

2009

i n t e r i m   r e p o r t



中國植物開發控股有限公司  
CHINA BOTANIC DEVELOPMENT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)  
(Stock Code : 2349)

## CONTENTS

	Page
Condensed Consolidated Income Statement	2
Condensed Consolidated Statement of Comprehensive Income	3
Condensed Consolidated Statement of Financial Position	4
Condensed Consolidated Statement of Changes in Equity	6
Condensed Consolidated Cash Flow Statement	7
Notes to the Interim Financial Information	8
Management Discussion and Analysis	18

The board (the “Board”) of directors (the “Directors”) of China Botanic Development Holdings Limited is pleased to present the unaudited interim results of the Company and its subsidiaries (together, the “Group”) for the six months ended 30 June 2009 (the “Period”) together with the unaudited comparative figures for the corresponding period in 2008 as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
	Note	2009 (unaudited) HK\$'000	2008 (unaudited) HK\$'000
Turnover	3	50,943	128,136
Cost of sales		(39,046)	(88,962)
Gross profit		11,897	39,174
Gain from changes in fair value of biological assets less estimated point-of-sales costs		–	60,211
Other operating income		1,454	2,756
Selling and distribution expenses		(9,674)	(13,388)
Administrative expenses		(19,288)	(20,779)
Finance costs	4	(17,557)	(20,186)
Operating (loss) profit before impairment charges		(33,168)	47,788
Impairment on trade receivables		(19,571)	–
Changes in fair value less estimated point-of-sales costs of biological assets		(23,284)	–
(Loss) profit before taxation		(76,023)	47,788
Income tax credit (expense)	5	38	(3,972)
(Loss) profit for the period	6	(75,985)	43,816
Attributable to:			
– Equity holders of the Company		(64,018)	16,124
– Minority interests		(11,967)	27,692
		(75,985)	43,816
Dividend	7	–	–
(Loss) earnings per share	8		
– Basic		(7.38) cents	2.16 cents
– Diluted		N/A cents	1.07 cents

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2009 (unaudited) HK\$'000	2008 (unaudited) HK\$'000
(Loss) profit for the period	(75,985)	43,816
Other comprehensive income:		
Exchange differences arising on translation	(766)	8,726
<b>Total comprehensive income for the period (net of tax)</b>	<b>(76,751)</b>	<b>52,542</b>
Total comprehensive income attributable to:		
– Equity holders of the Company	(64,784)	24,728
– Minority interests	(11,967)	27,814
	<b>(76,751)</b>	<b>52,542</b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2009 (unaudited) HK\$'000	As at 31 December 2008 (audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Prepaid lease payments		3,088	3,079
Property, plant and equipment		198,730	195,856
Biological assets	9	4,560	27,844
Intangible assets		1,002	1,014
Goodwill		73,480	73,480
Deferred tax assets		660	660
		<b>281,520</b>	<b>301,933</b>
<b>CURRENT ASSETS</b>			
Inventories		50,803	43,395
Trade and other receivables	10	120,053	162,763
Tax recoverable		2,002	2,010
Derivative financial instruments		6,391	6,864
Pledged bank deposits		8,966	15,294
Bank balances and cash		21,219	21,189
		<b>209,434</b>	<b>251,515</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	11	44,868	44,929
Obligation under finance leases		1,507	3,999
Derivative financial instruments		–	1,831
Tax payable		2,177	302
Amounts due to minority shareholders		24,700	5,652
Amount due to a shareholder		3,000	15,000
Borrowings		43,297	98,781
		<b>119,549</b>	<b>170,494</b>
<b>NET CURRENT ASSETS</b>		<b>89,885</b>	<b>81,021</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>371,405</b>	<b>382,954</b>

	Note	As at 30 June 2009 (unaudited) HK\$'000	As at 31 December 2008 (audited) HK\$'000
<b>NON-CURRENT LIABILITIES</b>			
Obligation under finance leases		709	996
Borrowings		47,413	17,845
Convertible notes	12	263,876	262,156
		<b>311,998</b>	280,997
		<b>59,407</b>	101,957
<b>CAPITAL AND RESERVES</b>			
Share capital	13	11,046	6,919
Reserves		21,289	55,999
<b>Equity attributable to equity holders of the Company</b>			
Minority interests		32,335	62,918
		27,072	39,039
<b>TOTAL EQUITY</b>		<b>59,407</b>	101,957

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Unaudited six months ended 30 June 2009										
	Share capital HK\$'000	Share premium HK\$'000	Convertible notes equity reserve HK\$'000	Special reserve HK\$'000	PRC statutory reserves HK\$'000	Share option reserve HK\$'000	Translation reserves HK\$'000	Accumulated deficits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 January 2009	6,919	85,883	58,645	10,816	25,565	8,820	20,767	(154,497)	62,918	39,039	101,957
Loss for the period	-	-	-	-	-	-	-	(64,018)	(64,018)	(11,967)	(75,985)
Exchange differences	-	-	-	-	-	-	(766)	-	(766)	-	(766)
<b>Total comprehensive income for the period</b>	<b>6,919</b>	<b>85,883</b>	<b>58,645</b>	<b>10,816</b>	<b>25,565</b>	<b>8,820</b>	<b>20,001</b>	<b>(218,515)</b>	<b>(1,866)</b>	<b>27,072</b>	<b>25,206</b>
Equity-settled share option arrangement	-	-	-	-	-	530	-	-	530	-	530
Issue of new shares											
– Conversion of convertible notes	667	9,711	(3,119)	-	-	-	-	-	7,259	-	7,259
– Open offer	3,460	24,218	-	-	-	-	-	-	27,678	-	27,678
Transaction costs attributable to issue of shares	-	(1,266)	-	-	-	-	-	-	(1,266)	-	(1,266)
<b>At 30 June 2009</b>	<b>11,046</b>	<b>118,546</b>	<b>55,526</b>	<b>10,816</b>	<b>25,565</b>	<b>9,350</b>	<b>20,001</b>	<b>(295,547)</b>	<b>32,335</b>	<b>27,072</b>	<b>59,407</b>

	Unaudited six months ended 30 June 2008										
	Share capital HK\$'000	Share premium HK\$'000	Convertible notes equity reserve HK\$'000	Special reserve HK\$'000	PRC statutory reserves HK\$'000	Share option reserve HK\$'000	Translation reserves HK\$'000	Accumulated profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 January 2008	6,919	85,883	58,645	10,816	25,565	3,890	9,669	139,086	340,473	72,747	413,220
Profit for the period	-	-	-	-	-	-	-	16,124	16,124	27,692	43,816
Exchange differences	-	-	-	-	-	-	8,604	-	8,604	122	8,726
<b>Total comprehensive income for the period</b>	<b>6,919</b>	<b>85,883</b>	<b>58,645</b>	<b>10,816</b>	<b>25,565</b>	<b>3,890</b>	<b>18,273</b>	<b>155,210</b>	<b>365,201</b>	<b>100,561</b>	<b>465,762</b>
Equity-settled share option arrangements	-	-	-	-	-	2,465	-	-	2,465	-	2,465
<b>At 30 June 2008</b>	<b>6,919</b>	<b>85,883</b>	<b>58,645</b>	<b>10,816</b>	<b>25,565</b>	<b>6,355</b>	<b>18,273</b>	<b>155,210</b>	<b>367,666</b>	<b>100,561</b>	<b>468,227</b>

## CONDENSED INTERIM CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2009 (unaudited) HK\$'000	2008 (unaudited) HK\$'000
NET CASH USED IN OPERATING ACTIVITIES	(9,954)	(26,500)
NET CASH USED IN INVESTING ACTIVITIES	(1,110)	(29,121)
NET CASH FROM FINANCING ACTIVITIES	11,758	15,546
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	694	(40,075)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	20,205	123,441
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	–	(2,849)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	20,899	80,517
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	21,219	103,891
Pledged bank deposits	4,966	–
Bank overdrafts	(5,286)	(23,374)
	20,899	80,517

## NOTES TO THE INTERIM FINANCIAL INFORMATION

*For the period ended 30 June 2009*

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

The interim financial report has been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as appropriate. The accounting policies used in the interim report are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2008.

In the current period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations (“new or revised HKFRSs”) issued by HKICPA, which are effective for the Group’s financial year beginning on 1 January 2009.

HKAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure. HKFRS 8 is a disclosure Standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor Standard, HKAS 14 Segment Reporting, required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group’s primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group’s reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied new and revised standards amendments or interpretations that have been issued but are not yet effective. The adoption of HKFRS 3 (Revised 2008) may effect the Group’s accounting for business combinations for which the acquisition dates are on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in the Group’s ownership interest in a subsidiary that do not result in loss of control of the subsidiary. Changes in the Group’s ownership interest that do not result in loss of control of the subsidiary will be accounted for as equity transactions. The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

## 2. FINANCIAL RISK MANAGEMENT

All aspects of the Group's financial risk management objectives and policies are consistent with those disclosed in the annual financial statements for the year ended 31 December 2008.

## 3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance. In contrast, the predecessor Standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit and loss.

The following is an analysis of the Group's revenue and results by operating segment for the period under review:

	Wah Yuen Foods Business		Seabuckthorn Business		Eliminations		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2009	2008	2009	2008	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>REVENUE</b>								
External sales	38,850	118,550	12,093	9,586	-	-	50,943	128,136
Inter-segment sales	10,931	9,653	-	-	(10,931)	(9,653)	-	-
<b>Total revenue</b>	<b>49,781</b>	<b>128,203</b>	<b>12,093</b>	<b>9,586</b>	<b>(10,931)</b>	<b>(9,653)</b>	<b>50,943</b>	<b>128,136</b>
<b>RESULTS</b>								
Segment operating results before impairment charges	(9,335)	17,381	(7,201)	50,302			(16,536)	67,683
Impairment on trade receivables							(19,571)	-
Changes in fair value less estimated point-of-sales costs of biological assets							(23,284)	-
Unallocated corporate income							1,454	2,756
Unallocated corporate expenses							(529)	(2,465)
Finance costs							(17,557)	(20,186)
Taxation							38	(3,972)
<b>(Loss) profit for the period</b>							<b>(75,985)</b>	<b>43,816</b>

**4. FINANCE COSTS**

	<b>For the six months ended 30 June</b>	
	<b>2009 (unaudited) HK\$'000</b>	2008 (unaudited) HK\$'000
Interest expense on bank loans borrowings wholly repayable within five years	4,005	6,673
Interest expense on obligations under finance leases	65	321
Effective interest expense on convertible notes	<b>13,487</b>	13,192
	<b>17,557</b>	20,186

**5. TAXATION**

	<b>For the six months ended 30 June</b>	
	<b>2009 (unaudited) HK\$'000</b>	2008 (unaudited) HK\$'000
Current tax:		
Hong Kong Profits Tax	–	540
PRC Enterprise Income Tax	42	3,382
Overprovision in prior years:		
Hong Kong Profits Tax	<b>(80)</b>	–
	<b>(38)</b>	3,922
Deferred tax charge for the period	–	50
	<b>(38)</b>	3,972

Hong Kong Profits Tax was provided at the rate of 16.5% (six months ended 30 June 2008: 16.5%) of the estimated assessable profits arising in Hong Kong for the period.

The new Corporate Income Tax Law in PRC increases the corporate income tax rate for foreign investment enterprises from previous preferential rates to 25% with effect from 1 January 2008. The Companies established in the PRC before 16 March 2007 and previously taxed at the rate lower than 25% may be offered a gradual increase of tax rate of 25% within 5 years. Certain subsidiaries of the Company established in the PRC will enjoy preferential income tax rate from 2009 to 2011 and be taxed at the rate of 25% from 2012 when the preferential treatment expires.

**6. (LOSS) PROFIT FOR THE PERIOD**

The Group's (loss) profit for the period is arrived at after charging (crediting):

	<b>For the six months ended 30 June</b>	
	<b>2009 (unaudited) HK\$'000</b>	2008 (unaudited) HK\$'000
Cost of inventories sold	<b>39,046</b>	88,962
Gain from changes in fair value of biological assets less estimated point-of-sales costs	–	(60,211)
Depreciation and amortisation	<b>5,338</b>	5,831
Changes in fair value less estimated point-of-sales costs of biological assets	<b>23,284</b>	–
Impairment on trade receivables	<b>19,571</b>	–
Equity-settled share option expenses	<b>529</b>	2,465
Operating lease rental in respect of rental premises	<b>1,203</b>	1,287

**7. INTERIM DIVIDEND**

No dividends were paid, declared or proposed during the reported Period. The directors do not recommend the payment of an interim dividend (six months ended 30 June 2008: Nil).

**8. (LOSS) EARNINGS PER SHARE**

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

	For the six months ended 30 June	
	2009 (unaudited) HK\$'000	2008 (unaudited) HK\$'000
<b>(Loss) earnings:</b>		
(Loss) earnings for the purpose of basic (loss) earnings per share	<b>(64,018)</b>	16,124
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	<b>13,487</b>	4,691
(Loss) earnings for the purpose of dilutive earnings per share	<b>(50,531)</b>	20,815

	For the six months ended 30 June	
	2009	2008
<b>Number of shares:</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>866,912,753</b>	747,846,050
Effect of dilutive potential ordinary shares:		
– share options	–	2,183,908
– convertible notes	<b>1,133,666,667</b>	1,200,333,333
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>2,000,579,420</b>	1,950,363,291

The weighted average number of ordinary shares for the six months ended 30 June 2008 had been adjusted for the open offer which was completed in 1 April 2009.

Diluted loss per share has not been presented for the six months ended 30 June 2009 as the conversion of the Company's outstanding convertible notes would decrease the loss per share.

**9. BIOLOGICAL ASSETS**

	<b>As at 30 June 2009 (unaudited) HK\$'000</b>	As at 31 December 2008 (audited) HK\$'000
<b>Seabuckthorn Bushes</b>		
At beginning of period	<b>27,844</b>	74,909
Gain in arising from initial recognition of biological assets at fair value less estimated point-of-sales costs	–	10,308
Exchange adjustment	–	2,169
	<b>27,844</b>	87,386
Changes in fair value less estimated point-of-sales costs of biological assets	<b>(23,284)</b>	(59,542)
At end of period	<b>4,560</b>	27,844

Biological assets represent seabuckthorn bushes planted on land with Forest Tree Rights and situate in Inner Mongolia Autonomous Region, Shannxi Province, Shanxi Province and Gansu Province. The Forest Tree Rights cover a total land area of 1,106,545 mu and involves 1,478 forest sectors. In accordance with the valuation report issued by CB Richard Ellis, an independent professional valuer, the fair value less estimated point-of-sale costs of the seabuckthorn bushes are determined with reference to the present value of the expected excess earning attributable to the biological assets.

Its leaves, young branches and berries are used as functional food for their nutrition content (such as berries juices and tea leaves) and medicinal and cosmetics products for their pharmaceutical and antioxidant qualities (such as 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, flavour powder, raw juices, concentrate juices, seedlings, seeds, dried berries and tea leaves, finished products including health products such as flavour soft capsules, seed oil soft capsules, seed oil, pulp oil, tea in packs and cosmetic series.

**10. TRADE AND OTHER RECEIVABLES**

The Group adopts a general policy of allowing average credit periods ranging from 90 days to 180 days to its trade customers.

	<b>As at 30 June 2009 (unaudited) HK\$'000</b>	As at 31 December 2008 (audited) HK\$'000
Trade receivables	<b>116,392</b>	162,205
Less: Provision for doubtful debts	<b>(19,571)</b>	(41,735)
	<b>96,821</b>	120,470
Deposits, prepayments and other receivables	<b>23,232</b>	42,293
	<b>120,053</b>	162,763

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

	<b>As at 30 June 2009 (unaudited) HK\$'000</b>	As at 31 December 2008 (audited) HK\$'000
Within 90 days	<b>13,860</b>	34,577
91 to 180 days	<b>5,930</b>	41,305
Over 180 days	<b>77,031</b>	44,588
Trade receivables	<b>96,821</b>	120,470

## 11. TRADE AND OTHER PAYABLES

An aged analysis of the trade payables is as follows:

	<b>As at 30 June 2009 (unaudited) HK\$'000</b>	As at 31 December 2008 (audited) HK\$'000
Within 90 days	<b>7,688</b>	11,287
91 to 180 days	<b>6,079</b>	2,095
Over 180 days	<b>3,564</b>	5,859
Trade payables	<b>17,331</b>	19,241
Other payables	<b>27,537</b>	25,688
	<b>44,868</b>	44,929

## 12. CONVERTIBLE NOTES

On 13 November 2007, the Company issued convertible notes with a principal amount of HK\$180 million ("2017 Notes"), which bear coupon interest rate at 3% per annum payable semi-annually in arrears. The 2017 Notes was issued as part of the consideration for the acquisition of entire issued share capital of China Environmental Water Holdings Limited. 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 22 June 2009, the 2017 Notes in an aggregate principal amount of HK\$10 million were converted into the Company's shares at a conversion price of HK\$0.15 per share. As a result of the Conversion, 66,666,666 new shares were issued.

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

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

**12. CONVERTIBLE NOTES (Continued)**

On 11 August 2009, the conversion price of 2010 notes has been adjusted from HK\$1.144 per share to HK\$0.4 per share in accordance with the terms and conditions of the deed of alteration entered into between the Company and the noteholders on 14 July 2009. Further details have been provided in the Company's circular dated 16 July 2009.

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

	<b>As at 30 June 2009 HK\$'000</b>	As at 31 December 2008 HK\$'000
Liability component at beginning of period	<b>262,156</b>	244,834
Interest charge	<b>13,487</b>	26,384
Interest paid	<b>(4,508)</b>	(9,062)
Conversion of 2017 Notes	<b>(7,259)</b>	–
<b>Liability component at end of period</b>	<b>263,876</b>	262,156

**13. SHARE CAPITAL**

	Note	<b>Number of Shares</b>	<b>Amount HK\$'000</b>
Ordinary Shares			
<i>Authorised:</i>			
Ordinary shares of HK\$0.01 each at 31 December 2008 and 30 June 2009		4,000,000,000	40,000
<i>Issued and fully paid:</i>			
Ordinary shares of HK\$0.01 each at 1 January 2008 and 31 December 2008		691,937,500	6,919
Issue of shares on open offer	(i)	345,968,750	3,460
Issue of shares on conversion of convertible notes	(ii)	66,666,666	667
<b>At 30 June 2009</b>		<b>1,104,572,916</b>	<b>11,046</b>

**13. SHARE CAPITAL (Continued)**

Notes:

- (i) On 1 April 2009, the Company issued 345,968,750 ordinary shares of HK\$0.01 each to qualifying shareholders at the subscription price of HK\$0.08 each in satisfaction of the sum of HK\$27,677,500. The excess over the nominal value of the issued shares amounting to HK\$24,218,000 was credited to the share premium account of the Company.
- (ii) On 22 June 2009, the 2017 Notes in an aggregate principal amount of HK\$10,000,000 were converted into the Company's shares at a conversion price of HK\$0.15 per share. As a result of the conversion, 66,666,666 new shares were issued.
- (iii) All shares rank pari passu in all respects at 30 June 2009.

## MANAGEMENT DISCUSSION AND ANALYSIS

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

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

### RESULTS SUMMARY

For the period ended 30 June 2009, the Group reported a turnover of approximately HK\$51 million, representing a decrease of approximately 60% over the same period last year. As most of the Group's market and customers had continued to weaken in the first half of 2009 against the background of deteriorating economic conditions, the Group suffered fall in revenue as a result of containment measure in delivery of products through its tighten credit management policy. We considered this measure necessary and in line with our diligent strategies.

The implementation of containment measures also impacted the utilisation of capacity that led profit margins to be depressed. In addition to the deterioration of revenue and profit margins as well as the interest expenses on convertible notes, the impairment charges on trade receivables and change in fair value of biological assets also contributed to results falling for the six months ended 30 June 2009.

The net loss attributable to the equity holders of the Company for the period amounted to HK\$64 million, as compared with a profit of HK\$16 million in the same period in 2008. The basic loss per share amounted to HK7.38 cents, against basic earnings per share of HK2.16 cents in 2008 (after adjusting for the open offer which was completed in 1 April 2009).

The Board does not propose any interim dividend for the year ended 30 June 2009.

## BUSINESS REVIEW

### Seabuckthorn and Related Healthcare Products

During the period under review, the seabuckthorn and related business reported revenue of HK\$12 million, which represented an increase of HK\$2.4 million, or 26% over HK\$9.6 million in the same period last year.

The Group continued to undertake steps to review and integrate the new business and operation. The focus of review was to determine an appropriate strategy in the current economic conditions so as to maintain and improve long-term profitability. The integration objectives should be focusing on optimising returns from existing production sources in seabuckthorn segment and also exploring new revenue streams with its current extensive products portfolio.

The Group also implemented cost reduction plan to align its operations and resources to meet an increasingly competitive health care products and seabuckthorn related-products environment in order to help restore its capability and chart the path to profitable growth.

### Packaged Food and Convenience Frozen Food Products

For the six month ended 30 June 2009, the production and sales of snack food and convenience frozen food products continued to be the Group's major revenue contributor. However, the total sales decreased by 67% to HK\$39 million compared to the same period in 2008.

During the period, the Group instigated containment measure in delivery of products as a result of the continuation of tough market conditions where the Group had seen certain retailers and distributors delayed or reassessed their orders and competition in our market intensified. This measure impacted the trading performance and margins over the period. Pet food business, however, continued to trade well with their successful formulae and through the introduction of more product ranges and new business avenues.

Furthermore, the recessionary economic environment and the precipitous decline in consumption in first half of 2009 also posted exceptional challenges to the market players. Although the negative publicity of food safety surrounded the PRC passed away, the stringent inspection requirement for all export companies in China still affected the Group's export volume and shipment time in the PRC.

The Group continued to take early and tough action to align overheads to a fall in revenue to optimise and consolidate the distribution network and sales points, and further strengthened cooperation with a number of key accounts, including supermarkets and convenience stores, maintaining its effective presence in the market.

## Production Facilities

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

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

## FUTURE PROSPECTS

2009 is a turbulent and transformational year for China Botanic. The Group expects market conditions continue to deteriorate in this year and anticipate that trading conditions will remain challenging particularly in our customers and markets over the remainder of the year. In the circumstances our drive for tighten cost control and cash generation remains a key focus for the Group. These actions, coupled with the Group's recently strengthened financial position through the open offers, leaves us well placed both to meet the current challenges and to capitalise on a future market recovery.

On 21 September 2009, the resolution approving the open offer has been duly passed at the extraordinary general meeting. The net proceeds of approximately HK\$279 million will be received and applied for financing possible diversified business strategies of the Group including but not limited to purchase and development of properties located in the PRC from China Water and/or other parties. The Group believes that the fundamental risks for property market in the PRC are well contained. Loans to the household sector picked up notably this year given the continued recovery in property transaction volumes since late last year. These conditions prompt the Group to take part in property development in the PRC. The Group also nominated and appointed the directors who have substantial experience in property development and management in the PRC in order to translate into organisational efficiencies throughout our new business strategy.

The Group's turnaround strategy, which over the longer term aims to revive all brands to growth and profitability, is processing and will focus on rebuild to be a stronger and more competitive company than ever before.

## FINANCIAL POSITION

The Group's cash and bank balances together with deposits amounted to HK\$30.2 million at 30 June 2009. The Group had total assets of HK\$491 million and its total current assets was HK\$209 million. The current and non-current assets was HK\$120 million and HK\$312 million respectively. The amount of bank borrowings was HK\$91 million (31.12.2008: HK\$117 million). Most of bank borrowings were denominated in Hong Kong dollars and bearing a floating rate of interest. At 30 June 2009, total loan facilities outstanding and convertible notes amounted to HK\$93 million and HK\$264 million respectively. Based on a net borrowings of HK\$327 million at period end, the Group's gearing ratio (expressed as a ratio of net borrowings to total assets) was 66.6% (31.12.2008: 62.7%).

In the circumstances of current business and financial market conditions, the Group will endeavor to maintain a low level of gearing and continue to monitor the market situation for any financing needs and opportunities.

## EXPOSURE TO FLUCTUATION IN FOREIGN EXCHANGE

Most of the Group's transactions, assets and liabilities are denominated in Hong Kong dollars or Renminbi. The usual treasury policy of the Group is to manage significant currency exposure and minimize currency risk whenever it may have material impact on the Group. During the period under review, the Group entered into foreign currency forward contracts to manage the Group's exposure to fluctuation in exchange rates. The fair value of the contract amounted to HK\$6.4 million as at 30 June 2009. Other than derivative financial instruments in connection with our daily operations as mentioned above, the Group had not entered into other derivative financial instruments throughout the period. There was no material foreign exchange exposure to the Group during the period under review.

## MATERIAL ACQUISITIONS AND DISPOSALS

During the six months ended 30 June 2009, the Group has no material acquisitions and disposals.

## PLEDGED OF ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

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

## POST BALANCE SHEET EVENT

### (a) Alteration of the terms of 2010 Notes

On 7 July 2009, the Company announced the proposal of alteration of the conversion price of 2010 Notes from HK\$1.144 per share to HK\$0.4 per share and subsequently entered into a deed of alteration with the noteholders on 14 July 2009. Further details have been provided in the Company's circular dated 16 July 2009.

### (b) Open offer

On 10 August 2009, the Company announced an open offer of not less than 5,689,531,245 offer shares and not more than 7,705,364,580 offer shares at the subscription price of HK\$0.05 per offer share on the basis of five offer shares for every one existing share held by the qualifying shareholders on the record date and payable in full on application. Further details have been provided in the Company's circular dated 4 September 2009. The resolution approving the open offer has been duly passed at the extraordinary general meeting on 21 September 2009 and 5,777,031,245 shares will be issued and fully paid. The net proceeds of approximately HK\$279 million will be applied for financing possible diversified business strategies of the Group including but not limited to purchase and development of properties located in the PRC from China Water and/or other parties.

### (c) Proposed change of Company name

On 10 August 2009, the Company announced the proposal to change the name of the Company from "China Botanic Development Holdings Limited 中國植物開發控股有限公司" to "China Water Property Group Limited 中國水務地產集團有限公司". The change of name of the Company is subject to the passing of a special resolution by the shareholders at the extraordinary general meeting on 28 September 2009 and also the Registrar of Companies in the Cayman Islands approving the change of Company's name. Further details have been provided in the Company's circular dated 4 September 2009.

#### **(d) Increase in the authorised share capital**

On 10 August 2009, the Company announced the proposal to increase the authorised share capital of the Company from HK\$40,000,000 divided into 4,000,000,000 shares of HK\$0.01 each to HK\$200,000,000 divided into 20,000,000,000 shares of HK\$0.01 each. The resolution approving the increase in authorised share capital had been duly passed at the extraordinary general meeting on 21 September 2009. Further details have been provided in the Company's circular dated 4 September 2009.

#### **(e) Application for amendments of land use**

On 18 September 2009, the Company announced the proposal of application to the relevant PRC authorities to amend the use of the land currently occupied by the property used as production facilities of the Group located in Huadu District of Guangzhou in Guangdong Province of the PRC from industrial use to residential-commercial use. The Company also approved that subject to obtaining relevant approvals for the amendments of the land use, the location of the production facilities will change to another appropriate location in the PRC.

### **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2009, the total number of employees of the Group was approximately 600. The total staff costs for the period under review were approximately HK\$10.7 million (six months ended 30 June 2008: HK\$9.8 million). The Group offers comprehensive remuneration and employees' benefits package to its employees. In additions, share options and discretionary bonuses are also granted to eligible staff based on their performance and the results of the Group.

### **INTERIM DIVIDEND**

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

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

As at 30 June 2009, the interests or short positions of each director and 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 ("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 ("Stock Exchange") pursuant to the Model Code for the Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

- (a) Long positions in ordinary shares of the Company as at 30 June 2009:

Name of director	Position	Corporate interests (Shares)	Personal interests (Shares)	Total (Shares)	Approximate percentage of issued share capital of the Company (%)
Mr. But Ka Wai	Long	84,550,000	312,000	84,862,000	7.68%

Note: These shares are held by Able Success Group Limited ("Able Success"), the entire issued share capital of which is beneficially owned by Mr. But Ka Wai.

- (b) Long positions in share options of the Company as at 30 June 2009:

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

Saved as disclosed above, as at 30 June 2009, none of 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.

## SUBSTANTIAL SHAREHOLDERS' INTEREST 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 30 June 2009, the Company had been notified of the following substantial shareholders' interests, short positions in the shares and underlying shares, being 5% or more of the Company's issued share capital.

### Long Positions in the Shares

Name of shareholders	Note	Capacity and nature of interest	Number of shares held (Shares)	Approximate percentage of issued share capital of the Company (%)
Able Success	1	Beneficial owner	84,550,000	7.65%
Ms. Chan Yuk Ha	2	Family interest	84,862,000	7.68%
China Water Affairs Group Limited	3	Beneficial owner	131,284,362	11.88%
		Interest of controlled corporation	199,500,000	18.06%
Atlantis Investment Management Limited		Investment manager	75,821,679	6.86%
Bank of China	4	Interest of controlled corporation	1,380,000	0.12%
Prime Investments Holdings Limited		Interest of controlled corporation	79,734,987	7.22%

### Long Positions in the Underlying Shares of the Company

Name of shareholders	Note	Capacity and nature of interest	Number of shares held (Shares)	Approximate percentage of issued share capital of the Company (%)
China Water Affairs Group Limited	5	Interest of controlled corporation	1,033,666,666	93.58%
Bank of China	6	Interest of controlled corporation	73,863,636	6.48%
Prime Investments Holdings Limited	7	Interest of controlled corporation	100,000,000	11.06%

Note:

- (1) Mr. But Ka Wai is deemed to be interested in these shares through his wholly owned interest in the issued share capital of Able Success.
- (2) Ms. Chan Yu Ha, the spouse of Mr. But Ka Wai, is deemed to be interested in 151,562,000 ordinary shares of the Company.
- (3) These shares of the Company held by Sharp Profit Investments Limited, a wholly owned subsidiary of China Water Affairs Group Limited (“China Water Affairs”). Therefore, China Water Affairs was deemed to be beneficially interested in the said shares of the Company held by Sharp Profit Investments Limited for the purposes of the SFO.
- (4) 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.
- (5) Convertible notes in the principal amount of HK\$180,050,000 carrying the rights to subscribe for shares at conversion price of HK\$0.15 per share was issued by the Company to Good Outlook Investments Limited (“Good Outlook”) on 13 November 2007 to satisfy part of the consideration of the acquisition of the entire issued share capital of China Water Environmental Holdings Limited. If the conversion rights attached to the convertible notes had been fully exercised, 1,200,333,333 shares would be issued at the conversion price of HK\$0.15 per share. China Water Affairs is deemed to be interested in the said underlying shares by virtue of its wholly owned interest in Good Outlook. As at 30 June 2009, the Convertible notes with the outstanding principal amount of HK\$155,050,000 is beneficially owned by Good outlook following the disposal of principal amount of HK\$25,000,000 on 22 September 2008.
- (6) The convertible bonds with the right to convert into 73,863,636 shares at adjusted conversion price of HK\$1.144 each were issued to BOCI Financial Products Limited. By virtue of note (4), 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.
- (7) These shares of the Company were held by Global Business Investment Enterprises Limited, a wholly owned subsidiary of Prime Investments Holdings Limited (“Prime”). Therefore, Prime was deemed to be beneficially interested in the said shares of the Company held by Global Business Investment Enterprises Limited for the purposes of the SFO.

Saved 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 30 June 2009.

## SHARE OPTION SCHEME

At the general meeting of the Company held on 3 June 2003, the shareholders of the Company approved the adoption of a share option scheme. As at 30 June 2009, there are options relating to 31,500,000 shares granted by the Company pursuant to the Option Scheme which are valid and outstanding.

Movement of the share option under the Option Scheme during the period is as follows:

Category	Date of grant	Exercise price HK\$	Exercisable period	At the beginning of the period	Granted during the period	Exercised during the period	Options held at 30 June 2008
Employees	18.7.2007	1.32	18.7.2007 to 17.7.2010	6,500,000	-	-	6,500,000
	26.11.2007	1.21	26.11.2007 to 26.11.2010	6,000,000	-	-	6,000,000
	14.12.2007	1.12	14.12.2007 to 14.12.2010	2,000,000	-	-	2,000,000
	25.3.2008	0.53	25.3.2008 to 24.3.2011	12,000,000	-	-	12,000,000
Consultant	18.7.2007	1.32	18.7.2007 to 17.7.2010	5,000,000	-	-	5,000,000

Apart from the foregoing, at no time during the period ended 30 June 2009 was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or any of their respective spouses or minor children to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares for the six months ended 30 June 2009.

## COMPLIANCE WITH APPENDIX 10 OF THE LISTING RULES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as its own Code of Conduct regarding securities securities transaction by the Directors. Having made specific enquiry of all directors, the directors have confirmed that they have complied with the Model Code throughout the period under review.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with all applicable code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the six-months period to 30 June 2009.

## AUDIT COMMITTEE

The audit committee comprises three members namely Mr. Ku Siu Fung, Stephen, Ms. Li Ling and Mr. Tam Pei Qiang who are independent non-executive directors of the Company. The audit committee has reviewed the accounting principles and practices adopted by the Company and discussed internal control and financial reporting matters with management relating to the preparation of unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2009.

On behalf of the Board  
**But Ka Wai**  
*Chairman*

Hong Kong, 25 September 2009