



China Huiyuan Juice Group Limited

中國滙源果汁集團有限公司*

(incorporated in the Cayman Islands with limited liability)

Stock Code: 1886

2008 Annual Report

* For identification purpose only



About Us



China Huiyuan Juice Group Limited (“Huiyuan Juice” or the “Company”, together with its subsidiaries as the “Group” or “Huiyuan Group”), a leading manufacturer of fruit and vegetable juice in China, is principally engaged in the production and sale of fruit juice, fruit and vegetable juice and other beverages. As at the date of this report, the Group has 29 subsidiaries with 4,935 employees. Juice products of Huiyuan Juice are categorized into 100% juice, nectars and juice drinks by concentration. According to the research on retailing sector conducted by ACNielsen in 2008, the Group’s 100% juice and nectars continue to rank as the market leader with market shares of 42.1% and 43.6%, respectively, in terms of sales volume. Most of the products of the Group are sold under the brand of “Huiyuan”. The Group believes that “Huiyuan” juice is one of the most familiar and recognized fruit and vegetable juices among Chinese consumers.



2008 Annual Report

China Huiyuan Juice Group Limited

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Corporate Information

Board of Directors

Executive Directors

Mr. ZHU Xinli (*Chairman*)
Mr. JIANG Xu
Mr. WU Chungkuan

Non-executive Directors

Mr. SUN Qiang Chang
Mr. QIN Peng

Independent Non-executive Directors

Mr. WANG Bing
Ms. ZHAO Yali
Mr. TSUI Yiu Wa, Alec
Mr. SONG Quanhou

Company Secretary

Mr. NG Yuk Keung

Qualified Accountant

Mr. NG Yuk Keung (*HKICPA, FCCA, ACA*)

Authorized Representatives

Mr. ZHU Xinli
1[#] Huiyuan Villa
Beixiaoying Town, Shunyi District, Beijing, PRC

Mr. NG Yuk Keung (*HKICPA, FCCA, ACA*)
Flat E, 3/F, BLK 6
Castello, Shatin, Hong Kong

Financial Management and Audit Committee

Mr. TSUI Yiu Wa, Alec (*Chairman*)
Mr. SUN Qiang Chang
Mr. WANG Bing

Remuneration and Nomination Committee

Mr. QIN Peng (*Chairman*)
Mr. TSUI Yiu Wa, Alec
Mr. WANG Bing

Registered Office

Scotia Centre
4th Floor
P.O. Box 2804
George Town, Grand Cayman
Cayman Islands

Head Office

Huiyuan Road, Beixiaoying Town, Shunyi District
Beijing, PRC

Registered Address in Hong Kong

Level 16, Cheung Kong Center
2 Queen's Road Central, Hong Kong

Company Website

www.huiyuan.com.cn

Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street, P.O. Box 705
George Town, Grand Cayman
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre, 183 Queen's Road East
Wanchai, Hong Kong

Auditor

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central, Hong Kong

Listing Exchange Information

Place of listing: Main Board of The Stock
Exchange of Hong Kong Limited
Stock Code: 1886
Board lot: 500 shares

Principal Bankers

ABN AMRO Bank

Bank of Communications
Hong Kong Branch

Bank of China
Huairou Sub-Branch

Bank of Communications
Huaying Sub-Branch

Financial Highlights

Comparison of results of 2008 and 2007

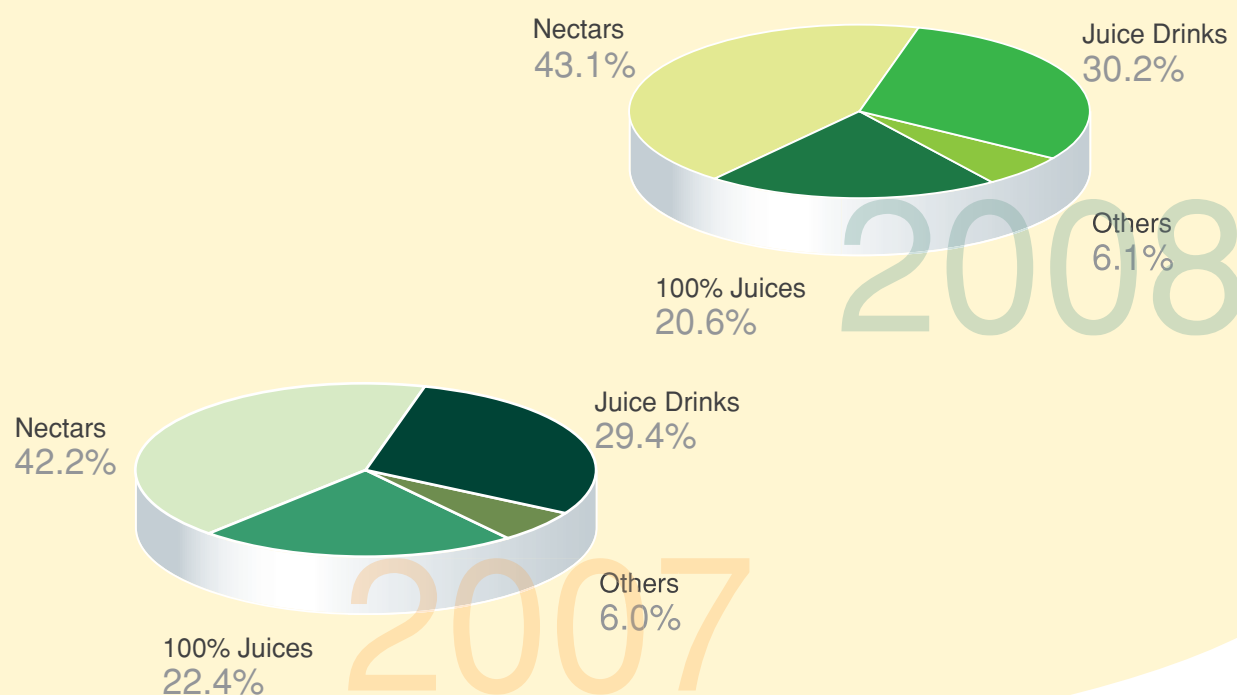
	For the year ended 31 December (RMB '000)	
	2008	2007
Revenue	2,819,739	2,656,337
Cost of sales	1,910,880	1,707,144
Gross profit	908,859	949,193
Profit before income tax	118,850	677,605
Profit attributable to equity holders	88,940	640,217
EBITDA (Note 1)	402,109	495,509
Interest income from subscription monies from initial public offering of shares	—	206,814
Fair value change in the conversion right of Convertible Bonds	(109,669)	136,050
Earnings per share (RMB cents) (Note 2) — basic	6.1	46.9
— diluted	6.0	35.9
Adjusted earnings per share (RMB cents) (Note 3) — basic	16.0	23.4
— diluted	15.7	17.9

Note 1: EBITDA refers to earnings before interest, tax, depreciation and amortisation, which does not include interest on IPO proceeds.

Note 2: Please refer to Note 36 to the Consolidated Financial Statements for the calculation of earnings per share.

Note 3: The adjusted earnings per share excluded the impacts of one-off interest income from share subscription, interest expenses on Convertible Bonds, change in fair value of conversion right of Convertible Bonds, exchange gain relating to Convertible Bonds and amortization of employee share option scheme.

Sales by product



Financial Highlights (Continued)

Financial ratio

	For the year ended 31 December		Change
	2008	2007	
Return on equity	1.9%	13.7%	-86.1%
Return on assets	1.2%	9.3%	-87.1%
Gearing ratio (total debt/total equity) (Note 1)	43.8%	31.2%	40.4%

Operating ratio (Note 2)

	For the year ended 31 December		Change
	2008	2007	
Turnover of finished goods	25 days	16 days	+9 days
Turnover of raw materials	148 days	173 days	-25 days
Turnover of trade receivables	34 days	32 days	+2 days
Turnover of trade payables	29 days	59 days	-30 days

Note 1: The total debt includes total borrowings of RMB938.5 million as at 31 December 2008 (as at 31 December 2007: RMB511.3 million) and convertible bonds of RMB1,069.4 million as at 31 December 2008 (as at 31 December 2007: RMB945.2 million).

Note 2: The turnover of finished goods as at 31 December is calculated as the balance of finished goods as at 31 December divided by cost of sales for the year multiplied by 365 days.

The turnover of raw materials as at 31 December is calculated as the balance of raw materials as at 31 December divided by raw materials used for the year multiplied by 365 days.

The turnover of trade receivables as at 31 December is calculated as the total balance of trade receivables and bills receivable as at 31 December divided by sales for the year multiplied by 365 days.

The turnover of trade payables as at 31 December is calculated as the total balance of trade payables and bills payable as at 31 December divided by cost of sales for the year multiplied by 365 days.

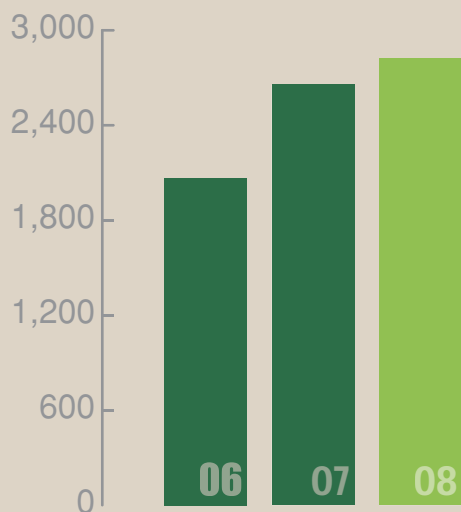
Five-year financial summary

	For the year ended 31 December (RMB million)				
	2008	2007	2006	2005	2004
Results					
Revenue	2,819.7	2,656.3	2,066.3	1,392.1	1,158.6
Gross profit	908.9	949.2	675.9	474.2	406.0
Profit for the year	88.9	640.2	221.0	110.2	23.2
Gross profit margin	32.2%	35.7%	32.7%	34.1%	35.0%
Net profit margin	3.2%	24.1%	10.7%	7.9%	2.0%
Profit attributable to equity holders of the Company	88.9	640.2	221.6	107.5	18.3

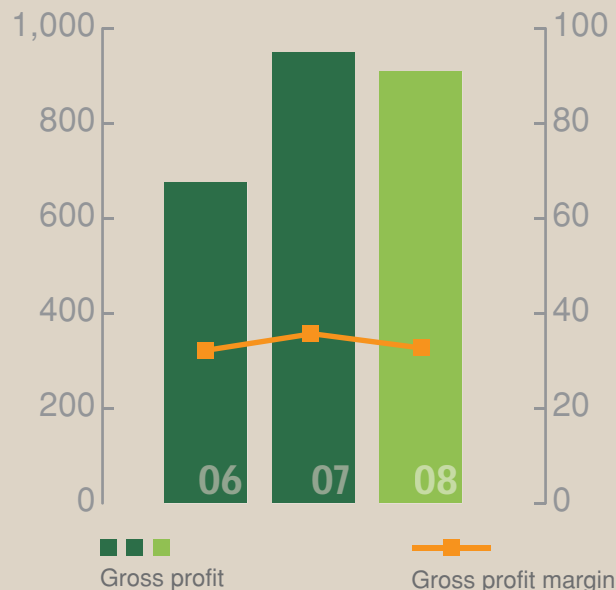
	As at 31 December (RMB million)				
	2008	2007	2006	2005	2004
Assets, liabilities and equity					
Total assets	7,191.3	6,887.2	3,496.4	3,776.0	3,670.5
Total liabilities	2,603.3	2,226.0	1,949.0	2,162.3	2,183.5
Equity attributable to equity holders of the Company	4,588.0	4,661.2	1,547.4	1,555.4	1,367.1
Minority interests	—	—	—	58.3	119.9

Financial Highlights (Continued)

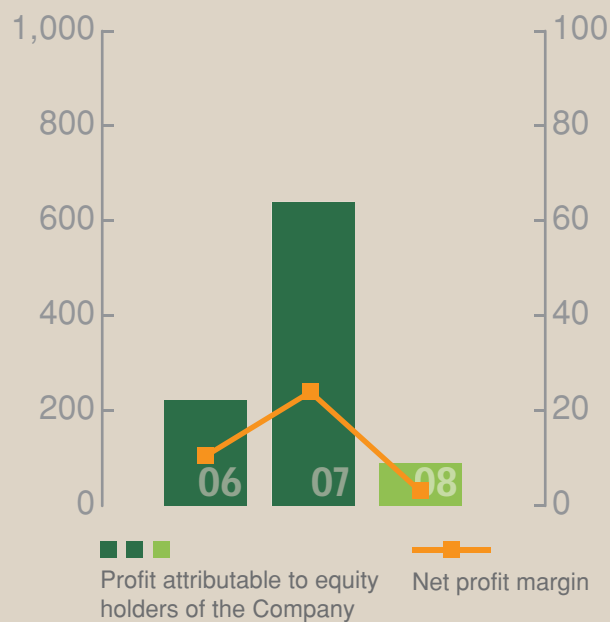
Sales
(RMB million)



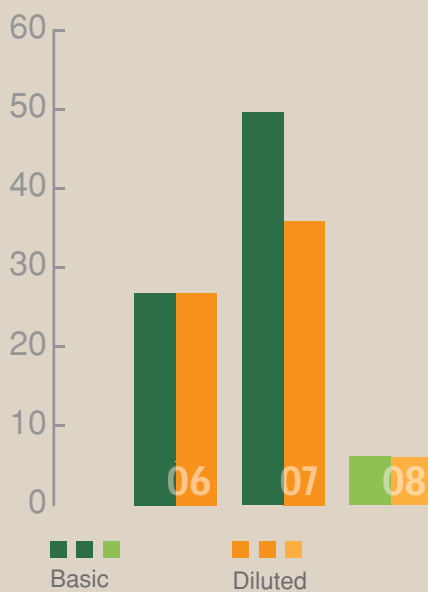
Gross profit
(RMB million) (%)



Profit Attributable to Equity Holders of the Company
(RMB million) (%)



Earnings per Share
(RMB cents)




Chairman's Statement



“ Becoming an icon
in fruit juice market.
Attaining the state-of-
the-art manufacturing
technology ”

ZHU Xinli
Chairman



2008 was a year of historical significance. During the year, we experienced an extremely chaotic global financial market. China also experienced several calamitous natural disasters. For China Huiyuan Juice Group Limited, 2008 was also a year of challenges and volatilities. The economic slowdown and natural disasters have adversely affected the Group's business in the short term. Nevertheless, we strongly believe that the outlook of our long-term development in the rapidly growing juice market in China remains optimistic, attributable to Huiyuan Juice's strong brand name recognition and reputation, reliable raw materials supply as well as an established and effective nationwide sales and distribution network which is supported by production facilities located across its key markets in China.

Operating results

For the year ended 31 December 2008, the Group's turnover amounted to RMB2,819.7 million, an increase of 6.2% over 2007. Overall gross profit margin decreased from 35.7% in 2007 to 32.2% in 2008. The operating profit of the year decreased by 36.8% from RMB340.9 million in 2007 to RMB215.4 million in 2008, and profit attributable to our shareholders decreased by 86.1% from RMB640.2 million in 2007 to RMB88.9 million in 2008. The Board (as defined below) recommended a final dividend of RMB0.015 per share.

Faced with challenging market conditions, Huiyuan has promptly implemented a series of strategic measures, including optimizing the sales and distribution network, centralizing the sales and order processing functions at the Group's headquarters, and enhancing the marketing and brand promotion efforts to enhance the operational effectiveness and efficiency and to strengthen our overall profitability.

Market position and achievements

The juice beverage market in China continued to grow in 2008. According to AC Nielsen, the market share (by sales volume) of our 100% juices and nectars in China were 42.1% and 43.6%, respectively, in 2008, continuing to maintain No. 1 position in these two markets.

Chairman's Statement (Continued)

During the year, we continued to promote the various products launched in 2007, including “C ‘Ta’ V ‘Ta’” line of 100% juice, the “Quan You” line of fruit and vegetable nectars, the “Kiwi Super Fruit” line of juice drinks and a line of children’s juice drinks under the “Le Le Yuan” brand name. In addition, to meet the needs of a growing group of style-savvy and health-conscious consumers, we have also tapped into the non-juice segment and rolled out a vegetarian-protein product called “roasted puree (烘焙·原漿)” and further strengthened our efforts in developing date juice and other beverage products. In line with our continuously expanding product mix, we endeavored to enhance our production capacity and expand our sales network. We commenced the operation of 11 new plants and acquired the sales network of 9 distributors in 2008.

We have obtained various awards during the year. Huiyuan was awarded the “Great Contribution Award for the Food Production Enterprises in China” at the “3.15 Conference of Food Consumption Safety in China”, which was held by the Administration of Quality Supervision, Inspection and Quarantine of China and the Food Industry Institution of China. We obtained the “Platinum Award of Credible Brand in Asia” under a market survey conducted by the Readers Digest and received the title of “Most Popular Brand and Enterprise of 2007” at the Second Summit for Brand Marketing of Chinese Enterprises. Huiyuan was also named as one of the “Brands Improving the Well-being of the Chinese in 30 years” (“30年改變中國人生活的品牌”) by “China Times” (“華夏時報”). As a leader in the juice industry in China, we have always been focused in ensuring the quality of our products. The award of “Top 20 Enterprises in the Beverage Industry of China (中國飲料工業二十強企業)” granted to us by China Beverage Industry Association was a recognition of our efforts in ensuring the high quality of our products.

Future prospects

During the year of 2008, Coca-Cola made a voluntary general offer to purchase all the issued shares in the capital of the Company. Although the take-over was not approved by the Ministry of Commerce of the PRC, it demonstrated the opportunities in the juice and beverage markets in China, and the recognition of Huiyuan as a leading market brand name. Leveraging on the growing popularity of juice beverage among the consumers and Huiyuan’s strong brand recognition, we will continue to accelerate the development of the Group’s business.

Looking forward, we will continue our strategic development in the following aspects:

- to strengthen our brand recognition and our consumers’ loyalty;
- to enhance our product mix and launch more products in order to develop our brand awareness in various consumer groups;
- to expand our production capacity to take advantage of our reliable and stable raw materials supply;
- to expand our sales and distribution network in order to penetrate into the markets at all levels.

Chairman's Statement (Continued)

We will continue to adhere to our operation mission to 'cultivate a juice drinking habit, and promote juice as part of a healthy diet to benefit the consumers'. We endeavour to consolidate our leading market position and to attract more consumers with innovative and high quality products, as well as bring satisfactory returns to our shareholders. In 2009, the Group have already launched new products including "LEMON me" and Super Berry Fruit Juice. All these new products have been very well received in the market. We look forward to the day when Huiyuan enters into the international market as a renowned brand originating from China.

Acknowledgement

The Company would like to take this opportunity to express its sincere thanks to its employees for their commitment and diligence during the year.

ZHU Xinli

Chairman and President

Beijing, 14 April 2009





Quality manufacturing bases

Extensive marketing network throughout the whole nation

Since its establishment, Huiyuan Group has been vertically integrating its upstream standard fruit plantations, which spans over 4 million hectares of high quality, pollution-free and environmentally friendly A-grade fruits, with its downstream manufacturing bases. Huiyuan Group has also been very successful in establishing an efficient nationwide sales and distribution network.





Management Discussion and Analysis

Market review

Review of the China juice beverage market

The juice beverage market in China continued its steady growth in 2008 as the growth in urban population and disposable income continued to drive demand for natural and healthy beverage products such as fruit and vegetable juices. According to AC Nielsen, China sold 2.84 billion liters of fruit and vegetable juices in 2008, representing a 17.1% increase as compared to 2007.

The Group recorded a 5% increase in sales volume in 2008 as compared to 2007, with a total sales volume of 833,000 tons of fruit and vegetable juices in 2008. The Group's growth in product sales was below the average growth of product sales in the Chinese fruit and vegetable juice market due to its focus on expansion in production facilities and organisation restructuring in 2008, the directors believe the benefits of which will be reflected in its operational results in the future.

In terms of market share, Huiyuan Juice continues to rank as the market leader according to the statistics provided by AC Nielsen. The following table shows Huiyuan Juice's market shares in 100% juice, nectars and juice drinks in China in 2008 as extracted from AC Nielsen's report.



For the year of 2008	Market Share (%)	
	By Volume	By Value
100% Juice		
Huiyuan Juice	42.1	40.3
Second ranked competitor	15.2	9.8
Third ranked competitor	10.4	14.1
Fourth ranked competitor	6.6	6.5
Fifth ranked competitor	5.6	6.2
Six ranked competitor	5.0	4.1
Next three competitors	9.5	11.4
26%–99% Concentration ^(Note 1)		
Huiyuan Juice ^(Note 2)	43.6	39.7
Second ranked competitor	32.6	31.6
Third ranked competitor	4.1	4.1
Fourth ranked competitor	3.0	2.4
Fifth ranked competitor	2.5	1.8
Next three competitors	2.8	5.2
25% & Below Concentration		
First ranked competitor (two brands)	29.2	32.1
Second ranked competitor	22.6	20.9
Third ranked competitor (two brands)	19.4	17.9
Huiyuan Juice ^(Note 3)	7.4	6.6
Fifth ranked competitor	4.2	4.1
Sixth ranked competitor	3.6	4.2

Notes:

- (1) According to AC Nielsen's report, nectars are juice beverage with juice content of 26–99% and juice drinks are juice beverages with juice content of 25% and below.
- (2) Huiyuan Juice includes "Huiyuan", "Quan You" and "Guo Xianmei", the sub-brands of Huiyuan Juice.
- (3) Huiyuan Juice includes "Huiyuan" "Zhen" series and "Kiwi Super Fruit", the sub-brands of Huiyuan.

"Nielsen Information reflects estimates of market conditions based on samples, and is prepared primarily as a marketing research tool for consumer packages goods manufacturers and others in the consumer foods industry. This information should not be viewed as a basis for investments and references to Nielsen should not be considered as Nielsen's opinion as to the value of any security or the advisability of investing in the company."



Management Discussion and Analysis (Continued)

Business review

For details of our business review, please refer to the Chairman's Statement on pages 6 to 9.

Financial review

Overview

The key financial indicators of the Group are as follows:

	Year ended 31 December		Year-on-year change (%)
	2008	2007	
Income statement items			
(Expressed in RMB'000 unless otherwise stated)			
Sales	2,819,739	2,656,337	6.2%
Gross profit	908,859	949,193	-4.2%
Profit before taxation	118,850	677,605	-82.5%
Profit attributable to equity holders	88,940	640,217	-86.1%
EBITDA (Note 1)	402,109	495,509	-18.8%
Interest income from subscription monies from initial public offering of shares	—	206,814	100%
Fair value change in the conversion right of Convertible Bonds	(109,669)	136,050	-180.6%
Earnings per share (RMB cents) (Note 2)			
— basic	6.1	46.9	-87.0%
— diluted	6.0	35.9	-83.3%
Adjusted earnings per share (RMB cents) (Note 3)			
— basic	16.0	23.4	-34.6%
— diluted	15.7	17.9	-12.3%
Selected financial ratios			
Gross profit margin (%)	32.2%	35.7%	
Margin of profit before taxation (%)	4.2%	25.5%	
Margin of profit attributable to equity holders (%)	3.2%	24.1%	
Effective tax rate (%)	25.2%	5.5%	
Return on equity holders' equity (%)	1.9%	13.7%	
Gearing ratio (total debt to total equity) (Note 4)	43.8%	31.2%	
Inventory turnover (days) (Note 5)	145	159	

Notes:

- (1) EBITDA refers to earnings before interest, tax, depreciation and amortization, and does not include interest received on IPO proceeds.
- (2) Please refer to Note 36 the Consolidated Financial Statements for the calculation of earnings per share.
- (3) The adjusted earnings per share excluded the impacts of one-off interest income from share subscription, interest expenses on convertible bonds, change in fair value of conversion right of convertible bonds, exchange gain relating to convertible bonds and amortization of employee share option scheme.
- (4) The gearing ratio is based on total debt divided by total equity as at 31 December.
- (5) The calculation of inventory turnover (days) is based on the closing inventory balance divided by the cost of sales and multiplied by 365 days.

Sales

Sales of the Group's core juice products, comprising 100% fruit juices, nectars and juice drinks, increased by 6.0% from RMB2,497.9 million in 2007 to RMB2,647.5 million in 2008 primarily due to an increase in sales across nectars and juice drinks, which was partly offset by a decrease in the sales of 100% fruit juices.



Sales of nectars continued to be the Group's main revenue driver accounting for 43.1% of its total sales and 47.3% of its total sales volume in 2008. Sales of nectars increased by 8.4% from RMB1,120.5 million in 2007 to RMB1,214.9 million in 2008, primarily due to an increase in sales volume. The average selling prices for nectars remained stable in 2008.

Sales of juice drinks, which accounted for 30.2% of the Group's total sales, increased by 8.9% from RMB781.5 million in 2007 to RMB850.9 million in 2008, primarily due to a 2.6% increase in average selling prices and a 6.2% increase in the sales volume.

Sales of 100% fruit juices, which accounted for 20.6% of the Group's total sales, decreased by 2.4% from RMB596.0 million in 2007 to RMB581.6 million in 2008 primarily due to a 8.8% decrease in sales volume, which was partly offset by a 7.0% increase in average selling price. The decrease in sales volume was mainly due to the change in the Group's focus from sales through distributors to direct sales through its own sales branches, which has caused certain transitional impacts.

The sales of other beverage products increased by 8.7% from RMB158.4 million in 2007 to RMB172.2 million mainly as a result of an increase in sales of bottled water.

Cost of Sales

Cost of sales increased by 11.9% from RMB1,707.1 million in 2007 to RMB1,910.9 million in 2008. The increase in cost of sales was primarily due to an increase in cost of raw materials and depreciation charges, which accounted for 81.7% and 7.4% of the total cost of sales, respectively. The increase in cost of raw materials was primarily a result of the rising cost of juice concentrates and purees, which increased by 29.4% in 2008. An increase of 22.0% in depreciation charges also contributed to higher cost of sales, which was due to the addition of production facilities in 2008, while the production volume had not yet been fully ramped up.

Management Discussion and Analysis (Continued)

Gross Profit

Gross profit decreased by 4.2% from RMB949.2 million in 2007 to RMB908.9 million in 2008 primarily due to the increase in costs of sales, which was partly offset by the increase in its sales. Gross profit margin decreased from 35.7% in 2007 to 32.2% in 2008.

Other Income

Other income increased by 3.0% from RMB70.5 million in 2007 to RMB72.7 million in 2008, primarily attributed to a RMB25.5 million increase in interest income on the structured and time deposits that were re-designated from general bank deposits, which was partly offset by a RMB13.8 million decrease in income from sales of raw materials and scrap.

Selling and Marketing Expenses

Selling and marketing expenses increased by 6.0% from RMB569.7 million in 2007 to RMB603.6 million in 2008, mainly due to a RMB39.5 million increase in advertising and promotional costs. The increase in advertising and promotional costs is primarily due to the expenses and costs relating to the launch of new products and the marketing activities for the Beijing Olympic Games.

Administrative Expenses

Administrative expenses increased by 23.9% from RMB132.6 million in 2007 to RMB164.3 million in 2008, primarily as a result of an increase in the number of subsidiaries and branches of the Group and RMB13.4 million in expenses recognized for the share options granted in 2008.

Finance Income/Cost

The Group recorded a RMB13.1 million finance income in 2008 as compared to a RMB6.2 million finance cost in 2007, primarily as a result of a RMB66.1 million increase in foreign exchange gain from RMB3.0 million in 2007 to RMB69.1 million in 2008, which was partly offset by a decrease of RMB68.4 million in interest income from bank deposits, due to a decrease in bank deposits and the designation of bank deposits to structured and time deposits, of which the relevant interest income was reflected as other income of the Group.

Income Tax Expenses

Income tax expenses decreased by 20.0% from RMB37.4 million in 2007 to RMB29.9 million in 2008, primarily due to the decrease in taxable profits.



Management Discussion and Analysis (Continued)

Unadjusted and Adjusted Profit Attributable to Equity Holders of the Company

As a result of the foregoing, profit attributable to equity holders of the Company decreased by 86.1% from RMB640.2 million in 2007 to RMB88.9 million in 2008. The margin for profit attributable to its equity holders decreased from 24.1% in 2007 to 3.2% in 2008. Nonetheless, if the impact of one-off interest income from share subscription, interest expenses on Convertible Bonds, change in fair value of conversion right of Convertible Bonds, exchange gain relating to Convertible Bonds and amortization of employee share option scheme was disregarded, our adjusted profit attributable to equity holders of the Company would have decreased by approximately 27% from RMB319.5 million in 2007 to RMB233.1 million in 2008.

Liquidity and Capital Resources

The Group's working capital and other capital requirements were principally funded by operations and cash at hand, short-term and long-term bank borrowings.

As at 31 December 2008, the Group had an aggregate of RMB938.5 million in outstanding bank loans and RMB1,069.4 million in outstanding Convertible Bonds as compared to RMB511.3 million of outstanding bank loans and RMB945.2 million of outstanding Convertible Bonds in 2007. The gearing ratio (total debt (including Convertible Bonds)/total equity) of the Group was 43.8% as at 31 December 2008, representing an increase of 12.6 percentage points as compared to 31.2% in 2007. The Company intends to repay the bank loans in the total amount of US\$45 million in late April 2009 and the Group's gearing ratio will be reduced to less than 40%.



Management Discussion and Analysis (Continued)

The Group's indebtedness include bank loans and the Convertible Bonds. As at 31 December 2008, the Group had the following indebtedness:

	Repayable within one year	Repayable after one year (RMB in million)	Total
Bank loans	460.2	478.3	938.5
Convertible Bonds	1,069.4	—	1,069.4
Total	1,529.6	478.3	2,007.9
Analysed as:			
Secured	—	—	—
Unsecured	1,529.6	478.3	2,007.9



Management Discussion and Analysis (Continued)

Operating Activities

Net cash generated from operating activities was RMB175.7 million in 2008, while the Group's profit before tax for the same period was RMB118.9 million. The difference of RMB56.8 million was primarily due to a RMB109.7 million changes in fair value of the conversion right of the Convertible Bonds, a RMB172.3 million of depreciation of fixed assets, a RMB106.3 million decrease in trade and other receivables as a result of the decrease of prepayments for raw materials, partially offset by a RMB254.4 million decrease in trade and other payables mainly as a result of the Group's efforts in taking advantage of the early payment discounts offered by its suppliers.

Investing Activities

Net cash used in investing activities in 2008 was RMB464.2 million as compared to net cash used in investing activities of RMB2,109.6 million in 2007. The decrease of RMB1,645.4 million was primarily due to a decrease in other loans and receivables of RMB2,149.4 million during 2008, compared with an increase of RMB1,246.0 million during 2007, which was partially offset by an increase of purchase of property, plant and equipment and prepayment for acquisition of the distributors' sales networks totally amounting to RMB633.5 million.

Financing Activities

Net cash generated from financing activities in 2008 was RMB307.6 million, as compared to net cash generated from financing activities of RMB3,357.3 million in 2007. The decrease of RMB3,049.7 million was primarily due to the fact that the Group had a RMB3,485.2 million net proceeds from the Company's global offering of shares completed in February 2007.

Capital Expenditure

Capital expenditures comprised purchases of property, plant and equipment, and additions to land use rights. The Group consistently increased its annual total capital expenditures in 2008. During the year ended 31 December 2008, the Group spent RMB1,072.9 million on the purchase of property, plant and equipment, RMB95.2 million in the acquisition of land use rights and RMB148.6 million in prepayment for the acquisition of the distributors' sales networks.

As at 31 December 2008, the Group had capital commitments of RMB63.7 million for the purchase of property, plant and equipment.

Management Discussion and Analysis (Continued)



The Group intends to reduce its capital expenditure in 2009. The Group expects that its capital expenditures in 2009 will amount to approximately RMB200 million, which will be applied mainly for general maintenance and replacement of equipment and machinery. The Group plans to finance its capital expenditure requirements in 2009 primarily with cash generated from its operations.

The Group intends to repay the US\$45 million syndicated loan in late April 2009 in light of its decision to slow down its capital expansion plans.

Analysis on Turnover of Inventories, Trade Receivables and Trade Payables

The Group's inventories primarily consist of raw materials (including packaging materials, juice concentrates and purees, sugars and additives) and finished goods (including juices and other beverage products). Raw materials make up the majority of the Group's inventory. Raw materials turnover days decreased from 173 days in 2007 to 148 days in 2008 as a result of the Group's more stringent raw materials inventory management. Turnover days for trade receivables remained stable in 2008 as compared to 2007. Turnover days for trade payables decreased to 29 days in 2008 from 59 days in 2007 as a result of our efforts in taking advantage of the early payment discounts offered by the suppliers.

Management Discussion and Analysis (Continued)

Contingent Liabilities

As at 31 December 2008, the Group did not have any material contingent liabilities.

Off-balance Sheet Transactions

As at 31 December 2008, the Group had not entered into any off balance sheet transactions.

Pledge of Assets

As at 31 December 2008, none of the property, plant, equipment and land use rights of the Group were pledged to secure bank borrowings.

Capital Leases

As at 31 December 2008, the Group did not have any capital leases.



Management Discussion and Analysis (Continued)

Market Risks

The activities of the Group expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk, cash flow and fair value interest rate risk, and capital risk. Financial risk management is carried out by the group treasury which identifies, evaluates and hedges financial risk.

Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. As at each balance sheet dates, substantially all of the Group's borrowings were carried at market lending rates.

Foreign Exchange Rate Risk

The Group's production depends on importation of certain raw materials and the Group is exposed to foreign currency exchange risk arising from various currency exposures primarily with respect to the United States Dollar ("USD") and the Euro. The Group is also exposed to foreign currency exchange risk arising from the bank deposits, Convertible Bonds and bank borrowings denominated in the USD. The Group did not use forward contract/derivative instruments in 2008 but may use them from time to time to hedge against certain material foreign exchange exposures.

As at 31 December 2008, assuming the exchange rate of RMB increased/decreased by 1% against the USD with all other variables remaining unchanged, the Group's post-tax profit for 2008 would have been decreased/increased by RMB20,078,970 (2007: RMB14,565,000), mainly due to the foreign exchange losses/gains on retranslation of USD-denominated Convertible Bonds and bank borrowings.

Credit risk

The Group has no significant concentrations of credit risk. Most of the Group's sales are settled in cash or by cheque by its customers on delivery of goods. Credit sales are made only to selected long-term customers. The Group assesses the credit quality of its customers by taking into account various factors including their financial position and past experience. The utilization of credit limits is regularly monitored. The Group has policies in place to ensure that trade receivables are followed up in a timely manner. The balance of the trade receivables from the top 5 largest customers was RMB52,773,000 as at 31 December 2008 (2007: RMB78,718,000), representing 35% of the total balance of trade receivables at 31 December 2008 (2007: 45%).



Management Discussion and Analysis (Continued)

Employees and Welfare Contribution

As at the 31 December 2008, the Group had 4,935 employees, approximately 891 of whom were engineers and technicians who had attended technical school or higher education. The employees' remuneration packages are determined with reference to their experiences and qualifications and general market conditions.

As at the 31 December 2008, the Group's employees' deployment by function was as follows:

Functions	
Production	2,785
Sales and marketing	1,160
Management and other administration	464
Research and development (including quality assurance)	201
Finance and accounting	284
Purchase and supply	41
Total headcount	4,935

The Group enters into individual employment contracts with its employees to cover matters such as wages, employee benefits, safety and sanitary conditions at the workplace, confidentiality obligations for commercial secrets, and grounds for termination. Other than employment contracts with middle and senior management, these employment contracts have a term of between one and three years with a probation period between one and three months. The Group rewards its employees for innovations and improvements by giving them incentive bonuses.

The Group invests in continuing education and training programs for its management staff and other employees with a view to constantly upgrading their skills and knowledge. The Group has arranged for internal and external vocational training courses to develop its employees' skills and knowledge. These training courses range from further educational studies to basic production process and skill training to professional development courses for its management personnel.

In accordance with applicable PRC regulations on social insurance, the Group participates in a pension



Management Discussion and Analysis (Continued)

contribution plan, a medical insurance plan, an unemployment insurance plan, a maternity insurance plan, a work-related injury insurance plan for its employees as required by local government.

The employees of the Group have established a labor union, which is a member of the All China General Trade Union. The labor union organizes various activities to improve the quality of life for our employees.

Report of the Directors

The Directors of the Company present their report together with the audited consolidated financial statements of the Company and its subsidiaries (together the “Group”) for the year ended 31 December 2008.

Principal activities

The Company was incorporated in the Cayman Islands on 14 September 2006 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company is an investment holding company. The Company’s principal subsidiaries are primarily engaged in the manufacturing and sales of juice products. Details of the activities of the subsidiaries of the Group are set out in note 1 to the consolidated financial statements on page 63.

Results and dividends

The consolidated results of the Group for the year ended 31 December 2008 are set out on page 60. The Board has resolved to recommend the payment of a final dividend of RMB1.5 cents per share for the year ended 31 December 2008.

Property, plant and equipment

Details of movements in the property, plant and equipment of the Group are set out in note 8 to the consolidated financial statements on page 87.

Summary of financial information

A summary of the Group’s results, assets, liabilities and minority interests for the last five financial years is set out in the section headed “Financial highlights” on page 4.

Share capital

Details of the movement in the Company’s share capital during the year ended 31 December 2008 are set out in note 19 to the consolidated financial statements on page 98.

Report of the Directors (Continued)

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.

Reserves

Details of movements in the reserves of the Company and the Group for the year ended 31 December 2008 are set out in note 21 to the consolidated financial statements on page 99.

Distributable reserves

As at 31 December 2008, the Company's distributable reserve is RMB27.7 million. The Board has resolved to recommend the payment of a final dividend of RMB1.5 cents per share for the year ended 31 December 2008. Subject to approval of the shareholders at the forthcoming annual general meeting of the Company, the final dividend will be distributed to shareholders of the Company whose names appear on the register of members of the Company at the close of business on 20 May 2009.

Directors

The directors who held office during the year ended 31 December 2008 and up to the date of this report are:

Executive Directors:

Mr. ZHU Xinli (*Chairman and President*)

Mr. JIANG Xu

Mr. Wu Chungkuan

Non-executive Directors:

Mr. Sun Qiang Chang

Mr. QIN Peng

Report of the Directors (Continued)

Independent Non-executive Directors:

Mr. WANG Bing
Ms. ZHAO Yali
Mr. TSUI Yiu Wa, Alec
Mr. SONG Quanhou

In accordance with the Article 130 of the Company's articles of association, Mr. Sun Qiang Chang, Mr. TSUI Yiu Wa, Alec and Mr. SONG Quanhou will retire from office as director by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with the Article 114 of the Company's articles of association, Mr. Sun Qiang Chang, Mr. TSUI Yiu Wa, Alec and Mr. SONG Quanhou shall hold office till the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Independence of the independent non-executive directors

The Board has received from each of the independent non-executive directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Hong Kong Listing Rules, and considers that all of the independent non-executive directors are independent.

Biographical details of the directors' and senior management

Biographical details of the directors and the senior management of the Group as at the date of this report are set out on pages 48 to 54 of this annual report.

Directors' service contracts

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Report of the Directors (Continued)

Directors' and controlling shareholder's interests in contracts

Save for the related party transactions of the Group with the companies controlled by Mr. Zhu Xinli, an executive director, no other director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group for the year ended 31 December 2008. The details of such related party transactions are set out in note 41 to the consolidated financial statements on page 122. Save for related party transactions mentioned above, there was no contract of significance to the business of the Group for the year ended 31 December 2008, in which directors or the controlling shareholder of the Company had a material interest, either directly or indirectly.

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures

As at 31 December 2008, the interests and short positions of the directors and chief executive of the Company in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code"), were as follows:

Long positions

Name of director	Details of the Shares held				Number of shares	Percentage of the Company's issued share capital
	Personal interest	Family interest	Corporate interest	Other interest		
Zhu Xinli ^{(c)(d)}	—	—	610,000,000 ^(a)	—	610,000,000 ^(a)	41.53%
	—	—	9,136,588 ^(b)	—	9,136,588 ^(b)	0.62%

Report of the Directors (Continued)

Details of outstanding options granted under the Share Option Scheme								
Name of director	Date of grant	Date of expiry	Exercise price per share (HK\$)	Number of	Number of	Number of	Number of	Number of
				underlying shares comprised in the outstanding options as at 1 January 2008	underlying shares comprised in the options granted during the year	underlying shares cancelled or lapsed during the year	underlying shares comprised in the options exercised during the year	underlying shares comprised in the outstanding options as at 31 December 2008
Mr. Tsui Yiu Wa, Alex	25 February 2008	25 February 2018	6.39	—	150,000	—	—	150,000

Short positions

Details of the Shares held						
Name of director	Personal interest	Family interest	Corporate interest	Other interest	Number of shares	Percentage of the Company's issued share capital
Zhu Xinli ^{(c)(d)}	—	—	610,000,000 ^(a)	—	610,000,000 ^(a)	41.53%
	—	—	9,136,588 ^(b)	—	9,136,588 ^(b)	0.62%

Notes:

- (a) These shares were beneficially owned by Huiyuan Holdings which is wholly-owned by Mr. Zhu Xinli. As Mr. Zhu Xinli is entitled to exercise more than one-third of the voting power at the general meetings of China Huiyuan Holdings, by virtue of the SFO, Mr. Zhu Xinli is deemed to be interested in the shares held by China Huiyuan Holdings;
- (b) China Huiyuan Holdings holds US\$6,000,000 Convertible Bonds which are convertible into 9,136,588 Shares. China Huiyuan Holdings is indirectly wholly-owned by Mr. Zhu Xinli through Huiyuan Holdings, so Mr. Zhu Xinli is deemed to be interested in these shares.
- (c) Pursuant to an agreement dated 23 September 2006 between Danone Asia and, among the other parties, Mr. Zhu Xinli, Huiyuan Holdings and China Huiyuan Holdings, following the completion of the six-month lock-up period from the Listing Date and for such period in which Danone Asia holds at least 66% of the shares of the Company acquired by it from China Huiyuan Holdings as a result of a share swap under the reorganization of the Company, each of Mr. Zhu Xinli, Huiyuan Holdings and China Huiyuan Holdings, has agreed not to transfer, or agree to transfer, or engage in any negotiation for the sale or transfer of any of the shares of the Company to any third party purchaser unless he/it shall first have offered such shares for purchase to Danone Asia. Under the same agreement, each of Mr. Zhu Xinli, Huiyuan Holdings, China Huiyuan Holdings has also granted a right of first refusal to Danone Asia that if any of them receives a bona fide offer from any third party purchaser for any of his/its shares in the Company and in the event that he/it wishes to sell such shares to the third party purchaser, he/it shall be obliged to first offer to sell such shares to Danone Asia at the same price and on the same terms and conditions of the proposed purchase by the third party purchaser. The details of such agreement are described in the section headed "Our History and Development — Strategic Investor" in the Prospectus.
- (d) Pursuant to the irrevocable undertaking given by China Huiyuan Holdings to Atlantic Industries on 31 August 2008 in connection with the possible voluntary conditional cash offers made by The Coca-Cola Company through Atlantic Industries as announced in the Joint Announcement (as defined below), China Huiyuan Holdings has undertaken to accept the Share Offer (as defined in the Joint Announcement) in respect of all the 610,000,000 shares held by it. China Huiyuan Holdings has also undertaken that, once the Share Offer has become or has been declared unconditional in all respects, it will exercise its rights to convert all the Convertible Bonds then held by it into shares and will accept the Share Offer in respect of all the shares then held by it. China Huiyuan Holdings has also undertaken that, if there is insufficient time for it to convert its Convertible Bonds into shares, it shall instead accept the Convertible Bond Offer (as defined in the Joint Announcement) in respect of all the Convertible Bonds then held by it. As the Ministry of Commerce of the PRC decided not to grant the anti-trust approval, the Pre-Condition (as defined in the Joint Announcement) cannot be satisfied and such offers lapsed on 18 March 2009 accordingly. As such, this short position ceased to exist at the same time.

Report of the Directors (Continued)

Save as disclosed above, as at 31 December 2008, none of the directors nor the chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Directors' rights to acquire shares

Save as disclosed in the paragraph headed "directors' and chief executive's interests and short positions in shares, underlying shares and debentures" in this report, at no time during the year ended 31 December 2008 or the period following 31 December 2008 up to the date of this report, was the Company or any of its subsidiaries or its holding company or any of the subsidiaries of the Company's holding company a party to any arrangement to enable the directors or the chief executive of the Company or their respective associates 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 and chief executive, or their spouse and children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during such period.

Share Option Schemes

The Company has adopted two share option schemes, namely the Pre-IPO Share Option Scheme and the Share Option Scheme, the details of which are set out below:

1. Pre-IPO Share Option Scheme

The Company adopted the Pre-IPO Share Option Scheme on 30 January 2007. The purpose of our Pre-IPO Share Option Scheme is to provide certain members of senior management of the Group an opportunity to have a personal stake in the Company and motivate the grantees to optimize their performance and efficiency to facilitate the long-term growth and profitability of the Group. The principal terms of the Pre-IPO Share Option Scheme, as approved on 30 January 2007 are similar to the terms of the Share Option Scheme except for the following:

- (a) the subscription price per share shall be the Offer Price per share; and
- (b) save for the options which have been granted before 23 February 2007, i.e., the Listing Date, no further options will be offered or granted, as the right to do so will end upon the Listing Date.

The Pre-IPO Share Option Scheme shall remain in full force and effect for a period of 10 years from 23 February 2007 and the options granted have a 10-year exercise period.

Report of the Directors (Continued)

Commencing from the first, second and third anniversary of grant of an option, the relevant grantee may exercise up to 30%, 60% and 100%, respectively, of the shares comprised in his or her option.

As at 31 December 2008, a total of 1,700,000 shares (representing approximately 0.12% of the existing issued share capital of the Company) may be issued by the Company upon exercise of all options which had been granted under the Pre-IPO Share Option Scheme.

Movement of the options granted under the Pre-IPO Share Option Scheme during the year ended 31 December 2008 is as follows:

Name of grantee	Date of grant	Date of expiry	Exercise price per share (HK\$)	Number of underlying shares comprised in the options outstanding as at 1 January 2008	Number of underlying shares comprised in the options lapsed or cancelled during the year	Number of underlying shares comprised in the options exercised during the year	Number of underlying shares comprised in the options as at 31 December 2008
Ng Yuk Keung	30 January 2007	22 February 2017	6.00	700,000	—	—	700,000
Matthew Gene Mouw ^{Note}	30 January 2007	22 February 2017	6.00	700,000	(700,000)	—	—
Dong Ying	30 January 2007	22 February 2017	6.00	300,000	—	—	300,000
				1,700,000	(700,000)	—	1,000,000

Note: Mr. Matthew Gene Mouw resigned in September, 2008.

2. Share Option Scheme

The Share Option Scheme was approved on 30 January 2007. The purpose of the Share Option Scheme is to provide incentive and/or reward to any director or employee of the Group or of any entity in which the Company has equity interest, any executive of the controlling shareholder of the Group, and any other person (including any consultant, adviser, distributor, contractor, supplier, agent, customer, business partner, joint venture business partner, promoter or service provider of any member of the Group) who in the sole discretion of the Board has contributed or will contribute to the Group for their contribution to the Group and their continuing efforts to promote the Group's interests.

The Board may, at its absolute discretion, offer an option to eligible person to subscribe for the shares at an exercise price and subject to the other terms of the Share Option Scheme.

Report of the Directors (Continued)

The total number of Shares which may be issued upon exercise of all options to be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme shall not in aggregate exceed 138,749,750 Shares of the Company, being 10% of the total number of shares in issue immediately prior to the date on which dealings in the shares of the Company commenced on the Hong Kong Stock Exchange. The total number of shares issued and to be issued upon the exercise of the options granted to or to be granted to each eligible person under the Share Option Scheme and any other schemes of the Company or any of its subsidiaries (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares of the Company in issue.

The Share Option Scheme will remain in force for a period of 10 years from 23 February 2007 and the options granted have a 10-year exercise period. Commencing from the first, second, third and fourth anniversary of grant of an option granted, the relevant grantees may exercise up to 25%, 50%, 75% and 100%, respectively, of the shares comprised in his or her option.

Movement of the options granted under the Share Option Scheme during the year ended 31 December 2008 is as follows:

Name of grantee	Date of grant	Date of expiry	Exercise price per share (HK\$)	Number of underlying shares comprised in the outstanding options as at date of grant	Number of underlying shares comprised in the options lapsed or cancelled during the year	Number of underlying shares comprised in the options exercised during the year	Number of underlying shares comprised in the outstanding options as at 31 December 2008
Mr. Tsui Yiu Wa, Alec	25 February 2008	25 February 2018	6.39	150,000	—	—	150,000
An aggregate of 515 employees	25 February 2008	25 February 2018	6.39	35,300,000	6,489,500	—	28,810,500
				35,450,000	6,489,500	—	28,960,500

Report of the Directors (Continued)

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

As at 31 December 2008, so far as are known to the Board, the following parties were recorded in the register, kept by the Company pursuant to Section 336 of the SFO, as being directly or indirectly interested or deemed to be interested in 5% or more of the issued share capital of the Company:

Long positions

Name	Number of shares	Percentage of the Company's share capital
The Coca-Cola Company ^(a)	1,059,155,746	65.77%
Mr. Zhu Xinli ^(b)	610,000,000	41.53%
	9,136,588 ^(g)	0.62%
Huiyuan Holdings ^(b)	610,000,000	41.53%
	9,136,588 ^(g)	0.62%
China Huiyuan Holding ^(b)	610,000,000	41.53%
	9,136,588 ^(g)	0.62%
Danone ^(c)	337,497,501	22.98%
	610,000,000 ^(d)	41.53%
Danone Asia ^(c)	337,497,501	22.98%
	610,000,000 ^(d)	41.53%
Warburg Pincus ^(e)	100,007,572	6.91%
Warburg Pincus Funds Investor ^(e)	100,007,572	6.91%
ABN AMRO Holding N.V. ^(f)	98,979,706	6.84%
RFS Holdings B.V. ^(f)	98,979,706	6.84%
The Royal Bank of Scotland Group plc ^(f)	98,979,706	6.84%

Short positions

Name	Number of shares	Percentage of the Company's share capital
Mr. Zhu Xinli ^{(b)(h)}	610,000,000	41.53%
	9,136,588 ^(g)	0.62%
Huiyuan Holdings ^(b)	610,000,000	41.53%
	9,136,588 ^(g)	0.62%
China Huiyuan Holding ^(b)	610,000,000	41.53%
	9,136,588 ^(g)	0.62%
ABN AMRO Holding N.V. ^(f)	98,979,706	6.84%
RFS Holdings B.V. ^(f)	98,979,706	6.84%
The Royal Bank of Scotland Group plc ^(f)	98,979,706	6.84%

Report of the Directors (Continued)

Notes:

- (a) The Coca-Cola Company, through its controlled entity, Atlantic Industries, had an interest in 1,059,155,746 shares of the Company pursuant to the irrevocable undertakings given by each of China Huiyuan Holdings, Danone Asia and Warburg Pincus Funds Investor on 31 August 2008 in connection with the possible voluntary conditional offers made by The Coca-Cola Company through Atlantic Industries as announced in the Joint Announcement (as defined below). As the Ministry of Commerce of the PRC decided not to grant the anti-trust approval the Pre-Condition (as defined in the Joint Announcement) cannot be satisfied and such offers lapsed on 18 March 2009 accordingly. As such, this long position ceased to exist at the same time.
- (b) Huiyuan Holdings is wholly owned by Mr. Zhu Xinli and China Huiyuan Holdings is a wholly owned subsidiary of Huiyuan Holdings. Each of Mr. Zhu and Huiyuan Holdings is therefore deemed to be interested in the shares held by China Huiyuan Holdings.
- (c) Danone Asia is a strategic investor in the Company. Danone Asia is a wholly owned subsidiary of Danone. Danone is therefore deemed to be interested in the shares held by Danone Asia.
- (d) Pursuant to an agreement dated 23 September 2006 between Danone Asia and, among the other parties, Mr. Zhu Xinli, Huiyuan Holdings and China Huiyuan Holdings, following the completion of the six-month lock-up period from the Listing Date and for such period in which Danone Asia holds at least 66% of the shares of the Company acquired by it from China Huiyuan Holdings as a result of a share swap under the reorganization of the Company, each of Mr. Zhu Xinli, Huiyuan Holdings and China Huiyuan Holdings, has agreed not to transfer, or agree to transfer, or engage in any negotiation for the sale or transfer of any of the shares of the Company to any third party purchaser unless he/it shall first have offered such shares for purchase to Danone Asia. Under the same agreement, each of Mr. Zhu Xinli, Huiyuan Holdings, China Huiyuan Holdings has also granted a right of first refusal to Danone Asia that if any of them receives a bona fide offer from any third party purchaser for any of his/its shares in the Company and in the event that he/it wishes to sell such shares to the third party purchaser, he/it shall be obliged to first offer to sell such shares to Danone Asia at the same price and on the same terms and conditions of the proposed purchase by the third party purchaser. The details of such agreement are described in the section headed "Our History and Development — Strategic Investor" in the Prospectus.
- (e) Warburg Pincus had declared an interest in the same 100,007,572 shares in which Warburg Pincus Funds Investor had declared an interest by virtue of Warburg Pincus' control in Warburg Pincus Funds Investor.
- (f) The Royal Bank of Scotland Group plc, RFS Holdings B.V. and ABN AMRO Holding N.V. through its controlled entity, had an interest in 98,979,706 shares of the Company and maintained a short position of those shares.
- (g) China Huiyuan Holdings holds US\$6,000,000 Convertible Bonds which are convertible into 9,136,588 Shares. China Huiyuan Holdings is indirectly wholly-owned by Mr. Zhu Xinli through Huiyuan Holdings, so Mr. Zhu Xinli is deemed to be interested in these shares.
- (h) Pursuant to the irrevocable undertaking given by China Huiyuan Holdings to Atlantic Industries on 31 August 2008 in connection with the possible voluntary conditional cash offers made by The Coca-Cola Company through Atlantic Industries as announced in the Joint Announcement (as defined below), China Huiyuan Holdings has undertaken to accept the Share Offer (as defined in the Joint Announcement) in respect of all the 610,000,000 shares held by it. China Huiyuan Holdings has also undertaken that, once the Share Offer has become or has been declared unconditional in all respects, it will exercise its rights to convert all the Convertible Bonds then held by it into shares and will accept the Share Offer in respect of all the shares then held by it. China Huiyuan Holdings has also undertaken that, if there is insufficient time for it to convert its Convertible Bonds into shares, it shall instead accept the Convertible Bond Offer (as defined in the Joint Announcement) in respect of all the Convertible Bonds then held by it. As the Ministry of Commerce of the PRC decided not to grant the anti-trust approval the Pre-Condition (as defined in the Joint Announcement) cannot be satisfied and such offers lapsed on 18 March 2009 accordingly. As such, this short position ceased to exist at the same time.

Save as disclosed above, the directors are not aware of any persons who should be registered an interest or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO as at 31 December 2008.

Dilutive effect of the Convertible Bonds

As at 31 December 2008, a total of US\$14,000,000 Convertible Bonds had been converted into 21,318,703 Ordinary Shares and a total of US\$71,000,000 Convertible Bonds remained outstanding.

Report of the Directors (Continued)

As at 31 December 2008, if Warburg Pincus Funds Investor, China Huiyuan Holdings and other Bond Holders fully converted their Convertible Bonds into the Ordinary Shares at a price of HK\$5.1, i.e., at a 15% discount to the Offer Price, a total of 109,713,650 Ordinary Shares would have been issued and the then issued share capital of the Company would have been enlarged to comprise a total of 1,578,529,854 Ordinary Shares. As such, assuming that the all the outstanding options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme were fully exercised as at 31 December 2008, the public float would have been diluted to 29.92% from 32.77% prior to such conversion.

Purchase, sale or redemption of the Company's listed securities

During the year ended 31 December 2008, neither the Company, nor any of its subsidiaries purchased, sold and redeemed any of the Company's listed securities.

Emolument policy

Details of the directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in notes 32 to the consolidated financial statements on pages 113 to 116.

As at 31 December 2008, the Group had 4,935 employees (31 December 2007: 9,277 employees). The emolument policy of the employees of the Group is set up by the Board on the basis of merit, qualifications and competence. The emoluments payable to the directors will depend on their respective contractual terms under their employment contracts or service agreements as approved by the Remuneration and Nomination Committee, having regard to the Company's operating results, individual performance and comparable market statistics. No director should determine his or her own remuneration.

In addition to basic salaries, the Company has the Pre-IPO Share Option Scheme and the Share Option Scheme as an incentive for directors and eligible employees. Details of the schemes are set out in note 22 to the financial statements on pages 101 to 104.

Retirement benefits scheme

The Group does not have any employee who is required to participate in the Mandatory Provident Fund in Hong Kong. The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The employees of the PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to this retirement benefits scheme is to make the required contributions under the scheme.



Report of the Directors (Continued)

Use of proceeds from listing and post balance sheet events

The net proceeds from the Company's initial public offering including the exercise of the Over-allotment Option amounted to approximately HK\$3,726 million. These net proceeds were partially applied during the period from the Listing Date up to 31 December 2008 and such application is consistent with the proposed usage of the net proceeds set forth in the Prospectus. The balance of the net proceeds is deposited in the Group's interest-bearing bank accounts. The details of the significant post balance sheet events of the Group are set out in note 42 to the consolidated financial statements on page 125.

Major customers and suppliers

In the year ended 31 December 2008, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

Banking facilities and other borrowings

Details of the bank facilities and other borrowings of the Company as at 31 December 2008 are set out in note 24 to the consolidated financial statements on pages 106 to 107.

Corporate governance

The Company is committed to maintaining a high standard of corporate governance practice. Information on the corporate governance practice adopted by the Company is set out in the Corporate Governance Report on pages 41 to 47.

Sufficiency of public float

According to information that is publicly available to the Company and within the knowledge of the Board, as at 31 December 2008, the Company has maintained sufficient public float as required under the Hong Kong Listing Rules.

Report of the Directors (Continued)

Connected transactions

The Group had entered into the raw materials purchase agreement, the property lease agreement and the recyclable container sales agreement (“Non-exempt Continuing Connected Transactions”) with certain companies controlled by Mr. Zhu Xinli, the ultimate controlling shareholder of the Group, for which, waivers (the “Waiver”) from the Hong Kong Stock Exchange from strict compliance with the applicable requirements under the Hong Kong Listing Rules have been granted. The details of the Non-exempt Connected Transactions are set out in the section headed “Relationship with Our Controlling Shareholder — Continuing Connected Transactions — Non-exempt Continuing Connected Transactions” in the Prospectus.

Due to the increased operation demand, the caps under the Waiver regarding the raw materials purchase and the recyclable container sales in respect of the year of 2008 were revised and the new caps for such transactions in respect of three years ended 31 December 2008 and ending 31 December 2009 and 2010, respectively, have been proposed to and approved by the shareholders at the extraordinary general meeting of the Company held on 16 May 2008.

The aggregate amount of each of the raw materials purchase, the property lease and the recyclable container sales for the year ended 31 December 2008 and the respective annual cap are set out below:

1. Raw materials purchase

Purchase item	Aggregate Amount (RMB)	Annual Cap (RMB)
Juice concentrates, fruit purees and fructose	498,153,000	499,000,000
External packaging materials	20,840,000	21,000,000
Total	518,993,000	520,000,000

2. Properties rental

Property	Aggregate Amount (RMB)	Annual Cap (RMB)
Land, buildings and structures located at Zhengzhong Village, Miaocheng Town, Huairou District, Beijing, the PRC	2,000,000	2,000,000

Report of the Directors (Continued)

3. Recyclable container sales

Sales item	Aggregate Amount (RMB)	Annual Cap (RMB)
Recyclable container	24,828,000	60,300,000

The independent non-executive directors have confirmed that the Non-exempt Continuing Connected Transactions:

- (a) have been entered into in the ordinary course of the Group's business;
- (b) had been entered into on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the listed issuer as a whole.

In accordance with Rule 14A.38 of the Hong Kong Listing Rules, the Board of Directors engaged the auditor of the Company to perform certain factual finding procedures on the above continuing connected transactions on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported their factual findings on the selected samples based on the agreed procedures to the Board of Directors and made confirmation in accordance with Rule 14A.38.

Related parties transactions

The Group is also involved in a number of related party transactions during the year ended 31 December 2008 which have been disclosed in note 41 to the consolidated financial statements on pages 122 to 124.

Report of the Directors (Continued)

Non-competition Deed

As disclosed in the Prospectus, the independent non-executive directors will review, on an annual basis, (i) the compliance by Mr. Zhu Xinli, the controlling shareholder of the Company, and his associates with the non-competition undertakings under the Non-competition Deed (as defined in the Prospectus); and (ii) all the decisions taken in relation to whether to exercise the option pursuant to the Non-competition Deed and whether to pursue any business opportunities which may be referred or offered to the Company by Mr. Zhu Xinli and his associates pursuant to the Non-competition Deed. The independent non-executive directors has conducted such review for the year ended 31 December 2008 and found that the Non-competition Deed has been fully complied.

Charitable donations

During the year ended 31 December 2008, the Group made charitable donations amounting to approximately RMB8,337,000.

Financial Management and Audit Committee

The Group's annual report for the year ended 31 December 2008 has been reviewed by the Financial Management and Audit Committee. Information on the work of the Financial Management and Audit Committee and its composition are set out in the Corporate Governance Report on page 41.

Auditor

The consolidated financial statements of the Group for the year ended 31 December 2008 have been audited by PricewaterhouseCoopers. A resolution for the re-appointment of PricewaterhouseCoopers as the Company's auditor will be proposed at the forthcoming annual general meeting.

Possible Voluntary Conditional Cash Offers

On 3 September 2008 The Coca-Cola Company, Atlantic Industries and the Company jointly made an announcement (the "Joint Announcement") that ABN AMRO Asia Corporate Finance Limited, which has been re-named as RBS Asia Corporate Finance Limited, would, on behalf of Atlantic Industries, a wholly-owned subsidiary of The Coca-Cola Company, subject to the satisfaction of the Pre-Condition

Report of the Directors (Continued)

(as defined in the Joint Announcement), make voluntary conditional cash offers: (a) to acquire all of the issued shares in the share capital of the Company; (b) to acquire all the outstanding Convertible Bonds of the Company; and (c) for the cancellation of all the outstanding options of the Company.

The Pre-Condition includes antitrust approval in relation to the Share Offer (as defined in the Joint Announcement) or the completion thereof having been obtained in terms reasonably satisfactory to the Offeror (as defined in the Joint Announcement) pursuant to the provisions of any laws or regulations in the PRC, in each case where necessary for completion of the Share Offer.

On 18 March 2009, the Ministry of Commerce of the PRC announced that it had decided not to grant the anti-trust approval. Accordingly, the Pre-Condition cannot be satisfied and the Offers ceased to be made.

On behalf of the board

ZHU Xinli

Chairman

Beijing, 14 April, 2009

Corporate Governance Report

Corporate governance practices

The Company is committed to maintaining a high standard of corporate governance practice for enhancing accountability and transparency of the Company to the investors and the shareholders. During the year ended 31 December 2008, the Company has complied with the principles set out in the “Code of Corporate Governance Practices” (the “**Corporate Governance Code**”) as contained in Appendix 14 of the Hong Kong Listing Rules except for the deviation set out in the section headed “The Chairman and the Chief Executive Officer” in this report.

Directors’ securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) as contained in Appendix 10 of the Hong Kong Listing Rules as the standards for the directors’ dealings in the securities of the Company. Having made specific enquiry of all directors, the Company confirms that the directors of the Company complied with the required standard set out in the Model Code for the year ended 31 December 2008.

Board of directors

Board responsibilities

The Board is responsible for the overall management of the Company, including establishing and overseeing the Company’s strategic development, business plans, financial objectives, capital investments proposals and assumes the responsibilities of corporate governance of the Company. The Board may from time to time delegate all or any of its powers that it may think fit to a director or member of senior management of the Company. The Board has formulated clear and specific rules and policies on such delegation of power to facilitate efficient operation of the Company and is supported by three committees, which are the Remuneration and Nomination Committee, the Financial and Audit Committee and the Strategy and Development Committee.

Board members

The Board, as at the date of this report, consists of nine directors, including three executive directors, two non-executive directors, and four independent non-executive directors:

Executive directors

Mr. ZHU Xinli (*Chairman*)

Mr. JIANG Xu

Mr. WU Chungkuan

Corporate Governance Report (Continued)

Non-executive directors

Mr. SUN Qiang Chang

Mr. QIN Peng

Independent non-executive directors

Mr. WANG Bing

Ms. ZHAO Yali

Mr. TSUI Yiu Wa, Alec

Mr. SONG Quanhou

The details of the directors' biographical information are contained in the section headed "Directors and Senior Management" of this annual report.

There is no financial, business, family or other material/relevant relationships among the directors of the Company.

Independent non-executive directors

More than one-third of the members of the Board are independent non-executive directors, which exceeds the minimum requirement under the Hong Kong Listing Rules. Mr. Tsui Yiu Wa, Alec, an independent non-executive director, has appropriate financial management expertise in compliance with Rule 3.10 of the Hong Kong Listing Rules. The Company has received an annual confirmation from each of the independent non-executive directors on their respective independence pursuant to Rule 3.13 of the Hong Kong Listing Rules and considers that each of them to be independent.

Terms

All of the non-executive and independent non-executive directors were appointed for a term of three years, which may be terminated according to the articles of association of the Company and any applicable laws, and subject to retirement by rotation at the annual general meeting of the Company once every three years in accordance with the articles of association.

Board meetings

Notices for regular board meetings are given to each member of the Board at least 14 days prior to the meeting, whereby the directors can put forward his proposed items into the agenda. The agenda and the relevant board papers are then circulated to the directors 3 days before a Board meeting to enable them to make informed decisions at the meeting. Drafts of the Board minutes and Board committee meeting minutes are circulated to the directors and the relevant Board committee members respectively for their review before finalization, and the final version of these minutes are kept by the company secretary of the Company and are available for inspection by the Board and auditor of the Company. Every director is entitled to have access to Board papers and relevant

Corporate Governance Report (Continued)

materials and have unrestricted access to advice and services of the company secretary, and is able to seek independent professional advice as and when required at the Company's expense.

Attendance

A1.1 of the Corporate Governance Code stipulates that the board should meet regularly and meetings should be held at least four times a year at approximately quarterly intervals. During the reporting year, the Board convened a total of four Board meetings and two, two and one meetings for each of the Remuneration and Nomination Committee, the Financial and Audit Committee and the Strategy and Development Committee, based on the need of the operation and business development of the Company. Details of attendance are as follows:

Name	Board meetings (Times of attendance in person/times of meeting)	Board committee meetings		
		Remuneration and Nomination Committee	Financial Management and Audit Committee	Strategy and Development Committee
Executive directors				
ZHU Xinli (<i>Chairman</i>)	4/4	N/A	N/A	1/1
JIANG Xu	4/4	N/A	N/A	N/A
WU Chungkuan	3/3	N/A	N/A	N/A
Non-executive directors				
SUN Qiang Chang	4/4	N/A	2/2	1/1
QIN Peng	3/3	2/2	N/A	1/1
Independent non-executive directors				
WANG Bing	4/4	2/2	2/2	1/1
ZHAO Yali	4/4	N/A	N/A	N/A
TSUI Yiu Wa, Alec	4/4	2/2	2/2	1/1
SONG Quanhou	4/4	N/A	N/A	N/A

Note: Directors who did not attend the meeting in person have entrusted other directors to attend and vote at the meeting.

The Chairman and the Chief Executive Officer

The positions of the chairman of the Board and the president (i.e., the chief executive officer) of the Company are held by Mr. Zhu Xinli. Although this deviates from the practice in A.2.1 of the Corporate Governance Code where the two positions should be held by different individuals, Mr. Zhu has considerable and extensive experience in the juice and beverage industry and in enterprise operation and management in general. The Board believes that it is in the best interest of the Company to have an executive chairman so the Board can benefit from his knowledge of the business and his capability in leading the Board in discussing the strategy and long-term development of the industry.

Corporate Governance Report (Continued)

From a corporate governance point of view, the decisions of the Board are made collectively by way of voting and therefore the chairman of the Board should not be able to monopolize the voting result. The Board considers that the balance of power between the Board and the senior management can still be maintained under the current structure.

Board committees

Remuneration and Nomination Committee

The Remuneration and Nomination Committee consists of a non-executive director and two independent non-executive directors, namely the non-executive director, Mr. Qin Peng, and the independent non-executive directors, Mr. Wang Bing and Mr. Tsui Yiu Wa, Alec. Mr. Qin is the chairman of the Remuneration and Nomination Committee.

The primary functions of the Remuneration and Nomination Committee are to:

- (a) make recommendations to the Board on the policy and structure for remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing such policies;
- (b) determine terms of specific remuneration package for executive directors and senior management;
- (c) review and approve performance-based remuneration by reference to corporate goals and objectives resolved by directors from time to time;
- (d) review the structure, size and composition of the Board regularly and make recommendations to the Board regarding any proposed changes; and
- (e) identify, select or make recommendations to the Board on the selection of individuals nominated for directorships.

At the meetings held during the reporting year, the Remuneration and Nomination Committee has reviewed the directors' fees in terms of the corporate and individual performance, the employment terms of the management staff within the Group, the employee share option to be granted and assessed the nominations of the new directors.

Corporate Governance Report (Continued)

Financial Management and Audit Committee

The Financial Management and Audit Committee consists of two independent non-executive directors and a non-executive director, namely, the independent non-executive directors, Mr. Tsui Yiu Wa, Alec and Mr. Wang Bing, and the non-executive director, Mr. Sun Qiang Chang. Mr. Tsui, who has the relevant financial management expertise, is the chairman of the Financial Management and Audit Committee.

The primary functions of the Financial Management and Audit Committee are to review and supervise the financial reporting process and internal control system of the Company, nominate and monitor external auditor and provide advice and comments to the Board.

During the year, the Financial Management and Audit Committee convened two meetings. All solutions passed at the meetings were duly recorded and retained.

Major work completed by the Financial Management and Audit Committee during the year includes:

- Reviewing the Group's interim and annual report;
- Reviewing accounting policies adopted by the Group and issues related to accounting practice;
- Supervising internal auditing of the Group;
- Assisting the Board to evaluate on the effectiveness of financial reporting procedure and internal control system;
- Advice on material events or draw the attention of management on related risks.

Strategy and Development Committee

The Strategy and Development Committee consists of an executive director, an independent non-executive director and two non-executive directors, namely the executive director, Mr. Zhu Xinli, the non-executive directors, Mr. Qin Peng and Mr. Sun Qiang Chang, and the independent non-executive director, Ms. Zhao Yali. Mr. Zhu is the chairman of the Strategy and Development Committee.

The primary functions of the Strategy and Development Committee are to:

- (a) review and formulate the strategic positioning and development plans of the Company on a regular basis and make recommendations to the Board regarding any proposed changes;
- (b) review and formulate strategies for market development and operation of the Company on a regular basis and make recommendations to the Board regarding any proposed changes; and

Corporate Governance Report (Continued)

- (c) review strategies of the Company on its material projects, business expansion, capital expenditure, asset restructuring and operation and make recommendations to the Board regarding any proposed changes.

At the meetings held during the reporting year, the Strategy and Development Committee has reviewed the three year strategy plan and evaluated the merger and acquisition plan of the Group.

Accountability and audit

Auditor's remuneration

The remuneration paid/payable to the Company's auditor, PricewaterhouseCoopers, during the year ended 31 December 2008 in relation to non-audit assurance service and audit service are RMB2.4 million and RMB4.3 million, respectively.

Directors' responsibilities for financial statements

The directors acknowledge their responsibility for preparing the financial statements of the Company, and for ensuring that the financial statements are prepared in accordance with applicable statutory requirements and accounting standards.

Auditor's statement

The statement of the Company's auditor, PricewaterhouseCoopers, on its reporting responsibilities in respect of the consolidated financial statements of the Group for the year ended 31 December 2008 is set out on pages 55 and 56.

Internal control and risk management

The Board acknowledges that it is responsible for maintaining a sound system of internal controls to safeguard the shareholders' interest. The Group's internal control system has been designed to provide reasonable assurance that assets are safeguarded, operational controls are in place, business risks are suitably reduced, proper accounting records and financial information are maintained, and, where appropriate, relevant legislation, regulation and best practices are complied with.

The Board has delegated to the Financial Management and Audit Committee responsibility for reviewing the effectiveness of the Group's internal control system. The Financial Management and Audit Committee works with the Group's Internal Audit Department to carry out internal audit works based on an internal audit plan which is reviewed and approved by the Financial Management and Audit Committee. The Group's Internal Audit Department, reports its findings and recommendations for any corrective action required to the Financial Management and Audit Committee. The Financial Management and Audit Committee reviews the reports submitted by the Internal Audit Department and the issues on the internal control system of the Group are then discussed and evaluated by the Board every year.

Corporate Governance Report (Continued)

The Internal Audit Department conducted an examination on various material control aspects during the year including financial, operational and compliance controls with the aim of mitigating the overall business and operational risk of the Group. Internal control reports were submitted to the Financial Management and Audit Committee for review and the findings and recommendations were discussed at the committee meetings. The significant findings have been remediated by the management of the Company.

Investor relations

The Board values the importance of communications with the shareholders. The annual general meeting (“AGM”) of the Company held on 16 May 2008 was an important occasion for the Board and the shareholders to communicate directly with each other. The chairmen of the Board and the Board committees and the external auditor were present at the AGM to communicate with the shareholders. The AGM circular distributed to all shareholders before the AGM contained information regarding the proposed resolutions on each substantially separate issue. In addition, the Company has announced its annual and interim results in a timely manner in accordance with the requirements of the Hong Kong Listing Rules.

Directors and Senior Management

Executive Directors

Mr. ZHU, Xinli (朱新禮)

aged 57, is the chairman of the Board and the founder of the Group. He is also the president of the Group. With over 17 years' experience in juice and beverage industry, he is primarily responsible for our Group's overall strategic planning and business management. He has pursued CEO courses in China Europe International Business School, Cheung Kong Graduate School of Business and Stanford College. He has been engaged as a visiting professor by China Agricultural University, Nankai University and the Chinese Academy of Agricultural Sciences since 2001. He has 29 years' experience in enterprise operation and management. Before founding our Group in 1992, he had worked as the deputy director of the foreign economic and trade department of Yiyuan County, Shandong Province. He is an executive deputy chairman of the board of the Association of Chinese Beverage Industry and the deputy director of its Juice Division. He received the Award for Prominent Contribution to Chinese Beverage Industry in 2003, the honor of National Labor Model in 2005 and the CCTV **Annual Economic Figures**, Agricultural Figures in China's 30-year Reform and Opening-up and Top Ten Outstanding Leaders in Light Industry during 30-year Reform in 2008. He was appointed as a director of the Board in September 2006.

Mr. JIANG, Xu (江旭)

aged 46, is an executive director of the Board. He is also a vice president of the Group. He has 11 years' experience in juice and beverage production, sales and marketing. Since joining us in March 1997, he had held various positions, including the general manager of Beijing Huiyuan Beverage & Food Group Co., Ltd., the general manager of our sales in North East China region and the vice president of Beijing Huiyuan Beverage & Food Group Co., Ltd.. He has resigned from all directorships in Beijing Huiyuan Beverage & Food Group Co., Ltd. and the companies controlled by it. He was appointed as a director of the Board in September 2006.

Mr. WU, Chungkuan (吳重寬)

aged 47, is currently a vice president of the Company. Mr. Wu joined the Company in May 2007 and has been in charge of the marketing department. Mr. Wu graduated from National Taiwan University with a Bachelor degree in chemical engineering in 1986. He obtained a Master degree in plastics engineering from the University of Massachusetts in 1989 and an MBA degree from International Institute for Management Development, Lausanne, Switzerland in 1994. He worked for Xerox in the USA as an engineer from 1989 to 1992. He worked for Tetra Pak as the chief representative of Beijing Office in charge of the marketing in Northern China from 1995 to 1999 and a vice president at Shanghai Headquarters in charge of the sales and competition strategy from 2003 to 2007. He was appointed as a director of the Board in December 2007.

Non-executive Directors

Mr. SUN Qiang Chang (孫強)

aged 53, is a non-executive director of the Group and the managing director of Warburg Pincus Hong Kong Branch and responsible for the investment business of Warburg Pincus in North Asia. He has been with Warburg Pincus since 1995. Before joining Warburg Pincus, he served as an executive director of the investment banking division and direct investment business sector of Goldman Sachs (Asia) L.L.C. He was born and grew up in China, and used to be a plane repairman of China air force. Then, Mr. Sun obtained a Bachelor degree from Beijing Foreign Studies University. He was selected by the United Nations to study a Master degree in international issues research and translation training. He then became a translator of the United Nations Headquarters in New York. After graduated from MBA, Mr. Sun worked in an investment bank Lepercq, de Neuflyze & Co. Mr. Sun holds a Master of Arts degree in International Studies from the Joseph Lauder Institute of International Management at the University of Pennsylvania and a Master of Business Administration degree from the Wharton School of Business at the University of Pennsylvania. He is the director of various companies, including Gome Electrical, Harbin Pharmaceutical Group and Enerchina. He is also the founder and committee member of the China Venture Capital Association and China Real Estate Development Investment Association.

Mr. QIN, Peng (秦鵬)

aged 54, is a non-executive director of the Board. He holds a Bachelor degree in Social Science from University of Paris V in France and a Master degree in Sociology from the Institute of Political Sciences of Paris. He has 26 years' experience in juice and beverage brand management, sales and marketing, business development and corporate management. Since 1983, he has held various positions in the Danone Group. He is currently the chairman of greater China of the Danone Group. In addition, he is a director of Hangzhou Wahaha Food Company Limited, Gao Xiang Investment Limited and the chairman of the board of Shanghai Danone Asia Pacific (Shanghai) Management Limited. He was appointed as a director of the Board in September 2006.

Independent Non-executive Directors

Mr. WANG, Bing (王兵)

aged 40, is an independent non-executive director of the Board. He holds a Bachelor degree in Economics and a Master degree in Business Administration from the China Europe International Business School. He is currently the chief executive officer of Dingtian Asset Management Co., Ltd. He has over 11 years' experience in investment banking, operations in capital markets and financial management. He was appointed as an independent non-executive director of the Board in September 2006.

Directors and Senior Management (Continued)

Ms. ZHAO, Yali (趙亞利)

aged 50, is an independent non-executive director of the Board. She holds a Bachelor degree from Tianjin Light Industry College and is a professor-grade senior engineer. She is the head and committee member of China Light Industry Federation. Her current titles in various associations include the executive deputy chairman and general secretary of China Beverage Industry Association and the chairman of its juice sub-committee. In addition, she has been the executive committee member of IFU and was an independent director of Guotou Zhonglu Juice Corporation, a company listed on the Shanghai Stock Exchange. She was appointed as an independent non-executive director of the Board in September 2006.

Mr. TSUI, Yiu Wa, Alex (徐耀華)

aged 59, is an independent non-executive director of the Board. He holds a Bachelor degree in Science and a Master degree in Industrial Engineering from the University of Tennessee. He completed the Program for Senior Managers in Government at the John F. Kennedy School of Government at Harvard University. He has more than 30 years of experience in the securities market and financial management. He is currently the chairman of WAG Worldsec Corporate Finance Limited, a Hong Kong based financial and management consulting services company. He is also a vice chairman of China Mergers and Acquisitions Association and a director of Hong Kong Professional Consultants Association. He served at various international companies, including Arthur Andersen & Co, Swire Bottlers Limited and China Light and Power Company Limited for 12 years in relation to information technology, financial analysis, corporate planning and management. He was formerly the chairman of the Hong Kong Securities Institute, the chief operating officer of Hong Kong Exchanges and Clearing Limited, the chief executive officer of the Hong Kong Stock Exchange and the adviser and council member of the Shenzhen Stock Exchange. Currently he serves as an independent non-executive director in a number of Hong Kong main board and NASDAQ listed companies, including Industrial and Commercial Bank of China (Asia) Limited, China Chengtong Development Group Ltd., COSCO International Holdings Limited, China Power International Development Limited, China BlueChemical Limited, Greentown China Holdings Limited, Melco PBL Entertainment Limited, Pacific Online Limited, ATA Inc. Ltd. and a Hong Kong GEM listed company, Vertex Communications & Technology Group Limited. He was appointed as an independent non-executive director of the Board in September 2006.

Directors and Senior Management (Continued)

Mr. SONG, Quanhou (宋全厚)

aged 47, is an independent non-executive director of the Board. He holds a Master degree in food engineering from the former China National Academy of Light Industry and Science. He is a professor-grade senior engineer. He currently acts as a Deputy Director of China National Research Institute of Food and Fermentation Industries (CNRIFFI). He has been actively involved in preparing, implementing and enforcing various nationwide food and beverage quality control and testing standards since 1995 and has extensive knowledge and experience in China's food and beverage industry. He has also been actively involved in or responsible for various research projects in food and beverage quality control and testing sponsored by the PRC government, international organizations or enterprises. He was appointed as an independent non-executive director of the Board in January 2007.

Senior Management

Mr. ZHU, Xinli (朱新禮)

is the chairman of the Board and the president of the Group. His biographical details are set out above under the paragraph headed "Executive Directors".

Mr. JIANG, Xu (江旭)

is a vice president of the Group in charge of production management. He is an executive director of the Board. His biographical details are set out above under the paragraph headed "Executive Directors".

Mr. WU, Chungkuan (吳重寬)

is a vice president of the Group in charge of marketing department. He is an executive director of the Board. His biographical details are set out above under the paragraph headed "Executive Directors".

Mr. LU, Xinjian (蘆新建)

aged 39, is a vice president of the Group in charge of the overall business operations of the Company. He joined the Group in April 1998. He has 20 years' experience in juice and beverage production, sales and marketing and is currently in charge of the overall operation and administration of the Group's production and sales activities. Since joining the Company, he has held various positions, primarily including the chief financial officer of the Shanghai region, the general manager of Sichuan Huiyuan Food & Beverage Co., Ltd. and the Sichuan region, the general manager of Shanghai Huiyuan Food & Beverage Co., Ltd. and the Shanghai region and the director of the Group's 100% juice project.

Mr. ZHAO, Jinlin (趙金林)

aged 53, is a vice president of the Group in charge of administration. Before joining the Company in 1998, he had served in the People's Liberation Army for more than 25 years. He has over 10 years' extensive experience in human resources, public relations and corporate culture management.

Directors and Senior Management (Continued)

Mr. NG, Yuk Keung (吳育強)

aged 44, is a vice president and the chief financial officer of the Group. He is also the company secretary and qualified accountant of the Company. He graduated from The University of Hong Kong with a Bachelor degree in Management Studies and Economics and a Master degree in Global Business Management and E-commerce. He is a professional accountant and a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, and a member of the Institute of Chartered Accountants in England and Wales. He worked with PricewaterhouseCoopers for over 12 years from 1988 to 2001. From November 2004 to August 2006, he was the deputy chief financial officer, joint company secretary and qualified accountant of Irico Electronics Group Company Limited, a company incorporated in the PRC with its H shares listed on the Hong Kong Stock Exchange. He is also an independent non-executive director of Xinjiang Xinxin Mining Industry Co., Ltd. and Beijing Capital Land Ltd., both of which are listed on the main board of the Hong Kong Stock Exchange. He was appointed as a joint secretary of the Company on 21 September 2006.

Mr. GAO, Yanxiang (高彥祥)

aged 47, is a vice president of the Group in charge of R&D. He holds a Ph.D. degree in food engineering. Before joining the Group in 2000, he was an associate professor in Tianjin University of Science and Technology and was engaged in teaching and research. He had worked as a manager in beverage companies for 3 years. He is also a member of the Technology Committee of China Beverage Industry Association and the Technology Committee of International Federation of Fruit Juice Producers. He was awarded as "An Excellent Scientist for 2003" by China Beverage Industry Association in 2003.

Ms. REN, Hongfeng (任洪鳳)

aged 36, is a vice president of the Group fully in charge of procurement and international business. She joined the Company in 1992 and has held various positions, including the Group's international business controller, the procurement controller and the general manager of the Hubei sales area. She has 9 years' experience in international trade and 4 years' experience in juice and beverage production, sales and marketing management. She is a member of the 10th CPPCC Committee of Hubei.

Directors and Senior Management (Continued)

Ms. ZHU, Shengqin (朱聖琴)

aged 33, is the vice president of the Group. She holds an EMBA degree from Cheung Kong Graduate School of Business. Since joining the Group in 1996, she has held various positions in the Company, including marketing manager, chief advertising director, investment vice president and director of the office to the board of directors. She was instrumental in introducing strategic and financial investors, such as the Danone Group of France and Warburg Pincus LLC of the USA. She has made substantial contribution to the Group's global offering and listing on the Hong Kong Stock Exchange in February 2007. She is an important member of the management team of the Group. She was the team leader in the Company's marketing campaigns with CCTV, MTV and the China Team in "America's Cup" sailing competition.

Mr. DENG, Xueliang (鄧學良)

aged 36, is the chief sales director of the Group in charge of sales activities. He has 13 years' experience in human resources, production and marketing management in fruit and vegetable juice and beverage industry. Before joining the Group in 1999, he served Xiamen Huierkang Food and Beverage Group Limited from 1997 to 1998. Since 1999, he has held various positions such as the assistant to general manager of the Group's plant at Shunyi, the manager of the Group's human resources division, the general manager of Kaifeng Huiyuan Food & Beverage Co., Ltd., the general manager of the Henan region and the director of the Kiwi Nectar project.

Mr. ZHOU, Hongwei (周紅衛)

aged 38, is the chief production director of the Group. He holds a diploma in computerized accounting. He has 10 years' experience in financial management. Since joining the Group in 1997, he has served as the financial manager, deputy general manager and general manager of Kaifeng Huiyuan Food & Beverage Co., Ltd., and general manager of the Henan region. He has over 11 years' experience in fruit and vegetable juice, sales and marketing.

Ms. SHI, Xiuping (史秀平)

aged 33, is the chief director of the Group's human resources division. She graduated from Economic Management College of Party School of the Central Committee of CPC. She is responsible for managing the human resources division of the Group. She joined the Company in 2003 and served as various positions including recruiting and performance supervisor, human resources deputy manager and manager. She has 6 years of management and practical experience in human resources.

Directors and Senior Management (Continued)

Mr. DONG, Ying (董穎)

aged 39, is the financial controller of the Group. He holds a Bachelor degree in Engineering (cum a diploma in business administration) from East China University of Science and Technology. He is a member of the American Institute of Certified Public Accountants and California Society of Certified Public Accountants and a PRC Registered Public Accountant with qualification in securities business. He has 13 years' experience in auditing, risk management and internal control. Before joining the Group in September 2006, he had worked in the assurance department and the system and process assurance department in PricewaterhouseCoopers since 1994.

Mr. XIE, Quanming (謝全明)

aged 58, is a vice president of the Group responsible for formalization of policy and procedures. Before joining the Group in 1997, he has served in the Air Force of the People's Liberation Army for 27 years. He has extensive experience in administrative management and established government relations.

Ms. GUO, Xiaohong (郭曉紅)

aged 46, is the chief engineer of the Group. She holds a Bachelor degree in Agricultural Science from Shanxi Agricultural University, a Master degree in Agricultural Science from Beijing Agricultural University, the PRC and a Ph.D. in Natural Sciences from Hohenheim University, Germany. She has extensive experience in the food and beverage R&D and quality control. Before joining us in September 2006, she had held various positions, including an assistant research fellow of the Institute of Agricultural Science of Shanxi Province, a lecturer of Beijing Agricultural University, the PRC, the general manager of Shanghai Hua Guan Nutrition and Dairy Company Ltd., the project director of food business administration of the MBA Centre of China Agricultural University.

Independent Auditor's Report



羅兵咸永道會計師事務所

PricewaterhouseCoopers

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Independent Auditor's Report

To the shareholders of China Huiyuan Juice Group Limited

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Huiyuan Juice Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 57 to 125, which comprise the consolidated and company balance sheets as of 31 December 2008, 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 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 International Financial Reporting Standards 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 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

Independent Auditor's Report (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the 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 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 financial position of the Company and of the Group as of 31 December 2008, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other matters

This report, including the opinion, has been prepared for and only for 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.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 14 April 2009

Consolidated Balance Sheet

As at 31 December 2008

	Note	As at 31 December	
		2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Land use rights	7	429,080	337,399
Property, plant & equipment	8	3,102,455	2,241,112
Intangible assets	9	317,262	323,826
Long term prepayment	15	148,583	—
Deferred tax assets	13	31,070	24,092
Total non-current assets		4,028,450	2,926,429
Current assets			
Inventories	16	760,560	742,044
Trade and other receivables	14	643,666	666,195
Derivative financial instrument	11	882	1,568
Other loans and receivables	12	356,786	1,250,718
Restricted cash	17	94,355	10,033
Cash and cash equivalents	18	1,306,621	1,290,220
Total current assets		3,162,870	3,960,778
Total assets		7,191,320	6,887,207
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	19	114	114
Share premium	19	3,716,982	3,716,982
Other reserves	21	139,298	116,040
Retained earnings			
— Proposed final dividend	37	22,235	160,054
— Others	20	709,351	668,030
Total equity		4,587,980	4,661,220

Consolidated Balance Sheet (Continued)

As at 31 December 2008

	Note	As at 31 December	
		2008 RMB'000	2007 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	24	478,266	511,322
Deferred government grants	25	65,009	65,662
Long-term payable for land use rights	26	7,751	8,953
Long-term payable for license fee		4,095	8,225
Convertible bonds	27	—	945,182
Total non-current liabilities		555,121	1,539,344
Current liabilities			
Trade and other payables	23	472,313	645,923
Taxation payable		27,305	12,979
Deferred revenue		18,970	27,741
Convertible bonds	27	1,069,396	—
Borrowings	24	460,235	—
Total current liabilities		2,048,219	686,643
Total liabilities		2,603,340	2,225,987
Total equity and liabilities		7,191,320	6,887,207
Net current assets		1,114,651	3,274,135
Total assets less current liabilities		5,143,101	6,200,564

Zhu Xin Li
Director

Jiang Xu
Director

The notes on pages 63 to 125 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2008

	Note	As at 31 December	
		2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	10(a)	9,594,921	9,292,046
Loans to subsidiaries	10(b)	1,096,289	1,096,289
Total non-current assets		10,691,210	10,388,335
Current assets			
Trade and other receivables		1,427	2,024
Derivative financial instruments	11	882	1,568
Cash and cash equivalents	18	25,587	75,891
Total current assets		27,896	79,483
Total assets		10,719,106	10,467,818
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	19	114	114
Share premium	19	3,716,982	3,716,982
Other reserves	21	4,944,001	4,930,809
Retained earnings			
— Proposed final dividend	37	22,235	160,054
— Others	20	5,505	168,298
Total equity		8,688,837	8,976,257
LIABILITIES			
Non-current liabilities			
Borrowings	24	478,266	511,322
Convertible bonds	27	—	945,182
Total non-current liabilities		478,266	1,456,504
Current liabilities			
Trade and other payables	23	22,372	35,057
Borrowings	24	460,235	—
Convertible bonds	27	1,069,396	—
Total current liabilities		1,552,003	35,057
Total liabilities		2,030,269	1,491,561
Total equity and liabilities		10,719,106	10,467,818
Net current (liabilities)/assets		(1,524,107)	44,426
Total assets less current liabilities		9,167,103	10,432,761

Zhu Xin Li
Director

Jiang Xu
Director

The notes on pages 63 to 125 are an integral part of this financial statement.

Consolidated Income Statement

Year ended 31 December 2008

	Note	Year ended 31 December	
		2008 RMB'000	2007 RMB'000
Revenue	28	2,819,739	2,656,337
Cost of sales	31	(1,910,880)	(1,707,144)
Gross profit		908,859	949,193
Other income, net	29	72,657	70,547
Other gains	30	1,849	23,420
Selling and marketing expenses	31	(603,644)	(569,677)
Administrative expenses	31	(164,293)	(132,563)
Interest income from subscription monies from initial public offering of shares		—	206,814
Finance income/(cost) — net	33	13,091	(6,179)
Fair value change in conversion right of Convertible Bonds	27	(109,669)	136,050
Profit before income tax		118,850	677,605
Income tax expense	34	(29,910)	(37,388)
Profit for the year		88,940	640,217
Attributable to:			
Equity holders of the Company		88,940	640,217
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB cents per share)			
— basic	36	6.1	46.9
— diluted	36	6.0	35.9
Dividends	37	22,235	160,054

The notes on pages 63 to 125 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

Attributable to equity holders of the Company										
	Note	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserve fund RMB'000	Staff welfare fund RMB'000	Share-based compensation		Retained earnings RMB'000	Total equity RMB'000
							reserve	Other reserves RMB'000		
Balance at 1 January 2008		114	3,716,982	—	95,950	16,523	3,567	—	828,084	4,661,220
Profit appropriation to										
statutory reserves	21	—	—	—	26,589	—	—	—	(26,589)	—
Dividends	37	—	—	—	—	—	—	—	(158,849)	(158,849)
Share-based payment expenses	22, 32	—	—	—	—	—	13,192	—	—	13,192
Staff welfare funds payment	21	—	—	—	—	(16,523)	—	—	—	(16,523)
Profit for the year		—	—	—	—	—	—	—	88,940	88,940
Balance at 31 December 2008		114	3,716,982	—	122,539	—	16,759	—	731,586	4,587,980
Balance at 1 January 2007		—	—	1,258,036	62,897	16,523	—	(53,795)	263,754	1,547,415
Effect of reorganisation		64	—	(64)	—	—	—	—	—	—
Profit appropriation to statutory reserves		—	—	—	33,053	—	—	—	(33,053)	—
Gross proceeds from placing and public offering of shares	19	48	3,682,122	—	—	—	—	—	—	3,682,170
Share issuance costs		—	(196,940)	—	—	—	—	53,795	—	(143,145)
Deemed distribution to equity holders		—	—	(1,300,806)	—	—	—	—	—	(1,300,806)
Share converted from convertible bonds		2	231,800	—	—	—	—	—	—	231,802
Share-based payment expenses	22, 32	—	—	—	—	—	3,567	—	—	3,567
Profit for the year		—	—	—	—	—	—	—	640,217	640,217
Transfer		—	—	42,834	—	—	—	—	(42,834)	—
Balance at 31 December 2007		114	3,716,982	—	95,950	16,523	3,567	—	828,084	4,661,220

The notes on pages 63 to 125 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Note	Year ended 31 December	
		2008 RMB'000	2007 RMB'000
Cash flows from operating activities			
Cash generated from operations	38	203,873	7,696
Interest paid		(44,992)	(36,713)
Interest received		39,417	76,341
Income tax paid		(22,562)	(37,209)
Net cash generated from operating activities		175,736	10,115
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		—	(101,312)
Purchase of property, plant and equipment (PPE)		(1,072,964)	(588,084)
Proceeds from disposal of PPE		14,498	31,943
Cash received from government grant		18,975	5,579
Purchase of land use rights		(95,205)	(206,988)
Increase in restricted cash		(84,322)	(4,692)
Decrease/(increase) in other loans and receivables		903,404	(1,246,000)
Prepayment for purchase of distribution networks		(148,583)	—
Net cash used in investing activities		(464,197)	(2,109,554)
Cash flows from financing activities			
Proceeds of issuance of shares		—	3,485,230
Interest income from subscription monies from initial public offering of shares		—	206,814
Proceeds from banks and other financial institution borrowings		466,457	633,286
Repayments of borrowings from bank and other financial institution		—	(968,060)
Dividends paid to the Company's shareholders		(158,849)	—
Net cash generated from financing activities		307,608	3,357,270
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of the year	18	1,290,220	90,810
Exchange losses on cash and cash equivalents		(2,746)	(58,421)
Cash and cash equivalents at end of the year	18	1,306,621	1,290,220

The notes on pages 63 to 125 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. General information

China Huiyuan Juice Group Limited (the “Company”) and its subsidiaries (together the “Group”) are principally engaged in the manufacturing and sales of juice beverages in the People’s Republic of China (the “PRC”).

The Company was incorporated in the Cayman Islands on 14 September 2006 as an exempted company with limited liability under the Company Law (Cap. 22, Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of registered office is Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands.

Pursuant to a group reorganisation (the “Reorganisation”) which included exchange of shares to rationalise the structure of the Group in preparation for the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited, the Company acquired the entire issued share capital of Huiyuan Beijing Holdings Limited, Huiyuan Shanghai Holdings Limited and Huiyuan Chengdu Holdings Limited (the “BVI Companies”), the then holding companies of all other companies comprising the Group and consequently became the holding company of the Group. The Reorganisation was completed on 23 February 2007.

The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 23 February 2007.

These consolidated financial statements were authorised for issue by the Board on 14 April 2009.

2. Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The consolidated financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

Notes to the Consolidated Financial Statements (Continued)

3. Summary of significant accounting policies

The accounting policies applied in the preparation of the consolidated financial statements are consistent with those of the consolidated financial statements for the year ended 31 December 2007, as set out in the annual report of the Group for year ended 31 December 2007, unless otherwise stated.

(a) Amendments and interpretations effective in 2008 but not relevant

The following amendments and interpretation to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but are not relevant to the Group's operations:

- IFRIC — Int 11, 'IFRS — Group and treasury share transactions'
- IFRIC — Int 12, 'Service Concession arrangements'
- IAS 39, 'Financial instruments: Recognition and measurement'
- IFRIC — Int 14, IAS 19, 'The limit on a defined benefit asset, minimum funding requirements and their interaction'

(b) New standards, amendments to standards and interpretations issued but are not effective for 2008 and have not been early adopted.

- IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply IAS 1 (Revised) from 1 January 2009.
- IAS 23 (Revised), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The management is currently assessing the impact of this standard on Group's financial statements.

Notes to the Consolidated Financial Statements (Continued)

3. Summary of significant accounting policies (Continued)

(b) New standards, amendments to standards and interpretations issued but are not effective for 2008 and have not been early adopted: (Continued)

- IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. Management is currently assessing the impact of this standard on the Group's financial statements.
- IFRS 8 Operating segments, effective for annual periods beginning on or after 1 January 2009. IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. As goodwill is allocated to groups of cash-generating units based on segment level, the change will also require management to reallocate goodwill to the newly identified operating segments. Management does not anticipate that this will result in any material impairment to the goodwill balance;
- IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2009.
- IFRIC — Int 13, 'Customer loyalty programmes' (effective from 1 July 2008). It is not expected to have an impact on the Group's consolidated income statement as this is the Group's current accounting policy.

Notes to the Consolidated Financial Statements (Continued)

3. Summary of significant accounting policies (Continued)

(b) New standards, amendments to standards and interpretations issued but are not effective for 2008 and have not been early adopted: (Continued)

- IASB's annual improvements project published in May 2008
 - IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The Group will apply the IAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009.
 - IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the IAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

- (c) Except for those disclosed in note 3(b) above, there are a number of amendments and interpretations to the existing standards which have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Group's operation. They are not disclosed due to excessive length.

3.1 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

Notes to the Consolidated Financial Statements (Continued)

3. Summary of significant accounting policies (Continued)

3.1 Consolidation (Continued)

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

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

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 3.8). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

3.2 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environment.

Notes to the Consolidated Financial Statements (Continued)

3. Summary of significant accounting policies (Continued)

3.3 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the applicable exchange rates quoted by the People's Bank of China prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash equivalents are presented in the consolidated income statement within "finance income or cost". All other foreign exchange gains and losses are presented in the consolidated income statement within "other (losses)/gains, net".

3.4 Property, plant and equipment

Property, plant and equipment which consist of buildings, machinery, motor vehicles and furniture and equipment, are stated at historical cost less accumulated depreciation and impairment loss. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with such costs will flow to the Group and such cost incremental can be measured reliably. Repairs and maintenance are charged to the income statement in the period incurred.

Notes to the Consolidated Financial Statements (Continued)

3. Summary of significant accounting policies (Continued)

3.4 Property, plant and equipment (Continued)

Depreciation of assets are calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The estimated useful lives of property, plant and equipment are as follows:

Buildings	30 years
Machinery	13 years
Motor vehicles	5–8 years
Furniture and office equipment	5–6 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 3.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

Construction in progress represents property, plant and equipment under construction or pending installation, and is stated at cost less impairment losses. Cost comprises direct costs of construction including borrowing costs attributable to the construction during the period of construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use.

3.5 Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods varying from 30 to 50 years. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights.

3.6 Barter transactions

When goods are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue. When goods are sold in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods given up, adjusted by the amount of any cash or cash equivalents transferred.

Notes to the Consolidated Financial Statements (Continued)

3. Summary of significant accounting policies (Continued)

3.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "intangible assets". Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. (Note 3.8).

(b) Trademarks

Separately acquired trademarks are shown at historical cost. Trademarks acquired in a business combination are recognised at fair value at the acquisition date. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of 30 years.

(c) License rights

License rights are stated at historical cost less accumulated amortisation and accumulated impairment losses, if any. Historical cost comprises the capitalised present value of the fixed minimum periodic payments to be made in subsequent years in respect of the acquisition of the license right.

License rights are amortised using the straight-line method to allocate the cost of licenses over their estimated useful lives.

Notes to the Consolidated Financial Statements (Continued)

3. Summary of significant accounting policies (Continued)

3.8 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life or have not yet been available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3.9 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. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables, cash and cash equivalents and other loans and receivables in the balance sheet (Note 3.12 and 3.13).

Regular purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Other loans and receivables are carried at amortised cost using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in Note 3.12.

3.10 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of the item being hedged.

The Group's derivative instruments do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the income statement within other gains.

Notes to the Consolidated Financial Statements (Continued)

3. Summary of significant accounting policies (Continued)

3.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.12 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within "administrative expenses". When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against "administrative expenses" in the income statement.

3.13 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

3.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.15 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Notes to the Consolidated Financial Statements (Continued)

3. Summary of significant accounting policies (Continued)

3.16 Borrowings

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the income statement in the period in which they are incurred.

3.17 Convertible bonds

Convertible bonds issued by the Company that contain both a liability and embedded derivatives are classified separately into these respective items on initial recognition. Conversion rights that will be settled other than by the exchange of a fixed amount of cash or other financial assets for a fixed number of the Company's shares are conversion right derivatives. Redemption rights and interest settlement options at the option of holders which are not closely related to the host contract are also embedded derivatives and are accounted together with conversion right as a single derivative. At the date of issue of the convertible bonds, the derivative is recognised at fair value, the host liability is recognised at the residual amount after deducting the fair value of derivative from the fair value of the convertible bonds as a whole.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The conversion right derivative is measured at fair value with changes in fair value recognised in the consolidated income statement.

The liability component and the related embedded derivative of the conversion bond is presented as a separate line item on the face of the balance sheet as non-current liabilities, unless there is any redemption right valid in the next 12 months.

If the bonds are converted, the respective conversion right derivative in the convertible bonds, together with the carrying value of the liability component at the time of conversion, are transferred to share capital and share premium as consideration for the shares issued.

Notes to the Consolidated Financial Statements (Continued)

3. Summary of significant accounting policies (Continued)

3.18 License fee payables

License fee payables are initially recorded at fair value, which represents the present value of the fixed minimum periodic payments to be made in subsequent years at the time of the acquisition (Note 3.7(c)). They are subsequently stated at amortised cost using the effective interest method less amounts paid.

3.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Consolidated Financial Statements (Continued)

3. Summary of significant accounting policies (Continued)

3.20 Employee benefits

(a) Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement benefit plans administered by the relevant municipal and provincial governments in the PRC. The relevant municipal and provincial government undertake to assume the retirement benefit obligation payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

(b) Share-based compensation

The Group operates a number of equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the share-based compensation is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or shares granted as at the dates of grant, excluding the impact of any non-market vesting conditions (for example, remaining working lives of employees, performance conditions). Non-market vesting conditions are included in assumptions about the number of options or shares that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options and shares that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(c) Other benefits

Other directors and employee's obligations are recorded as a liability and charged to the income statements when the Group is continually obliged or when there is a past practice that has created a constructive obligation.

Notes to the Consolidated Financial Statements (Continued)

3. Summary of significant accounting policies (Continued)

3.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.22 Revenue recognition

Revenue comprises the fair value of the sales of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Sales of goods

Sales of goods are recognised when the title to the goods has been passed to the customer, which is at the date when the customer receives and accepts the goods, and collectibility of the related receivables is reasonably assured.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

Notes to the Consolidated Financial Statements (Continued)

3. Summary of significant accounting policies (Continued)

3.23 Leases (as the lessee for operating leases)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

3.24 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3.25 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement as other income over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are recognised in the income statement as other income on a straight-line basis over the expected lives of the related assets.

Notes to the Consolidated Financial Statements (Continued)

4. Financial risk management

4.1 Financial risk factors

The activities of the Group expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk, cash flow and fair value interest rate risk, and capital risk. Financial risk management is carried out by group treasury which identifies, evaluates and hedges financial risk in accordance to policies approved by the Board of Directors.

(a) Foreign exchange risk

The Group's production depends on importation of certain raw materials and the Group is exposed to foreign currency exchange risk arising from various currency exposures primarily with respect to the United States Dollar ("USD") and the Euro. The Group is also exposed to foreign currency exchange risk arising from the bank deposits, Convertible Bonds and bank borrowings denominated in the USD. The Group did not use forward contract/derivative instruments in 2008 but may use them from time to time to hedge against certain material foreign exchange exposures.

As at 31 December 2008, assuming the exchange rate of RMB increased/decreased by 1% against the USD with all other variables remaining unchanged, the Group's post-tax profit for 2008 would have been decreased/increased by RMB20,078,970 (2007: RMB14,565,000), mainly due to the foreign exchange losses/gains on retranslation of USD-denominated Convertible Bonds and bank borrowings.

(b) Credit risk

The Group has no significant concentrations of credit risk. Most of the Group's sales are settled in cash or by cheque by its customers on delivery of goods. Credit sales are made only to selected long-term customers. The Group assesses the credit quality of its customers by taking into account various factors including their financial position and past experience. The utilization of credit limits is regularly monitored. The Group has policies in place to ensure that trade receivables are followed up in a timely manner. The balance of the trade receivables from the top 5 largest customers was RMB52,773,000 as at 31 December 2008 (2007: RMB78,718,000), representing 35% of the total balance of trade receivables at 31 December 2008 (2007: 45%).

Notes to the Consolidated Financial Statements (Continued)

4. Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by counterparties.

The table below shows the balances of five major banks at the balance sheet date. They are state-owned or listed banks in the Chinese domestic capital markets. The balance represents 82% of the total bank balances at 31 December 2008 (2007: 84%).

Cash and cash equivalents

	2008 RMB'000	2007 RMB'000
Bank of Communications Co., Ltd.	317,818	341,091
Bank of China Limited	209,723	127,852
China Citic Bank	204,077	101,058
Industrial And Commercial Bank of China Limited	168,553	72,507
China Construction Bank Corporation	166,705	174,556
	1,066,876	817,064

Notes to the Consolidated Financial Statements (Continued)

4. Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

In 2008, the Group's other loans and receivables represent time deposits denominated in RMB or USD in banks with maturities in a range from 3 months to 1 year. The interest return on these time deposits is estimated at a range from 1.35% to 4.14% per annum. These other loans and receivables are placed in state-owned banks, listed banks in the Chinese domestic capital markets or Beijing branches of international financial institutions. In 2007, the Group's other loans and receivables represented various structured deposits denominated in RMB:

	2008 RMB'000	2007 RMB'000
Bank of Communications Co., Ltd.	200,000	502,445
Bank of Beijing Co., Ltd.	94,736	—
Shanghai Pudong Development Bank	60,000	—
Agricultural Bank of China	2,050	—
Standard Chartered Bank (China) Limited, Beijing Branch	—	477,823
Industrial And Commercial Bank of China Limited	—	170,095
BNP Paribas (China) Limited	—	100,355
	356,786	1,250,718

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Unused proceeds from fund raising through issuance of shares or borrowings will be put in short-term deposits and short-term structured deposits with banks in Hong Kong and the PRC. The Group's objective is to maintain adequate cash and cash equivalents and committed credit lines to ensure sufficient and flexible funding is available to the Group.

Notes to the Consolidated Financial Statements (Continued)

4. Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Group				
At 31 December 2008				
Non-current bank borrowings	—	191,307	286,959	—
Current bank borrowings	460,235	—	—	—
Interest payable for bank borrowings	21,768	21,768	65,363	—
Convertible bonds	1,069,396	—	—	—
Trade and other payables	472,313	—	—	—
Long term payable for land use right	—	1,333	4,000	2,418
Long term payable for license fee	—	4,095	—	—
At 31 December 2007				
Non-current bank borrowings	—	—	511,322	—
Interest payable for bank borrowings	33,167	33,167	33,931	—
Convertible bonds	—	945,182	—	—
Trade and other payables	645,923	—	—	—
Long term payable for land use right	—	1,333	4,000	3,620
Long term payable for license fee	—	3,290	4,935	—

Notes to the Consolidated Financial Statements (Continued)

4. Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Company				
At 31 December 2008				
Non-current bank borrowings	—	191,307	286,959	—
Current bank borrowings	460,235	—	—	—
Interest payable for bank borrowings	21,768	21,768	65,363	—
Convertible bonds	1,069,396	—	—	—
Trade and other payables	22,372	—	—	—
At 31 December 2007				
Non-current bank borrowings	—	—	511,322	—
Interest payable for bank borrowings	33,167	33,167	33,931	—
Convertible bonds	—	945,182	—	—
Trade and other payables	35,057	—	—	—

(d) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. As at each balance sheet dates, substantially all of the Group's borrowings were carried at market lending rates.

Notes to the Consolidated Financial Statements (Continued)

4. Financial risk management (Continued)

4.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the debt-to-equity ratio. This ratio is calculated as the total of borrowings divided by capital and reserves attributable to equity holders of the Company.

As at 31 December 2008, the debt-to-equity ratio was 43.8% (including convertible bonds) (2007: 31.2%), and 20.5% (excluding convertible bonds) respectively (2007: 11.0%).

4.3 Fair value estimation

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or prices quoted from dealers for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The carrying value less impairment provision of trade receivables and payables is a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Notes to the Consolidated Financial Statements (Continued)

5. Critical accounting estimates and judgements

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

Critical accounting estimates and assumptions

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

(a) Useful lives and impairment assessment of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions.

Management will increase the depreciation charge where useful lives are less than previously estimated lives, it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations. These calculations require the use of judgment and estimates.

(b) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 3.7. The recoverable amount of cash-generating unit has been determined based on value-in-use calculations. These calculations require the use of estimates (Note 9).

(c) Useful lives of trademarks

The Group's management determines the estimated useful lives and related amortisation charges for its trademarks. This estimate is based on projected sales of those products associated with the trademark. It could change significantly as a result of competitors' actions as well as customers' taste. Management will increase the amortisation charge where useful lives are less than previously estimated lives, or it will write-off or write-down to the recoverable amount when there is any indication that the carrying amount is not recoverable.

Notes to the Consolidated Financial Statements (Continued)

5. Critical accounting estimates and judgements (Continued)

Critical accounting estimates and assumptions (Continued)

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. Management reassesses these estimates at each balance sheet date.

(e) Income taxes

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

(f) Provision for impairment of trade receivables

The Group makes provision for doubtful debts based on an assessment of the recoverability of trade receivables. Provisions are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debt expenses in the period in which such estimates has been changed.

6. Segment reporting

No business segment information of the Group is presented as the Group's revenue, expenses, assets, liabilities and capital expenditure are primarily attributable to the manufacturing and sales of juice and other beverage products. The Group's principal market is the PRC and its sales to overseas customers contributed to less than 10% of the revenues and results. Also, less than 10% of the Group's total assets are located outside the PRC. Accordingly, no geographical segment is presented.

Notes to the Consolidated Financial Statements (Continued)

7. Land use rights — Group

	2008 RMB'000	2007 RMB'000
At beginning of year		
Cost	351,959	240,158
Accumulated amortisation	(14,560)	(9,487)
Net book value	337,399	230,671
Representing:		
Opening net book amount	337,399	230,671
Additions	99,041	79,688
Acquisition of a subsidiary	—	32,113
Amortisation charge (Note 31)	(7,360)	(5,073)
Closing net book amount	429,080	337,399

Land use rights consist of prepaid lease payments for land in the PRC for the remaining period of 37–50 years (2007: for the remaining period of 38–50 years).

The Group is in the process of applying for formal legal title to land use rights amounting to RMB60,795,600 (2007: RMB50,164,600) as at 31 December 2008.

- (a) Amortisation of land use rights have been charged to the consolidated income statement as follows:

	2008 RMB'000	2007 RMB'000
Cost of sales	5,225	3,602
Administrative expenses	2,135	1,471
	7,360	5,073

- (b) There was no land use right pledged as security for borrowings as of 31 December 2008.

Notes to the Consolidated Financial Statements (Continued)

8. Property, plant and equipment — Group

	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Furniture and office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 2007						
Opening net book amount	225,115	1,253,386	38,709	11,979	276,756	1,805,945
Acquisition of a subsidiary	11,437	3,616	191	125	123,400	138,769
Additions	5,433	21,582	13,599	25,494	399,131	465,239
Transfer upon completion	94,729	259,260	1,637	6,041	(361,667)	—
Disposals	(274)	(14,560)	(13,988)	(83)	—	(28,905)
Depreciation (Note 31)	(9,136)	(115,605)	(10,550)	(4,645)	—	(139,936)
Closing net book amount	327,304	1,407,679	29,598	38,911	437,620	2,241,112
At 31 December 2007						
Cost	357,164	1,876,907	86,887	55,871	437,620	2,814,449
Accumulated depreciation	(29,860)	(469,228)	(57,289)	(16,960)	—	(573,337)
Net book amount	327,304	1,407,679	29,598	38,911	437,620	2,241,112
Year ended 31 December 2008						
Opening net book amount	327,304	1,407,679	29,598	38,911	437,620	2,241,112
Additions	26,291	24,955	22,975	23,823	963,482	1,061,526
Transfer upon completion	133,353	437,783	1,702	12,428	(585,266)	—
Disposals	(24)	(733)	(4,940)	(20,170)	(1,998)	(27,865)
Depreciation (Note 31)	(13,359)	(133,942)	(12,186)	(12,831)	—	(172,318)
Closing net book amount	473,565	1,735,742	37,149	42,161	813,838	3,102,455
At 31 December 2008						
Cost	516,783	2,338,640	105,385	69,549	813,838	3,844,195
Accumulated depreciation	(43,218)	(602,898)	(68,236)	(27,388)	—	(741,740)
Net book amount	473,565	1,735,742	37,149	42,161	813,838	3,102,455

(a) Depreciation expenses have been charged to consolidated income statement as follows:

	2008 RMB'000	2007 RMB'000
Cost of sales	141,001	115,605
Selling and marketing expenses	15,716	10,550
Administrative expenses	15,601	13,781
	172,318	139,936

(b) Lease rentals amounting to approximately RMB7,950,000 for the year ended 31 December 2008 (2007: RMB5,231,000) relating to the lease of building and machinery are included in the consolidated income statement.

Notes to the Consolidated Financial Statements (Continued)

8. Property, plant and equipment — Group (Continued)

- (c) There is no Property, plant and equipment of the Group pledged as security for bank borrowings at 31 December 2008 (2007: nil).
- (d) Buildings with net book amount approximately RMB27,688,800 as at 31 December 2008 (2007: RMB28,163,000) are built on land which the Group is in the process of applying for the land use rights.

9. Intangible assets — Group

	Goodwill RMB'000	Trademarks RMB'000	License right RMB'000	Software RMB'000	Total RMB'000
Year ended 31 December 2007					
Opening net book amount	164,232	159,126	8,213	—	331,571
Acquisition of a subsidiary	1,835	—	—	—	1,835
Amortisation charge (a) (Note 31)	—	(6,668)	(2,912)	—	(9,580)
Closing net book amount	166,067	152,458	5,301	—	323,826
At 31 December 2007					
Cost	166,067	177,905	11,863	—	355,835
Accumulated amortisation and impairment (b)	—	(25,447)	(6,562)	—	(32,009)
Net book amount	166,067	152,458	5,301	—	323,826
Year ended 31 December 2008					
Opening net book amount	166,067	152,458	5,301	—	323,826
Additions	—	—	—	439	439
Amortisation charge (a) (Note 31)	—	(5,930)	(1,073)	—	(7,003)
Closing net book amount	166,067	146,528	4,228	439	317,262
At 31 December 2008					
Cost	166,067	177,905	11,863	439	356,274
Accumulated amortisation and impairment (b)	—	(31,377)	(7,635)	—	(39,012)
Net book amount	166,067	146,528	4,228	439	317,262

- (a) Amortisation of intangible assets has been charged to “selling and marketing expenses” in the consolidated income statement.

Notes to the Consolidated Financial Statements (Continued)

9. Intangible assets — Group (Continued)

(b) Impairment tests for goodwill

The goodwill of RMB166,067,000 was generated from acquisition of certain subsidiaries, all of which are engaged in the production of juice in the PRC. Therefore, these acquired subsidiaries were collectively viewed as one cash-generating unit (“CGU”). The recoverable amount of this CGU is determined based on value-in-use calculations. Value-in-use calculations use cash flow projections based on financial forecasts approved by management covering a five-year period, and a discount rate of 4.29%. Cash flow projections during the forecast period for the CGUs are based on the expected growth rate of 15% each year during the forecast period which have been determined based on past performance and management’s expectations for the market development.

The directors are of the view that there was no impairment of goodwill as at 31 December 2008.

10. Investments in and loans to subsidiaries

(a) Investments in subsidiaries

	Company	
	2008	2007
	RMB'000	RMB'000
Unlisted equity investments, at cost:	9,594,921	9,292,046

Notes to the Consolidated Financial Statements (Continued)

10. Investments in and loans to subsidiaries (Continued)

(a) Investments in subsidiaries (Continued)

The following is a list of the principal subsidiaries at 31 December 2008:

Name	Place of incorporation	Principal activities	Registered capital	Interest held
<i>Directly held</i>				
Huiyuan Beijing Holdings Limited	The British Virgin Islands (the "BVI")	Investment holdings	US\$50,000 (US\$1 per ordinary share)	100%
Huiyuan Shanghai Holdings Limited	The BVI	Investment holdings	US\$50,000 (US\$1 per ordinary share)	100%
Huiyuan Chengdu Holdings Limited	The BVI	Investment holdings	US\$50,000 (US\$1 per ordinary share)	100%
<i>Indirectly held</i>				
¹ Beijing Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US\$40,000,000	100%
¹ Beijing Huiyuan Group Huanggang Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	RMB300,000,000	100%
¹ Beijing Huiyuan Group Kaifeng Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	RMB200,000,000	100%
¹ Harbin Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	RMB200,000,000	100%
¹ Jiujiang Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	RMB200,000,000	100%
¹ Beijing Huiyuan Beverage & Food Group Chengdu Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	RMB250,000,000	100%
¹ Beijing Huiyuan Group Xianyang Beverage & Food Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	RMB200,000,000	100%
¹ Shanghai Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US\$40,000,000	100%
¹ Beijing Xinyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US\$40,000,000	100%
¹ Luzhong Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US\$50,000,000	100%
¹ Xinjiang Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	RMB20,000,000	100%
¹ Hebei Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	RMB80,000,000	100%
¹ Qiqihaer Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US\$15,000,000	100%
¹ Jilin Huiyuan Food & Beverage Co., Ltd.*	The PRC	Manufacture of fruit and vegetable juices	US\$20,000,000	100%
¹ Jinzhou Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US\$29,990,000	100%
¹ Jiangxi Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US\$29,000,000	100%
¹ Guilin Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US\$10,000,000	100%
¹ Shanxi Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US\$20,000,000	100%
¹ Anhui Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US\$29,800,000	100%
¹ Dezhou Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US\$40,000,000	100%
¹ Tai'an Huiyuan Food & Beverage Co., Ltd.*	The PRC	Manufacture of fruit and vegetable juices	US\$14,000,000	100%
¹ Jiangsu Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US\$13,000,000	100%
¹ Yanbian Huiyuan Food & Beverage Co., Ltd.*	The PRC	Manufacture of fruit and vegetable juices	US\$10,000,000	100%

Notes to the Consolidated Financial Statements (Continued)

10. Investments in and loans to subsidiaries (Continued)

(a) Investments in subsidiaries (Continued)

Name	Place of incorporation	Principal activities	Registered capital	Interest held
¹ Shandong Huiyuan Food & Beverage Co., Ltd.*	The PRC	Manufacture of fruit and vegetable juices	US\$12,000,000	100%
¹ Beijing Huiyuan biotechnology Co., Ltd.*	The PRC	Manufacture of fruit and vegetable juices	US\$10,000,000	100%
¹ Benxi Huiyuan Food & Beverage Co., Ltd.*	The PRC	Manufacture of fruit and vegetable juices	RMB80,000,000	100%
¹ Dangshan Huiyuan Food & Beverage Co., Ltd.*	The PRC	Manufacture of fruit and vegetable juices	RMB30,000,000	100%
¹ Zhongxiang Huiyuan Food & Beverage Co., Ltd.*	The PRC	Manufacture of fruit and vegetable juices	USD \$20,000,000	100%

1. The English names of these companies represent management's best efforts at translating the Chinese names of these companies as no English names have been registered.

* These subsidiaries were newly established during the year of 2008, the issued share or registered capital of which amounted to USD66,000,000 and RMB110,000,000.

(b) Loans to subsidiaries

The loans to subsidiaries are unsecured, interest free, denominated in USD and EUR, and repayable over three years. The fair values of loans to subsidiaries are RMB1,029,317,000 (2007: 951,726,000), which are based on cashflows discounted using a rate based on the borrowing rate of 4.29% per annum (2007: 6.49% per annum). The discounted rate equals to LIBOR plus a margin depending on credit rating.

11. Derivative financial instruments

	2008 RMB'000	2007 RMB'000
Interest rate swaps	882	1,568

The notional amount of the outstanding interest rate swap contracts as at 31 December 2008 was USD70,000,000 (2007: USD70,000,000). The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet.

Notes to the Consolidated Financial Statements (Continued)

12. Other loans and receivables — Group

	2008 RMB'000	2007 RMB'000
Other loans and receivables	356,786	1,250,718

In 2008, other loans and receivables represent time deposits denominated in RMB or USD in banks with maturities in a range from 3 months to 1 year. The interest return on these time deposits ranged from 1.35% to 4.14% per annum. Balances due within 12 months approximate their carrying balances, as the impact of discounting is not significant. In 2007, balance represented various structured deposits denominated in RMB.

Other loans and receivables are presented within “investing activities” as part of changes in working capital in the cashflow statement.

13. Deferred tax assets — Group

	2008 RMB'000	2007 RMB'000
Amortisation of trademark	8,610	9,037
Tax losses	7,611	160
Government grants received	5,510	5,328
Provision for impairment of inventories	3,370	4,596
Provision for impairment of property, plant and equipment	2,223	3,841
Provision for impairment of receivables	515	498
Other temporary differences	3,231	632
	31,070	24,092

Notes to the Consolidated Financial Statements (Continued)

13. Deferred tax assets — Group (Continued)

The movement in deferred tax assets is as follows:

	Provisions RMB'000	Deferred government grants RMB'000	Amortisation of trademark RMB'000	Tax losses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2007	4,729	7,388	8,932	—	203	21,252
Credited/(Charged) to consolidated income statement	4,206	(2,060)	105	160	429	2,840
At 31 December 2007	8,935	5,328	9,037	160	632	24,092
Credited/(Charged) to consolidated income statement	(2,827)	182	(426)	7,450	2,599	6,978
At 31 December 2008	6,108	5,510	8,611	7,610	3,231	31,070

Deferred income tax assets are recognised for tax losses carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB19,523,000 (2007: RMB13,675,000) in respect of losses amounting to RMB78,093,000 (2007: RMB54,698,000) that can be carried forward against future taxable income. Losses amounting to RMB10,566,000 (2007: nil) and RMB67,527,000 (2007: RMB54,698,000) will expire in 2010 and the year after 2010 respectively.

14. Trade and other receivables — Group

	2008 RMB'000	2007 RMB'000
Trade receivables	141,869	164,668
Related parties (a) (Note 41(c))	1,367	2
Third parties (a)	149,427	173,381
Less: Provision for impairment of receivables (a)	(8,925)	(8,715)
Bills receivable — third parties (b)	121,137	68,729
Prepayments of raw materials and others	318,297	402,265
Related parties (Note 41(c))	86,765	220,757
Third parties	231,532	181,508
Other receivables	62,363	30,533
Related parties (Note 41(c))	5,016	14,717
Third parties	57,347	15,816
	643,666	666,195

Notes to the Consolidated Financial Statements (Continued)

14. Trade and other receivables — Group (Continued)

The carrying amounts of receivables approximate their fair values.

- (a) Credit risk with respect to trade receivables is not significant, as the Group has a large number of customers, which are widely dispersed within the PRC. The majority of the Group's sales are settled in cash or by cheque on delivery of goods. The remaining amounts are with credit terms of 90–180 days. As at 31 December 2008 and 2007, the ageing analysis of the trade receivables was as follows:

— Third parties

	2008 RMB'000	2007 RMB'000
Within 3 months	96,862	143,015
Between 4 and 6 months	11,023	25,653
Between 7 and 12 months	23,066	4,573
Between 1 and 2 years	18,476	140
	149,427	173,381

— Related parties

	2008 RMB'000	2007 RMB'000
Within 3 months	1,367	2
	1,367	2

Movements on the provision for impairment of trade receivables are as follows:

	2008 RMB'000	2007 RMB'000
At 1 January	(8,715)	(7,886)
Provision for impairment of receivables	(210)	(829)
At 31 December	(8,925)	(8,715)

Notes to the Consolidated Financial Statements (Continued)

14. Trade and other receivables — Group (Continued)

(a) (Continued)

As at 31 December 2008, except for those balances to be collected as agreed schedule, there is no trade receivable past due but not impaired. Trade receivables of RMB8,925,000 (2007: RMB8,715,000) were past due and fully provided of. The individually impaired receivables mainly relate to customers, which are in unexpected difficult economic situations. The ageing of these receivables is as follows:

	2008 RMB'000	2007 RMB'000
3 to 6 months	210	4,002
Over 6 months	8,715	4,713
	8,925	8,715

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2008 RMB'000	2007 RMB'000
Renminbi Yuan	129,829	160,360
U.S. Dollar	12,040	4,308
	141,869	164,668

The creation and release of provision for impaired receivables have been included in administrative expenses in the consolidated income statement (Note 31). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(b) Bills receivable

Bills receivable are bills of exchange with maturity dates of less than 6 months and are non-interest bearing.

There are no bills receivable pledged as security for bank borrowings as at 31 December 2008 (2007: nil).

Notes to the Consolidated Financial Statements (Continued)

15. Long term prepayment

Long term prepayment represents payments to acquire distribution networks from certain major distributors by the Group in May 2008. It was classified as an intangible asset as at 30 June 2008 based on management's judgement and by taking into account of management's intention which was to complete the transfer of the distribution networks ownership within 2008. As of 31 December 2008, due to certain commercial reasons and changes of circumstances in the second half of 2008, the transfers have not been completed and these payments were therefore tentatively reclassified as long term prepayments. The balance will be transferred to intangible assets subsequently upon the completion of taking-over of the distribution network ownership and will be amortised over the expected beneficial lives of the distribution networks.

16. Inventories — Group

	2008 RMB'000	2007 RMB'000
Raw materials	630,917	665,775
Finished goods	129,643	76,269
	760,560	742,044

The cost of inventories recognised as expenses and included in "cost of sales" amounted to RMB1,564,620,000 (2007: RMB1,404,456,000).

Notes to the Consolidated Financial Statements (Continued)

17. Restricted cash

Restricted cash comprised bank deposits for maintenance of banking facilities and settlement of notes payable.

18. Cash and cash equivalents

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Cash at banks and cash in hand				
Denominated in				
— Renminbi Yuan	1,282,636	1,218,763	58	77
— Hong Kong Dollar	114,412	1,052	42	568
— U.S. Dollar	3,426	76,677	25,487	75,191
— Euro	502	3,761	—	55
	1,400,976	1,300,253	25,587	75,891
Less: Restricted cash (Note 17)				
— fixed deposits over 3 months	—	(2,475)	—	—
— guarantee	(94,355)	(7,558)	—	—
	1,306,621	1,290,220	25,587	75,891

At present, Renminbi is not a freely convertible currency in the international market. The conversion of Renminbi into foreign currency and remittance of Renminbi out of the PRC is subject to the rules and regulation of exchange control promulgated by the PRC government.

Notes to the Consolidated Financial Statements (Continued)

19. Share capital and share premium

	Number of shares of USD 0.00001 each (Thousands)	Share capital RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2008 and 31 December 2008	1,468,817	114	3,716,982	3,717,096
At 1 January 2007	—	—	—	—
Shares issued to the existing shareholders (a)	828,425	64	—	64
Shares issued pursuant to the Global Offering (b, c)	619,073	48	3,682,122	3,682,170
Shares converted from convertible bonds (d)	21,319	2	231,800	231,802
Listing expenses	—	—	(196,940)	(196,940)
At 31 December 2007	1,468,817	114	3,716,982	3,717,096

The following changes in the Company's authorised and issued share capital took place during 2008:

- On 23 February 2007, the Company issued an aggregate of 828,424,999 shares of US\$0.00001 each to the then shareholders of the other companies comprising the Group in exchange for the entire equity interests of the BVI Companies, in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited.
- In addition, on 23 February 2007, the Company completed its placing and public offering of shares ("Global Offering") by issuing 559,072,502 shares of US\$0.00001 each at a price of HK\$6 per share (including 159,072,502 shares issued to an existing shareholder). The Company's shares were then listed on Main Board of The Stock Exchange of Hong Kong Limited.
- On 1 March 2007, an over-allotment option was exercised by the Company's underwriters and an additional 60,000,000 shares of US\$0.00001 each were issued at a price of HK\$6 per share.

Total proceeds from the share issues described in (b) and (c) above amounted to approximately RMB3,682,170,000. After deducting listing expenses of approximately RMB196,940,000, the net proceeds from these share issues amounted to approximately RMB3,487,789,000.

- As at 31 December 2007, bonds with face value US\$14,000,000 had been converted in to ordinary shares of the Company at the price of HK\$5.1 during the period from August to October 2007. Accordingly, ordinary shares of the Company increased by 21,318,607 shares as at 31 December 2007.

Notes to the Consolidated Financial Statements (Continued)

20. Retained earnings

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
At 1 January	828,084	263,754	328,352	(185)
Profit/(loss) for the year	88,940	640,217	(141,763)	328,537
Profit appropriation to statutory reserves	(26,589)	(33,053)	—	—
Transfer to capital reserve	—	(42,834)	—	—
Dividends paid	(158,849)	—	(158,849)	—
At 31 December	731,586	828,084	27,740	328,352

21. Other reserves

Group

	Capital reserve	Statutory reserve fund	Staff welfare fund	Share-based compensation reserve	Other reserves	Total
	RMB'000 Note (a)	RMB'000 Note (b)	RMB'000 Note (b)	RMB'000	RMB'000	RMB'000
Balance at 1 January 2008	—	95,950	16,523	3,567	—	116,040
Profit appropriation to statutory reserves	—	26,589	—	—	—	26,589
Share-based payment expenses	—	—	—	13,192	—	13,192
Staff welfare funds payment	—	—	(16,523)	—	—	(16,523)
Balance at 31 December 2008	—	122,539	—	16,759	—	139,298
Balance at 1 January 2007	1,258,036	62,897	16,523	—	(53,795)	1,283,661
Effect of Reorganisation	(64)	—	—	—	—	(64)
Profit appropriation to statutory reserves	—	33,053	—	—	—	33,053
Deemed distribution to equity holders	(1,300,806)	—	—	—	—	(1,300,806)
Share-based payment expenses	—	—	—	3,567	—	3,567
Transfer of share issuance costs to share premium	—	—	—	—	53,795	53,795
Transfer from retained earnings	42,834	—	—	—	—	42,834
Balance at 31 December 2007	—	95,950	16,523	3,567	—	116,040

Notes to the Consolidated Financial Statements (Continued)

21. Other reserves (Continued)

Company

	Capital reserve RMB'000	Share-based compensation reserve RMB'000	Other reserves RMB'000	Total RMB'000
Balance at 1 January 2008	4,927,242	3,567	—	4,930,809
Share-based payment expenses	—	13,192	—	13,192
Balance at 31 December 2008	4,927,242	16,759	—	4,944,001
Balance at 1 January 2007	—	—	(53,795)	(53,795)
Effect of Reorganisation	6,228,048	—	—	6,228,048
Deemed distribution to equity holders	(1,300,806)	—	—	(1,300,806)
Share-based payment expenses	—	3,567	—	3,567
Transfer of share issuance costs to share premium	—	—	53,795	53,795
Balance at 31 December 2007	4,927,242	3,567	—	4,930,809

(a) Capital reserve

Capital reserve as at 1 January 2007 represented the aggregate capital contributed by the then equity holders of the Group.

(b) Statutory reserves

Under the relevant PRC laws and regulations, PRC companies are required to appropriate a certain percentage of their respective net profit to two statutory funds — the statutory reserve fund and the statutory staff welfare fund. Details of the two funds are as follows:

(i) Statutory reserve fund

PRC companies are required to allocate 10% of the companies' net profit to the fund until such fund reaches 50% of the companies' registered capital. The statutory reserve fund can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the companies, provided that such fund is maintained at a minimum of 25% of the companies' registered capital.

(ii) Staff welfare fund

Percentage to be appropriated to the staff welfare fund and determined by board of directors of PRC companies. This fund can only use to provide staff welfare facilities and other collective benefits to the companies' employees. This fund is non-distributable other than in liquidation.

Notes to the Consolidated Financial Statements (Continued)

22. Share option and Pre-IPO share option

(a) Pre-IPO Share Option Scheme

The Company adopted the Pre-IPO Share Option Scheme (“Pre-IPO Share Option Scheme”) on 30 January 2007, which became effective on 23 February 2007, the Listing Date. The purpose of the Pre-IPO Share Option Scheme is to provide certain members of senior management of the Group an opportunity to have a personal stake in the Company and motivate the grantees to optimize their performance and efficiency to facilitate the long-term growth and profitability of the Group. The principal terms of the Pre-IPO Share Option Scheme, as approved on 30 January 2007 are similar to the terms of the Share Option Scheme (“Share Option Scheme”) approved on 30 January 2007 except for the following:

- (i) the subscription price per share shall be the Offer Price per share; and
- (ii) save for the options which have been granted before 23 February 2007, i.e., the Listing Date, no further options will be offered or granted, as the right to do so will end upon the Listing Date.

The terms of the Pre-IPO Share Option Scheme and the Share Option Scheme were same as those disclosed in the 2007 Annual Report.

The provisions of the Pre-IPO Share Option Scheme shall remain in full force and effect for a period of 10 years from 23 February 2007.

Under the Pre-IPO Share Option Scheme, each option has a 10-year exercise period within which there is a total vesting period of 3 years. Commencing from the first, second and third anniversaries of the date of grant of an option, the relevant grantee may exercise up to 30%, 60%, and 100%, respectively, of the shares comprised in his or her option.

Date of grant	Number of option outstanding as at 31 December 2007	Number of options lapsed or cancelled during the year ⁽¹⁾	Number of options exercised during the year	Number of options outstanding as at 31 December 2008	Date of expiry	Exercise price (HK\$)
25 February 2008	1,700,000	(700,000)	—	1,000,000	22 February 2017	6.00

Note:

- (1) Mr. Matthew Gene Mouw resigned in September 2008.

Notes to the Consolidated Financial Statements (Continued)

22. Share option and Pre-IPO share option (Continued)

(a) Pre-IPO Share Option Scheme (Continued)

The Pre-IPO options outstanding as at 31 December 2008 have the following vesting dates and weighted average exercise price:

Vesting Date	2008		2007	
	Exercise price (per share) HK\$	Outstanding options (Thousands)	Exercise price (per share) HK\$	Outstanding options (Thousands)
23 February, 2008	6	300	6	720
23 February, 2009	6	300	6	720
23 February, 2010	6	400	6	960
	6	1,000	6	2,400

As at 31 December 2008, a total of 1,000,000 shares (representing approximately 0.07% of the existing issued share capital of the Company) may be issued by the Company upon exercise of all options which had been granted under the Pre-IPO Share Option Scheme.

(b) Share Option Scheme

The Company adopted the Share Option Scheme on 30 January 2007 which has become effective on 23 February 2007, the Listing Date. The purpose of the Share Option Scheme is to provide incentive and/or reward to any director or employee of the Group or of any entity in which the Company has equity interest, any executive of the controlling shareholder of the Group, and any other person (including any consultant, adviser, distributor, contractor, supplier, agent, customer, business partner, joint venture business partner, promoter or service provider of any member of the Group) who in the sole discretion of the Board has contributed or will contribute to the Group for their contribution to the Group and their continuing efforts to promote the Group's interests.

The Board may, at its absolute discretion, offer an option to eligible person to subscribe for the shares at an exercise price and subject to the other terms of the Share Option Scheme.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not in aggregate exceed 138,749,750 shares of the Company, being 10% of the total number of shares in issue immediately prior to the date on which dealings in the Shares commenced on The Stock Exchange of Hong Kong Limited. The Share Option Scheme will remain in force for a period of 10 years from 23 February 2007. Under the Share Option Scheme, each option has a 10-year exercise period. The subscription price per share shall be the market price on the grant date.

Notes to the Consolidated Financial Statements (Continued)

22. Share option and Pre-IPO share option (Continued)**(b) Share Option Scheme** (Continued)

35,450,000 share options granted under the Share Option Scheme on 25 February 2008 have a vesting period of five years. Commencing from the first, second, third and fourth anniversary of the date of grant, the relevant grantee may exercise up to 25%, 50%, 75% and 100%, respectively, of the shares comprised in his or her option.

Date of grant	Number of underlying shares comprised in the options as at date of grant	Number of underlying shares comprised in the options lapsed or cancelled in 2008	Number of underlying shares comprised in the options exercised in 2008	Number of underlying shares comprised in the options outstanding as at 31 December 2008	Date of expiry	Exercise price (HK\$)
25 February 2008	35,450,000	6,489,500	—	28,960,500	25 February 2018	6.39

(c) Fair value of share options

The fair value of the Pre-IPO Share Options and the Share Options granted has been valued by an independent qualified valuer using the Binomial valuation model.

	2008 RMB'000	2007 RMB'000
Fair value of Pre-IPO Share Options granted on 30 January 2007	6,853	6,853
Fair value of the Share Options granted on 25 February 2008	23,823	—
	30,676	6,853

Notes to the Consolidated Financial Statements (Continued)

22. Share option and Pre-IPO share option (Continued)

(c) Fair value of share options (Continued)

The details of fair values and significant inputs into the model were as follows:

Grant date	25 January 2008	23 February 2007
Spot share price (HK\$)	6.39	9
Strike price (HK\$)	6.39	6
Expected volatility	44.81%	34.40%
Maturity (years)	10	10
Interest rate	3.64%	4.26%
Dividend yield	2.87%	1.13%
Suboptimal exercise factor	1.5	1.5

The expected volatility is estimated by making reference to the volatility of the Company and the other companies with similar backgrounds and/or nature of business as the Company.

Fair values of the Pre-IPO Share Options and the Share Options are charged to the income statement over the vesting periods of the options. Total share option expenses charged to the consolidated income statement for year 2008 amounted to RMB13,192,000 (2007: 3,567,000).

23. Trade and other payables

Group

	2008 RMB'000	2007 RMB'000
Trade payables (a)(b)	152,691	275,116
Related parties (Note 41(c))	3,994	8,161
Third parties	148,697	266,955
Other payables	319,622	370,807
Related parties (Note 41(c))	466	138
Third parties (c)	319,156	370,669
	472,313	645,923

Notes to the Consolidated Financial Statements (Continued)

23. Trade and other payables (Continued)

(a) Details of ageing analysis of trade payables are as follows:

— *Third parties*

	2008 RMB'000	2007 RMB'000
Within 3 months	138,743	254,045
Between 4 and 6 months	3,999	5,806
Between 7 and 12 months	2,312	3,252
Between 1 and 2 years	2,051	699
Between 2 and 3 years	174	979
Over 3 years	1,418	2,174
	148,697	266,955

— *Related parties*

	2008 RMB'000	2007 RMB'000
Within 3 months	3,438	8,161
Between 4 and 6 months	357	—
Between 7 and 12 months	199	—
	3,994	8,161

(b) The carrying amounts of the Group's trade payables were denominated in the following currencies:

	2008 RMB'000	2007 RMB'000
Renminbi Yuan	145,429	223,698
U.S. Dollar	7,233	45,860
Euro	29	5,558
	152,691	275,116

Notes to the Consolidated Financial Statements (Continued)

23. Trade and other payables (Continued)

(c) Details of other payables — third parties are as follows:

	2008 RMB'000	2007 RMB'000
Payable for property, plant and equipment	145,387	82,562
Deposits payable	45,753	46,681
Accrued expenses	30,521	38,417
Advance from customers	27,206	71,884
Salary and welfare payable	23,542	30,109
Advertising and other marketing expenses payable	21,709	17,810
Other taxes	4,794	69,469
Payable for land use rights	3,714	—
Others	16,530	13,737
	319,156	370,669

Company

	2008 RMB'000	2007 RMB'000
Payable for interest of borrowing	12,034	15,606
Payable for expenses	10,338	19,451
	22,372	35,057

24. Borrowings

Bank borrowings	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Non-current	478,266	511,322	478,266	511,322
Current	460,235	—	460,235	—
Total borrowings	938,501	511,322	938,501	511,322
Borrowings:				
Unsecured	938,501	511,322	938,501	511,322

Notes to the Consolidated Financial Statements (Continued)

24. Borrowings (Continued)

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates was as follows:

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
— Within 6 months	938,501	511,322	938,501	511,322

The maturity dates of the borrowings were analysed as follows:

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
— Within 1 year	460,235	—	460,235	—
— Between 1 and 2 years	191,307	—	191,307	—
— Between 2 and 5 years	286,959	511,322	286,959	511,322
	938,501	511,322	938,501	511,322

The annual effective interest rates at the balance sheet dates were as follows:

	Group		Company	
	2008	2007	2008	2007
Bank borrowings	4.29%	6.49%	4.29%	6.49%

The carrying amounts of long-term borrowings approximate their fair value.

The Group's borrowings at the balance sheet dates were denominated in the following currencies:

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
U.S. Dollar	938,501	511,322	938,501	511,322

The Group had no borrowings secured by property, plant and equipment, land use right or guarantees given by related parties.

The Group had no undrawn borrowing facilities as at 31 December 2008 (2007: nil).

Notes to the Consolidated Financial Statements (Continued)

25. Deferred government grants — Group

	2008 RMB'000	2007 RMB'000
Opening net amount at beginning of year	65,662	70,612
Additions	1,060	2,079
Amortisation credit (Note 29)	(1,713)	(7,029)
Closing net amount at end of year	65,009	65,662
At end of year		
Cost	78,455	114,616
Accumulated amortisation	(13,446)	(48,954)
Net book amount	65,009	65,662

Analysis of government grants received/receivable by the Group was as follows:

	2008 RMB'000	2007 RMB'000
For acquisition of land use right	39,195	43,835
For acquisition of property, plant and equipment	34,969	38,489
For operating expenses over certain periods of time	—	27,500
Others	4,291	4,792
	78,455	114,616

26. Long-term payable for land use right — Group

Long-term payable on acquisition of certain land use right is payable in equal annual installment over 15 years. Such balances are unsecured and non-interest bearing. The payable is measured at fair value being future cash outflows discounted at market interest rates on similar borrowings.

Notes to the Consolidated Financial Statements (Continued)

27. Convertible bonds

	2008 RMB'000	2007 RMB'000
Convertible bonds due 2011, liability component	517,082	504,564
Fair value of embedded derivatives	552,314	440,618
	1,069,396	945,182

On 5 February 2007, the Company, China HuiYuan Juice Holdings Co., Ltd., the then holding company of the Company, and the holders of convertible bonds issued by China Hui Yuan Juice Holdings Co., Ltd. in June 2006 (the "June 2006 Convertible Bond"), entered into an agreement (the "Agreement") pursuant to which the Company agreed to issue an aggregate of US\$85,000,000 (equivalent to approximately RMB663,000,000) convertible bonds due 28 June 2011 (the "Convertible Bonds") and an additional US\$675,000 (equivalent to approximately RMB5,265,000) convertible bonds as an interest payment in kind (the "PIK") to the holders of the June 2006 Convertible Bond in exchange for the surrender of the June 2006 Convertible Bonds by the holders. The Convertible Bonds have the same terms and conditions as the June 2006 Convertible Bonds.

Upon completion of the Agreement on 23 February 2007, the Company recorded the estimated fair value of the Convertible Bonds as a distribution to equity holders.

The major terms and conditions of the Convertible Bonds are as follows:

(i) Interest rate:

The Company shall pay an interest on the Convertible Bonds at 2.0% per annum prior to the date on which dealings in the Company's shares first commence on The Stock Exchange of Hong Kong Limited (the "Listing Date") and 2.5% per annum following the Listing Date. A bondholder may (but is not obliged to) elect to receive some or all of the interest payments payable to it on any interest payment date by way of receipt of Convertible Bonds with an equivalent principal amount.

(ii) Conversion price:

Each one of the bondholder has the right to convert any outstanding Convertible Bonds into the ordinary shares of the Company at 85% of the offer price upon the Company's initial public offering of shares (the "Offer Price" amounted to HK\$6).

Notes to the Consolidated Financial Statements (Continued)

27. Convertible bonds (Continued)

(iii) Maturity

The Company must redeem any outstanding Convertible Bonds on 28 June 2011 at a price that will enable the bondholders to receive a 7.5% internal return rate on the principal amount of the Convertible Bonds being redeemed (excluding any additional Convertible Bonds received as interest payment in kind).

(iv) Redemption

On 28 June 2009, each one of the bondholder has an option, subject to the approval of the majority of bondholders, to require the Company to redeem the outstanding Convertible Bonds held by it at a price as determined under the Agreement.

As at 28 December 2007 and 27 June 2008, Convertible Bonds issued upon exercise of the PIK option of the Convertible Bonds had face values of US\$830,000 and US\$821,000 respectively.

As at 31 December 2007, bonds with a face value US\$14,000,000 have been converted into ordinary shares of the Company at a price of HK\$5.1 per share during the period from August to October 2007. Accordingly, ordinary shares of the Company increased by 21,318,607 shares as at 31 December 2007. There was no conversion of bonds during 2008.

The fair value of the Convertible Bonds was determined by an independent qualified valuer based on the Binomial valuation model. The fair value of the liability component on initial recognition was valued using a discounted cashflow model. The fair value of the conversion rights, together with redemption rights and interest settlement option as a single derivative (the "conversion right") was valued by estimating the value of the whole bond with and without the conversion feature. The difference in value reflects the value of the conversion right.

Notes to the Consolidated Financial Statements (Continued)

27. Convertible bonds (Continued)

	RMB'000
Fair value of conversion right as at 31 December 2007	440,618
Add: Fair value of conversion right of the bonds issued upon exercise of PIK option	2,027
Less: Fair value of conversion right as at 31 December 2008	(552,314)
Fair value change of conversion right	(109,669)

The fair value change in the conversion right, redemption right and interest settlement option for the year is negative RMB109,669,000 (2007: positive RMB136,050,000), which is recognised in the consolidated income statement and disclosed separately. The related interest expense of the liability component of the Convertible Bonds for the year ended 31 December 2008 amounted to RMB53,882,000 (2007: RMB50,515,000), which is calculated using the effective interest method with an effective interest rate of 11.38%.

	RMB'000
Liability component as at 31 December 2007	504,564
Add: Interest expense for the year (Note 33)	53,822
Less: Interest payment during the year	(6,724)
Interest changed to conversion of bonds issued on PIK option	(2,027)
Unrealised exchange gain (Note 33)	(32,553)
Liability component as at 31 December 2008	517,082

As of December 2008, the convertible bonds have been reclassified as current liabilities due to the 28 June 2009 redemption option.

The Company engaged an international valuer to value the fair value of the conversion right of Convertible Bonds based on the share price of the Company and other relevant parameters as of 31 March 2009 after the cessation of the Coca Cola-Huiyuan Offer Period (refer to note 42 for details). This valuation would have resulted in an unrealized gain of approximately RMB348.8 million from the fair value change in the conversion right of Convertible Bonds for the 3 months ended 31 March 2009.

Notes to the Consolidated Financial Statements (Continued)

28. Revenue

	2008 RMB'000	2007 RMB'000
Sales		
Juice	2,647,510	2,497,945
Other beverages	172,229	158,392
Total	2,819,739	2,656,337

The Group made barter sales of approximately RMB83,302,016 (2007: RMB27,728,000) during the year in exchange for transportation vehicles, refrigerators and advertising services.

29. Other income, net

	2008 RMB'000	2007 RMB'000
Interest income from other loans and receivables	30,735	5,238
Subsidy income	20,084	4,926
Net income from sales of raw materials and scrap	19,278	33,053
Gain on disposals of property, plant and equipment	1,787	3,038
Amortisation of deferred government grants	1,713	7,029
Rental income from property, plant and equipment	1,605	1,530
Donation to China Charity Federation and China Red Cross	(8,337)	(3)
Others	5,792	15,736
	72,657	70,547

30. Other gains

	2008 RMB'000	2007 RMB'000
Derivative instruments:		
— forward contracts	—	21,852
— interest rate swap product	1,849	1,568
	1,849	23,420

Notes to the Consolidated Financial Statements (Continued)

31. Expenses by nature

	2008 RMB'000	2007 RMB'000
Raw materials used and changes in inventories (Note 16)	1,564,620	1,404,456
Advertising and other marketing expenses	468,025	428,513
Depreciation of property, plant and equipment (Note 8)	172,318	139,936
Water and electricity	121,512	99,192
Employee benefit expense (Note 32)	110,680	108,228
Transportation and related charges	92,054	103,124
Repairs and maintenance	44,006	40,979
Office and communication expenses	18,234	14,179
Land use tax	14,962	2,414
Amortisation of land use rights and intangible assets (Note 7, 9)	14,363	14,653
Travelling expense	13,163	9,627
Rental expenses	7,950	5,231
Auditors' remuneration	4,300	4,500
Provision for impairment of inventories	2,152	941
Consulting fee	1,921	1,101
Provision for impairment of receivables	210	829
Other expenses	28,347	31,481
Total cost of sales, distribution costs and administrative expenses	2,678,817	2,409,384

32. Employee benefit expense

	2008 RMB'000	2007 RMB'000
Wages and salaries	93,420	93,427
Contributions to pension plan and other benefits	4,068	11,234
Share-based payment	13,192	3,567
	110,680	108,228

- (a) The employees of the Group participate in certain defined contribution pension plans organised by the relevant municipal and provincial government under which the Group are required to make monthly defined contributions to this plan at a certain rate of the employees' basic salary dependent upon the applicable local regulations.

Notes to the Consolidated Financial Statements (Continued)

32. Employee benefit expense (Continued)

(b) Directors' emoluments

The aggregate amounts of the emoluments paid and payable to the directors of the Company by companies comprising the Group during the year were as follows:

	2008 RMB'000	2007 RMB'000
Salaries, wages and bonuses	5,193	2,911
Contributions to pension plan	50	49
Welfare and other expenses	52	54
	5,295	3,014

The emoluments of the directors were as follows:

Name of director	2008			Total RMB'000
	Salaries, wages and bonuses RMB'000	Contributions to pension plan RMB'000	Welfare and other expenses RMB'000	
Zhu Xinli	2,879	30	30	2,939
Jiang Xu	314	20	22	356
Wu Chungkuan	1,200	—	—	1,200
Sun Qiang	—	—	—	—
Qin Peng	—	—	—	—
Wang Bing	200	—	—	200
Zhao Yali	200	—	—	200
Tsui Yiu Wa	200	—	—	200
Song Quanhou	200	—	—	200

Notes to the Consolidated Financial Statements (Continued)

32. Employee benefit expense (Continued)**(b) Directors' emoluments** (Continued)

Name of director	2007			Total RMB'000
	Salaries, wages and bonuses RMB'000	Contributions to pension plan RMB'000	Welfare and other expenses RMB'000	
Zhu Xinli	872	18	17	907
Jiang Xu	185	17	14	216
Lu Changqing	286	14	16	316
Qin Peng	—	—	—	—
Sun (Chang) Qiang	—	—	—	—
Leng Xuesong	—	—	—	—
Wang Bing	200	—	—	200
Zhao Yali	200	—	—	200
Tsui Yiu Wa	200	—	—	200
Wu Chungkuan	785	—	7	792
Song Quanhou	183	—	—	183

None of the directors waived any emoluments during the years ended 31 December 2008 and 2007.

During the year, no emoluments have been paid to the directors as an inducement to join or as compensation for loss of office (2007: nil).

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group were as follows:

	2008	2007
Directors	2	2
Other senior management	3	3

Notes to the Consolidated Financial Statements (Continued)

32. Employee benefit expense (Continued)

(c) Five highest paid individuals (Continued)

The five highest paid individuals include two (2007: two) directors whose emoluments were reflected in the analysis presented in Note 32(b). Details of remuneration of members of other senior management amongst the five highest paid individuals were as follows:

	2008 RMB'000	2007 RMB'000
Salaries, wages and bonuses	2,077	1,796
Contributions to pension plan	30	41
Welfare and other expenses	34	41
Share option expenses	1,336	2,098
	3,477	3,976

The emoluments of these members of senior management fell within the following band:

	Number of individuals	
	2008	2007
Nil–HK\$1,000,000 (equivalent to approximately RMB881,900)	2	3
Above HK\$1,000,000	1	—

33. Finance income/(cost) — net

	2008 RMB'000	2007 RMB'000
Interest income:		
— from bank deposits	10,883	38,505
— from money market funds	—	40,816
	10,883	79,321
Interest expenses:		
— Bank borrowings	(31,842)	(46,006)
— Interest expense relating to Convertible Bonds (Note 27)	(53,822)	(50,515)
Less: Interest capitalised	18,787	8,063
	(66,877)	(88,458)
Exchange gain/(loss) (excluding Convertible Bonds)	36,532	(29,010)
Exchange gain on liability component of Convertible bonds (Note 27)	32,553	31,968
	13,091	(6,179)
Weighted average effective interest rates used to calculate capitalisation amount	4.29%	6.69%

Notes to the Consolidated Financial Statements (Continued)

34. Income tax expense

	2008 RMB'000	2007 RMB'000
Current income tax — PRC enterprise income tax	36,888	40,228
Deferred income tax credit (Note 13)	(6,978)	(2,840)
	29,910	37,388

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate of companies comprising the Group as follows:

	2008 RMB'000	2007 RMB'000
Profit before tax	118,850	677,605
Tax calculated at the statutory tax rates of 25% (2007: 33%)	29,713	223,610
Tax effect:		
Fair value change in conversion right of convertible bonds not subject to tax	27,418	(44,897)
One-off interest income from share subscription not subject to tax	—	(68,249)
Expense not deductible for tax purposes	14,200	10,265
Tax losses for which no deferred income tax asset was recognised	6,064	8,112
Preferential tax rates on the income of certain subsidiaries	(39,883)	(86,523)
Income not subject to tax	(7,602)	(4,930)
Income tax expense	29,910	37,388

Notes to the Consolidated Financial Statements (Continued)

34. Income tax expense (Continued)

Hong Kong profits tax has not been provided as the Group has no assessable profit derived from Hong Kong.

PRC enterprise income tax is provided on the basis of the profit for statutory financial reporting purposes, adjusted for income and expenses items which are not assessable or deductible for income tax purpose. In 2007, the applicable enterprise income tax rate for the companies of the Group was 33%, which comprises 30% attributable to national enterprise income tax and 3% attributable to local municipal income tax.

The National People's Congress of the PRC approved the Unified CIT Law (the "New Tax Law") on 16 March 2007. With effective from 1 January 2008, the tax rate subject to the Group is 25%, with certain grandfathering provisions and preferential provisions, except that certain companies are entitled to preferential tax treatment. Effective from 1 January 2008, the enterprises entitled to two years exemption followed by three years of a 50% tax reduction, will commence the originally approved tax holiday and preferential treatment from the beginning of 2008 although they are still in loss position. Eleven subsidiaries of the Group are entitled to preferential tax treatments including full exemption from PRC income tax for two years starting from their first profit-making year or the year of 2008 followed by a 50% reduction for the next consecutive three years.

According to the New Tax Law, the profits of the PRC subsidiaries of the Group derived since 1 January 2008 will be subject to withholding tax at rates of 5% or 10% upon the distribution of such profits to foreign investors based in or companies incorporated in Hong Kong, or for other foreign investors respectively. The Group determined that no deferred withholding tax liabilities shall be recognised in respect of the profits of the PRC subsidiaries for the year ended 31 December 2008 since the Group plans to reinvest such profits to set up new companies in the PRC and has no plan to distribute such profits in the foreseeable future.

35. Loss attributable to equity holders of the Company

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB141,763,000 (2007: gain of RMB328,537,000).

Notes to the Consolidated Financial Statements (Continued)

36. Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	2008 RMB'000	2007 RMB'000
Profit attributable to equity holders of the Company	88,940	640,217
Weighted average number of ordinary shares in issue (thousands)	1,468,817	1,363,846
Basic earnings per share (RMB cents)	6.1	46.9

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive ordinary shares. The Company's potentially dilutive ordinary shares comprised shares which may be issued under its Convertible Bonds and share option schemes. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market price of the Company's shares during the period) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the conversion of the Convertible Bonds and the exercise of the share options, with the difference being adjusted in arriving at the weighted average number of shares for diluted earnings per shares, of which details are as follows:

	2008 RMB'000	2007 RMB'000
Profit attributable to equity holders of the Company	88,940	640,217
Add: Interest expense relating to Convertible Bonds	*	50,515
Less: Unrealised exchange gain relating to Convertible Bonds	*	(31,968)
Less: Fair value changes of conversion right of Convertible Bonds	*	(136,050)
Profit attributable to equity holders of the Company, used to determine diluted earnings per share	88,940	522,714
Weighted average number of ordinary shares in issue (thousands)	1,468,817	1,363,846
Adjustment for Convertible Bonds (thousands)	—	93,296
Adjustment for share options (thousands)	1,707	552
Weighted average number of ordinary shares for diluted earnings per share (thousands)	1,470,524	1,457,694
Diluted earnings per share (RMB cents)	6.0	35.9

* In 2008, the impact of interest expense of, unrealised exchange loss of and fair value changes of conversion rights of Convertible Bonds are antidilutive and have therefore been excluded from the calculation of diluted earnings per share.

Notes to the Consolidated Financial Statements (Continued)

37. Dividends

The Board recommended the payment of a final dividend of RMB0.015 per ordinary share, totalling RMB22,235,000 (2007: RMB0.109 per ordinary share, totalling RMB160,054,000), which is calculated based on the total number of outstanding ordinary shares at 31 December 2008. Such dividend is to be approved by the shareholders at the annual general meeting on 14 April 2009. The dividend is reflected as an appropriation in the retain earnings.

38. Notes to consolidated cash flow statement

Cash generated from operations

	2008 RMB'000	2007 RMB'000
Profit before income tax	118,850	677,605
Adjustments for:		
— Share-based payment expenses (Note 22)	13,192	3,567
— Fair value changes of convertible right of Convertible Bonds (Notes 27)	109,669	(136,050)
— Amortisation of deferred government grants (Note 25)	(1,713)	(7,029)
— Depreciation of property, plant and equipment (Note 8)	172,318	139,936
— Amortisation of land use rights and intangible assets (Notes 7, 9)	14,363	14,653
— Gain on disposal of property, plant and equipment (Note 29)	(1,787)	(3,038)
— Interest income from subscription monies from initial public offering of shares	—	(206,814)
— Other gains from derivative instrument (Note 30)	(1,849)	(1,568)
— Interest income from other loans and receivables (Note 29)	(30,735)	(5,238)
— Interest income from bank deposits and money market funds (Note 33)	(10,883)	(79,321)
— Interest expense relating to Convertible Bonds (Note 33)	53,822	50,515
— Interest expense	13,055	37,943
— Exchange gains on Convertible Bonds (Note 27, 33)	(32,553)	(31,968)
— Exchange (gains)/losses (excluding Convertible Bonds) (Note 33)	(36,532)	29,010
	379,217	482,203
Changes in working capital:		
— Inventories	(18,516)	(216,864)
— Trade and other receivables	106,319	(120,827)
— Trade and other payables	(254,376)	(122,433)
— Deferred revenue	(8,771)	(14,383)
Cash generated from operations	203,873	7,696

Notes to the Consolidated Financial Statements (Continued)

39. Contingencies

There were no material contingent liabilities as at 31 December 2008 (2007: nil).

40. Commitments

(a) Capital commitments

Capital expenditures contracted for at the balance sheet dates but not yet incurred were as follows:

	2008 RMB'000	2007 RMB'000
Purchase of property, plant and equipment	63,694	34,001

(b) Operating lease commitments

The Group leases various, offices, warehouses and plant and machinery under non-cancellable operating lease agreements.

The future aggregate minimum lease payments under non-cancellable operating leases were as follows:

The Group is the lessee

	2008 RMB'000	2007 RMB'000
No later than 1 year	4,438	3,031
Later than 1 year and no later than 5 years	9,900	11,800
Later than 5 years	6,000	8,000
	20,338	22,831

Notes to the Consolidated Financial Statements (Continued)

41. Related-party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

- (a) During the year, the Company's directors and the Group's management are of the view that the companies beneficially owned by Mr. Zhu Xin Li were related parties of the Group.
- (b) The following transactions were carried out with related parties:

Continuing transaction

	2008 RMB'000	2007 RMB'000
Sales of goods and services		
Sales of recyclable containers	24,828	24,390
Income for provision of power and other utilities	2,133	1,741
Income for lease of trademark use right	1,479	1,877
	28,440	28,008
Purchase of materials and services		
Purchase of raw materials	518,993	199,000
Rental expenses for lease of property, plant and equipment and land use rights	2,160	2,708
Expenses for power and other utilities	1,724	1,907
	522,877	203,615
Key management compensation		
Salaries, wages and bonuses	9,225	7,185
Contributions to pension plan	232	243
Welfare and other expenses	256	234
Share option expenses	13,192	3,567
	22,905	11,229

Notes to the Consolidated Financial Statements (Continued)

41. Related-party transactions (Continued)

(b) The following transactions were carried out with related parties: (Continued)

In the year of 2007 and 2008, one subsidiary of the Group, Beijing Huiyuan Food & Beverage Co., Ltd has been using and will continue to use certain offices premises owned by Beijing Huiyuan Beverage & Food Group Co. Ltd., a related company of the Group, at nil cost.

In the opinion of the Company's directors, the above related party transactions were carried out in the ordinary course of business and in accordance with the terms of the underlying agreements.

Discontinued transactions

	2008 RMB'000	2007 RMB'000
Sales of goods and services		
Sales of raw materials to related parties	521	2,276
Return of raw materials bought in previous years to related parties	—	773
Sales of goods to related parties	1,364	599
Income for provision of power and other utilities	—	912
Net book value of land use right and property, plant and equipment sold to related parties	283	1,038
Advance paid by related parties on behalf of the Group	6,713	—
	8,881	5,598
Purchase of materials and services		
Purchase of raw materials from related parties	705	1,644
Purchase of goods from related parties	24	1,426
Purchase of property, plant and equipment from related parties	437	400
	1,166	3,470

Notes to the Consolidated Financial Statements (Continued)

41. Related-party transactions (Continued)

(b) The following transactions were carried out with related parties: (Continued)

In 2008, a related company of the Group, Beijing Huiyuan Beverage & Food Group Co., Ltd, provided the Group with the right to use three production lines at no consideration (2007: Three).

(c) Year-end balances due from or due to related parties were as follows:

	2008 RMB'000	2007 RMB'000
Trade receivables	1,367	2
Other balance due from related parties	5,016	14,717
Prepayment of raw materials and others (a)	86,765	220,757
Trade payables	3,994	8,161
Other balance due to related parties	466	138
Maximum balance of receivables during the year:		
Trade receivables	10,067	9,603
Other receivables	38,656	197,706
Prepayment of raw materials and others	146,504	266,757

(a) These represent prepayments made to Huiyuan Beverage & Food Group Co., Ltd. and its subsidiaries, which are beneficially owned by Mr. Zhu Xinli, a director and Chairman of the Group in respect of the purchase of certain juice concentrate.

The balances due from or to related parties are unsecured and non-interest bearing.

Notes to the Consolidated Financial Statements (Continued)

42. Events after the balance sheet date

On 18 March 2009, the Ministry of Commerce of the PRC announced that it did decide not to grant the anti-trust approval in the PRC in relation to the voluntary conditional cash offers dated 3 September 2008 made by RBS Asia Corporate Finance Limited on behalf of Atlantic Industries, a wholly-owned subsidiary of the Coca-Cola Company, to acquire all of the issued shares in the capital of and all of the outstanding convertible bonds of, and for the cancellation of all outstanding options of, the Company (the "Offers"). Accordingly, the Coca-Cola Company, Atlantic Industries and the Company announced jointly on 19 March 2009 (the "Announcement") that the pre-condition for the Offers, which was the obtaining of the anti-trust approval in the PRC by the Coca-Cola Company and Atlantic Industries, had not been met and therefore the Offers would not be made. The share price of the Company has been significantly affected by the Announcement which is a material factor in the assessment of the fair value of the conversion right of the convertible bonds. The financial impact on the fair value of the conversion right of the convertible bonds is disclosed in note 27.

Glossary of Terms

“Board”	the board of directors of our Company
“Bond Holders”	Warburg Pincus Funds Investor, certain funds or sub-fund managed by Value Partners Limited, a company incorporated in BVI, and a mezzanine finance fund established in the Cayman Islands and managed and advised by subsidiaries of Development Partners Limited, collectively
“BVI”	the British Virgin Islands
“China Huiyuan Holdings”	China Hui Yuan Juice Holdings Co., Ltd. (中國滙源果汁控股有限公司*), a limited liability company incorporated in the Cayman Islands
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this report, the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan
“Company”, “our Company”, “we”, “us” or “our”	China Huiyuan Juice Group Limited (中國滙源果汁集團有限公司*), a limited liability company incorporated in the Cayman Islands on 14 September 2006, and where the context otherwise requires, all of its subsidiaries and associated companies
“Convertible Bonds”	US\$85,000,000 convertible bonds due 28 June 2011
“Danone”	Groupe Danone S.A.
“Danone Asia”	Danone Asia Pte. Ltd., a wholly owned subsidiary of Danone incorporated in Singapore
“Financial Management and Audit Committee”	the financial management and audit committee of the Company as set up by the Board on 21 September 2006
“Group” or “Huiyuan Juice”	the Company and its subsidiaries at the relevant time or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company or the businesses operated by the present subsidiaries or (as the case may be) its predecessor
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC

Glossary of Terms (Continued)

“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Hong Kong Stock Exchange of Hong Kong Limited (as amended from time to time)
“Huiyuan Holdings”	Huiyuan International Holdings Limited (滙源國際控股有限公司*), a company incorporated in the BVI
“Listing Date”	23 February 2007 being the date on which dealings in the shares of the Company first commence on the Hong Kong Stock Exchange
“Offer Price”	HK\$6.00 per share (exclusive of brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee), the offer price of which dealings in the shares of the Company first commenced on the Hong Kong Stock Exchange on the Listing Date
“Ordinary Shares” or “shares”	Ordinary shares of US\$0.00001 each in the share capital of the Company
“Over-allotment Option”	the option granted by the Company, in its initial global offering, to the international underwriters, exercisable by the global coordinator on their behalf, pursuant to which the Company has allotted and issued an aggregate of 60,000,000 additional shares
“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme conditionally adopted pursuant to written resolution passed by the sole shareholder on 30 January 2007, the principal terms of which are summarized in the section headed “Pre-IPO Share Option Scheme” in Appendix VII “Statutory and General Information” to the Prospectus
“Prospectus”	the prospectus issued by the Company on 8 February 2007 in relation to its initial global offering and listing of shares on the Hong Kong Stock Exchange
“Remuneration and Nomination Committee”	the remuneration and nomination committee of the Company as set up by the Board on 21 September 2006
“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of the PRC

Glossary of Terms (Continued)

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share Option Scheme”	the share option scheme conditionally adopted pursuant to a resolution passed by the Company’s shareholders at an extraordinary general meeting of the Company held on 30 January 2007, the principal terms of which are summarized in the section headed “Share Option Scheme” in Appendix VII “Statutory and General Information” to the Prospectus
“United States”	The United States of America
“United States \$” or “US\$”	United States dollars, the lawful currency of the United States
“Warburg Pincus”	each of (1) Warburg Pincus Private Equity IX, L.P., a limited partnership established in Delaware, the United States, which is controlled by Warburg Pincus IX LLC; (2) Warburg Pincus IX LLC, a limited liability company established in New York State, the United States, which is controlled by Warburg Pincus Partners, LLC; (3) Warburg Pincus Partners, LLC, a limited liability company established in New York State, the United States, which is controlled by Warburg Pincus & Co.; and (4) Warburg Pincus & Co., a general partnership established in New York State, the United States
“Warburg Pincus Funds Investor”	Gourmet Grace International Limited, a wholly owned subsidiary of Warburg Pincus Private Equity IX, L.P.

The terms “associate”, “connected person”, “connected transaction”, “controlling shareholder”, “independent third party”, “subsidiary” and “substantial shareholder” shall have the meanings given to these terms under the Hong Kong Listing Rules.