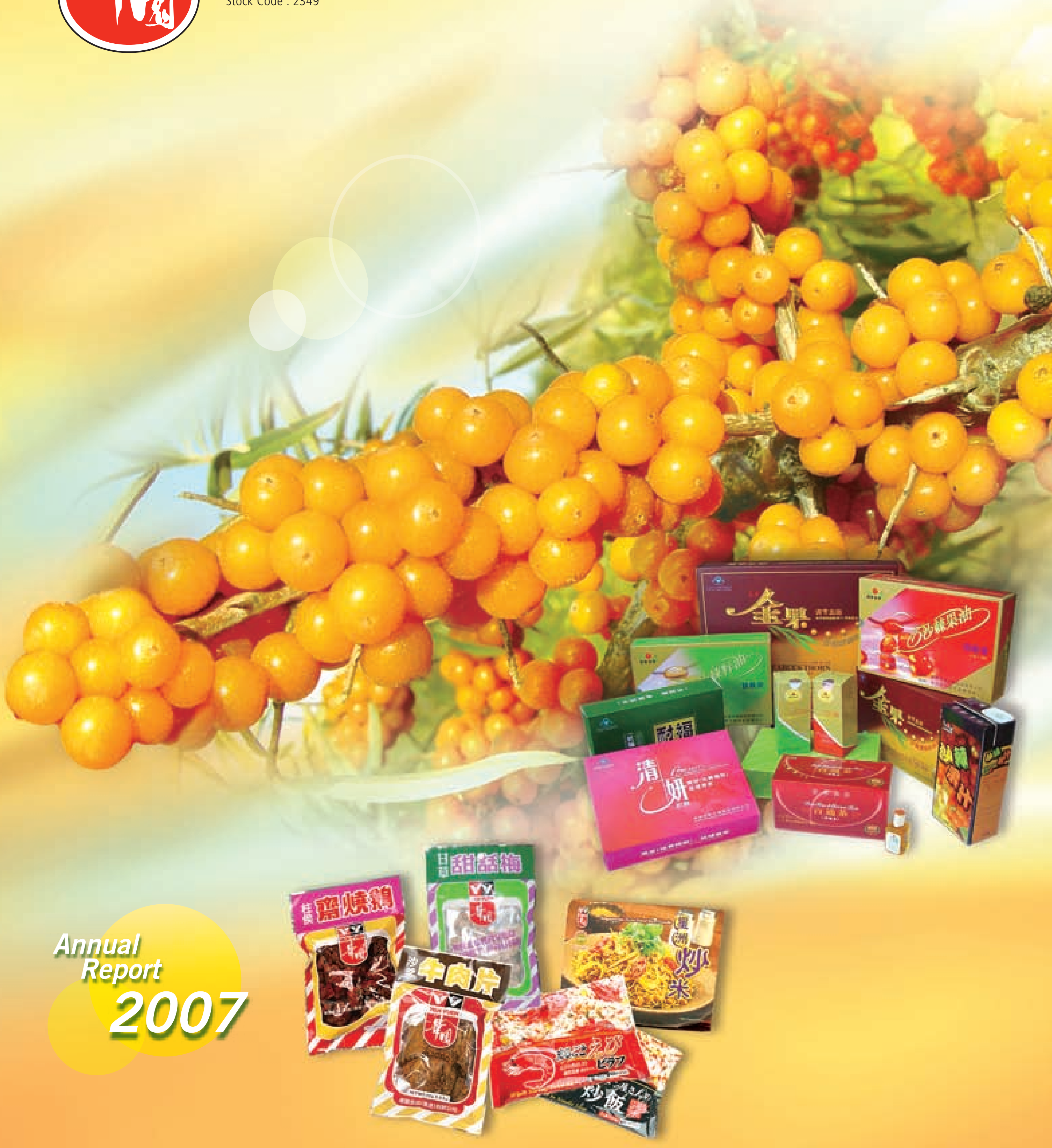
WAH YUEN HOLDINGS LIMITED
華 園 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 2349



Annual Report 2007

Contents

Corporate Information

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

WEBSITE ADDRESS

www.wahyuenfoods.com

COMPANY SECRETARY

Mr. Chong Ching Hei, CPA

AUTHORISED REPRESENTATIVES

Mr. But Chai Tong
Mr. But Ka Wai

AUDIT COMMITTEE MEMBERS

Mr. Ngai Chun Kong, Stephen
Mr. Ip Shing Tong, Francis
Mr. Ku Siu Fung, Stephen

AUDITORS

HLM & Co.
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

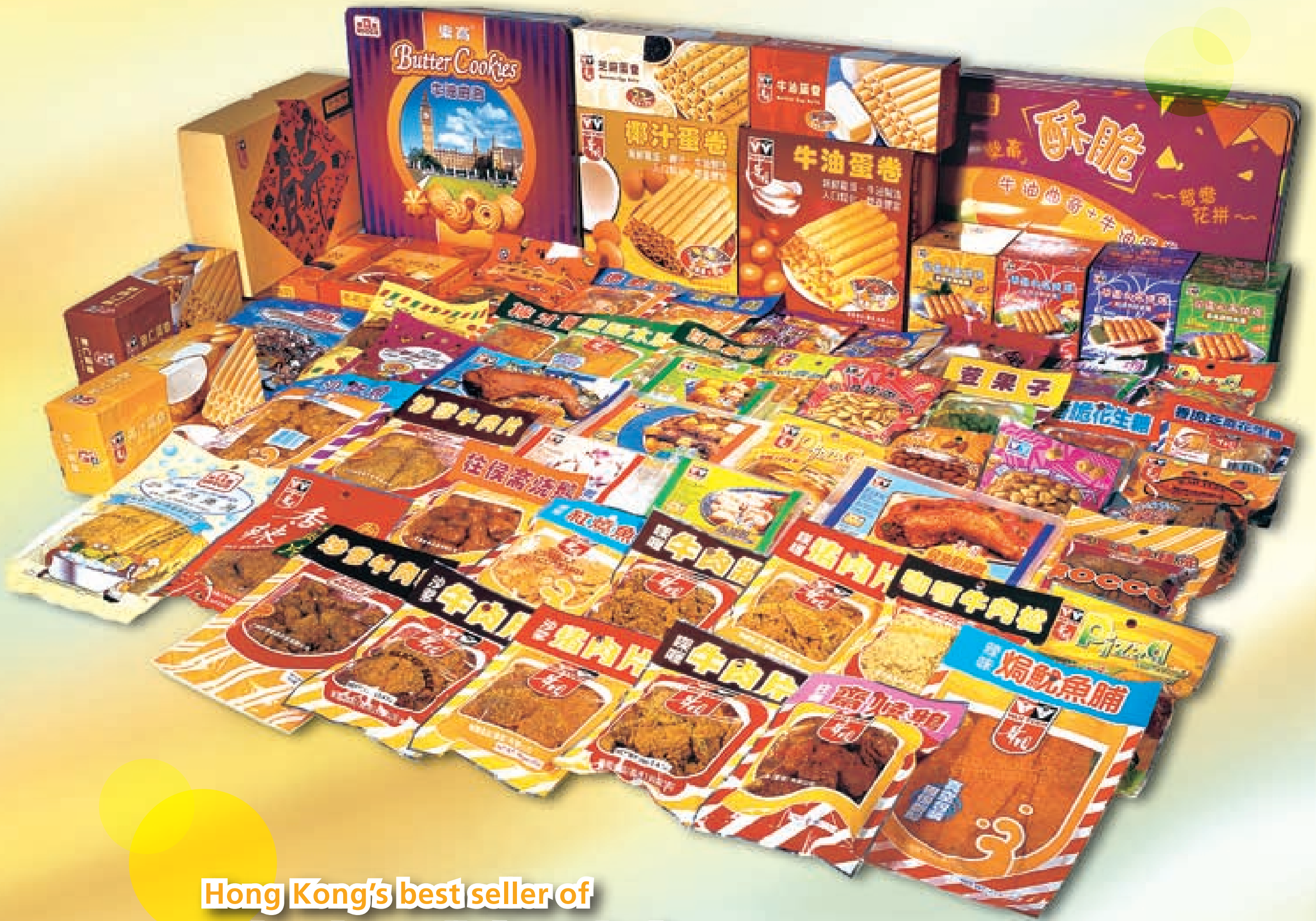
Tricor Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

The Bank of China (Hong Kong) Limited
9th Floor
Bank of China Tower
1 Garden Road
Hong Kong

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

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



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

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

Hong Kong's "Superbrands" (Superbrands)

Chairman's Statement

Dear shareholders,

On behalf of the Board of Directors (the "Board"), I am pleased to report the annual results of Wah Yuen Holdings Limited (the "Company" or "Wah Yuen") and its subsidiaries (collectively referred to as the "Group") for the fiscal year ended 31 December 2007.

MAJOR ACCOMPLISHMENT IN 2007

Year 2007 was an exciting year and transformation for Wah Yuen. The 2007 fiscal year witnessed major strategic initiative, marking a new stage of growth for the Group's business and corporate development. In November 2007, the Group successfully completed a milestone acquisition of 100% equity interest in China Environmental Water Holdings Limited ("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. More importantly, the Group takes part in an important initiative to help soil and water conservation, desertification prevention and poor environment improvement, which is consistent with the policy mapped out by the Government in the 11th Five-Year Development Guidelines.

By introducing China Water Affairs Group Limited ("China Water Affairs") as one of the key strategic shareholders, the acquisition successfully consolidated the Group's business and realised the anticipated growth and synergy. Through this acquisition, the Group has established a closer relationship with the Ministry of Water Resources of the People's Republic of China ("PRC"). Currently, the Group owns the world's largest operation of seabuckthorn seedlings and manufacturing, and enjoys unrivalled advantage in emerging health and cosmetic products industries in the PRC.

BUSINESS SUMMARY

During the year under review, the Group continued to solidify its leading position in food industry. The satisfactory performance was driven by the surging Hong Kong and PRC economy, rising household incomes and the management skills in developing right strategy and business direction. In particular, there was an impressive increase in demand for the quality packaged food and convenience food products for which the Wah Yuen brand is synonymous.

As a result of such favourable business environment, the Company recorded a turnover of approximately HK$281 million for the year ended 31 December 2007, representing a 39% increase as compared with 2006. Profit attributable to equity holders of the Company grew substantially by 3.98 times to approximately HK$52 million in 2007. Basic earnings per share was HK9.19 cents.

By leveraging on strong market awareness and nationwide distribution channels, the Group's leading brands, "Wah Yuen", "Rocco" and "采楓" continued to be the famous brands in the shelves, offering a diverse range of over 200 styles of premium quality snack products with unique Asian flavour. During the year, the Group further enhanced its product portfolio by adding new innovative products to meet market demand. As of today, there are approximately 2,000 retail outlets selling Wah Yuen's products in Hong Kong and all major provinces and cities in the PRC.

The Group successfully put into motion its plans for overseas business expansion when it established strategic partnership with Sojitz Corporation, a renowned listed conglomerate in Japan and the world's leading food distributor. The partnership with Sojitz is in good progress, which enables the Company to tap immense market potential and extend market reach in Japanese market.

The Group launched a new series of pet food in second half of 2007. With the solid research and development established over the past year, the Group is confident that the pet food market will become a growth driver in future.

FUTURE PROSPECTS

Looking ahead, the Group is committed towards becoming a leading manufacturer and supplier in the region through the provision of a comprehensive range of food and health related products.

The Group will continue to offer quality packaged and convenience food products in Hong Kong and the PRC. By enhancing our capabilities in production and product development, we are confident that the packaged food business will provide steady and recurring income to the Company.

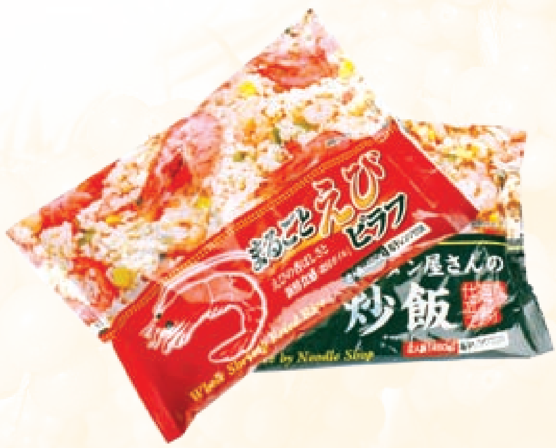
With the growing demand of health products, we believe the acquisition of seabuckthorn business will provide an integrated platform for us to solidify our business foundation and capture the booming health food market in the PRC. The acquisition of Shanghai Worldbest Lanke Biological Product Sales Co. Ltd., a company that is principally engaged in the sale of health food products in the PRC at the end of last year. It will further strengthen our sales and distribution network and accelerate the growth of the seabuckthorn business.

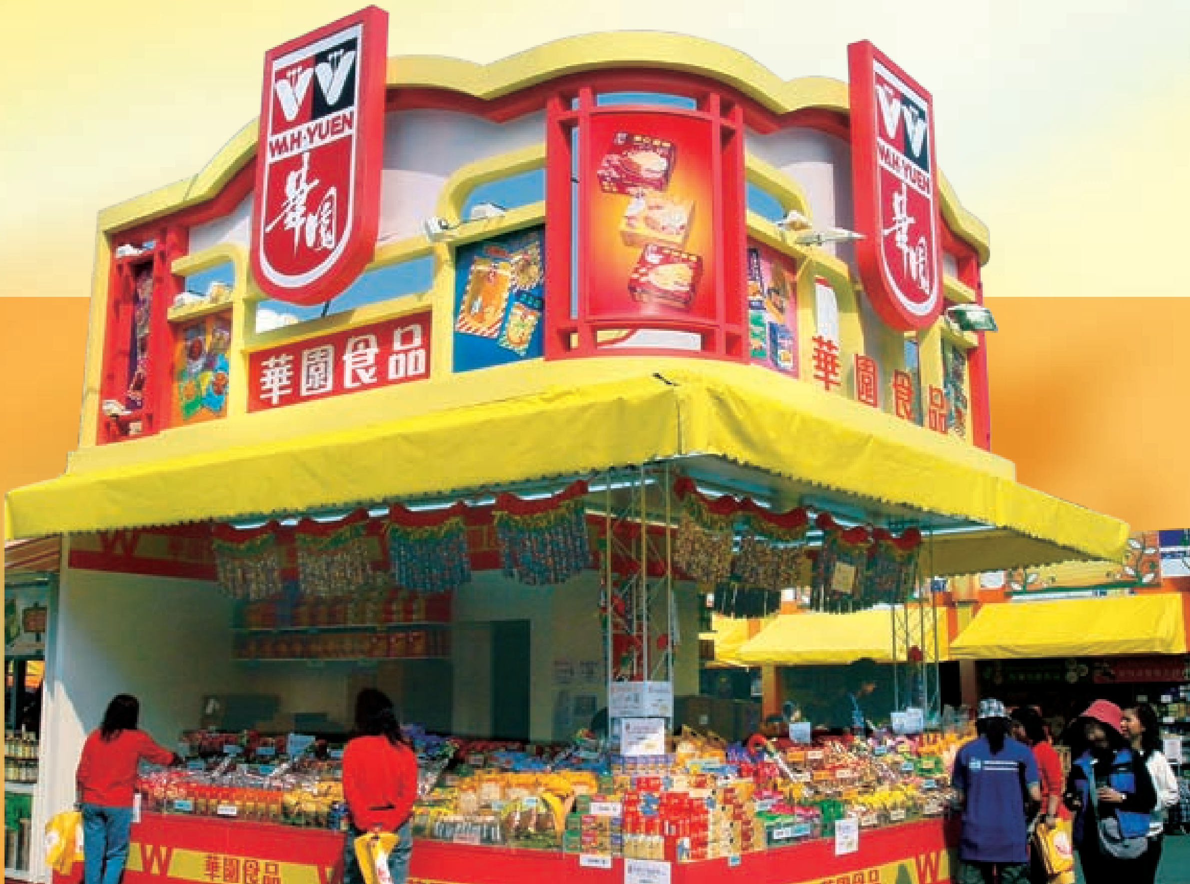
With 340,000 hectares of seabuckthorn cultivation bases, we are currently exploring the potential of renewable energy and the possibility of receiving Clean Development Mechanism credit.

In the short to medium-term, we believe that the seabuckthorn business will become an important element for growth in terms of both turnover and profitability. The Group will further explore new opportunities by enhancing its capabilities in cultivation and sale of seabuckthorn seedling as well as manufacture of seabuckthorn related products. We believe that this strategy will facilitate our efforts to fully meet the market demand while improving profitability in long run.

Finally, I would like to take this opportunity to extend my deepest gratitude to our staff for their hard work and dedication. The Board of Directors and the management team will work diligently towards maximizing returns for our investors and shareholders.

But Ka Wai
Chairman
Hong Kong, 24 April 2008





Participated in The 42th Hong Kong Brands & Products Expo organized by The Chinese Manufacturers' Association of Hong Kong in 2007

Management Discussion and Analysis

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.

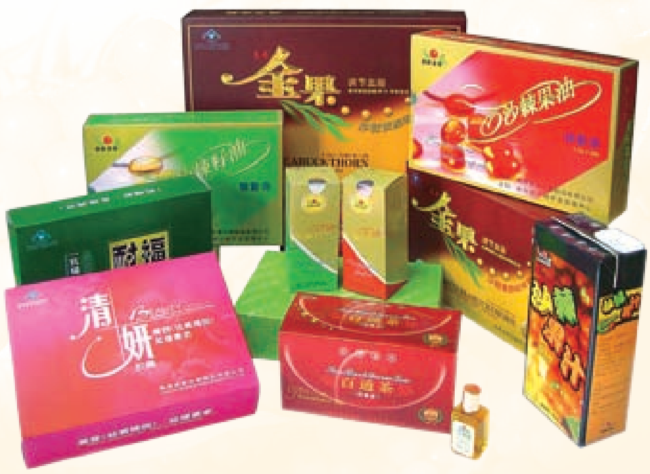
The Group's revenue for the year ended 31 December 2007 amounted to HK$281,054,000, representing an increase of 39% as compared to HK$202,130,000 for the previous year. Profit attributable to the equity holders increased substantially by 3.98 times to HK$51,892,000. Basic earnings per share amounted 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.

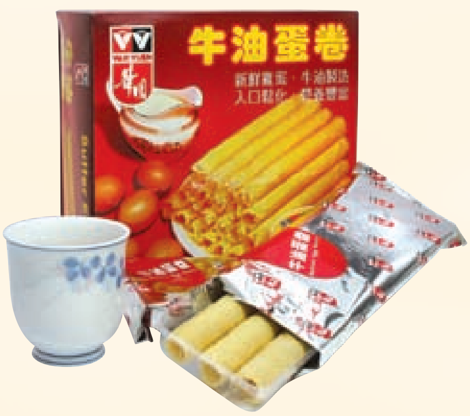
With an extensive retail network comprising a total of approximately 2,000 outlets, Wah Yuen cemented its unrivalled position as one of the leading packaged food brands most favoured by Hong Kong consumers, leveraging on its renowned brand equity and diverse range of quality products.

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.

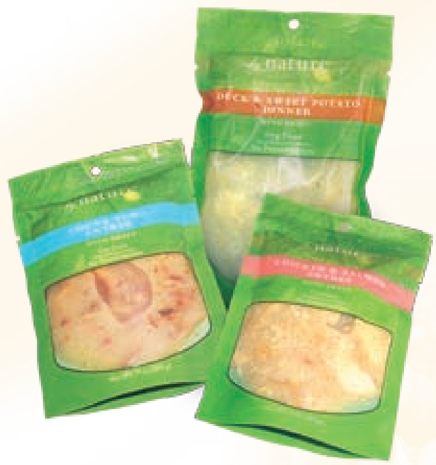
Through the provision of manufacturing services to Sojitz and export its premium products, such as fried rice, packaged Chinese dim sum and convenience frozen food to Japan, the cooperation between the Group and Sojitz improved significantly. With the development of Japan market, the Group will be able 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 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 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.

Directors and Senior Management

DIRECTORS

EXECUTIVE DIRECTORS

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

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

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

NON-EXECUTIVE DIRECTORS

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

Mr. NGAI Chun Kong, Stephen (倪振剛), aged 49, is a non-executive Director. Mr. Ngai is a member of The Toys Manufacturers' Association of Hong Kong Limited and a director of The Chiu Chau Plastic Manufacturing Association Company Limited. He is also a director of Artin International (Holdings) Limited and Co-Pack Printing Products Limited. Mr. Ngai has over 20 years of experience in the toy and printing industry. He joined the Group in May 2003 and was appointed as a non-executive Director for a term of two years. Mr. Ngai is one of the audit committee members of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

Mr. KU Siu Fung, Stephen (古兆豐), aged 53, is an independent non-executive Director. Mr. Ku is a member of The Hong Kong Institute of Architects. He is also a director of Chau, Ku & Leung Architects & Engineers Limited since 1991. Mr. Ku has over 20 years of experience in architecture. He joined the Group in May 2003 and was appointed as an independent non-executive Director for a term of two years. Mr. Ku is one of the audit committee members of the Company.

SENIOR MANAGEMENT

Mr. WANG Xiaojie (王曉捷), aged 37, is the vice general manager of the Group. He is responsible for the seabuckthorn division. He joined the Group in July 2007. Before joining the Group, he has over 15 years experience in company management in Britain, Hong Kong and the PRC.

Mr. Li Yonghai (李永海), aged 44, professor-level senior engineer, is the deputy director of the China National Administration Center for seabuckthorn development, the general manager of the Conseco Seabuckthorn Company Limited, He is responsible for the seabuckthorn planting as well as R&D and production of seabuckthorn products. With 23 years of industry experience, he is among the first group of people engaged in the seabuckthorn industry globally.

Mr. LAI Wing Kuen (黎永權), aged 45, is the general manager of the Hong Kong plant. He is responsible for the general management and administration of the Group. Mr. Lai has over 10 years of experience in financial management and general administration. Prior to joining the Group, Mr. Lai has worked in the credit and marketing departments in various international banks in Hong Kong.

Mr. MA Hok Chung (馬學忠), aged 50, is the factory manager of the Hong Kong plant. He is responsible for overseeing the overall production operations in Hong Kong. He has over 20 years of experience in the food industry in Hong Kong with the Group. He joined the Group in October 1979.

Mr. LI Kwok Wah (李國華), aged 56, is the general manager - sales & marketing. He is responsible for the daily operations in Hong Kong. He joined the Group in July 1991 as sales manager, left in February 1997 but rejoined the Group in April 2003. Mr. Li has over 20 years of sales & marketing experience.

Mr. CHONG Ching Hei (莊清熹), aged 35, is the financial controller and the company secretary of the Group. Mr. Chong holds a master degree of professional accounting from the Hong Kong Polytechnic University. He is an associate member of the Hong Kong Society of Accountants. Prior to joining the Group, Mr. Chong has over 9 years of experience in auditing and accounting in an international accounting firm in Hong Kong.

Ms. LAU Sze Man (劉詩敏), aged 38, is the export manager of overseas markets. She is responsible for overall export activities, co-ordination between overseas customers and the production departments at Hong Kong and the PRC, regular customers' visit and developing of potential markets. She joined the Group since July 2002. Prior to joining the Group, she had worked in the trading and marketing industry for 7 years in dealing with local and overseas customers.

Ms. CHE Jia Wan (車嘉文), aged 39, is the vice general manager of the First Huadu plant and the Second Huadu plant. She is responsible for the general management administration of the above two plants in the PRC. Ms. Che has over 15 years of experience in quality control and product development. She joined the Group in January 1991.

Mr. LI Huen (黎煥), aged 35, is the general manager - sales & marketing. He is responsible for the daily operations in the PRC. He has over 10 years of sales & marketing experience with the Group. He joined the Group in August 1994.

Mr. LEI Lu (雷路), aged 39, is the manager of the finance and accounting department of the First Huadu plant and the Second Huadu plant. He holds the title of accountant in the PRC. He is responsible for the financial and accounting management of the above two plants in the PRC. He joined the Group in March 1993, left in May 1999 but rejoined the Group in April 2004. He has over 10 years of experience in accounting.

Mr. CHEN De Xiong (陳德雄), aged 37, is the HACCP and the ISO officer of the First Huadu plant and the Second Huadu plant. He is responsible for the ISO quality control of the above two plants in the PRC. He graduated from the Xiang Tan University (湘潭大學), majoring in food engineering. After graduating, he was the assistant food engineer of a food related company in the PRC for over three years. He later joined the Group in January 1996.

COMPANY SECRETARY

Mr. CHONG Ching Hei (莊清熹), aged 35, is the financial controller and the company secretary of the Company. The particulars of Mr. Chong are set out in the paragraph headed "Senior Management" above in this section.

Director's Report

The directors present their annual report and the audited consolidated financial statements of the Company for the year ended 31 December 2007.

PROPOSED CHANGE OF COMPANY NAME

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 shareholder's 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.

The Board considers the recent expansion and diversification of the Company business and believes that the change of Company name will benefit its future business development.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 42 to the financial statements.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 32.

The directors do not recommend any payment of dividend for the year ended 31 December 2007.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 90 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

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

CONVERTIBLE NOTES

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

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on pages 35 and note 31 to the financial statements respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

Distributable reserves of the Company at 31 December 2007, calculated in accordance with the Cayman Companies Law, amounted to HK$204 million.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

DIRECTORS

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

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

Non-executive directors:
Leung Wai Ling
Ngai Chun Kong, Stephen

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

In accordance with Article 108 of the Company's Articles of Association, Messrs. Mr. But Ka Wai, Mr. But Chai Tong, Mr. Ngai Chun Kong, Stephen, Mr. Cheung Yu Yan, Tommy and Mr. Ku Siu Fung, Stephen retire by rotation and Mr. But Ka Wai, Mr. But Chai Tong, Mr. Ngai Chun Kong, Stephen, Mr. Cheung Yu Yan, Tommy and Mr. Ku Siu Fung, Stephen being eligible, shall offer himself for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACT

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

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on pages 12 to 15 of this annual report.

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

At 31 December 2007, the interests and short positions of each Director and the Chief Executive in shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register maintained by the Company required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Name of Director	**Corporate Interests** (Shares)	**Personal Interests** (Shares)	**Total Interests** (Shares)	**Approximate percentage of issued share capital of the Company** (%)
Mr. But Ka Wai	151,250,000	312,000	151,562,000	21.90

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

All the interests stated above represent long position. No short positions were recorded in the register maintained by the Company under section 352 of the SFO as at 31 December 2007.

Save as disclosed above, as at 31 December 2007, none of the Directors or Chief Executive of the Company had or was deemed to have any interests or short positions in shares, underlying shares or debentures of the Company or its associated corporations as recorded in the register required to be maintained under section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTIONS

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

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

				Number of share options				
Category	Date of grant	Exercise price HK$	Exercise period	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

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

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Details of transactions during the year between the Group and the related parties or other companies in which the Directors had beneficial interests are set out in note 41 to the financial statements.

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

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

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31 December 2007, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

LONG POSITIONS IN THE SHARES

Name of substantial Shareholders	Capacity/ Nature of interest	Number of shares held (Shares)	Approximate percentage of issued share capital of the Company (%)
Able Success (note 1)	Beneficial owner	151,562,000	21.90
Ms. Chan Yuk Ha (note 2)	Family interest	151,562,000	21.90
China Water Affairs Group Limited (note 3)	Interest of controlled corporation	133,000,000	19.22
Atlantis Investment Management Limited	Investment manager	44,500,000	6.43
Bank of China (note 5)	Interest of controlled corporation	22,656,000	3.27

LONG POSITIONS IN THE UNDERLYING SHARES OF THE COMPANY

Name of substantial Shareholders	Capacity/ Nature of interest	Number of shares held (Shares)	Approximate percentage of issued share capital of the Company (%)
China Water Affairs Group Limited (note 4)	Interest of controlled corporation	1,200,333,333	173.47
Bank of China (note 6)	Interest of controlled corporation	59,090,909	8.54

SHORT POSITIONS IN THE SHARES OF THE COMPANY

Name of substantial Shareholders	Capacity/ Nature of interest	Number of shares held (Shares)	Approximate percentage of issued share capital of the Company (%)
Bank of China (note 5)	Interest of controlled corporation	5,668,000	0.82

Note:

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

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

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

(4) On 29 June 2007, Top Harbour Development Limited, a wholly owned subsidiary of the Company, as purchaser entered into the agreement with China Water Group Limited (the "vendor"), a wholly owned subsidiary of China Water Affairs, in relation to the acquisition of the entire issued share capital of China Environmental Water Holdings Limited for a consideration of HK$200 million. The consideration would be satisfied by the Company as

to (i) HK$19,950,000 by procuring the Company to allot and issue 133,000,000 shares to the vendor at price of HK$0.15 and (ii) HK$180,050,000 by procuring the Company to issue a 3% convertible bonds to the vendor upon completion. If the conversion right attached to the convertible bonds had been fully exercised, 1,200,333,333 shares would be issued at the conversion price of HK$0.15 per share. These underlying shares of the Company held by Good Outlook Investments Limited ("Good Outlook"), a wholly owned subsidiary of China Water Affairs. Thus, China Water Affairs Group is deemed to be interested in the said underlying shares of the Company held by Good Outlook for the purposes of the SFO.

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

(6) The convertible bonds with the right to convert into 59,090,909 shares at an initial conversion price of HK$1.43 each were issued to BOCI Financial Products Limited. By virtue of note (5), Central SAFE, BOCI International Holdings Limited, Bank of China Limited and Bank of China were deemed to be interested in the said underlying shares held by BOCI Financial Products Limited for the purpose of the SFO.

Save as disclosed above, the Company has not been notified by any persons or corporations, other than the Directors or Chief Executives of the Company, who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of Part XV of the SFO as at 31 December 2007.

CONNECTED TRANSACTIONS

Details of the significant related party transactions undertaken by the Group during the year in the ordinary course of business are set out in note 41 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The top five suppliers in aggregate and the single largest supplier of the Group accounted for approximately 33.70% and 30.45% for the Group's total purchases for the year ended 31 December 2007 respectively.

The top five customers in aggregate and the single largest customer of the Group accounted for approximately 29.60 % and 6.86% for the Group's total sales for the year ended 31 December 2007 respectively.

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

PUBLIC FLOAT

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

MANAGEMENT CONTRACT

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

EXPOSURE TO BORROWERS AND OTHER SPECIFIC CIRCUMSTANCES THAT MAY REQUIRE DISCLOSURE

The Company had entered into a loan agreement dated 28 June 2005 which requires the controlling shareholders of the Company to retain their control over the Company throughout the term of the loan agreement, the total amount of the loan involved is HK$20 million.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 40 to the financial statements.

AUDITORS

HLB Hodgson Impey Cheng acted as auditors of the Company for the years ended 31 December 2005. Subsequent to HLB Hodgson Impey Cheng's resignation in 2006. Messrs. HLM & Co. were appointed as auditors of the Company for the year ended 31 December 2006 and 2007.

A resolution to reappoint Messrs. HLM & Co. as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

But Ka Wai
Chairman

Hong Kong
24 April 2008

Corporate Governance Report

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

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

THE BOARD

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

EXECUTIVE DIRECTORS:

Mr. BUT Ching Pui *(Honorary Chairman)*
Mr. BUT Ka Wai *(Chairman)*
Mr. BUT Chai Tong *(Vice Chairman)*

NON-EXECUTIVE DIRECTORS:

Ms. LEUNG Wai Ling
Mr. NGAI Chun Kong, Stephen *(member of Audit Committee, Remuneration Committee and Nomination Committee)*

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. CHEUNG Yu Yan, Tommy
Mr. IP Shing Tong, Francis *(member of Audit Committee, Remuneration Committee and Nomination Committee)*
Mr. KU Siu Fung, Stephen *(member of Audit Committee, Remuneration Committee and Nomination Committee)*

The biographical details of the directors are set out on pages 12 to 15 of this annual report.

Regular Board meetings are held at least four times a year which include two full Board meetings to approve interim and financial results and to propose interim and final dividends, if appropriate. It is also held as and when necessary to discuss significant transactions, including issuance of debt securities, material acquisitions and disposal, and connected transactions, if any. All directors are given an opportunity to include matters in the agenda for Board meetings. The attendance of individual director at the meetings held during the year ended 31 December 2007 is set out below:

	Attendance/Number of meetings			
Name of directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Mr. But Ching Pui	6/19	Not applicable	Not applicable	Not applicable
Mr. But Ka Wai	16/19	Not applicable	Not applicable	Not applicable
Mr. But Chai Tong	17/19	Not applicable	Not applicable	Not applicable
Ms. Leung Wai Ling	3/19	Not applicable	Not applicable	Not applicable
Mr. Ngai Chun Kong, Stephen	2/19	2/2	1/1	1/1
Mr. Cheung Yu Yan, Tommy	2/19	Not applicable	Not applicable	Not applicable
Mr. Ip Shing Tong, Francis	2/19	2/2	1/1	1/1
Mr. Ku Siu Fung, Stephen	2/19	2/2	1/1	1/1

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

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

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

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

AUDIT COMMITTEE

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

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

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

RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

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

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

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

AUDITORS' REMUNERATION

HLM & Co. has been appointed as the Company's external auditor by the directors on 18 December 2006 to fill the casual vacancy following the resignation of Messrs. HLB Hodgson Impey Cheng. They are primarily responsible for providing audit services in connection with the annual consolidated financial statements. During the year, the total remuneration payable to the Company's external auditor amounted to HK$650,000 for statutory audit.

Besides, the fee for acting as a reporting accountant for the Company in respect of a very substantial acquisition in relation to the Company's acquisition of a subsidiary amounted to HK$150,000. Save for the above disclosed, HLM & Co. did not provide any substantial non-audit service to the Company.

REMUNERATION COMMITTEE

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

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

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

The emoluments paid to each director of the Company for the year ended 31 December 2007 are set out in note 10 to the financial statement.

NOMINATION COMMITTEE

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

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

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct governing securities transactions by directors on terms no less exacting than that required under the Model Code for Securities Transactions by directors of Listed Issuers (the "Model Code") as contained in Appendix 10 of the Listing Rules. Having made specific enquiry with all directors, each of them confirms that he/she has complied in full with the Model Code regarding directors' securities transactions for the year ended 31 December 2007.

Independent Auditors' Report

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

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TO THE MEMBERS OF WAH YUEN HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

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.

HLM & Co.
Certified Public Accountants
Hong Kong, 24 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

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

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

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

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
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

The financial statements on pages 32 to 89 were approved and authorised for issue by the board of directors on 24 April 2008 and are signed on its behalf by:

But Ka Wai
DIRECTOR

But Chai Tong
DIRECTOR

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

The financial statements on pages 32 to 89 were approved and authorised for issue by the board of directors on 24 April 2008 and are signed on its behalf by:

But Ka Wai
DIRECTOR

But Chai Tong
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Share capital HK$'000	Share premium HK$'000	Convertible notes equity reserve HK$'000	Share options reserve HK$'000	Special reserve HK$'000	PRC statutory reserve HK$'000	Translations reserves HK$'000	Accumulated profits HK$'000	Minority interests HK$'000	Total HK$'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 HK$'000	2006 HK$'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)

For the year ended 31 December 2007

	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

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.

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

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

[1] Effective for annual periods beginning on or after 1 January 2009

[2] Effective for annual periods beginning on or after 1 March 2007

[3] Effective for annual periods beginning on or after 1 January 2008

[4] Effective for annual periods beginning on or after 1 July 2008

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

BASIS OF CONSOLIDATION

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF CONSOLIDATION (Continued)

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

BUSINESS COMBINATIONS

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

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

GOODWILL

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOODWILL (Continued)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY, PLANT AND EQUIPMENT (Continued)

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

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

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

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

PREPAID LEASE PAYMENTS

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

INVENTORIES

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS

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

FINANCIAL ASSETS

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

EFFECTIVE INTEREST METHOD

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

A financial asset is classified as held for trading if:

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

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

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

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

LOANS AND RECEIVABLES

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

IMPAIRMENT OF FINANCIAL ASSETS

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

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

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

FINANCIAL LIABILITIES AND EQUITY 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

A financial liability is classified as held for trading if:

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

INTANGIBLE ASSETS (Continued)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

TAXATION (Continued)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FOREIGN CURRENCIES (Continued)

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

CASH AND CASH EQUIVALENTS

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

(A) DEPRECIATION AND AMORTISATION

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

(B) ALLOWANCE FOR BAD AND DOUBTFUL DEBTS

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

CURRENCY RISK MANAGEMENT

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

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

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

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

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

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

LIQUIDITY RISK MANAGEMENT

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

CREDIT RISK MANAGEMENT

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'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

6. SEGMENT INFORMATION (Continued)

(A) BUSINESS SEGMENTS (Continued)

	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 liabilitiess					**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

6. SEGMENT INFORMATION (Continued)

(B) GEOGRAPHICAL SEGMENTS

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

	Sales revenue by geographical segment		Segment results by geographical segment	
	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

6. SEGMENT INFORMATION (Continued)

(B) GEOGRAPHICAL SEGMENTS (Continued)

	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 **HK$'000**	2006 HK$'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 **HK$'000**	2006 HK$'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 HK$'000	2006 HK$'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 HK$'000	Other emoluments: Salaries and other Benefits HK$'000	Other emoluments: Retirement benefit scheme contributions HK$'000	Total HK$'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-EXECUTIVEDIRECTORS				
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

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(A) DIRECTORS' EMOLUMENTS (Continued)

For the year ended 31 December 2006

Emoluments	Fees	Other emoluments Salaries and other Benefits	 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

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(B) EMPLOYEES' EMOLUMENTS

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

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

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

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

11. INCOME TAX EXPENSES

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

11. INCOME TAX EXPENSES (Continued)

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

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

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

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

12. DIVIDENDS

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

13. EARNINGS PER SHARE

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

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

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

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

14. PREPAID LEASE PAYMENTS

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

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

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

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Plant, and machinery HK$'000	Construction in progress HK$'000	Loose tools and moulds HK$'000	Total HK$'000
COST							
At 31 December 2005 and January 2006	52,322	24,251	9,408	81,141	6,272	189	173,583
Exchange difference	1,757	435	61	2,892	118	–	5,263
Additions	–	1,108	–	9,370	91	–	10,569
Transfer in/(out)	–	–	–	5,088	(5,088)	–	–
Disposals	(195)	–	(2,615)	(329)	–	–	(3,139)
At 31 December 2006 and 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

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

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

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2007 **HK$'000**	2006 HK$'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 HK$'000	Development Costs HK$'000	Total HK$'000
COST			
Additions	156	376	532
At 31 December 2007	156	376	532

19. DEPOSIT PAID ON ACQUISITION OF A SUBSIDIARY

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

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

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

21. GOODWILL

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

THE GROUP

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

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

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

22. INVENTORIES

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

23. TRADE AND OTHER RECEIVABLES

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

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

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

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

24. TRADE AND OTHER PAYABLES

An ageing analysis of trade payables is as follows:

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

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

25. OBLIGATIONS UNDER FINANCE LEASES

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

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

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

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

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

27. BORROWINGS

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

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

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

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

28. CONVERTIBLE NOTES

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

On 28 November 2007, the Company issued 3% convertible notes with aggregate principal amounts of HK$122,000,000 ("2010 Notes") through a placing agent to certain independent third parties. Unless previously redeemed, converted or purchased and cancelled, the 2010 Notes will be redeemed at 135.32% of the principal amount on the maturity date. The 2010 Notes are convertible at any time on or after 28 November 2007 until 10 business days prior to the maturity date by the noteholders into fully paid ordinary shares of HK$0.01 each of the the Company. Subject to adjustments upon the 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.

28. CONVERTIBLE NOTES (Continued)

The fair value of the liability component was determined at issuance of the notes. The fair value of the liabilitiy 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

29. SHARE CAPITAL (Continued)

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.

30. SHARE OPTION SCHEME (Continued)

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.

30. SHARE OPTION SCHEME (Continued)

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

33. RETIREMENT BENEFITS SCHEME (Continued)

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 satisified by the Company issuing 133,000,000 ordinary shares for HK$0.15 each and the convertible notes in principal amount of HK$180,050,000. The acquisition has been accounted for using the purchase method.

35. ACQUISITION OF SUBSIDIARIES (Continued)

The net assets acquired in the transaction are as follows:

	Fair value HK$'000	Acquiree's carrying amount before combination HK$'000
Net assets acquired:		
Property, plant and equipment	61,696	61,696
Prepaid lease payments	1,012	1,012
Deposits paid 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 HK$'000	2006 HK$'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 **HK$'000**	2006 HK$'000	**2007** **HK$'000**	2006 HK$'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:

	Notes	**2007 HK$'000**	2006 HK$'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

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of issued capital/ registered capital held by the Company	Principal activities
Wah Yuen Foods (Hong Kong) Company Limited 華園食品(香港)有限公司	Hong Kong	Ordinary shares HK$1,000 Non-voting deferred shares HK$10,000,000 *Note (iii)*	100%	Manufacturing, distribution and marketing of snack food products and convenience frozen food products
Million Riches Development Limited 裕億發展有限公司	Hong Kong	Ordinary shares HK$100 Non-voting deferred shares HK$1,000,000 Note (ii)	100%	Distribution and marketing of snack foods products
Wah Yuen Foods Company Limited 華園食品廠有限公司	Hong Kong	Ordinary shares HK$20	100%	Investment holding
Wah Yuen (Guangzhou) Foods Company Limited 華園(廣州)食品有限公司 Note (i)	PRC	Registered and contributed capital USD4,500,000	100%	Manufacturing, distribution and marketing of snack food products
Rocco Foods Enterprises Company (Guangzhou) Limited 廣州樂高食品企業有限公司 Note (i)	PRC	Registered and contributed capital USD2,810,000	100%	Manufacturing, distribution and marketing of snack food products
Guangzhou Lekker Pet Foods Company Limited 廣州市俐嘉寵物食品有限公司 Note (i)	PRC	Registered and contributed capital HK$500,000	100%	Manufacturing, distribution and marketing of pet food products
Wide Spread Foods Company Limited 廣州宏嘉食品有限公司 Note (i)	PRC	Registered and contributed capital HK$500,000	100%	Trading
China Environmental Water Holdings Limited 中國水環境控股有限公司	Hong Kong	Ordinary share HK$10	100%	Investment holdings

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of issued capital/ registered capital held by the Company	Principal activities
Wah Yuen Health Products Company Limited 華園健康產品有限公司	Hong Kong	Ordinary share HK$10,000	100%	Investment holdings
Conseco Seabuckthorn Co., Limited 高原聖果沙棘制品有限公司	PRC	Registered and contributed capital RMB30,500,000	50%	Sales and Manufacturing, seabuckthorn related food and health products and comestic products
Erdos Plateau Seabuckthorn Ecological Construction and Development Limited 鄂爾多斯市高原聖果生態建設開發有限公司	PRC	Registered and contributed capital RMB20,000,000	50%	Sales and Manufacturing seabuckthorn related food and health products and cosmetic products
准格爾旗高原聖果沙棘有限公司	PRC	Registered and contributed capital RMB500,000	45%	Cultivation of seabuckthorn related food and health products and cosmetic products
達拉特旗高原聖果沙棘有限公司	PRC	Registered and contributed capital RMB500,000	45%	Cultivation of seabuckthorn related food and health products and cosmetic products
陝西果聖水土保持建設有限公司	PRC	Registered and contributed capital RMB5,000,000	45%	Cultivation of seabuckthorn related food and health products and cosmetic products

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of issued capital/ registered capital held by the Company	Principal activities
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.

Financial Summary

RESUTLS

			Year ended 31 December		
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Revenue	198,934	210,454	207,551	202,130	**281,054**
Profit from operations	35,259	26,460	29,096	31,137	**121,702**
Finance costs	(8,401)	(9,803)	(11,021)	(12,242)	**(16,234)**
Profit before tax	26,858	16,657	18,075	18,895	**105,468**
Income tax expenses	(5,516)	(3,598)	(7,859)	(5,865)	**(8,231)**
Profit before minority interests	21,342	13,059	10,216	13,030	**97,237**
Minority interests	(1,199)	–	–	–	**(45,345)**
Profit for the year attributable to the equity holders of the Company	20,143	13,059	10,216	13,030	**51,892**
Earning per share					
– Basic	11.76 cents	6.53 cents	5.04 cents	3.52 cents	**9.19 cents**
– Diluted	N/A	6.51 cents	N/A	N/A	**2.92 cents**

ASSETS AND LIABILITIES

			As at 31 December		
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	352,011	348,099	365,314	407,779	**886,519**
Total liabilities	(224,683)	(216,389)	(215,775)	(213,236)	**(473,299)**
Minority interests	(4,373)	–	–	–	**(72,747)**
Equity attributable to equity holders of the Company	122,955	131,710	149,539	194,543	**340,473**