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## **WAH YUEN HOLDINGS LIMITED**

**華園控股有限公司**

*(incorporated in the Cayman Islands with limited liability)*

(stock code: 2349)

### **VERY SUBSTANTIAL ACQUISITION AND RESUMPTION OF TRADING**

**Financial adviser to Wah Yuen Holdings Limited**



**VXL**

**FINANCIAL SERVICES LIMITED**

卓越企业融资有限公司

The Purchaser, a wholly-owned subsidiary of the Company, has conditionally agreed to acquire from the Vendor the Sale Shares, being 10 shares in CEWH, representing the entire issued share capital of CEWH at an aggregate consideration of HK\$200,000,000.

CEWH is an investment holding company whose principal asset is the holding of 50% equity interest in Seabuckthorn Company. The Seabuckthorn Group is principally engaged in the cultivation and sale of seabuckthorn seedlings and manufacturing and sale of seabuckthorn related health products.

The Consideration shall be satisfied by the Purchaser as to (i) HK\$19,950,000 by procuring the Company to allot and issue the Consideration Shares to the Vendor, credited as fully paid, at the Issue Price of HK\$0.15 per Consideration Share; and (ii) HK\$180,050,000 by procuring the Company to issue the Convertible Bonds to the Vendor on Completion.

The Vendor is a wholly-owned subsidiary of China Water. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Vendor and its associates (including China Water, its subsidiaries, and the substantial shareholders, directors and chief executive of China Water and its subsidiaries and their respective associates) are third parties independent of the Company and its connected persons.

The Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules. As such, the Agreement and the transaction contemplated therein, (including but not limited to the issue of the Convertible Bonds and the allotment and issue of the Consideration Shares), is subject to the approval of the Shareholders at an extraordinary general meeting of the Company. The Vendor and its associates (including China Water and its connected persons) do not own or hold any Shares as at the date of this announcement. As no Shareholder has a material interest in the Acquisition which is different from other Shareholders, no Shareholder would be required to abstain from voting at the extraordinary general meeting to be convened by the Company to consider and, if thought fit, to approve the Agreement and transactions contemplated therein.

A circular containing, among others, details of the Agreement, an accountants' report on CEWH financial information on the Group and the notice of the extraordinary general meeting will be sent to the Shareholders as soon as practicable.

At the request of the Company, trading in the Shares was suspended with effect from 9:30 a.m. on 3 July, 2007 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 a.m. on 13 July, 2007.

Reference is made to the announcement of the Company dated 18 June 2007 relating to preliminary negotiations on the acquisition of a company engaging principally in manufacturing and selling of health food. The Board is pleased to announce that the Agreement relating to the aforesaid acquisition was entered into after trading hours on 29 June, 2007, details of which are set out below.

## **AGREEMENT DATED 29 JUNE, 2007**

### **Parties to the Agreement**

- (i) China Water Group Limited, a wholly-owned subsidiary of China Water, as vendor;
- (ii) Top Harbour Development Limited, a wholly-owned subsidiary of the Company, as purchaser;
- (iii) China Water Affairs Group Limited, a company whose shares are listed on the Stock Exchange (stock code: 855) as guarantor of the performance by the Vendor of its obligations under the Agreement; and
- (iv) the Company as guarantor of the performance by the Purchaser of its obligations under the Agreement.

The Vendor is an investment holding company and the intermediate holding company of CEWH. The Vendor is a wholly-owned subsidiary of China Water. To the best of Directors' knowledge, information and belief having made all reasonable enquiry, the Vendor and its associates (including China Water, its subsidiaries, and the substantial shareholders, directors and chief executive of China Water and its subsidiaries and their respective associates) are third parties independent of the Company and its connected persons. The Group has not entered into any previous transactions with the Vendor which would otherwise require aggregation pursuant to Rule 14.22 of the Listing Rules.

## **Assets to be acquired**

The Sale Shares, being 10 shares in CEWH, representing the entire issued share capital of CEWH.

## **Information on the CEWH Group**

CEWH was incorporated in Hong Kong with limited liability on 8 December, 2003. CEWH is an investment holding company whose principal asset is the holding of 50% equity interest in Seabuckthorn Company, a sino-foreign equity joint venture established under the laws of the PRC in November 2005. The remaining 50% equity interest in Seabuckthorn Company is held by three parties, as to 18% by 水利部沙棘開發管理中心 (China National Administration Centre for Seabuckthorn Development\*), as to 22% by 北京山合林水環境規劃設計中心 (Beijing Green Water Environment Planning & Design Centre\*) and as to the balance of 10% by 江海世紀投資管理(北京)有限公司 (Jiang Hai Century Investment Management (Beijing) Co., Ltd.\*) (together, the “Seabuckthorn JV Partners”), all of whom are third parties independent of the Company and its connected persons. The Vendor and China Water have confirmed that the Seabuckthorn JV Partners are unrelated to, and not connected persons of, China Water, save for their common shareholdings with CEWH in Seabuckthorn Company.

Seabuckthorn Company and its subsidiaries are principally engaged in the cultivation and sale of seabuckthorn seedlings, and processing, development, manufacturing and sale of seabuckthorn related food and health products and cosmetic products in the PRC, Hong Kong and other overseas markets. Seabuckthorns are deciduous bushes. Their habitat spreads over a wide area from northwestern Europe, through Central Asia, to the Altai Mountains to western and northern China and the northern Himalayas. They are both drought salt tolerant. They can survive temperatures as low as -40°C and barren lands, and require full sunlight for good growth. China’s seabuckthorn resources accounts for 95% of the world’s resources. Seabuckthorns are recognised for their high nutrient content in protein, vitamins C and E, and amino acids. 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). Seabuckthorns are also widely cultivated for agronomic and environmental protection. Seabuckthorns rapidly develop an extensive root system capable of fixing nitrogen. They have been used for soil erosion control and land reclamation projects and breeding seedlings, to cultivation of operates in vertical integration from the developing seabuckthorn, to berries processing, to manufacturing of seabuckthorn products. The Seabuckthorn Group has founded its own seabuckthorn cultivation bases in Erdos Plateau, Loess Plateau, North-eastern Plain and Qinghai-Tibet Plateau in the PRC with total area of about 200,000 hectares to guarantee the stable supply of seabuckthorn for its manufacturing activities in seabuckthorn related products. The Seabuckthorn Group has also established seedling bases over a total area of about 200 hectares in Beijing, Inner Mongolia Autonomous Region and Shanxi province, with annual reproduction capacity of approximately 100 million plants. It has also set up a raw material processing centre with annual fruit processing capacity of 5,000 tons. The products manufactured by the Seabuckthorn Group 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. The sale and distribution network covers 11 provinces in the PRC, spanning over northern, northwestern, northeastern and central part of the PRC. Seabuckthorn Company and its subsidiaries have been accounted for as subsidiaries in the accounts of CEWH since the establishment of Seabuckthorn Company in November 2005.

CEWH had not carried on any business since its incorporation and until July 2005 when it entered into an investment agreement with the other existing shareholders of Seabuckthorn Company for the establishment of Seabuckthorn Company. CEWH has not prepared consolidated financial statements since its incorporation. The following financial information is extracted from the audited financial statements of CEWH for the period from 8 December 2003 (date of incorporation) to 31 March, 2005 and for the year ended 31 March, 2006.

|                          | <b>Year ended<br/>31 March, 2006<br/>(HK\$)</b> | <b>Period from<br/>8 December, 2003<br/>(date of incorporation)<br/>to 31 March, 2005<br/>(HK\$)</b> |
|--------------------------|---|--|
| Revenue                  | —   | —  |
| Loss before taxation     | (7,615)   | (10,200)   |
| Taxation                 | —   | —  |
| Loss for the period/year | (7,615)   | (10,200)   |

The losses for the aforesaid period/year were attributable to administrative expenses incurred by CEWH during the relevant period/year.

As at 31 March, 2006, CEWH recorded deficit in shareholders' funds of HK\$17,805. The principal asset of CEWH is its investment in subsidiaries with book value of approximately HK\$14.2 million as at 31 March, 2006, which was financed by amounts due to certain members of China Water Group. The deficit in shareholders' funds reflected the accumulated losses of CEWH as at 31 March, 2006, less the paid up capital of HK\$10.

Based on the audited consolidated financial statements of China Water for the year ended 31 March, 2005 prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS), the net liabilities attributable to equity holders of CEWH (Seabuckthorn Company was not consolidated in the financial statements as it was established by the Seabuckthorn JV Partners in November 2005) was approximately HK\$10,198 and the loss attributable to equity holders of CEWH were approximately HK\$10,200. No extraordinary items were attributable to equity holders of CEWH for the same year.

According to the audited consolidated financial statements of China Water for the year ended 31 March, 2006 which were prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS), the net asset attributable to equity holders of CEWH (after consolidating Seabuckthorn Company) was approximately HK\$21 million and the net profits before/and after taxation attributable to equity holders of CEWH were approximately HK\$7.9 million and HK\$6.4 million respectively. No extraordinary items were attributable to equity holders of CEWH (after consolidating Seabuckthorn Company) for the same year.

The CEWH Group is in the course of preparing its audited accounts for inclusion in the audited consolidated financial statements of China Water for the year ending 31 March, 2007, which are expected to be announced by China Water on or before 31 July, 2007. In the circumstances, China Water has informed the Company that China Water considers it is not appropriate to give consent to the Company to release the financial information of CEWH Group for the year ended 31 March, 2007 in this announcement. An accountants' report on CEWH, showing the audited consolidated financial statements of CEWH for the period from 8 December, 2003 (date of incorporation) to 31 March 2005, for the year ended 31 March, 2006 and 31 March, 2007 will be included in a circular to be sent to the Shareholders relating to the Agreement as referred to in the section headed "General" below.

### **The Consideration**

The Consideration for the Acquisition is HK\$200,000,000 and shall be satisfied by the Purchaser as to (i) HK\$19,950,000 by procuring the Company to allot and issue the Consideration Shares to the Vendor, credit as fully paid at the Issue Price of HK\$0.15 per Consideration Share; and (ii) HK\$180,050,000 by procuring the Company to issue the Convertible Bonds to the Vendor on Completion.

The Consideration Shares represent approximately 24.0% of the existing issued share capital of the Company, and approximately 19.4% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares.

The Consideration was arrived at after arm's length negotiations between the parties and with reference to the profit attributable to equity holders of CEWH (after consolidating Seabuckthorn Company) as referred to above and after taking into account factors such as the potential of the business of CEWH, the possible future earnings contribution to the Group and the Guaranteed Profit set out below.

## **Profit Guarantee**

Pursuant to the Agreement, the Vendor guarantees to the Purchaser that the audited consolidated net profit after tax and extraordinary or exceptional items of the CEWH Group (before deducting minority interests) will not be less than HK\$20,000,000 for the year ending 31 March, 2008 (the “**Guaranteed Profit**”). If the actual audited consolidated net profit after tax and extraordinary or exceptional items of the CEWH Group (before deducting minority interests) for the year ending 31 March, 2008 (the “**Actual Profit**”) is less than the Guaranteed Profit, the Vendor shall pay to the Purchaser the shortfall on a dollar to dollar basis in cash (the “**Guaranteed Profit Shortfall**”) (being the difference between the Actual Profit and the Guaranteed Profit multiplied by 50%) within seven days after the delivery of the audited consolidated financial statements prepared in accordance with the Hong Kong Financial Reporting Standards for the year ending 31 March, 2008. However, in any event, Guaranteed Profit Shortfall shall not exceed HK\$10,000,000, as CEWH owns only 50% equity interest of Seabuckthorn Company. In the event that the CEWH Group records an audited consolidated loss after tax and any extraordinary or exceptional items for the financial year ending 31 August, 2008, the Vendor shall pay the maximum amount of HK\$10,000,000 to the Purchaser.

## **Waiver of Loans owed by CEWH Group**

As at 31 March, 2006, CEWH was indebted to other members of the China Water Group in the total amount of approximately HK\$19.3 million, which advances were unsecured, interest free and repayable on demand. As at the date of this announcement, CEWH is indebted to other members of the China Water Group in the total amount of approximately HK\$19 million.

Pursuant to the Agreement, the Vendor will procure and confirm to the Purchaser that all obligations, liabilities and debts owing or incurred by CEWH or its subsidiaries to the Vendor or its associates on the date of the Agreement, or on or at any time prior to Completion whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on Completion have been waived.

## **The Convertible Bonds**

The principal terms of the Convertible Bonds to be issued by the Company will be as follows:

|                   |  |
|-------------------|--|
| Principal amount: | HK\$180,050,000, credited as fully paid at its face value as satisfaction of part of the Consideration.  |
| Maturity Date:    | The tenth anniversary of the date of issue of the Convertible Bonds.<br><br>Unless previously converted, the principal amount of the Convertible Bonds will be repaid by the Company on the Maturity Date. |
| Interest:         | 3% per annum on the principal amount outstanding from time to time, payable semi-annually in arrear.   |

Conversion and redemption: Provided that (i) any conversion of the Convertible Bonds does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the relevant holder of the Convertible Bonds who exercises the conversion rights, whether or not such mandatory offer obligation is triggered by the fact that the number of Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds and, if applicable, together with any Shares already owned or agreed to be acquired by such holder of Convertible Bonds and/or parties acting concert with it, represents 30% or more (or such other percentage as stated in Rule 26 of the Takeovers Code in effect from time to time) of the then issued ordinary share capital of the Company or otherwise pursuant to other provisions of the Takeovers Code, the holder(s) of the Convertible Bonds shall have the right to convert the whole or any part (in an amount or integral multiple of HK\$5,000,000 or if the aggregate outstanding principal amount is less than HK\$5,000,000, the entire outstanding amount of the Convertible Bonds) of the outstanding principal amount of the Convertible Bonds into Shares at any time from the date of issue up to the Maturity Date at the Conversion Price of HK\$0.15 per Conversion Share (subject to adjustment). To the extent not previously converted, the Company shall redeem the Convertible Bonds in cash at maturity.

The Conversion Price of the Convertible Bonds is subject to adjustment provisions customary for convertible securities of similar type. The adjustment events will arise as a result of certain changes in the share capital of the Company including consolidation or sub-division of shares, capitalization of profits or reserves, capital distributions in cash or specie or subsequent issue of securities in the Company at substantial discount to market value.

Conversion Shares: On the basis of the principal amount of HK\$180,050,000 and the initial Conversion Price of HK\$0.15 per Conversion Share, a total of 1,200,333,333 Conversion Shares will be issued upon full conversion of the Convertible Bonds. The Conversion Shares shall upon issue rank pari passu in all respects with the then issued Shares.

Assuming there is no change in the issued share capital of the Company after Completion, a holder of the Convertible Bonds may exercise conversion rights attaching to Convertible Bonds up to a principal amount of approximately HK\$15,470,943, such that a total of 103,139,620 Conversion Shares shall be issued at the initial Conversion Price of

HK\$0.15 (which together with/the Consideration shares shall amount to 236,139,620 shares and represent 29.90% of the issued share capital of the Company) each without triggering any general offer obligation on the part of the relevant Convertible Bonds holder under the existing provisions of the Takeovers Code.

**Listing:** No application will be made for the listing of the Convertible Bonds on any stock exchange. Application will be made for the listing of and permission to deal in the Conversion Shares on the Stock Exchange.

**Voting:** Holder(s) of the Convertible Bonds shall not be entitled to attend or vote at any general meetings of the Company by reason only of it being the Convertible Bonds holder.

**Transferability:** The Convertible Bonds may be assignable or transferable subject to the prior notification to the Company. The Company undertakes to the Stock Exchange that it will notify the Stock Exchange immediately upon becoming aware of any dealings in the Convertible Bonds by any connected persons of the Company.

The total of 1,200,333,333 Conversion Shares to be issued upon full conversion of the Convertible Bonds represent approximately 216.8% of the existing share capital of the Company, approximately 174.8% of the issued share capital of the company as enlarged by the issue of the Consideration Shares and approximately 63.6% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and the Conversion Shares.

### **The Issue Price and the Conversion Price**

The Issue Price and the initial Conversion Price of the Convertible Bonds are the same at HK\$0.15 per Share which represents:

- (i) a discount of approximately 89.4% to the closing price of HK\$1.41 per Share as quoted on the Stock Exchange on 29 June, 2007, being the last trading day prior to the suspension of trading in the Shares on 3 July, 2007 pending the release of this announcement;
- (ii) a discount of approximately 89.4% to the average of the closing prices of HK\$1.416 per Share as quoted on the Stock Exchange over the last five consecutive trading days up to and including 29 June, 2007;
- (iii) a discount of approximately 88.8% to the average of the closing prices of HK\$1.342 per Share as quoted on the Stock Exchange over the last 10 consecutive trading days up to and including 29 June, 2007;

- (iv) a discount of approximately 86.4% to the average of the closing prices of HK\$1.10 per Share as quoted on the Stock Exchange over the last 30 consecutive trading days up to and including 29 June, 2007; and
- (v) a discount of approximately 58.3% to the audited consolidated net assets of the Company of HK\$0.36 per Share as at 31 December, 2006.

### **Conditions of the Agreement**

The Agreement is subject to and conditional upon the fulfillment of following conditions on or before 31 December, 2007 (or such later date as shall be agreed between the Vendor and the Purchaser):

- (a) the Purchaser being satisfied with the results of the due diligence review of the assets, liabilities, operations and affairs of the CEWH Group as it may reasonably consider appropriate;
- (b) all necessary consents and approvals required to be obtained on the part of the Vendor and the Purchaser in respect of the Agreement and the transactions contemplated thereby having been obtained;
- (c) the passing by the Shareholders at a general meeting of the Company to be convened and held of an ordinary resolution to approve the Agreement and the transactions contemplated hereunder, including but not limited to (i) the allotment and issue of the Consideration Shares to the Vendor credited as fully paid; and (ii) the issue of the Convertible Bonds to the Vendor;
- (d) the obtaining of a PRC legal opinion (in form and substance satisfactory to the Purchaser) in relation to the transactions contemplated under the Agreement;
- (e) the warranties contained in the Agreement remaining true and accurate in all respects;
- (f) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Consideration Shares;
- (g) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Conversion Shares; and
- (h) if necessary, the passing by the shareholders of China Water at a general meeting of China Water to be convened and held of an ordinary resolution to approve the Agreement and the transactions contemplated thereunder.

All the above conditions can be waived except item (c), (f), (g) and (h). Application will be made to the Listing Committee of the Stock Exchange for the listing and permission to deal in the Consideration Shares and the Conversion Shares which may fall to be issued upon conversion of the Convertible Bonds.

If any of the above conditions have not been fulfilled (or as the case may be, waived by the Purchaser as to (a) and (d) and the Purchaser and the Vender together as to (b) and (e)) on or before 31 December, 2007, the Agreement shall cease and determine and no party shall have any obligations and liabilities towards each other save for antecedent breaches.

Completion is to take place on the second business day after fulfillment (or waiver by the Purchaser as to (a) and (d) and the Purchaser and the Vender together as to (b) and (e) as the case may be) of the conditions referred to above.

## SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is a summary of the shareholding in the Company (i) as at the date of this announcement; (ii) immediately after the issue of the Consideration Shares upon Completion; (iii) after Completion and upon full conversion of the Conversion Bonds; and (iv) after Completion and upon partial conversion of the Convertible Bonds, each prepared on the basis that there would be no changes in the issued share capital of the Company after the date of this announcement other than as stated in each scenario. However, Shareholders should take note that the analysis under scenario (iii) is shown for illustration purpose only and will not materialise, for the reason that the Vendor would otherwise hold approximately 70.66% of the enlarged issued share capital of the Company in that scenario, thus exceeding the threshold of 30% triggering a mandatory general offer obligation under the present provisions of the Takeovers Code. However, the terms and conditions of the Convertible Bonds stipulate that the conversion rights attaching to the Convertible Bonds may be converted by the holder of the Convertible Bonds thereof into Shares provided that such conversion does not trigger a mandatory offer obligation on the part of the holder of the Convertible Bonds who exercises the conversion right.

|  | As at the date of<br>this announcement |               | Immediately after issue<br>of the Consideration<br>Shares upon Completion |               | After Completion and<br>upon full conversion of<br>the Convertible Bonds |               | After Completion and<br>upon partial conversion<br>of the Convertible Bonds |               |
|--|--|---------------|---|---------------|--|---------------|---|---------------|
|  | Number of<br>Shares                    | %             | Number of<br>Shares   | %             | Number of<br>Shares  | %             | Number of<br>Shares   | %             |
|  |  |               |   |               |  |               |   |               |
| Able Success Group Limited (Note 1 & 3)              | 151,250,000                            | 27.32         | 151,250,000   | 22.03         | 151,250,000  | 8.02          | 151,250,000   | 19.15         |
| National Chain International<br>Limited (Note 2 & 3) | 142,500,000                            | 25.74         | 142,500,000   | 20.75         | 142,500,000  | 7.55          | 142,500,000   | 18.04         |
|  | 293,750,000                            | 53.06         | 293,750,000   | 42.78         | 293,750,000  | 15.57         | 293,750,000   | 37.19         |
| The Vendor   | -                                      | -             | 133,000,000   | 19.37         | 1,333,333,333<br>(Note 4)  | 70.66         | 236,139,620<br>(Note 5)   | 29.90         |
| Public   | 259,875,000                            | 46.94         | 259,875,000   | 37.85         | 259,875,000  | 13.77         | 259,875,000   | 32.91         |
| Total  | <u>553,625,000</u>                     | <u>100.00</u> | <u>686,625,000</u>  | <u>100.00</u> | <u>1,886,958,333</u>   | <u>100.00</u> | <u>789,764,620</u>  | <u>100.00</u> |

Notes:

- (1) Mr. But Ka Wai, the Chairman and an executive Director of the Company, wholly and beneficially owns the entire issued share capital of Able Success Group Limited. Mr. But Ka Wai is the younger brother of Mr. But Chai Tong.

- (2) Mr. But Chai Tong, the Vice Chairman and an executive Director of the Company, wholly and beneficially owns the entire issued share capital of National Chain International Limited. Mr. But Chai Tong is the elder brother of Mr. But Ka Wai.
- (3) Able Success Group Limited and National Chain International Limited are parties deemed to be acting in concert with each other under the Takeovers Code.
- (4) Pursuant to the terms and conditions of the Convertible Bonds, holder(s) of the Convertible Bond may exercise all or part of the Convertible Bonds provided that the issue of the relevant Conversion Shares to it/them shall not trigger any general offer obligation on the part of the relevant Convertible Bonds holder who exercises the Convertible Bonds. For further details, see the paragraph headed "Convertible Bonds" above. Accordingly, this column is shown for illustration only and this scenario will not materialise.
- (5) A holder of the Convertible Bonds may exercise conversion rights attaching to Convertible Bonds up to a principal amount of approximately HK\$15,470,943, such that a total of 103,139,620 Conversion Shares shall be issued at the initial Conversion Price of HK\$0.15 (which together with the Consideration Shares shall amount to 236,139,620 Shares and represent 29.90% of the then enlarged issued share capital of the Company) each without triggering any general offer obligation on the part of the relevant Convertible Bonds holder under the existing provisions of the Takeovers Code.

## **REASONS FOR THE ACQUISITION**

The Company is an investment holding company. The principal activities of the Company's subsidiaries comprise manufacturing, distribution and marketing of snack food products and convenience frozen food products in Hong Kong and the PRC, as well as trading and investment holding.

For the last three financial years ended 31 December, 2006, the Group has been experiencing intense competition in the industry, resulting in a squeeze in the profit margin of the Group and a reduction in the net profits of the Group when compared to the results 3 years ago. The Directors consider that through the Acquisition, the Group will be able to diversify its revenue and profit bases and to explore the sale and distribution network of the Seabuckthorn Group in the central and northern part of the PRC. The product variety of the Seabuckthorn Group will also broaden the product mix of the Group. In view of the increasing health awareness of the population worldwide, the Directors believe that the Acquisition will be an effective mean to expand its product range to the health food sector.

The Issue Price and the initial Conversion Price of HK\$0.15 per Share is at substantial discount to the current market prices of the Shares. However, the Directors note that the price of the Shares has increased from the low range of about HK\$0.10 per Share at the beginning of 2007 to its last closing price of HK\$1.41 per Share on 29 June, 2007. The Directors are not aware of the reasons for such surge in Share price, but consider that the surge could be speculative due to the prevailing high liquidity of the stock market. In the circumstances, the Company consider the Issue Price and the Conversion Price of HK\$0.15 per Share is fair and reasonable taking account the average of the closing prices of the Share for the 62 trading days in the first quarter of 2007 of HK\$0.143 per Share.

The Issue Price and initial Conversion Price of HK\$0.15 per Share represents approximately a price/earnings multiple of 4.26 times the earnings per Share of HK\$0.0352 for the year ended 31 December, 2006. The Consideration of HK\$200,000,000 for the Sale Share represents a price/earnings multiple of 20 times the Guaranteed Profit for the year ending 31 December, 2008 attributable to equity holders of

CEWH. Although the Issue Price and the initial Conversion Price are at a lower price/earnings multiple than that for the Consideration and CEWH has a short period of operating history since 2005, taking account of the market potentials of the Seabuckthorn Group, and the possible earnings contribution to the Group in future on the basis of the Guaranteed Profit, against the relatively stable earnings level of the Group, the Directors (including the independent non-executive Directors) consider the Consideration payable for the Acquisition, which has been arrived at between the parties with reference to a price/earnings multiple of 20 times the Guaranteed Profit, is fair and reasonable.

Following Completion, through the nomination by CEWH, the Company will have four representatives, out of a total of seven, on the board of directors of Seabuckthorn Company in accordance with the relevant PRC shareholders' deed; thereby enabling the Company to have control over the Seabuckthorn Group. Completion virtually makes CEWH together with the Seabuckthorn Group the subsidiaries of the Company and their financial information will be consolidated into the financial statements of the Group. There is no provision contained in the Agreement which gives the right for the Vendor to nominate Directors as a result of the Acquisition.

The Directors (including independent non-executive Directors) consider the terms of the Agreement to be on normal commercial terms and fair and reasonable as far as the Shareholders are concerned and that the Agreement is in the interests of the Company and its Shareholders as a whole.

## **GENERAL**

The Acquisition constitutes a very substantial acquisition of the Company under the Listing Rules. The Agreement and transactions contemplated therein (including but not limited to the allotment and issue of the Consideration Shares and issue of the Convertible Bonds and the Conversion Shares which will fall to be allotted and issued upon conversion of the Convertible Bonds) are therefore subject to the approval of the Shareholders at an extraordinary general meeting of the Company. The Vendor and its associates (including China Water and its connected persons) do not own or hold any Shares as at the date of this announcement. As no Shareholder has a material interest in the Acquisition which is different from other Shareholders, no Shareholder would be required to abstain from voting at an extraordinary general meeting to be convened by the Company to consider and, if thought fit, to approve the Agreement and transactions contemplated therein.

A circular containing, among others, details of the Agreement, an accountants' report on CEWH Group, the financial information of the Group and the notice of the extraordinary general meeting will be dispatched to the Shareholders as soon as practicable.

*As at the date of this announcement, the Board comprises Mr. But Ching Pui (honorary Chairman), Mr. But Ka Wai (Chairman) and Mr. But Chai Tong (Vice Chairman) as executive Directors, Madam Leung Wai Ling and Mr. Ngai Chun Kong, Stephen as non-executive Directors and Mr. Cheung Yu Yan, Tommy, Mr. Ip Shing Tong, Francis and Mr. Ku Siu Fung, Stephen as independent non-executive Directors.*

## **SUSPENSION AND RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares was suspended with effect from 9:30 a.m. on 3 July, 2007 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for resumption of trading in the Shares with effect from 9:30 a.m. on 13 July, 2007.

## **DEFINITIONS**

|                     |   |
|---------------------|---|
| “Acquisition”       | the proposed acquisition of the Sale Shares in CEWH by the Purchaser for a total consideration of HK\$200,000,000 pursuant to the Agreement   |
| “Agreement”         | the sale and purchase agreement dated 29 June 2007 entered into between the Vendor, the Purchaser, China Water and the Company in relation to the Acquisition   |
| “associates”        | has the meaning ascribed to it under the Listing Rules  |
| “Board”             | board of Directors  |
| “BVI”               | the British Virgin Islands  |
| “CEWH”              | China Environmental Water Holdings Limited, a company incorporated in Hong Kong with limited liability  |
| “CEWH Group”        | CEWH and its subsidiaries, including Seabuckthorn Group   |
| “China Water”       | China Water Affairs Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the shares of which are listed on the Stock Exchange (stock code: 855) |
| “China Water Group” | China Water and its subsidiaries  |
| “Company”           | Wah Yuen Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Stock Exchange  |
| “Completion”        | completion of the Agreement   |
| “connected persons” | has the meaning ascribed to it under the Listing Rules  |
| “Consideration”     | the consideration of HK\$200,000,000 payable by the Purchaser for the Acquisition and to be satisfied in the manner as described in this announcement   |

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| “Consideration Shares” | the 133,000,000 new Shares to be allotted and issued to the Vendor to satisfy as part of the Consideration   |
| “Conversion Price”     | the price at which holder(s) of the Convertible Bonds may convert the principal amount outstanding under the Convertible Bonds into Shares, initially at HK\$0.15 per Conversion Share (subject to adjustment) and on and subject to the terms and conditions described in this announcement |
| “Conversion Shares”    | the 1,200,333,333 new Shares which will fall to be issued upon full conversion of the initial principal amount of the Convertible Bond of HK\$180,050,000 at the initial Conversion Price of HK\$0.15 per Share (subject to adjustment)  |
| “Convertible Bonds”    | the convertible bonds in the principal amount of HK\$180,050,000 to be issued by the Company in favour of the Vendor at Completion to satisfy as part of the Consideration   |
| “Directors”            | directors of the Company   |
| “Group”                | the Company and its subsidiaries   |
| “Guaranteed Profit”    | has the meaning ascribed thereto in the paragraph headed “Profit Guarantee” in the section headed “The Agreement” in this announcement   |
| “Hong Kong”            | the Hong Kong Special Administrative Region of the PRC   |
| “Issue Price”          | the issue price of HK\$0.15 per Consideration Share  |
| “Listing Rules”        | the Rules Governing the Listing of Securities on the Stock Exchange  |
| “Maturity Date”        | the tenth anniversary of the date of the issue of the Convertible Bonds  |
| “PRC”                  | the People’s Republic of China   |
| “Purchaser”            | Top Harbour Development Limited, a wholly-owned subsidiary of the Company incorporated in BVI with limited liability   |
| “Sale Shares”          | 10 shares of HK\$1.00 each in the share capital of CEWH beneficially owned by the Vendor, representing the entire issued share capital of CEWH   |

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| “Seabuckthorn Company”     | Conseco Seabuckthorn Co., Ltd., a sino-foreign equity joint venture established under the laws of the PRC, whose equity interest is held as to 50% by CEWH |
| “Seabuckthorn Group”       | Conseco Seabuckthorn Co., Ltd. and its subsidiaries  |
| “Seabuckthorn JV Partners” | has the meaning ascribed thereto in the paragraph headed “Information on the CEWH Group” in the section headed “The Agreement” in this announcement        |
| “Share(s)”                 | share(s) of HK\$0.01 each in the share capital of the Company  |
| “Shareholders”             | holders of the Shares  |
| “Stock Exchange”           | The Stock Exchange of Hong Kong Limited  |
| “Vendor”                   | China Water Group Limited, a wholly-owned subsidiary of China Water incorporated in BVI with limited liability   |
| “HK\$”                     | Hong Kong dollars, the lawful currency of Hong Kong  |

By order of the Board  
**But Ka Wai**  
*Chairman*

Hong Kong, 12 July, 2007

*\* The English translation of the name is for identification purpose only.*

Please also refer to the published version of this announcement in The Standard.