong Kong (2004: 72), and approximately 590 in the PRC (2004: 865). The Group offers a comprehensive remuneration and benefit package to its employees. In addition, share option and discretionary bonuses are also granted to eligible staff based on the performance of the individual as well as the Group.

For the year ended 31 December 2006

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

Sales of dried meat products which accounted for 53% of total turnover were the major source of the Group's revenue. Sales of convenience frozen food products, flour products and preserved fruits and nuts products accounted for approximately 22%, 5% and 4% respectively of the total turnover, while the remaining was attributable to other products.

Business Review

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

Hong Kong Market

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

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

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

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

The PRC Market

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

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

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

Overseas Market

The Group attained the "A Grade Certificate" this year in recognition of its production facilities, which demonstrated the Group's longstanding commitment to hygiene standards and quality control. Significantly, Wah Yuen successfully established a strategic partnership with Sojitz Corporation ("Sojitz"; a merger between Nichimen Corporation and Nissho Iwai Corporation), a large listed conglomerate in Japan and a leading international corporation with businesses spanning the globe. Operations of Sojitz consists of five core businesses – machinery and aerospace; energy and mineral resources; chemicals and plastics; real estate development and forestry products; as well as consumer lifestyle business.

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

Production Facilities

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

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

Future Prospects

Looking forward, the Group aims to strengthen its market presence and consolidate its image as a reputable household brand, as well as to boost product sales and profit growth. This will be achieved through the continued delivery of quality products to consumers and the strengthening of its brand position via effective marketing and joint promotion campaigns with various supermarkets and convenience store chains.

Wah Yuen will also enhance its core competencies with the introduction of various new products, continuous improvements in its product mix as well as further expansion of its product distribution channels in Hong Kong and the PRC markets.

Meanwhile, the Group's strategic partnership with Sojitz fully demonstrates its confidence in the quality products and manufacturing facilities of Wah Yuen. The Group will work closely with Sojitz to explore more cooperative opportunities in Japan. Under the long-term partnership, the Group is optimistic towards its business development in Japan, which is poised to become a significant growth driver for the Group in future.

Liquidity and Financial Resources

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

Exposure to Fluctuation in Foreign Exchange

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

Capital Expenditure

During the year, the Group invested approximately HK$10,569,000 in fixed assets, of which 89% was used for purchasing production machinery and the remaining related to other assets. As at 31 December 2006, the Group had no capital commitments.

Charge on Assets

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

Rights Issue

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

Employees and Remuneration Policies

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

For the year ended 31 December 2007

The Group is principally engaged in food manufacturing, research and development, sales and distribution with market presence in Hong Kong, the PRC and overseas. The Group offers a wide range of over 200 types of quality snack products in unique Asian flavour under three major brands, namely Wah Yuen, Rocco and 采楓.

Upon completion of the acquisition of seabuckthorn business in November 2007, the Group is also engaged in seabuckthorn seedlings, manufacturing and sale of seabuckthorn related health products in the PRC.

The Group's revenue for the year ended 31 December 2007 amounted to HK$281,054,000, representing an increase of 39% as compared to HK$202,130,000 for the previous year. Profit attributable to the equity holders increased substantially by 3.98 times to HK$51,892,000. Basic earnings per share amounted to HK9.19 cents. The satisfactory performance was attributable to the introduction of new and profitable seabuckthorn business, increased organic sales growth arising from surging consumption power in Hong Kong and the PRC, as well as improved operating efficiency of the manufacturing facilities.

Business Review

Seabuckthorn and Seabuckthorn Related Health Products

2007 is a year of transformation and expansion for the Group. With more than 40 years of experience from manufacturing to sales & distribution of food, the Group has been foraying into the promising healthcare market in the PRC with the strong support from China Water Affairs, a Hong Kong listed company primarily engaged in the business of investing in and operating of water services projects in the PRC.

During the year under review, the Group successfully acquired CEWH, a company that is principally engaged in the cultivation, development and sale of seabuckthorn seedings, as well as the processing, development, manufacturing and sales of seabuckthorn related food and health products and cosmetic products in the PRC, Hong Kong and other overseas markets. The acquisition enables the Group gain immediate access to the seabuckthorn market, a market that the products are little-known but full of potentials. The Group will also be able to broaden its product mix via the cooperation with CEWH.

Upon the completion of the acquisition of CEWH, the Group has successfully diveritied its revenue and profit bases with the addition of the seabuckthorn related food and health products. The sales of seabuckthorn related food and health products in December 2007, the period to be included to the Group's accounts, totaled HK$23,238,000, accounted for 8% of the Group's revenue.

Packaged Food and Convenience Frozen Food Products

Hong Kong Market

In 2007, the production and sale of snack food and convenience frozen food products remained as the Group's core business. Continuously benefit from the economic growth, sales in Hong Kong rose 39% to HK$151,407,000, about 54% of the Group's revenue.

During the year, the Group continued to enhance its cooperation with key supermarket chain stores and convenience stores by establishing concessionaries and launching joint promotion programmes. The Group also actively improved the packaging of its products to reinforce the products' image.

In 2007, the Group launched a number of innovative products, including a new series of steamed rice boxes to key supermarket chain stores.

With an extensive retail network comprising a total of approximately 2,000 outlets, Wah Yuen cemented its unrivalled position as one of the leading packaged food brands most favoured by Hong Kong consumers, leveraging on its renowned brand equity and diverse range of quality products.

It is believed that with the Group's strong foothold in local retail market, the Group will continue to succeed in the year 2008 and ahead, supported by the increasing demand for tasty snack food in a fast-developing market.

The PRC Market

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

During the year under review, the Group's sales in the PRC up 14% to HK$106,409,000, which accounted for approximately 38% of the Group's revenue.

Increase in the sales in the PRC was attributable to the improving retail market in the PRC as a result of continuous economic development of the country. In 2007, the Group put strong emphasis in brand building in the PRC, including join promotion with the convenience stores and supermarkets in major cities.

Overseas Market

Since the establishment of the 15-year strategic partnership with Sojitz Corporation ("Sojitz"; a merger between Nichimen Corporation and Nissho Iwai Corporation), a large listed conglomerate in Japan and a leading international corporation with businesses spanning the globe, the Group continued to pay great effort in improving the cooperation with Sojitz in order to deepen its penetration in Japan.

Through the provision of manufacturing services to Sojitz and export its premium products, such as fried rice, packaged Chinese dim sum and convenient frozen food to Japan, the cooperation between the Group and Sojitz improved significantly. With the development of Japan market, the Group will be able to further diversify its business risk and realize better margin through the export and sales of premium food products to this high-ended consumer market.

Others

To better utilize the production capacity, the Group launched a new series of pet food in second half of 2007. These pet foods will be mainly supplied to the US and other markets via overseas distributors and sourcing agents. The pet food products are seeking a high premium quality, nutrition and meet the human-grade pet food standard.

Production Facilities

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

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

Future Prospects

Looking forward, the Group aims to enhance its market position as the premium food manufacturer with self-owned brands. It is believed that with the Group's rich experience in launching new food products, the product range of the Group will be further enhanced.

In line with the Group's value in providing the market with quality food products, the seabuckthorn health products will be the development focus of the Group. With immense market potential, the Group will further strengthen its marketing effort in promoting the health implications of the products series while further develop and introduce more new products to existing series. The Group believe that with its rich nutrient content, seabuckthorn products will continue to gain popularity in existing markets and new markets. Additionally, the Group will also review the existing retail network and the network of CEWH to further expand the distribution of seabuckthorn products.

Against the backdrop of Beijing Olympics, the Group will put strong emphasis in expanding sales channel and promoting the image of its brands in affluent areas in the PRC so as to further improve its brand image and pricing ability. We believe that with the continued delivery of quality products to consumers and the strengthening of its brand position via effective marketing, special packaging, joint promotion campaigns with various supermarkets and convenience store chains, the Group's food products will continue to impress the consumers, both in Hong Kong and the PRC.

On the Japan front, the Group will further develop its export business through Sojitz, by jointly exploring more business opportunities in Japan with its strategic partner. The Group also launched a new series of pet food to the US and other markets in second half of 2007.

As to another part of the Group's core business, seabuckthorn planting, we have already planted over 1.2 billion plants covering an area of over 340,000 hectares until the end of 2007. And the total planting area will increase at a speed of over 10% annually according to our plan of planting 40,000 hectares per year.

In 2008, in addition to the planting business from the Central Government of the PRC, the Group has already secured additional planting business from Provincial Governments, such as the Government of Gan Su Province. With environmental issues become an important part of the government policy, the planting business from Provincial Governments is becoming a new growth engine for the Group's revenues and profits.

Riding on the prospering economy of the PRC and rising household incomes, Wah Yuen will strengthen the leading position of its packaged food and seabuckthorn businesses by introducing more market-differentiated products while raising market penetration in Hong Kong and the PRC. The Group will further focus on brand building and product differentiation so as to cater to the needs of customers. The Group is dedicated to achieving steady revenue growth and sustained business development while generating fruitful returns to all shareholders.

Liquidity and Financial Resources

As at 31 December 2007, the Group had total assets of HK$886,519,000 and its total current assets were HK$438,419,000. As at that date, the current and non-current liabilities of the Group totaled to HK$201,322,000 and HK$271,977,000 respectively. The Group's bank borrowings amounted to HK$142,444,000 (2006: 170,704,000). Most of these bank borrowings were denominated in Hong Kong dollars and bearing floating interest rates. As at 31 December 2007, the gearing ratio of the Group improved at 27% (2006: 30%), calculated on the basis of total borrowings less cash over total assets at that date.

Exposure to Fluctuation in Foreign Exchange

As at 31 December 2007, the Group had no foreign exchange exposure and related hedge.

Capital Expenditure

During the year, the Group invested approximately HK$18,680,000 in property, plant and equipment, of which HK$17,391,000 represented deposits paid on acquisition of production machineries for pet foods business, the related capital commitments are included in note 38.

Charge on Assets

As at 31 December 2007, certain assets of the Group with aggregate carrying value of approximately HK$79,711,000 were pledged to banks to secure banking facilities granted to the Group.

Employees and Remuneration Policies

As at 31 December 2007, the Group's total number of employees stood at approximately 600. Total staff costs for the year under review were approximately HK$18,330,000. Wah Yuen offers its workforce comprehensive remuneration and employees' benefits packages. Additionally, share options and discretionary bonuses were also granted to eligible staff members based on their performance and the results of the Group.

For the 6 months ended 30 June 2008

Operation Review

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

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

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

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

Business Review

Seabuckthorn and Seabuckthorn – Related Health Products

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

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

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

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

Packaged Food and Convenience Frozen Food Products

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

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

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

Production Facilities

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

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

Future Plans and Prospects

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

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

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

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

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

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

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

Liquidity and Financial Resources

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

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

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

Foreign Exchange Exposure

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

Material Acquisitions and Disposals

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

Pledged of Assets and Contingent Liabilities

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

Post Balance Sheet Event

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

Employees and Remuneration Policies

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

ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the auditors of the Company, CCIF CPA Limited. As described in the paragraph headed "Documents Available for Inspection" in Appendix IV, a copy of the following accountants' report is available for inspection.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Introduction

The following is the unaudited pro forma financial information of the Enlarged Group after the Proposed Conversion (as defined in this Circular) in accordance with the Listing Rules for the purpose of illustrating the effect of the Proposed Conversion on the financial position of the Group as at 30 June 2008 and the results and cash flows for the year ended 30 June 2008. As it is prepared for illustrative purpose only, and because of its nature, it may not give a true picture of the financial position, results and cash flows of the Enlarged Group following the completion of the Proposed Conversion.

The unaudited pro forma balance sheet of the Enlarged Group after the Proposed Conversion is prepared based on audited consolidated balance sheet of the Group as at 30 June 2008 as set out in Appendix I to this Circular as if the Proposed Conversion had been completed on 30 June 2008.

The unaudited pro forma consolidated income statement and cash flow statement of the Enlarged Group after the Proposed Conversion are prepared based on the audited consolidated income statement and cash flow statement of the Group for the year ended 30 June 2008 as set out in Appendix I to this Circular as if the Proposed Conversion had been completed on 1 July 2007.

Unaudited pro forma consolidated balance sheet as at 30 June 2008

	The Group as at 30 June 2008	Pro forma adjustment relating to the acquisition of convertible bonds	Pro forma adjustments upon conversion	Pro forma consolidated balance sheet of the Enlarged Group as at 30 June 2008
	Note (1)	*Note (2)*	*Notes (3), (6)*	
	HK$	*HK$*	*HK$*	*HK$*
Non-current assets				
Property, plant and equipment	211,910	–	–	211,910
Available-for-sale financial assets	33,571,905	–	43,333,333	76,905,238
Convertible notes with conversion option	–	31,666,667	(31,666,667)	–
	33,783,815	31,666,667	11,666,666	77,117,148
Current assets				
Financial assets at fair value through profit or loss	56,199,890	–	–	56,199,890
Amount due from a shareholder	19,110	–	–	19,110
Prepayments, deposits and other receivables	825,848	–	–	825,848
Cash and cash equivalents	180,817,111	(30,000,000)	–	150,817,111
	237,861,959	(30,000,000)	–	207,861,959
Current liabilities				
Other payables and accruals	578,820	–	–	578,820
Amount due to a related company	43,349	–	–	43,349
Tax payable	86,994	–	–	86,994
	709,163	–	–	709,163
Net current assets	237,152,796	(30,000,000)	–	207,152,796
Net assets	270,936,611	1,666,667	11,666,666	284,269,944
Capital and reserves				
Share capital	24,835,340	–	–	24,835,340
Reserves	246,101,271	1,666,667	11,666,666	259,434,604
	270,936,611	1,666,667	11,666,666	284,269,944

Unaudited pro forma consolidated income statement for the year ended 30 June 2008

	The Group for the year ended 30 June 2008	Pro forma adjustment relating to the acquisition of convertible bonds	Pro forma adjustment upon conversion	Pro forma consolidated income statement of the Enlarged Group for the year ended 30 June 2008
	Note (1)	*Note (2)*	*Note (3)*	
	HK$	*HK$*	*HK$*	*HK$*
Dividend income	171,506	–	–	171,506
Interest income	2,929,623	–	–	2,929,623
Realised gains on disposal of financial assets at fair value through profit or loss	11,457,296	–	–	11,457,296
Unrealised losses on financial assets at fair value through profit or loss	(11,219,782)	–	–	(11,219,782)
Discount on acquisition convertible bonds with conversion option	–	1,666,667	–	1,666,667
Gain on conversion of convertible bonds with conversion option	–	–	11,366,666	11,366,666
Other income	1,254	–	–	1,254
Impairment of available-for-sale financial assets	(7,950,000)	–	–	(7,950,000)
Administrative expenses	(9,778,531)	–	–	(9,778,531)
Operating loss	(14,388,634)	1,666,667	11,366,666	(1,355,301)
Finance costs	(22,403)	–	–	(22,403)
Loss before taxation	(14,411,037)	1,666,667	11,366,666	(1,377,704)
Taxation	(86,994)	–	–	(86,994)
Loss attributable to the equity holders of the Company	(14,498,031)	1,666,667	11,366,666	(1,464,698)

Unaudited pro forma consolidated cash flow statement for the year ended 30 June 2008

	The Group for the year ended 30 June 2008	**Pro forma adjustment relating to the acquisition of convertible bonds**	**Pro forma adjustments upon conversion**	**Pro forma consolidated cash flow statement of the Enlarged Group for the year ended 30 June 2008**
	Note (1)	*Note (2)*	*Noted (3), (4)*	
	HK$	*HK$*	*HK$*	*HK$*
Cash flows from operating activities				
Loss before taxation	(14,411,037)	1,666,667	11,366,666	(1,377,704)
Adjustments for:				
Interest expenses	22,403	–	–	22,403
Interest income	(2,929,623)	–	–	(2,929,623)
Dividend income	(171,506)	–	–	(171,506)
Depreciation	75,515	–	–	75,515
Loss on disposal of property, plant and equipment	30,248	–	–	30,248
Realised gains on disposal of financial assets at fair value through profit or loss	(11,457,296)	–	–	(11,457,296)
Unrealised losses on trading on financial assets at fair value through profit or loss	11,219,782	–	–	11,219,782
Discount on acquisition of convertible bonds with conversion option	–	(1,666,667)	–	(1,666,667)
Gain on conversion of convertible bonds with conversion option	–	–	(11,366,666)	(11,366,666)
Impairment of available-for-sale financial assets	7,950,000	–	–	7,950,000
Share-based payments	1,685,836	–	–	1,685,836

	The Group for the year ended 30 June 2008	Pro forma adjustment relating to the acquisition of convertible bonds	Pro forma adjustments upon conversion	Pro forma consolidated cash flow statement of the Enlarged Group for the year ended 30 June 2008
	Note (1)	*Note (2)*	*Noted (3), (4)*	
	HK$	*HK$*	*HK$*	*HK$*
Operating cash flow before movements in working capital	(7,985,678)	–	–	(7,985,678)
Increase in prepayments, deposits and other receivables	(601,572)	–	–	(601,572)
Decrease in other payables and accruals	(1,471,927)	–	–	(1,471,927)
(Decrease)/increase in amounts due to directors	(3,587,996)	–	–	(3,587,996)
Increase/(decrease) in amount due to a related company	(286,651)	–	–	(286,651)
Net cash used in operations	(13,933,824)	–	–	(13,933,824)
Interest income	2,929,623	–	–	2,929,623
Dividend income	171,506	–	–	171,506
Net cash used in operating activities	(10,832,695)	–	–	(10,832,695)
Cash flows from investing activities				
Purchase of available-for-sale financial assets	(31,521,905)	(30,000,000)	(300,000)	(61,821,905)
Purchase of financial assets at fair value through profit or loss	(142,027,558)	–	–	(142,027,558)
Purchase of property, plant and equipment	(272,208)	–	–	(272,208)
Proceeds from disposal of financial assets at fair value through profit or loss	86,065,182	–	–	86,065,182
Net cash used in investing activities	(87,756,489)	(30,000,000)	(300,000)	(118,056,489)

	The Group for the year ended 30 June 2008	Pro forma adjustment relating to the acquisition of convertible bonds	Pro forma adjustments upon conversion	Pro forma consolidated cash flow statement of the Enlarged Group for the year ended 30 June 2008
	Note (1)	*Note (2)*	*Noted (3), (4)*	
	HK$	*HK$*	*HK$*	*HK$*
Cash flows from financing activities				
Proceeds from issue of new shares, net	218,778,058	–	–	218,778,058
Repayment of other loans	(1,920,000)	–	–	(1,920,000)
Interest paid	(22,403)	–	–	(22,403)
Net cash generated from financing activities	216,835,655	–	–	216,835,655
Increase in cash and cash equivalents	118,246,471	–	–	87,946,471
Cash and cash equivalents at beginning of year	59,691,003	–	–	59,691,003
Changes in exchange rates	2,879,637	–	–	2,879,637
Cash and cash equivalents at end of year	180,817,111	(30,000,000)	(300,000)	150,517,111

Notes to the Unaudited Pro Forma Financial Information

(1) The balances are extracted from the audited financial information of the Group for the year ended 30 June 2008 as set out in Appendix I to this Circular.

(2) On 22 September 2008, Global Business Investment Enterprises Limited, a wholly-owned subsidiary of the Company, entered into an agreement with Good Outlook Investment Limited, a wholly-owned subsidiary of China Water Affairs Group Limited, to acquire the Sale Convertible Bonds issued by China Botanic Development Holdings Limited ("China Botanic") with a face value of HK$25,000,000, which bear coupon rate of 3% per annum, at a cash consideration of HK$30,000,000. The Sale Convertible Bonds due on 13 November 2017 are convertible into fully paid ordinary shares of China Botanic with a par value of HK$0.01 each at the conversion price of HK$0.15. Upon the conversion of the entire Sale Convertible Bonds, Global Business is entitled to 166,666,666 ordinary shares in China Botanic (the "Proposed Conversion").

The adjustment is to reflect the effect of the acquisition of the Sale Convertible Bonds before the Proposed Conversion, on the consolidated balance sheet of the Enlarged Group as if the acquisition had taken place on 30 June 2008.

	HK$
Acquisition of convertible bonds with conversion option	30,000,000
Fair value of convertible bonds with conversion option at date of acquisition 166,666,666@HK$0.19	31,666,667
Discount on acquisition	1,666,667

The fair value of convertible bonds at the date of acquisition was based on closing share price of HK$0.19 per share of China Botanic on 22 September 2008.

(3) The calculation is to reflect the effect of the Proposed Conversion on the consolidated balance sheet and income statement of the Group as at 30 June 2008 as if the Proposed Conversion had taken place on 30 September 2008 with the market closing price of HK$0.26 per Conversion Share (being the closing share price of China Botanic on 30 September 2008).

	HK$
Fair value of shares of China Botanic as if conversion on 30 September 2008 166,666,666@HK$0.26 *(notes 5 and 6)*	43,333,333
Value of convertible bonds with conversion option at date of acquisition *(note 2)*	31,666,667
Cost of conversion *(note 4)*	300,000
Gain on conversion *(note 5)*	11,366,666

(4) The adjustment reflects the transaction costs directly attributable to the Proposed Conversion of approximately HK$300,000 as estimated by the directors of the Company.

(5) The fair value of Conversion Shares issued for the Proposed Conversion was determined on 166,666,666 ordinary shares of HK$0.01 each of China Botanic issued as if conversion was made on 30 September 2008 in accordance with the Sale and Purchase Agreement and at the closing market price of HK$0.26 per share on that date. However, the fair value of the Conversion Shares issued for the Proposed Conversion so arrived at as aforesaid and used for the purpose of the unaudited pro forma financial information set out above may be substantially different from their fair value at the date of Conversion. Accordingly, the actual loss/profit arising from the Proposed Conversion may be different from that shown in note (3) above.

(6) Upon the issuance of the 166,666,666 Conversion Shares by China Botanic in connection with the Proposed Conversion at value of HK$43,333,333, the available-for-sale financial assets of the Company will be increased by approximately HK$43,333,333 and the convertible bonds would be derecognised.

(7) No adjustments have been made to reflect the interest on the Sales Convertible Bonds, as such amount is not considered to be material.

B. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

CCIF

CCIF CPA LIMITED
陳葉馮會計師事務所有限公司
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

26 November 2008

The Board of Directors
Prime Investments Holdings Limited
Suite 6305, 63/F, Central Plaza
18 Harbour Road, Wanchai
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of Prime Investments Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as set out in Appendix III to the circular dated 26 November 2008 (the "Circular") of the Company, in connection with the proposed conversion of the entire Sale Convertible Bonds into 166,666,666 shares of China Botanic Development Holdings Limited (the "Proposed Conversion"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Proposed Conversion might have affected the relevant financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Section A of Appendix III to the Circular.

Respective responsibilities of directors of the Company and the Reporting Accountants

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

It is our responsibility to form an opinion, as required by Paragraph 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 owned to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. The 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 which 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 Paragraph 4.29 (1) of the Listing Rules.

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

– the financial position of the Enlarged Group as at 30 June 2008 or any future date; or

– the results and cash flows of the Enlarged Group for the year ended 30 June 2008 or any future periods.

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 Paragraph 4.29 (1) of the Listing Rules.

CCIF CPA Limited
Certified Public Accountants
Hong Kong

Leung Chun Wa
Practising Certificate Number P04963

1. RESPONSIBILITY STATEMENT

This document 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.

2. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) 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 and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) 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, were as follows:

(i) Shares:

Name of Director	Capacity and nature of interest	Total	Approximate percentage or attributable percentage of shareholdings
Fung Cheuk Nang, Clement	Beneficial Owner (L)	190,909,092	7.69%
Chan Po Fun, Peter *(Note)*	Corporation (L)	510,000	0.02%

(L) Long position

Note: Dr. Chan Po Fun, Peter is a beneficial shareholder of the entire issued share capital of Concord Securities Company Limited, which directly holds 510,000 shares of the Company.

(ii) Share options:

Name of Director	Number of options held	Date of grant	Exercise Period	Exercise Price	Nature of interest	Number of underlying Shares	Approximate Percentage of the issued share capital of the Company
Wang Wen Xia	18,400,000	23 January 2008	3 years	HK$0.16	Personal (L)	18,400,000	0.740%
	6,430,000	17 November 2008	5 years	HK$0.05	Personal (L)	6,430,000	0.259%
	24,830,000					24,830,000	0.999%
Pong Po Lam, Paul	1,200,000	23 January 2008	3 years	HK$0.16	Personal (L)	1,200,000	0.048%
	500,000	17 November 2008	5 years	HK$0.05	Personal (L)	500,000	0.020%
	1,700,000					1,700,000	0.068%
Ding Xiaobin	500,000	23 January 2008	3 years	HK$0.16	Personal (L)	500,000	0.020%
	300,000	17 November 2008	5 years	HK$0.05	Personal (L)	300,000	0.012%
	800,000					800,000	0.032%
Cheung Wai Bun, Charles	1,300,000	23 January 2008	3 years	HK$0.16	Personal (L)	1,300,000	0.052%
	800,000	17 November 2008	5 years	HK$0.05	Personal (L)	800,000	0.032%
	2,100,000					2,100,000	0.084%
Zhang Yong	300,000	23 January 2008	3 years	HK$0.16	Personal (L)	300,000	0.012%
	300,000	17 November 2008	5 years	HK$0.05	Personal (L)	300,000	0.012%
	600,000					600,000	0.024%
Ma Jie	8,000,000	23 January 2008	3 years	HK$0.16	Personal (L)	8,000,000	0.322%
	2,000,000	17 November 2008	5 years	HK$0.05	Personal (L)	2,000,000	0.081%
	10,000,000					10,000,000	0.403%
Chan Po Fun, Peter	300,000	17 November 2008	5 years	HK$0.05	Personal (L)	300,000	0.012%
Fung Cheuk Nang, Clement	500,000	17 November 2008	5 years	HK$0.05	Personal (L)	500,000	0.020%
Zeng Xianggao	500,000	17 November 2008	5 years	HK$0.05	Personal (L)	500,000	0.020%

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 and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) 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 and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) 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) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following person (not being Directors or chief executive of the Company) had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company (including any interests in options in respect of such capital) 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 is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

(i) Substantial shareholders of the Company:

Name of Shareholders	*Notes*	**Capacity and nature of interest**	**Total**	**Approximate percentage or attributable percentage of shareholdings** *(%)*
Asset Full	1	Beneficial Owner	427,890,908 (L)	17.23
Duan Chuan Liang	1	Corporation	427,890,908 (L)	17.23
	1	Beneficial Owner	24,930,000 (L)	1.00
		Subtotal	452,820,908 (L)	18.23
Poly Good Group Limited	2	Beneficial Owner	190,687,142 (L)	7.68
Chan Yan Ting	2	Corporation	190,687,142 (L)	7.68
Chung Kit Lai	2	Family interest	190,687,142 (L)	7.68
Upkeep Properties Limited	3	Beneficial Owner	150,000,000(L)	6.04

(L) Long position

Notes:

1. The entire issued share capital of Asset Full, is beneficially owned by Mr. Duan Chuan Liang. Mr. Duan is deemed to be interested in 427,890,908 Shares under the SFO.

2. The entire issued share capital of Poly Good Group Limited is beneficially owned by Mr. Chan Yan Ting. Mr. Chan Yan Ting and his spouse Chung Kit Lai are deemed to be interested in 190,687,142 Shares under the SFO.

3. The entire issued share capital of Upkeep Properties Limited is beneficially owned by Tam Wo Quan. Mr. Tam is deemed to be interested in 150,000,000 Shares under the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interest or short positions in the shares or underlying shares of the Company (including any interests in options in respect of such capital), 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 are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

3. MATERIAL CONTRACTS

The following contracts (not being contracts made in the ordinary course of business) have been entered into by the members of the Group within the two years immediately preceding the Latest Practicable Date and are or may be material:

(1) subscription agreement dated 11 January 2007 between the Company and Ms. Wu Bao Liu. Pursuant to the subscription agreement, a total of 6,000,000 Shares were subscribed by Ms. Wu Bao Liu at HK$0.22 per Share for the sum of HK$1,320,000 in cash;

(2) subscription agreement dated 20 April 2007 between the Company and Ms. Lei Hio Lai. Pursuant to the subscription agreement, a total of 10,100,000 Shares were subscribed by Ms. Lei Hio Lai at HK$0.22 per Share for the sum of HK$2,222,000 in cash;

(3) subscription agreement dated 11 January 2007 between the Company and Mr. Zhang Jian. Pursuant to the subscription agreement, a total of 1,000,000 Shares were subscribed by Mr. Zhang Jian at HK$0.22 per Share for the sum of HK$220,000 in cash;

(4) subscription agreement dated 11 January 2007 between the Company and Mr. Sam Zhu. Pursuant to the subscription agreement, a total of 4,550,000 Shares were subscribed by Mr. Sam Zhu at HK$0.22 per Share for the sum of HK$1,001,000 in cash;

(5) subscription agreement dated 11 January 2007 between the Company and Ms. Shen Lin. Pursuant to the subscription agreement, a total of 910,000 Shares were subscribed by Ms. Shen Lin at HK$0.22 per Share for the sum of HK$200,200 in cash;

(6) subscription agreement dated 11 January 2007 between the Company and Ms. Wu Juan. Pursuant to the subscription agreement, a total of 2,980,000 Shares were subscribed by Ms. Wu Juan at HK$0.22 per Share for the sum of HK$655,600 in cash;

(7) subscription agreement dated 20 April 2007 between the Company and GEV (Hong Kong) Limited. Pursuant to the subscription agreement, a total of 27,100,000 Shares were subscribed by GEV (Hong Kong) Limited at HK$0.22 per Share for the sum of HK$5,962,000 in cash;

(8) subscription agreement dated 20 April 2007 between the Company and Mr. Chen Kang. Pursuant to the subscription agreement, a total of 13,636,363 Shares were subscribed by Mr. Chen Kan at HK$0.22 per Share for the sum of HK$3,000,000 in cash;

(9) subscription agreement dated 20 April 2007 between the Company and Ms. Li Xiao Ping. Pursuant to the subscription agreement, a total of 4,000,000 Shares were subscribed by Ms. Li Xiao Ping at HK$0.22 per Share for the sum of HK$880,000 in cash;

(10) subscription agreement dated 20 April 2007 between the Company and Ms. Yang Li Fang. Pursuant to the subscription agreement, a total of 5,000,000 Shares were subscribed by Ms. Yang Li Fang at HK$0.22 per Share for the sum of HK$1,100,000 in cash;

(11) subscription agreement dated 20 April 2007 between the Company and Mr. Liao Bo. Pursuant to the subscription agreement, a total of 4,550,000 Shares were subscribed by Mr. Liao Bo at HK$0.22 per Share for the sum of HK$1,001,000 in cash;

(12) subscription agreement dated 20 April 2007 between the Company and Mr. Liu Qiu Sheng. Pursuant to the subscription agreement, a total of 1,363,636 Shares were subscribed by Mr. Liu Qiu Sheng at HK$0.22 per Share for the sum of HK$300,000 in cash;

(13) subscription agreement dated 20 April 2007 between the Company and the China Water Investments Limited. Pursuant to the subscription agreement, a total of 68,181,818 Shares were subscribed by China Water Investments Limited at HK$0.22 per Share for the sum of HK$15,000,000 in cash;

(14) subscription agreement dated 20 April 2007 between the Company and Mr. Fung Cheuk Nang, Clement. Pursuant to the subscription agreement, a total of 31,818,182 Shares were subscribed by Mr. Fung Cheuk Nang, Clement at HK$0.22 per Share for the sum of HK$7,000,000 in cash;

(15) subscription agreement dated 20 April 2007 between the Company and Upkeep Properties Limited. Pursuant to the subscription agreement, a total of 25,000,000 Shares were subscribed by Upkeep Properties Limited at HK$0.22 per Share for the sum of HK$5,500,000 in cash;

(16) subscription agreement dated 20 April 2007 between the Company and Mr. You Tao. Pursuant to the subscription agreement, a total of 25,909,090 Shares were subscribed by Mr. You Tao at HK$0.22 per Share for the sum of HK$5,700,000 in cash.

(17) subscription agreement dated 20 April 2007 between the Company and Mr. Liu Wei Tao. Pursuant to the subscription agreement, a total of 10,000,000 Shares were subscribed by Mr. Liu Wei Tao at HK$0.22 per Share for the sum of HK$2,200,000 in cash;

(18) subscription agreement dated 20 April 2007 between the Company and Mr. Chen Jian. Pursuant to the subscription agreement, a total of 15,909,091 Shares were subscribed by Mr. Chen Jian at HK$0.22 per Share for the sum of HK$3,500,000 in cash;

(19) underwriting agreement dated 29 August 2007 entered into between the Company and China Water Investments Limited. Pursuant to the underwriting agreement, China Water Investments Limited agreed to act as the underwriter for the proposed issue of 1,975,755,185 offer Shares offered to the Shareholders who were entitled to subscribe on the basis of five offer Shares for every one Share held on the relevant record date by way of open offer;

(20) subscription agreement dated 4 March 2008 entered into between the Company and Mr. Wang Chuang. Pursuant to the subscription agreement, a total of 5,347,594 Shares were subscribed by Mr. Wang Chuang at HK$0.187 per Share for the sum of HK$1,000,000 in cash;

(21) subscription agreement dated 4 March 2008 entered into between the Company and Mr. Hu Xin Yi. Pursuant to the subscription agreement, a total of 1,604,278 Shares were subscribed by Mr. Hu Xin Yi at HK$0.187 per Share for the sum of HK$300,000 in cash;

(22) subscription agreement dated 4 March 2008 entered into between the Company and Mr. Cui Yeng Yu. Pursuant to the subscription agreement, a total of 42,780,749 Shares were subscribed by Mr. Cui Yeng Yu at HK$0.187 per Share for the sum of HK$8,000,000 in cash;

(23) subscription agreement dated 4 March 2008 entered into between the Company and Ms. Suen Yim Wa. Pursuant to the subscription agreement, a total of 2,673,797 Shares were subscribed by Ms. Suen Yim Wa at HK$0.187 per Share for the sum of HK$500,000 in cash;

(24) subscription agreement dated 4 March 2008 entered into between the Company and Ms. Xu Xiao Qin. Pursuant to the subscription agreement, a total of 2,673,797 Shares were subscribed by Ms. Xu Xiao Qin at HK$0.187 per Share for the sum of HK$500,000 in cash;

(25) subscription agreement dated 4 March 2008 entered into between the Company and Mr. Ji Shaoxiong. Pursuant to the subscription agreement, a total of 267,380 Shares were subscribed by Mr. Ji Shaoxiong at HK$0.187 per Share for the sum of HK$50,000 in cash;

(26) subscription agreement dated 4 March 2008 entered into between the Company and Mr. Luo Hong. Pursuant to the subscription agreement, a total of 1,069,519 Shares were subscribed by Mr. Luo Hong at HK$0.187 per Share for the sum of HK$200,000 in cash;

(27) subscription agreement dated 4 March 2008 entered into between the Company and Ms. Zhao Lei. Pursuant to the subscription agreement, a total of 534,759 Shares were subscribed by Ms. Zhao Lei at HK$0.187 per Share for the sum of HK$100,000 in cash;

(28) subscription agreement dated 5 March 2008 entered into between the Company and Pond Rise Investment Holdings Limited. Pursuant to the subscription agreement, a total of 53,475,945 Shares were subscribed by Pond Rise Investments Holdings Limited at HK$0.187 per Share for the sum of HK$10,000,000 in cash;

(29) investment management agreement dated 18 April 2008 entered into between the Company and Atlantis Investment Management (Hong Kong) Limited, pursuant to which Atlantis Investment Management (Hong Kong) Limited has agreed to provide investment management services to the Company for a period of three years effective from 13 May 2008. In return, the Company will pay (i) management fee quarterly in arrears at the rate of one (1) per cent. per annum of the market value of the portfolio on the last business day of each calendar quarter, and (ii) a performance-related fee of ten (10) per cent. of the appreciation in the market value of the portfolio above a ten (10) per cent. hurdle rate per annum;

(30) sale and purchase agreement dated 19 June 2008 between the Group, Wide Success International Enterprise Limited and Capital Success Investments Limited. Pursuant to the sale and purchase agreement, the Group would acquire 20% of the entire registered capital of CWIG Diaobingshan Windpower Company Limited at a consideration of RMB27,789,396;

(31) sale and purchase agreement dated 22 September 2008 between Global Business and Good Outlook in relation to the acquisition of the Sale Convertible Bonds by Global Business.

4. DIRECTORS' SERVICE CONTRACTS

Ms. Wang Wen Xia entered into a service agreement with Company on 15 January 2008, pursuant to which Ms. Wang was appointed to act as executive Director and chief executive officer for a period of three years from the date of the agreement at a yearly remuneration of HK$1,300,000. Under the service agreement, either party needs to serve a not less than 12 months' written notice to the other party in case of early termination of the appointment.

As at the Latest Practicable Date, save as disclosed herein, 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))

5. EXPERTS

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

Name	**Qualifications**
CCIF CPA Limited	Certified Public Accountants

CCIF CPA Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report and references to its name in the form and context in which it appears as at the Latest Practicable Date.

As at the Latest Practicable Date, CCIF CPA Limited did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

6. LITIGATION

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

7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors nor their respective associates had any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

8. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

(a) Pursuant to an investment management agreement dated 21 February 2006 between the Company and Pegasus Fund Managers Limited ("Pegasus"), which was subsequently effective on 1 August 2006, whereby Pegasus has agreed to provide investment management services to the Company for a period of three years commencing from 1 August 2006. Pegasus is entitled to a management fee from the Company calculated at the following rates:

   (1) 2.5% per annum of the net asset value of the Group as at the immediately preceding valuation date on the basis of the actual number of days in the relevant calendar month over a year of 365 days, subject to a monthly minimum fee of HK$41,667.

   (2) 10% of the surplus in net asset value of the Group over a financial year or period, which the surplus in the net asset value should be greater than HK$30,000,000.

Mr. Pong Po Lam, Paul, an executive director of the Company, has a 91.57% equity interest in Pegasus and is one of the directors of Pegasus. Accordingly, this arrangement constitutes a connected transaction under Chapter 14 of the Listing Rules. Save as disclosed above, there is no contract or arrangement entered into by any member of the Group subsisting at the date of this circular in which any Director is materially interested and which is significant to the business of the Group.

(b) As at the Latest Practicable Date, neither CCIF CPA Limited, nor any Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 30 June 2008, the date to which the latest published audited consolidated financial statements of the Group were made up.

9. MISCELLANEOUS

(a) The registered office of the Company is located at Clarendon House 2 Church Street Hamilton HM 11Bermuda. The head office and principal place of business in Hong Kong is Suite 6305, 63/F Central Plaza, 18 Harbour Road Wanchai, Hong Kong.

(b) The share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(c) The company secretary of the Company is Mr. Li Chi Chung, a solicitor qualified for practicing in Hong Kong.

(d) The qualified accountant of the Company is Dr. Chan Po Fun, a certified public accountant qualified for practicing in Hong Kong.

(e) The English version of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours on business days at the office of the Company at Suite 6305, 63/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong from the date of this circular up to and including 16 December 2008 and at the SGM:

(a) the memorandum of association and bye-laws of the Company;

(b) the material contracts referred to in the paragraph headed "Material contracts" in this Appendix;

(c) the written consents of the experts referred to in the paragraph headed "Experts" in this Appendix;

(d) the annual reports of the Company for each of the two financial years ended 30 June 2007 and 30 June 2008;

(e) the annual reports of China Botanic for each of the three financial years ended 31 December 2005, 2006 and 2007, and the interim unaudited financial statements of China Botanic for the six months ended 30 June 2008;

(f) the accountants' report from CCIF CPA Limited in respect of the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular;

(g) the service agreement entered between Ms. Wang Wen Xia and the Company dated 15 January 2008;

(h) a copy of each of the circulars of the Company issued, if any, pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules since 30 June 2008 (being the date to which the latest published audited consolidated financial statements of the Group were made up); and

(i) a copy of this circular.

PRIME INVESTMENTS HOLDINGS LIMITED

(incorporated in Cayman Islands and continued in Bermuda with limited liability)

(stock code: 721)

NOTICE IS HEREBY GIVEN that a special general meeting of the shareholders of Prime Investments Holdings Limited (the "**Company**") will be held at Concord Room 3, 8th Floor, Renaissance Harbour View Hotel, 1 Harbour Road, Wanchai, Hong Kong on Tuesday, 16 December 2008 at 11:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions of the Company:

ORDINARY RESOLUTION

"**THAT**

(a) the proposed conversion (the "**Proposed Conversion**") of any part of the convertible bonds issued by China Botanic Development Holdings Limited ("**China Botanic**") with a face value of HK$25,000,000 into fully-paid shares of China Botanic with a par value of HK$0.01 each, in one or more batch(es) within 12 months from the date of passing of this ordinary resolution, be and is hereby approved; and

(b) any one or more of the directors (the "**Directors**") of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents which he/she/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the proposed conversion of any part of the convertible bonds issued by China Botanic in one or more batch(es) within 12 months from the date of passing of this ordinary resolution, and the transactions contemplated thereunder."

Yours faithfully
For and on behalf of
the board of Directors of
Prime Investments Holdings Limited
Wang Wen Xia
Chairman

Hong Kong, 26 November 2008

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:
Suite 6305, 63/F
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Notes:

1. Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, in the event of a poll, vote in his/her stead. A proxy needs not be a member of the Company.

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

3. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should he so wish, and in such event, the form of proxy shall be deemed to be revoked.