



**烟台北方安德利果汁股份有限公司**

**Yantai North Andre Juice Co., Ltd.**

*(a joint stock limited company incorporated in the People's Republic of China)*



**Annual Report 2003**



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This report, for which the directors (the “Directors”) of Yantai North Andre Juice Co., Ltd (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this report is accurate and complete in all material respects and not misleading ; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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## Directors

### Executive Directors

Zheng Yue Wen

Wang An

Yu Hui Lin (于會林 · formerly 于惠霖)

Zhang Hui

### Non-executive Directors

Zhang Wan Xin

Ren Xiao Jian

Lei Liang Sheng

### Independent non-executive Directors

Zhang An Ming

Hu Xiao Song

## Supervisors

Zhou Ji Yu

Chen Ke Lin

Qu Wei Jia

## Qualified accountant

Lim Yeau Teng, CIMA

## Company secretary

Lim Yeau Teng, CIMA

## Members of audit committee

Zhang An Ming

Hu Xiao Song

## Compliance officer

Yu Hui Lin (于會林 · formerly 于惠霖)

## Authorised representatives

Lim Yeau Teng, CIMA

Wang An

## Auditors

KPMG

## Sponsor

Barits Securities (Hong Kong) Limited

## Legal advisers

*As to Hong Kong Law*

Baker & McKenzie Solicitors and Notaries

*As to PRC Law*

Jingtian & Gongcheng Attorneys At Law

## Principal bankers

China Construction Bank (Muping Branch)

China Agriculture Bank (Muping Branch)

## H Share register and transfer office

Tengis Limited

G/F BEA Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

## Registered office and principal place of business in the PRC

No. 188 Central Street

Muping Economic & Technical Development

Zone Yantai, the PRC

## Principal place of business in Hong Kong

1905-8, Sun Hung Kai Centre

30 Harbour Road

WanChai, Hong Kong

## Company homepage/website

[www.andre.com.cn](http://www.andre.com.cn)

## Stock code

8259

# Financial Highlights

## Result

	For the year ended 31 December		
	2003 RMB'000	2002 RMB'000	2001 RMB'000
Turnover	<b>363,855</b>	233,230	139,799
Profit from operations	<b>89,003</b>	62,337	52,767
Profit before Taxation	<b>76,761</b>	55,887	48,203
Profit after Taxation	<b>74,171</b>	49,386	42,169
Minority interests	<b>285</b>	646	–
Profit attributable to shareholders	<b>74,456</b>	50,032	42,169
Basic earnings per share *	<b>RMB0.05</b>	RMB0.04	RMB0.04

\* As if the subdivision of every Promoter Share and H Share with a nominal or face value of RMB1.00 in the share capital of the Company into ten Promoter Shares and ten H Shares with a nominal value or face value of RMB0.10 each had been effective throughout the periods presented.

### Profit Attributable to Shareholders

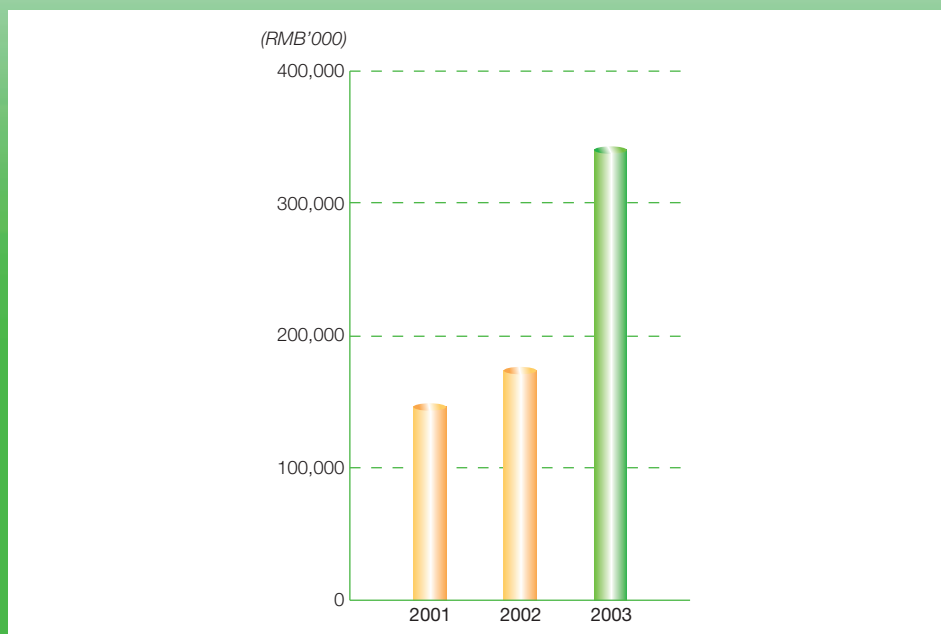


# Financial Highlights

## Assets and Liabilities

	As at 31 December		
	2003 RMB'000	2002 RMB'000	2001 RMB'000
Total Assets	<b>835,503</b>	498,669	315,328
Total Liabilities	<b>493,483</b>	303,609	167,159
Minority interests	-	19,635	-
Net Assets	<b>342,020</b>	175,425	148,169

## Net Assets



# Chairman's Statement



I am pleased to submit to the shareholders the annual report of the Company and its subsidiaries (collectively known as the "Group") for the financial year ended 31 December 2003.

## Annual Result

The Group recorded a turnover of RMB363,855,000 for the year ended 31 December 2003, representing an increase of 56% over the previous year; profit attributable to shareholders was RMB74,456,000, representing an increase of 49% over the previous

year, and basic earnings per share of RMB0.05.

## Dividend

The board of directors of the Company ("Board of Directors") will propose a final dividend of RMB0.023 per share for the financial year 2003 in the upcoming Annual General Meeting.

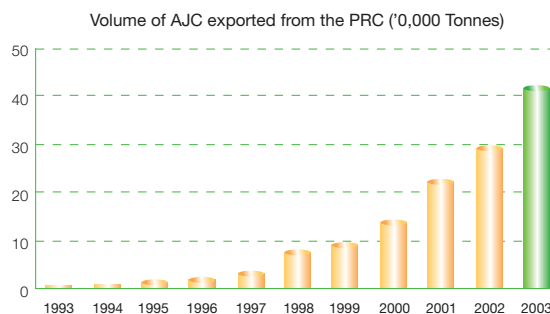
## Business Review

2003 was an extraordinary year. Firstly, the outbreak of the Iraq War had created problems in arranging transport for the Group's products, which are mainly for exports, thereby resulting in increase of transportation costs. Secondly, the Severe Acute Respiratory Syndrome ("SARs") epidemic had impacted on the Group's normal production and operations. Despite these various unfavourable factors, the Group was able to rally the support from its staff and to take full advantage of its widely recognized product quality and customer base to overcome these difficulties. The Group has completed the construction of the new production facilities in Xuzhou, thereby further expanding its production capacity. It is encouraging to note that the Group has achieved stable increases in revenue and profits.

## Industry Overview

### Apple Juice Concentrate ("AJC")

China exported 417,000 tonnes of apple juice concentrate in 2003, representing an increase of 41% as compared to 2002. The industry has been maintaining high growth for the past 10 years. As illustrated in the bar chart below, from 1993 to 2003, the average growth rate for the volume of AJC exported from the People's Republic of China (the "PRC") is 56%. We have confidence that 2004 will be another high growth year for the export of apple juice concentrate from the PRC.



Source: Custom General Administration of the PRC

## Pear Juice Concentrate

According to the Food and Agriculture Organization of the United Nations, China is the largest pear producing country in the world, contributing to approximately 54% of the total world supply for the year 2003.

As a developing country, China has lower labour cost as compared to other developed countries like United States ("US"). With the abundant supply of pear resource in the world, China has huge potential for the development of its pear juice concentrate. Production of pear juice concentrate in China had gradually increased over the past several years with most of its sales for export to the international market. As for the Group, export of pear juice concentrate in 2003 has increased by more than 80 times as compared to 2002, with demand well in excess of supply.



## Business Outlook

In 2004, the focus of the Chinese Government's macro economic policy is on the development of the agricultural industry. This will provide the Group with good opportunities for achieving higher growth. At the same time, with the completion of the newly established research and development ("R&D") center, the Group's R&D capability will be substantially enhanced, leading to further reduction in production cost and upgrading of the Group's product quality.

In terms of apple juice concentrate, the Group will consolidate its resources and enhance its management capability to strength its position in the industry. With respect to product diversification, the Group will on the one hand diversify into production of other fruit juices and, on the other hand, extend its chain of production to the production of high value-added pectin, processing of apple residue into pomace and explore the retail drink market. Pomace can be sold as animal feed and also is an essential raw material in the production of pectin.

At present, the Group has a sound financial base and the Board of Directors and I have full confidence in the future development of the Group. Our employees will continue to support the Group and contribute to the Group's continuous and steady development.

I would like to take this opportunity to thank the Board of Directors and all the staff and express my deep appreciation for their hard work and valuable contributions. I would also like to thank the shareholders for their continues support. The Group will do its best to achieve good results in return for the support and understanding of the shareholders

**Yantai North Andre Juice Co., Ltd.**

**Zheng Yue Wen**

*Chairman*

March 25, 2004



# Management Discussion and Analysis



## Business Review

### Results

For the year ended 31 December 2003, the Group's turnover increased to RMB363,855,000, as compared to RMB233,230,000 in 2002. The Group's turnover was principally derived from the manufacture and sale of apple juice concentrate, pear juice concentrate, apple essence and related products.

As compared with the same period in 2002, the increase in the Group's turnover was mainly attributable to higher income arising from the sale of apple juice concentrate. The Directors believe that the quality of the Group's products had stimulated the increased customer's demand during 2003.

For the year ended 31 December 2003, the Group's net profit increased to RMB74,456,000 as compared to RMB50,032,000 in 2002.

### Distribution and general administration expenses

For the year ended 31 December 2003, the Group had incurred distribution expenses of RMB64,428,000, as compared with RMB13,483,000 of the previous year, representing an increase of RMB50,945,000. The significant increase in distribution expenses was mainly attributable to the higher sea freight charges of RMB54,094,000.

# Management Discussion and Analysis



For the year ended 31 December 2003, the Group had incurred general administration expenses of RMB16,206,000, as compared to RMB8,629,000 of the previous year, representing an increase of RMB7,577,000. The increase was mainly attributable to the substantial increase in administrative expenses arising from the full-year operations of 白水安德利果蔬汁有限公司 (Baishui Andre Juice Co., Ltd.) (“Baishui Andre”), 烟台龍口安德利果汁飲料有限公司 (Yantai Longkou Andre Juice Co., Ltd.) (“Longkou Andre”) and the commencement of operations of 徐州安德利果蔬汁有限公司 (Xuzhou Andre Juice Co. Ltd.) (“Xuzhou Andre”) in August 2003.

## **Improved Production Capacity**

Construction of the new production plant located in Xuzhou, Jiangsu Province, has been completed and production has commenced as scheduled. The overall production capacity of the Group has increased from 100,000 tonnes of apple juice concentrate per pressing season to approximately 125,000 tonnes of apple juice concentrate per pressing season.

## **Worldwide Distribution Network**

While continue to strengthen its position in the US market, the Group is developing its European market.



## Research & Development

For the year ended 31 December 2003, the Group has achieved the following progress in research and development:

1. Obtained recognition by the relevant administrative bureau and has commenced commercialization of the follow technologies:
  - I. The Anti-browning Technology for Apple Juice Concentrate
  - II. The Secondary Deposition Control Technology
  - III. The Patulin Reducing Technology
  - IV. The Natural Super-concentrate Apple Essence Manufacturing Technology
2. Applied for the following patents:
  - I. The Process Technology of Anti-Browning of Clear Apple Juice Concentrate



- II. The Process Technology of Reducing Patulin in Clear Apple Juice Concentrate
  - III. The Process Technology of Secondary Deposition of Clear Apple Juice Concentrate
  - IV. The Process Technology of Producing Super-concentrate Apple Essence
3. Established the following standards for the enterprise:
- I. Clear Apple Juice Concentrate, File No.: 370612X236-2003
  - II. Clear Pear Juice Concentrate, File No.: 370612X238-2003
  - III. Super-concentrate Apple Essence, File No.: 3700X5562-2003
4. Obtained critical achievement on extraction technology of pectin, included processing & handling of raw materials, the extract efficiency technology, concentrate & separation technology, and dehydration, powdering & standardization processing technology.

# Management Discussion and Analysis

By reason of the above research and developments, the Group will further upgrade its product quality and diversify its products. This will enhance the international competitiveness of the Group and the market share of the Group's products.

## Financial Review

The Group generally financed its operations and investing activities by internally generated financial resources, the proceeds from the placing of new H shares in April 2003 by the Company and loans from banks. As at 31 December 2003, the Group had outstanding bank loans of approximately RMB312,284,000.

As at 31 December 2003, the Group had a net cash and cash equivalent position of approximately RMB38,428,000. The Group's gearing ratio at 31 December 2003 was 59% (31 December 2002: 61%) which is calculated based on the Group's total liabilities of approximately RMB493,483,000 (31 December 2002: RMB303,609,000) and total equity, minority interests and liabilities of approximately RMB835,503,000 (31 December 2002: RMB498,669,000). The Directors consider that the Group has sufficient financial resources to meet its ongoing operation requirements.

### Charge of Assets

Other than the pledge of the Group's property, plant and equipment and receivables in respect of value added tax refund for export sales to secure banking facilities of RMB31,490,000, the Group did not have any other charge on its assets as at 31 December 2003.

### Contingent Liabilities

As at 31 December 2003, the Group has no contingent liabilities.

### Foreign Exchange Exposure

The operating revenue of the Group is substantially denominated in US dollars. It is the practice of the Group to convert its operating revenue denominated in US dollars to RMB for financing its operating expenses and capital requirements. The official rate for US dollars and RMB has generally been stable. However, the results of operations and the financial position of the Group may be affected by the changes in the exchanges rates.

On the other hand, the conversion of RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

### Capital Commitment

Please refer to note 33 of the Financial Statements.

# Management Discussion and Analysis

## Business Outlook

The Group will put further efforts in product diversification, market expansion and diversification, and enhancement of its research & development, as follows:

### Production Capability Improvement

Apart from the intention of the Group to construct a new production line for pear juice concentrate and upgrading the exiting production lines to improve its production efficiency, the Group will seek opportunities in mergers and acquisition to further expand its business and strengthen its position in the industry.

### Market Diversification

While strengthening its existing position in the existing markets, the Group will at the same time focus on diversification of its markets. In respect of the overseas market, the Group will strengthen its US market and has been developing the European market. The Group is actively liaising with its customers with a viewing to achieving further breakthroughs in the European and Japanese markets. At the same time, the Group will actively promote its products in the domestic PRC market.

### Product Diversification

Other than apple juice concentrate, the Group will diversify its products to pear juice concentrate, pomace, other fruit juices and retail drinks. With approval of the Board, the Group has established a joint venture with its wholly owned US subsidiary for the production and sales of pectin. The plan will be implemented as scheduled. The pear juice concentrate production line will commence production at the beginning of the pressing season this year as planned.

As for the use of apple residue, the Group has plans to install one production line in each of Longkou Andre, Xuzhou Andre and Baishui Andre for the processing of apple residue into pomace. With small scale investment, the Group can turn apple residue into valuable materials and, at the same time, provide the Group with a quick return. It will also set the foundation for the production of pectin in the near future.

### Research and Development

The Group will devote further efforts in the research and development of the following technologies:

1. Research in the technology for extracting pectin from apple residue and the industrialization of such technology
2. Research in control foaming in the fresh juice pressing process
3. Research in ultrafiltration strainer recycling technology

The above three technologies will reduce the cost of production, improve the economic efficiency and social benefit.

# Comparison of Business Objectives Plans with Actual Business Progress

The Company was successfully listed on the GEM on 22 April 2003. The business objectives of the Company for the period from 9 April 2003 (being the latest practicable date prior to the printing of the prospectus of the Company) to 31 December 2003 have been set out in the Company's prospectus. Set out below is the actual progress in the implementation of the Company's business objectives during the period from the above latest practicable date to 31 December 2003:

## **Business objectives for the year ended 31**

### **December 2003 as mentioned in the Prospectus**

### **The actual progress for the year ended 31 December 2003**

- |   |   |
|---|---|
| (1) Construction of additional production facilities  |   |
| 1. to formulate, plan and commence construction of production plant located in Xuzhou, Jiangsu province   | Completed and commenced operations in August 2003   |
| 2. to acquire 49% equity interest in Yantai Longkou Andre Juice Co., Ltd.   | Completed acquisition of 49% equity interest and paid the amount payable  |
| (2) Expansion of sales and distribution network   |   |
| 1. to seek suitable distribution agents, strategic alliances to set up representative office for distribution of the Group's products in England and Germany  | The Company has been seeking suitable distribution agent or strategic alliances to set up representative office for the distribution the Group's products |
| 2. to market the Group's products via advertisements, newspaper and journals in places where the Group has representative offices   | The Company has marketed its products via advertisements, newspaper and journals in places where the Group has its representative offices.                |
| (3) Construction of low temperature storeroom   |   |
| 1. to formulate construction plan and commence construction of low temperature storeroom with storage capacity of approximately 10,000 tonnes of apple juice concentrate which is above the peak level of apple juice concentrate expected to be stored | Completed the construction of the low temperature storeroom and has commenced operations  |

# Comparison of Business Objectives Plans with Actual Business Progress

## Use of Proceeds

As at 31 December, 2003, the listing proceeds of HK\$119,780,000 (after deducting the relevant listing expenses), had been utilised according to the Prospectus as follows:

	<b>Budgeted amount to be used up to 31 December 2003 as extracted from the Prospectus HK\$' million</b>	<b>Actual amount used up to 31 December 2003 HK\$' million</b>
1. Construction of additional production facilities in Baishui, Shaanxi province		
– Construction of production plant	1.70	1.70
– Acquisition and installation of equipment and machineries	19.50	19.50
Longkou, Shandong province		
– Construction of production plant	2.80	2.80
– Acquisition and installation of equipment and machineries	21.20	21.20
–Payment for acquisition in Yantai Longkou Andre Juice Co., Ltd	21.10	21.10
2. Expansion of sales and distribution network	6.40	3.60*
3. Construction of low temperature storeroom	28.00	20.58*
4. Repayment of bank loans	29.30	29.30
	<hr/>	<hr/>
Total	<u>130.00</u>	<u>119.78</u>

Note:\*The actual amount utilized is less than the budgeted amount because the amount raised from the listing proceeds is less than the expected net proceeds as specified in the Company's prospectus.



# Director, Supervisors, Senior Management

## Directors

### Executive Directors

Mr. Zheng Yue Wen (鄭躍文), aged 42, is the chairman and executive Director of the Company. Mr. Zheng is a well-known entrepreneur in China. Mr. Zheng is a member of the Chinese Peoples Political Consultative Conference (CPPCC-全國政協) and is a Vice Chairman of All China Federation Of Industry and Commerce (ACFIC-全國工商聯). Mr. Zheng has approximately 3 years of experiences in the apple juice concentrate production industry. In October, 1999, Mr. Zheng graduated from Asia International Open University (Macau) with a degree of Master of Business Administration. He then obtained his PhD. in Economics from The Dongbei University of Finance and Economics (東北財經大學) in November 1999. In December 1999, Mr. Zheng was appointed a visiting professor of the Department of Business Administration at Jianxi University of Economics (江西財經大學). Mr. Zheng is also the president of Nanchang Creat and the vice president of standing committee of All China Federation of Industry Commerce. He joined the Company in November 2000. Mr. Zheng is responsible for the Group's corporate policy formulation, business strategic planning, business development and overall management of the Group.

Mr. Wang An (王安), aged 41, is the vice chairman, executive Director and general manager of the Company. Mr. Wang An is a well-known entrepreneur in China. Mr. Wang has been awarded the medal of "Labor Model of the Nation" and is a representative of Shandong province to the National People Congress (人大代表). He has approximately 7 years of experience in apple juice concentrate production industry. Mr. Wang graduated from the College of Chinese Communist Party (中共中央黨校函授學院) in June 1994. He was the general manager for Yangmadao Resort for four years before joining the Group. He joined the Company in March 1996. Mr. Wang is responsible for the overall management of the Group.

Mr. Yu Hui Lin (于會林, formerly 于惠霖), aged 55, is an executive Director and chief engineer of the Company. He was the assistant manager of the engineering department for Rusan County Candy and Fruit Juice Factory (乳山縣糖果及果汁廠) in Shandong province from March 1982 to March 1988 and has been involved in the juice production industry since then. Mr. Yu then joined Yantai Fruit Juice Factory (煙台市果汁廠) as the chief of the technical department from April 1988 to March 1995. Commencing April 1995, Mr. Yu joined Shangdong Zhonglu Fruit Juice and Food Co. (山東中魯果汁食品公司) as the assistant supervisor of the research and development department before joining the Group. Mr. Yu has approximately 21 years of experience in juice production industry. He joined the Company in December 1998 and is responsible of the Group's research and development projects and supervising overall production process of the Group.

Mr. Zhang Hui (張輝), aged 31, is an executive Director and deputy general manager of the Company. In July 1997, Mr. Zhang graduated from Shangdong Agriculture University and obtained his bachelor degree in Economic and Management (majoring in corporate management). Mr. Zhang has approximately 5 years of experience in apple juice concentrate production industry. He was the deputy general manager of Muping Foodstuff Industrial Company Limited (牟平食品工業有限公司) and Muping Material before joining the Group. Mr. Zhang joined the Company in December 1998. Mr. Zhang is responsible for the procurement of raw materials and supervision of overall production process of the Group.

# Director, Supervisors, Senior Management

## Non-executive Directors

Mr. Zhang Wan Xin (張萬欣), aged 73, is a non-executive Director. Mr. Zhang graduated from Tsinghua University (清華大學) and obtained his bachelor degree in chemical engineering in July 1952. He was a part-time professor of the Faculty of Chemical Engineering of Tsinghua University (清華大學) between 1988 and 1992. Mr. Zhang was the assistant general manager of Sinopec Group before joining the Group. He was formerly the assistant supervisor for the development research center of the State Council of the PRC. He joined the Company in November 2000.

Mr. Ren Xiao Jian (任曉劍), aged 47, is a non-executive Director. Mr. Ren obtained his master degree in business administration from La Trobe University in Australia in September 2001. He worked as a senior economist in China Agriculture Bank before joining the Group. Mr. Ren is currently the legal representative of Beijing Yatai Century Technology Development Co., Ltd. (北京亞太世紀科技發展有限公司). He joined the Company in November 2000.

Mr. Lei Liang Sheng (雷良生), aged 45, is a non-executive Director. In 1984, Mr. Lei graduated from Chung Buk University and obtained his bachelor degree in business management in May 1984. He is currently the president of Cheongpoong ANT Corporation in Korea. He joined the Company in June 1998.

## Independent non-executive Directors

Mr. Zhang An Ming (張安明), aged 40, is currently the senior accountant of Norinco China. He graduated from University of Xiamen (廈門大學) in July 2002 with a PhD. degree in Accounting. Mr. Zhang is a certified public accountant in the PRC and was previously a lecturer of the Faculty of Accountancy in the Central University of Finance and Economics (中央財經大學). Mr. Zhang has accumulated substantial experience in accounting and finance. He was appointed an independent non-executive Director in September 2002.

Mr. Hu Xiao Song (胡小松), aged 43, is currently the professor of the Food Science Faculty of China Agriculture University (中國農業大學食品學院). He graduated from the Food Science Faculty of Beijing Agriculture University (北京農業大學食品系) in June 1998 with a master degree in agriculture products storage and processing. Mr. Hu has been conducting research in agricultural products processing technology. He was appointed an independent non-executive Director in September 2002.

## Supervisors

Ms. Zhou Ji Yu (鄒積余), aged 61, is an independent representative and chairman in the supervisor committee of the Company. In 1967, she graduated from the Faculty of Mechanical and Electrical Engineering of University of Tsinghua University (清華大學) and obtained her bachelor degree in high voltage technology. Ms. Zhou is currently the chairman of Pingdingshan City Yanhuang Culture Institute.

Mr. Chen Ke Lin (陳克林), aged 52, is an independent representative in the supervisor committee of the Company. In July 1983, he graduated from the University of Finance and Economics (江西財經學院) in Jiangxi province and obtained his bachelor degree in Economics majoring in Business Accounting. Mr. Chen is a certified public accountant in the PRC. He has been the deputy mayor of Jingganoshan City (井岡山市) of Jiangxi province. He is currently a partner of Shenxin Accounting Firm (深信會計師事務所) in Shenzhen.

# Director, Supervisors, Senior Management

Mr. Qu Wei Jia (曲維佳), aged 55, is an employee representative in the supervisor committee of the Company. In 1991, he graduated from the Shangdong Muping Teachers Training Institute (山東牟平縣教師進修學校). Mr. Qu is currently the manager of the Administration Department of the Group.

## Senior Management

Mr. Wang An (王安), aged 41, is the President of the Company. Mr. Wang An is a well-known entrepreneur in China. Mr. Wang has been awarded the medal of “Labor Model of the Nation” and is a representative of Shandong province to the National People Congress (人大代表). He has approximately 7 years of experience in apple juice concentrate production industry. He was the general manager for Yangmadao Resort for four years before joining the Group in 1996. Mr. Wang is responsible for the overall management of the Group.

Mr. Zhang Hui (張輝), aged 31, is an executive Director of the Company. Mr. Zhang has approximately 5 years of experience in apple juice concentrate production industry. He was the deputy general manager of Muping Foodstuff Industrial Company Limited (牟平食品工業有限公司) and Yantai Muping Xinping Land Development Material Co., Ltd. (煙台市牟平區新平土地開發物資有限公司) before joining the Group. Mr. Zhang joined the Company in December 1998 and has been involved in the apple juice concentrate production industry since then. Mr. Zhang is assisting Mr. Wang An for the overall management of the Group.

Mr. Yu Hui Lin (于會林 formerly 于惠霖), aged 55, is the chief engineer of the Company. He was the assistant manager of the engineering department for Rusan County Candy and Fruit Juice Factory (乳山縣糖果及果汁廠) in Shandong province from March 1982 to March 1988 and has been involved in the juice production industry since then. Mr. Yu then joined Yantai Fruit Juice Factory (煙台市果汁廠) as the chief of the technical department from April 1988 to March 1995. Commencing April 1995, Mr. Yu joined Shangdong Zhonglu Fruit Juice and Food Co. (山東中魯果汁食品公司) as the assistant supervisor of the research and development department before joining the Group. Mr. Yu has over 20 years of experience in juice production industry. He joined the Company in December 1998 and is responsible of the Group's equipment and technical development.

Mr. Jiang Hong Qi (姜洪奇), aged 38, holds a master degree in Economics majoring in Accounting. Mr. Jiang is a certified public accountant in the PRC. He was the business manager and senior manager in Shangdong International Trust and Investment Corporation (山東省國際信託投資公司) before joining the Company. Mr. Jiang joined the Company in 2002 as a deputy Chief Accountant and is now the financial controller of the Company. Mr. Jiang is responsible for the accounting and finance matters of the Group.

Mr. Yung Ka Hee Titus (容家禧), aged 46, is a Vice President of the Company. He holds bachelor degree in Economics. Mr. Yung was the district sales manager & chief representative of China of APV遠東有限公司. He was the general manager of Shanghai head office of Daya Group Company and (大亞集團公司) and also the deputy manager of Shanghai Daya Economy Development Co. Ltd. (上海大亞經濟發展有限公司). Mr. Yung joined the Company in 2000 and is responsible for the overseas sales of the Group.

## Director, Supervisors, Senior Management

Mr. Li Kun Gui (李坤貴), aged 49, is a deputy general manager of the Company. In 1988, he was appointed as the head of Administration Department of the Muping Country Office. In 1995, he was appointed as a deputy manager of Yangmadao Resort. Mr. Li joined the Company in June 1998 and is responsible for the administrative matters of the Group.

Mr. Yang Tao (楊濤), aged 34, is a Vice President of the Company. Mr. Yang joined the Company in March 1996 and had worked as production line leader, supervisor and factory manager. He is well experienced in juice manufacturing. He is currently responsible for the production of the Group..

Mr. Ren Hou Kun (任厚坤), aged 45, is a Vice President of the Company. Mr. Ren had worked as production line leader and deputy general manager in Muping Plastic Manufactory (牟平區塑膠廠) and has been awarded Muping District Outstanding Personnel (牟平區技術拔尖人才) for 2 years. Before joining the Company, Mr. Ren was the deputy general manager of Ji Nan Ju Ji Fa Dian Xun Plastic Company Ltd (濟南巨集發電訊塑膠股份有限公司) for 2 years. Mr. Ren joined the Company in 2002 and worked as president assistant. Currently responsible for the research and quality control of the Group.

Ms. Peng Xiao Jun, aged 28, is a Vice President of the Company. Ms. Peng formerly was the sales supervisor of Chongqing Jianshe Motor Ltd. Co (重慶建設摩托車有限公司) and Nanjing Siemens Ltd.Co (南京西門子有限公司). Ms. Peng joined the Company in 2002 as an assistant to the president. She is currently responsible for the domestic sales of the Group.

### Qualified Accountant and Company Secretary

Mr. Lim Yeau Teng (林耀庭), aged 33, is the qualified accountant and company secretary of the Company. Mr. Lim graduated from University of Portsmouth in England and obtained his Master in Business Administration in 2001. He is a chartered management accountant and an associate member of The Chartered Institute of Management Accountants, possessing over 3 years of experience in the accounting and finance field. Mr. Lim has worked as an accountant in S, Thillaimutu & Company and Southern Steel Berhad in Malaysia as well as China Construction Group (Hong Kong), in charge of accounting and finance matters before joining the Group.

# Report of Directors

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2003.

## Principal Activities

The principal activities of the Group are manufacturing and distribution of apple juice concentrate, pear juice concentrate and apple essence etc. Principal activities of the Company's subsidiaries are set out in note 15 to the Financial Statements.

## Major Customers and Suppliers

In the reporting period, the Company mainly exported products to the US market, and is extending its market to Europe. The sales attributable to the top five customers of the Group accounted for about 77% of the Group's total turnover and sales to the largest customer included therein amounted to about 24%.

Purchases from the Group's top five largest suppliers accounted for about 21% of total purchases for the year. The largest supplier accounted for about 11% of the total purchases of the Group for the year.

None of the Directors, Supervisors, their associates or any shareholders which, to the knowledge of the Directors, own more than 5% of the Company's issued share capital had any interest in the top five largest suppliers or customers of the Group.

## Results

The results and financial status of the Group for the period till 31 December 2003 have been set out in Financial Statements Pages 33 to Page 66 of the Annual Report.

## Dividends

The Board of Directors has resolved to recommend a final dividend of approximately RMB34,932,000 (inclusive of tax), or RMB 0.023 per share for 2003. The proposal to declare and pay this final dividend will be submitted to the forthcoming annual general meeting to be held on 15 May 2004. Final dividend for Promoter shares will be distributed and paid in Renminbi whereas dividend for H shares will be declared in Renminbi and paid in Hong Kong dollars. The H share register of the Company will be closed from Thursday, 15 April 2004 to Saturday, 15 May 2004 (both days inclusive) during which no transfer of H shares will be registered. The final dividend will be distributed before Tuesday, 15 June 2004.

## Share Capital

The change(s) in share capital of the Company is set out in note 28 to the Financial Statements.

## Reserves

The change(s) in reserves of the Company of this year is set out in the statement of changes in equity of the Group and the Company in the Financial Statements.

The distributable reserves of the Company as at 31 December 2003 amounted to RMB 68,022,000 (2002: RMB 41,814,000) .

## Pre-emptive rights

There are no provision for pre-emptive rights under the Company's articles of association or the Company Law of the PRC which oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## Purchase, Sale or Redemption of Shares

For the year ended 31 December 2003, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's shares.

## Directors' and Supervisor's Rights to Acquire Shares or Debentures

None of the Directors or supervisors (the "Supervisors") of the Company or their respective associates was granted by the Company or its subsidiaries any right to acquire shares or debentures of the Company or any other body corporate, or had exercised any such right as at 31 December 2003.

## Property, plant and equipment

During the year, the Company incurred approximately RMB164 million for the acquisition of property, plant and equipment to expand its production capacity in Xuzhou, Jiangsu province and upgrade its existing production facilities.

The change(s) of property, plant and equipment of the Group is set out in note 13 of the Financial Statements.

## Retirement Fund Scheme

The retirement fund scheme is set out in note 6 of the Financial Statements.

## Employee

As at 31 December 2003, the Group had a total of 402 employees (31 December 2002: 159). Staff costs including directors' remuneration for the year ended 31 December 2003 and 2002 were RMB6.51 million and RMB3.97 million, respectively. The Group's employment and remuneration policies remained

# Report of Directors

unchanged from those described in the prospectus of the Company dated 11 April 2003. The salaries and benefits of employees of the Group are kept at a competitive level and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system which is reviewed annually. A wide range of benefits, including statutory compulsory welfare plans, are also provided to the employees.

## Significant Investment

There were no significant investments held by the Group as at 31 December 2003.

## Material Acquisitions and Disposals during the period and future plans for investment

Other than the acquisition of 49% equity interest in Yantai Longkou Andre Juice Co., Ltd., the Group did not have any material acquisitions or disposals of subsidiaries and associated companies during the year ended 31 December 2003.

## Directors and Supervisors

As at 31 December, 2003, the Directors and Supervisors of the Company were as follows:–

Executive Directors: Zheng Yue Wen, Wang An, Yu Hui Lin (formerly于惠霖) and Zhang Hui

Non-executive Directors: Zhang Wan Xin, Ren Xiao Jian and Lei Liang Sheng

Independent non-executive Directors: Zhang An Ming and Hu Xiao Song

Supervisors: Zhou Ji Yu, Chen Ke Lin and Qu Wei Jia

Each of the Directors and Supervisors (including the independent non-executive Directors and Supervisors) has entered into a service contract with the Company for a term of three years. None of the Directors or the Supervisors had entered into any service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

## Directors' interests in contracts

None of the Directors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company was a party during the year.

## Directors', Chief Executive's and Supervisors' Interests in Shares and Short Positions

As at 31 December 2003, the interests (including interests in shares and short positions) of the Directors, the Chief Executive and the Supervisors and their respective associates in the shares and debentures of the Company and its associated corporations, if any, (a) as notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the Securities and Futures Ordinance ("SFO"); or (b) as recorded in the register maintained by the Company under Section 352 of the SFO; or (c) as required pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

Name of Directors	Class of shares	Number of shares held	Capacity	Type of interest	Percentage of holding in Promoter Shares	Percentage of holding in total share capital
Zheng Yue Wen	Promoter Shares	60,356,400 (L)	Interest of controlled corporation	Personal	53%	39.74%
Wang An	Promoter Shares	19,929,000 (L)	Interest of controlled corporation	Personal	17.8%	13.12%

Note: The letter "L" stands for long position



# Report of Directors

## Substantial Shareholders

So far as the Directors are aware, as at 31 December 2003, the persons who have interests or short positions in the shares or underlying shares of the Company which are discloseable under Divisions 2 and 3 of Part XV of the SFO are listed as follows:

Name of substantial shareholder	Class of shares	Number of shares held	Capacity	Type of interest	Percentage of holding in Promoter/H Shares	Percentage in total share capital
Zheng Yue Wen	Promoter Shares	60,356,400(L)	Interest of controlled corporation	Personal	53%	39.74%
光彩事業國土綠化整理有限公司 Glory Cause Land Afforestation Co., Ltd.*	Promoter Shares	54,662,400(L)	Beneficial owner	Corporate	48%	35.99%
Oh Jeong Taek	Promoter Shares	28,470,000(L)	Interest of controlled corporation	Personal	25%	18.75%
Korea Jeong Soo Andre Co., Ltd.*	Promoter Shares	28,470,000(L)	Beneficial owner	Corporate	25%	18.75%
Wang An	Promoter Shares	19,929,000(L)	Interest of controlled corporation	Personal	17.8%	13.12%
煙台東華果業有限公司 Yantai Donghua Fruit Co., Ltd.*	Promoter Shares	19,929,000(L)	Beneficial owner	Corporate	17.8%	13.12%
北京瑞澤網絡銷售有限責任公司 Beijing RAJ Network Sales Co., Ltd.*	Promoter Shares	5,694,000(L)	Beneficial owner	Corporate	5.0%	3.75%
Deutsche Bank Aktiengesellschaft	H Shares	30,830,000(L)	Beneficial owner	Corporate	8.11%	2.03%
The Capital Group Companies, Inc.	H Shares	30,000,000(L)	Investment manager	Corporate	7.89%	1.98%
Martin Currie China Hedge Fund Limited	H Shares	19,010,000(L)	Investment manager	Corporate	5.0%	1.25%

Note: The letter "L" denotes a long position.

## Sponsor's interests

Pursuant to a sponsor agreement dated 22 April 2003 between the Company and Barits Securities (Hong Kong) Limited ("Barits"), Barits has been appointed as the sponsor to the Company as required under the GEM Listing Rules for a fee from 22 April 2003 to 31 December 2005. Barits, its directors, employees or any of their respective associates did not have any interest in any securities of the Company or any of its associated corporations as at 31 December 2003.

## Competing interests

None of the Directors, the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the businesses of the Group or has or may have any other conflicts of interest with the Group.

## Audit committee

The Company has established an audit committee with written terms of reference based on the guidelines recommended by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review and provide supervision over the financial reporting process and internal control of the Group in compliance with Rule 5.25 the GEM Listing Rules. The audit committee comprises two independent non-executive Directors, namely Zhang An Ming, who is the Chairman of such committee, and Hu Xiao Song. The audit committee has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the annual report for the year ended 31 December 2003, with the Directors. The Company had complied throughout the period under review the minimum standards of good practice concerning the general management responsibilities of the board of directors as set out in Rule 5.28 to 5.39 of the GEM Listing Rules.

## Auditors

KPMG retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

By Order of the Board

**Yantai North Andre Juice Co., Ltd.**

**Zheng Yue Wen**

Chairman

Yantai, the PRC, 25 March 2004

# Report of the Supervisory Committee

To the Shareholders:

The Supervisory Committee (the “Supervisory Committee”) of Yantai North Andre Juice Co., Ltd., in compliance with the provisions of the Company Law of the People's Republic of China (the “PRC Company Law”), the relevant laws and regulations of Hong Kong and the Articles of Association of the Company, has conducted its work in accordance with the fiduciary principle, and has taken up an active role to work seriously and with diligence to protect the interests of the Company and its shareholders.

During the year, Supervisory Committee had reviewed cautiously the development plans of the Company and provided reasonable suggestions and opinions to the Board of Directors. It also strictly and effectively monitored and supervised the Company's management in marking significant policies and decisions to ensure that they are in compliance with the laws and regulations of the PRC and the Articles of Association of the Company, and in the interests of its shareholders.

We have reviewed and agreed to the report of the Directors, audited financial statements and the dividend to be proposed by the Board of Directors for presentation at the forthcoming annual general meeting. We are of the opinion that the Directors, the general manager and other senior management of the Company were able to strictly observe their fiduciary duty, to act diligently and to exercise their authority faithfully in the best interests of the Company. The transactions between the Company and connected parties are in the interests of the shareholders as a whole and under fair and reasonable price.

Up till now, none of the Directors, general manager and senior management staff had been found to have abused their authority, damaged the interests of the Company or infringed upon the interests of its shareholders and employees. None of them was found to be in breach of any laws and regulations or the Articles of Association of the Company.

The Supervisory Committee is satisfied with the achievement and cost-effectiveness of the Company in 2003 and has great confidence in the future of the Company.

**By Order of the Supervisory Committee**

**Zhou Ji Yu**

25 March 2004

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN THAT** the Annual General Meeting of 煙台北方安德利果汁股份有限公司 (Yantai North Andre Juice Co., Ltd.) (the “Company”, and together with its subsidiaries, the “Group”) will be held at 2nd Floor, No. 188 Central Street, Muping Economic & Technical Development Zone, Yantai, the PRC on Saturday, 15 May 2004 at 10:00 a.m. for the following purposes:

1. To consider and approve the report of the Directors for the year ended 31 December 2003.
2. To consider and approve the report of the Supervisory Committee for the year ended 31 December 2003.
3. To consider and approve the audited accounts and the report of the auditors for the year ended 31 December 2003.
4. To consider and approve the profit distribution plan for the year ended 31 December 2003, and the final dividend distribution plan for the year ended 31 December 2003 (if any), and to authorize the board for the distribution of the final dividends (if any) to the Company’s shareholders.
5. To consider and determine (if appropriate) the remuneration of the Directors and Supervisors of the Company for the year ending 31 December 2004.
6. To consider and approve the re-appointment of KPMG and KPMG Huazhen as auditors (International and PRC auditors, respectively) for the year ending 31 December 2004 and to authorize the Board to fix their remunerations.
7. To approve the resignation of Mr. Zhang An Ming as independent non-executive Director and (subject to the passing of resolution 8(2) below) to consider and approve the appointments of 鄒建輝 (Wu Jian Hui) and 俞守能 (Yu Sou Neng) as independent non-executive Directors to be effective upon the conclusion of the forthcoming Annual General Meeting.
8. To consider and, if thought fit, pass the following resolutions as a Special Resolution:
  - (1) Art.68, 85, 91 and 138 of the Articles of Association of the Company (“Articles of Association”) be amended in accordance with the latest amendments to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) as follows:
    - (a) By adding the following as the second paragraph of Art. 68:

“Where any shareholder is, under the GEM Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any vote cast or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.”

# Notice of Annual General Meeting

(b) By adding the following to the end of Art. 85:

“(4) Where any shareholder is, under the GEM Listing Rules, required to abstain from voting any particular resolution in a class meeting or restricted to voting only for or only against any particular resolution in a class meeting, any vote cast or on behalf of any shareholder in contravention of such requirement or restriction shall not be counted.”

(c) By adding the following to the end of the second paragraph of Art. 91:

“The period for lodgment of the notices referred to in this paragraph will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting.”

(d) By adding “any board resolution approving” “or any of his associates (as defined in the GEM Listing Rules)” to the second paragraph of Art.138 of the Articles of Association so that the paragraph reads as follows:

“Except as provided in this Articles of Association, a director shall not vote on any board resolution approving any contract or arrangement or any other proposal in which he or any of his associates (as defined in the GEM Listing Rules) has material interest nor shall he be counted in the quorum present at the meeting.”

(2) Article 90 of the Articles of Association be amended so that the total number of directors shall be 10 and that the number of independent directors shall be 3.

(3) Article 106 of the Articles of Association be amended so that the Company shall have “several” instead of “one” deputy general manager.

9. To consider and, if thought fit, pass the following resolutions as a Special Resolution:

**THAT:**

(1) there be granted to the board of directors of the Company (“Board of Directors”) of the Company an unconditional general mandate to issue, allot and deal with additional shares in the capital of the Company (whether Promoter Shares or H Shares) and to make or grant offers, agreements and options in respect thereof, subject to the following conditions:

(a) such mandate shall not extend beyond the Relevant Period save that the Board of Directors may during the Relevant Period make or grant offers, agreements or options which might require the exercise of such powers after the end of the Relevant Period;

# Notice of Annual General Meeting

- (b) the aggregate nominal amount of shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Board of Directors otherwise than pursuant to the share option scheme (if any) adopted by the Company for the grant or issue of shares of the Company, shall not exceed:
  - i. 20 per cent of the aggregate nominal amount of Promoter Shares of the Company in issue; and/or
  - ii. 20 per cent of the aggregate nominal amount of H Shares of the Company in issue, in each case as at the date of this Resolution; and
- (c) the Board of Directors will only exercise its power under such mandate in accordance with the Company Law of the PRC and the GEM Listing Rules (as the same may be amended from time to time) and only if all necessary approvals from the China Securities Regulatory Commission and/or other relevant PRC government authorities are obtained;

For the purposes of this Resolution:

“Promoter Shares” mean the ordinary shares in the share capital of the Company with a nominal amount value of RMB0.10 each, which were subscribed for by the promoters of the Company in RMB and the ordinary shares in the share capital of the Company with a nominal value of RMB0.10 each, which were subscribed for by the promoters of the Company in a currency other than RMB;

“H Shares” mean the overseas-listed foreign invested shares in the share capital of the Company, with a nominal value of RMB0.10 each, which are held and traded in Hong Kong dollars;

“Relevant Period” means the period from the date of passing this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company following the passing of this Resolution; or
- (b) the expiry date of the 12-month period following the passing of this Resolution; or
- (c) the passing of a special resolution of the Company in general meeting revoking or varying the authority set out in this Resolution.

# Notice of Annual General Meeting

- (2) contingent on the Board of Directors resolving to issue shares pursuant to paragraph (1) of this Resolution, the Board of Directors be authorized:
- (a) to approve, enter into, procure to enter into and issuance of all documents and matters which it deems to be in connection with the issue of such new Shares, including but not limited to the time and place for such issue, to make all necessary applications to the relevant authorities, to enter into underwriting agreement (or any other agreements);
  - (b) to determine the use of proceeds and to make necessary filings and registration with the PRC, Hong Kong and other relevant authorities;
  - (c) to make amendments to the Articles of Association as it may deem appropriate for the increase of the Company's registered capital and to reflect the new share capital structure of the Company under the intended allotment and issue of the Shares of the Company pursuant to the resolution under paragraph (1) of this resolution.

10. To consider and approve any resolution (if any) raised by shareholders having voting rights of 5% or more at the meeting.

Notes:

- (A) The register of holders of H Shares of the Company will be closed from 15 April 2004 (Thursday) to 15 May 2004 (Saturday) (both days inclusive) during which period no transfer of H Shares will be registered. Any holder of the H Shares of the Company and whose name appearing in the Company's register of holders of H Shares with Tengis Limited at the close of business hours on 14 April 2004 (Wednesday) and have completed the registration process, will be entitled to attend the Annual General Meeting.

Address of Tengis Limited is as follows:

G/F., BEA Harbour View Centre  
56 Gloucester Road  
Wanchai  
Hong Kong  
Fax: (852) 2587 9166

- (B) Holders of Promoter Shares or H Shares, who intend to attend the Annual General Meeting, must complete and return the reply slip for attending the Annual General Meeting and return it to the Company's place of business in Hong Kong at Rooms 1905-8, Sun Hung Kai Center, 30 Harbour Road, Wanchai, Hong Kong (for holders of H Shares) or to the registered office of the Company (for holders of Promoter Shares) not later than 20 days before the date of the Annual General Meeting, that is, before Saturday, 24 April 2004.

The registered office of the Company is as follows:

2nd Floor, No.188 Central Street  
Muping Economic & Technical Development Zone  
Yantai  
People's Republic of China  
Fax : (86535) 421 8858

# Notice of Annual General Meeting

- (C) Holders of H Shares entitled to attend the Annual General Meeting and having voting rights are entitled to appoint in writing one or more persons as his proxy to attend and vote instead of him. A proxy need not be a member of the Company. For shareholders appointing more than one proxy, its proxy may exercise its voting right by polling only. Shareholders who intend to appoint one or more proxies should first read the 2003 Annual Report of the Company.
- (D) The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing. If that instrument is signed by an attorney of the appointor, the power of attorney authorizing such attorney or other authorization documents must be notarized.
- (E) To be valid, holders of H Shares must lodge the notarially certified copy of that power of attorney or other authorization document and the proxy form with the Company's H Share Registrar in Hong Kong, Tengis Limited, the address of which is listed in Note (A) above, not less than 24 hours before the time of holding of the Annual General Meeting.
- (F) Holders of Promoter Shares entitled to attend the Annual General Meeting and having voting rights are entitled to appoint one or more persons as his proxy to attend and vote instead of him. A proxy need not be a member of the Company. Notes (C) and (D) are also applicable to holders of Promoter Shares. In order to be valid, their proxy forms and authorization documents which must be returned to the Secretary to the Board of the Company 24 hours before the time of holding of the Annual General Meeting, the address of which is as indicated in Note (B) above.
- (G) If an attorney is appointed to attend the Annual General Meeting, such attorney must present its identity document and power of attorney or authorisation document signed by the appointor or its legal representative, specifying the issue date of the document. If a legal person shareholder appoints a company representative to attend the Annual General Meeting, such representative must present its identity document and notarially certified copy of the resolution passed by the board or other authority or notarially certified copy of the licence issued by the holder of the legal person shares.
- (H) The Annual General Meeting is anticipated to last for half a day. Shareholders attending in the meeting should be responsible for their own transportation and accommodation expenses.

By Order of the Board

**Yantai North Andre Juice Co., Ltd.**

**Zheng Yue Wen**

Chairman

Yantai, the PRC, 25 March 2004



# Auditors' Report

## **Auditors' report to the shareholders of Yantai North Andre Juice Co., Ltd.**

(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements on pages 33 to 66 which have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

### **Respective responsibilities of directors and auditors**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **Basis of opinion**

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

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

### **Opinion**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

### **KPMG**

*Certified Public Accountants*

Hong Kong, 25 March 2004

# Consolidated Income Statement

for the year ended 31 December 2003

(Expressed in Renminbi Yuan)

	Note	2003 RMB'000	2002 RMB'000
Turnover	3	<b>363,855</b>	233,230
Cost of sales		<b>(201,217)</b>	(151,153)
<b>Gross profit</b>		<b>162,638</b>	82,077
Other operating income	4	<b>7,095</b>	60,630
Distribution expenses		<b>(64,428)</b>	(13,483)
General and administrative expenses		<b>(16,206)</b>	(8,629)
Other operating expenses	5	<b>(96)</b>	(58,258)
<b>Profit from operations</b>		<b>89,003</b>	62,337
Net finance costs	7	<b>(12,242)</b>	(6,450)
<b>Profit before taxation</b>	8	<b>76,761</b>	55,887
Taxation	9	<b>(2,590)</b>	(6,501)
<b>Profit after taxation</b>		<b>74,171</b>	49,386
Minority interests		<b>285</b>	646
<b>Profit attributable to shareholders</b>	12	<b>74,456</b>	50,032
<b>Dividends attributable to the year:</b>			
Final dividend proposed after the balance sheet date	29	<b>34,932</b>	34,932
<b>Basic earnings per share</b>	30	<b>RMB 0.05</b>	RMB 0.04

The notes on pages 41 to 66 form part of these financial statements.

# Consolidated Balance Sheet

at 31 December 2003

(Expressed in Renminbi Yuan)

	Note	2003 RMB'000	2002 RMB'000
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment	13	<b>352,919</b>	218,020
Lease prepayments	14	<b>23,858</b>	19,338
Other investments	16	<b>14,886</b>	2,700
Deferred tax assets	17	–	78
Goodwill	18	<b>1,813</b>	–
Total non-current assets		<b>393,476</b>	240,136
Current assets			
Inventories	19	<b>220,527</b>	118,984
Trade receivables	20	<b>123,507</b>	64,024
Other receivables and prepayments	21	<b>59,565</b>	49,939
Cash and cash equivalents	23	<b>38,428</b>	25,586
Total current assets		<b>442,027</b>	258,533
Total assets		<b>835,503</b>	498,669
<b>EQUITY, MINORITY INTERESTS AND LIABILITIES</b>			
Current liabilities			
Short-term bank loans	24	<b>312,284</b>	158,899
Trade payables	25	<b>23,788</b>	22,196
Other payables and accrued expenses	26	<b>152,393</b>	117,770
Income tax payable		<b>2,626</b>	1,897
Total current liabilities		<b>491,091</b>	300,762
Net current liabilities		<b>(49,064)</b>	(42,229)
Total assets less current liabilities		<b>344,412</b>	197,907

# Consolidated Balance Sheet

at 31 December 2003  
(Expressed in Renminbi Yuan)

	Note	2003 RMB'000	2002 RMB'000
Non-current liabilities			
Other long-term liabilities	27	<u>2,392</u>	<u>2,847</u>
Total non-current liabilities		<u>2,392</u>	<u>2,847</u>
Total liabilities		<u>493,483</u>	<u>303,609</u>
Minority interests		<u>-</u>	<u>19,635</u>
Capital and reserves			
Paid-in capital	28(a)	<b>151,880</b>	113,880
Capital surplus	28(b)	<b>10</b>	10
Share premium		<b>89,071</b>	-
Statutory reserves	28(c)	<b>33,037</b>	14,443
Retained earnings	28(d)	<b>68,022</b>	47,092
Total capital and reserves		<u>342,020</u>	<u>175,425</u>
Total equity, minority interests and liabilities		<u><b>835,503</b></u>	<u>498,669</u>

Approved and authorised for issue by the board of directors on 25 March 2004.

	)	
<b>Zheng Yue Wen</b>	)	
	)	Directors
<b>Wang An</b>	)	
	)	

The notes on pages 41 to 66 form part of these financial statements.

# Balance Sheet

at 31 December 2003

(Expressed in Renminbi Yuan)

	Note	2003 RMB'000	2002 RMB'000
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment	13	<b>120,529</b>	114,759
Lease prepayments	14	<b>8,964</b>	9,185
Investments in subsidiaries	15	<b>146,800</b>	50,915
Other investments	16	<b>14,886</b>	2,700
Goodwill	18	<b>1,813</b>	–
Total non-current assets		<b>292,992</b>	177,559
Current assets			
Inventories	19	<b>176,835</b>	89,446
Trade receivables	20	<b>111,857</b>	55,938
Other receivables and prepayments	21	<b>51,747</b>	45,678
Amounts due from subsidiaries	22	<b>127,011</b>	25,191
Cash and cash equivalents	23	<b>28,703</b>	19,970
Total current assets		<b>496,153</b>	236,223
Total assets		<b>789,145</b>	413,782
<b>EQUITY AND LIABILITIES</b>			
Current liabilities			
Short-term bank loans	24	<b>215,284</b>	99,899
Trade payables	25	<b>15,205</b>	16,405
Other payables and accrued expenses	26	<b>114,301</b>	110,017
Amounts due to subsidiaries	22	<b>99,415</b>	11,100
Income tax payable		<b>1,420</b>	936
Total current liabilities		<b>445,625</b>	238,357
Net current assets/(liabilities)		<b>50,528</b>	(2,134)
Total assets less current liabilities		<b>343,520</b>	175,425

# Balance Sheet

at 31 December 2003  
(Expressed in Renminbi Yuan)

	Note	2003 RMB'000	2002 RMB'000
Non-current liabilities			
Other long-term liabilities	27	<u>1,500</u>	<u>–</u>
Total non-current liabilities		<u>1,500</u>	<u>–</u>
Total liabilities		<u>447,125</u>	<u>238,357</u>
Capital and reserves			
Paid-in capital	28(a)	151,880	113,880
Capital surplus	28(b)	10	10
Share premium		89,071	–
Statutory reserves	28(c)	33,037	14,443
Retained earnings	28(d)	<u>68,022</u>	<u>47,092</u>
Total capital and reserves		<u>342,020</u>	<u>175,425</u>
Total equity and liabilities		<u><u>789,145</u></u>	<u><u>413,782</u></u>

Approved and authorised for issue by the board of directors on 25 March 2004.

<b>Zheng Yue Wen</b>	)	
	)	
	)	Directors
<b>Wang An</b>	)	
	)	

The notes on pages 41 to 66 form part of these financial statements.

# Consolidated Cash Flow Statement

for the year ended 31 December 2003

(Expressed in Renminbi Yuan)

	2003 RMB'000	2002 RMB'000
<b>Cash flows from operating activities</b>		
Profit before taxation	<b>76,761</b>	55,887
Adjustments for:		
Depreciation	<b>28,395</b>	15,166
Loss on disposal of property, plant and equipment	<b>17</b>	–
Amortisation of lease prepayments	<b>613</b>	413
Amortisation of goodwill	<b>165</b>	–
Interest expenses	<b>11,315</b>	6,273
Interest income	<b>(240)</b>	(136)
Increase in inventories	<b>(101,543)</b>	(28,461)
Increase in trade receivables	<b>(59,483)</b>	(24,473)
Increase in other receivables and prepayments	<b>(7,305)</b>	(26,517)
Increase in trade payables	<b>1,592</b>	14,132
Increase in other payables and accrued expenses	<b>21,662</b>	30,139
Income tax paid	<b>(1,783)</b>	(7,223)
Interest paid	<b>(11,315)</b>	(6,273)
Interest received	<b>240</b>	136
Net cash (used in)/from operating activities	<b>(40,909)</b>	29,063

# Consolidated Cash Flow Statement

for the year ended 31 December 2003

(Expressed in Renminbi Yuan)

	2003 RMB'000	2002 RMB'000
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	(167,131)	(71,374)
Lease prepayments	(2,152)	(10,345)
Other investments	(14,191)	(2,700)
Acquisition of a subsidiary's equity interests	(22,309)	–
Proceeds from a disposal of property, plant and equipment	710	–
Advances to a related party	–	(3,806)
Repayments from a related party	–	11,179
<b>Net cash used in investing activities</b>	<b>(205,073)</b>	<b>(77,046)</b>
<b>Cash flows from financing activities</b>		
Proceeds from bank loans	364,514	190,779
Repayments of bank loans	(211,129)	(115,880)
Proceeds from other borrowings	1,500	–
Net proceeds from the issue of share capital	127,071	–
Advances from shareholders	–	20,812
Repayments to shareholders	–	(30,812)
Capital contributions from minority interests	–	20,281
Dividends paid	(34,932)	(22,776)
Advances from a related party	14,800	21,891
Repayments to a related party	–	(21,086)
Advances from third parties	–	21,284
Repayments to third parties	(3,000)	(37,185)
<b>Net cash from financing activities</b>	<b>258,824</b>	<b>47,308</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>12,842</b>	<b>(675)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>25,586</b>	<b>26,261</b>
<b>Cash and cash equivalents at end of year</b>	<b>38,428</b>	<b>25,586</b>

The notes on pages 41 to 66 form part of these financial statements.



# Statement of Changes in Equity of the Group and the Company

for the year ended 31 December 2003

(Expressed in Renminbi Yuan)

	<b>Paid-in capital</b>	<b>Capital surplus</b>	<b>Share premium</b>	<b>Statutory reserves</b>	<b>Retained earnings</b>	<b>Total capital and reserves</b>
	Note 28(a)	Note28(b)		Note28(c)		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2002	113,880	10	–	5,070	29,209	148,169
Net profit for the year	–	–	–	–	50,032	50,032
Appropriations	–	–	–	9,373	(9,373)	–
Dividends declared in respect of previous year	–	–	–	–	(22,776)	(22,776)
Balance at 31 December 2002	<u>113,880</u>	<u>10</u>	<u>–</u>	<u>14,443</u>	<u>47,092</u>	<u>175,425</u>
Balance at 1 January 2003	113,880	10	–	14,443	47,092	175,425
Issuances of shares (Note 28(a))	38,000	–	111,163	–	–	149,163
Share issue expenses	–	–	(22,092)	–	–	(22,092)
Net profit for the year	–	–	–	–	74,456	74,456
Appropriations	–	–	–	18,594	(18,594)	–
Dividends declared in respect of previous year	–	–	–	–	(34,932)	(34,932)
Balance at 31 December 2003	<u>151,880</u>	<u>10</u>	<u>89,071</u>	<u>33,037</u>	<u>68,022</u>	<u>342,020</u>

The notes on pages 41 to 66 form part of these financial statements.

# Notes on the Financial Statements

(Expressed in Renminbi Yuan)

## 1 Organisation and principal activities

Yantai North Andre Juice Company Limited (the “Company”) was established in the form of a Sino-foreign equity joint venture in Yantai, Shandong province, the People’s Republic of China (“the PRC”) on 30 March 1996.

With approval from the Ministry of Foreign Trade and Economic Co-operation, the legal form of the Company was changed from that of a Sino-foreign equity joint venture to a Sino-foreign joint stock limited company on 26 June 2001.

The Company is principally engaged in the manufacture and sale of all kinds of fruit juice, apple extract, and related products.

## 2 Principal accounting policies

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) promulgated by the International Accounting Standards Board. IFRS include International Accounting Standards and Interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited.

### (a) Basis of preparation

The financial statements are prepared on the historical cost basis.

The accounting policies have been consistently applied by the Company and its subsidiaries (collectively “the Group”) and are consistent with those used in previous years.

### (b) Basis of consolidation

#### (i) Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### (ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

### (c) Investments in subsidiaries

Investments in subsidiaries in the Company’s balance sheet are accounted for using the equity method.

### (d) Other investments

Other investments represent the Company’s investments in the equity interest of a company of which the Company holds more than half of the equity interest but the Company’s control over the investee is prohibited by specific legal restriction. These investments are accounted for using the equity method.

# Notes on the Financial Statements

(Expressed in Renminbi Yuan)

## 2 Principal accounting policies (cont'd)

### (e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (Note 2(k)). The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. When payment for an item of property, plant and equipment is deferred beyond normal credit terms, its cost is the cash price equivalent; the difference between this amount and the total payments is recognised as interest expense over the period of credit.

Expenditure incurred after the assets have been put into operation is capitalised only when it is probable that future economic benefits in excess of the originally assessed standard of performance of the item of property, plant and equipment will flow to the Group. All other expenditure is charged to the income statement in the period in which it is incurred.

Depreciation of property, plant and equipment is provided to write off the cost in equal annual amounts over their estimated useful lives, after taking into account their estimated residual values, as follows:

Buildings	8-20 years
Machinery and equipment	10 years
Motor vehicles	5 years
Office equipment	5 years

In respect of assets which are used for production of goods for only part of the year, due to seasonal factors, the full year's depreciation charge is allocated on a systematic basis to the periods during the year in which the assets are used for production.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset. They are recognised in the income statement on the date of retirement or disposal.

Construction in progress represents buildings and various plant and equipment under construction and pending installation, and is stated at cost less impairment losses. Cost comprises direct costs of construction incurred during the periods of construction. Borrowing costs are not capitalised.

Construction in progress is transferred to buildings, and machinery and equipment when the asset is substantially ready for its intended use.

No depreciation is provided for construction in progress.

### (f) Goodwill

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is amortised to the consolidated income statement on a straight-line basis over a 10-year period. Goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (Note 2(k)).

# Notes on the Financial Statements

(Expressed in Renminbi Yuan)

## 2 Principal accounting policies (cont'd)

### (g) Lease prepayments

Lease prepayments represent amounts paid to the municipal governments to acquire land use rights. Land use rights are stated at cost and are amortised on a straight-line basis over the 50-year period of the rights.

### (h) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories is calculated based on the weighted-average costing method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their existing location and condition.

When inventories are sold, the carrying amount of those inventories is recognised as an expense of the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense of the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense of the period in which the reversal occurs.

### (i) Trade and other receivables

Trade and other receivables are stated at their cost less allowance for doubtful accounts. Allowance for doubtful accounts is provided based upon the evaluation of the recoverability of these receivables at the balance sheet date.

### (j) Cash equivalents

Cash equivalents consist of time deposits with financial institutions with an initial term of less than three months.

### (k) Impairment

The carrying amounts of the Group's non-current assets, other than deferred tax assets (Note 2(q)), are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value. The amount of the reduction is recognised as an expense in the income statement.

The Group assesses at each balance sheet date whether there is any indication that an impairment loss recognised for an asset in prior years may no longer exist. An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. A subsequent increase in the recoverable amount of an asset, when the circumstances and events that led to the write-down or write-off cease to exist, is recognised as income. The reversal is reduced by the amount that would have been recognised as depreciation or amortisation had the write-down or write-off not occurred.

# Notes on the Financial Statements

(Expressed in Renminbi Yuan)

## 2 Principal accounting policies (cont'd)

### (l) Trade payables and other payables

Trade and other payables are stated at their cost.

### (m) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation resulting from a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

### (n) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group, and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

#### (i) Sale of goods

Revenue is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the customers. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs, or the possible return of goods.

#### (ii) Interest income

Interest income is recognised in the income statement as it is accrued, taking into account the effective yield on the asset.

### (o) Expenses

#### (i) Retirement benefits

Defined contributions to retirement benefit schemes are recognised as an expense in the income statement as and when incurred.

#### (ii) Financing costs

Net financing costs comprise interest payable on borrowings, interest receivable on funds invested, dividend income, and foreign exchange gains and losses that are recognised in the income statement.

The interest expense component of repayment of the long-term liabilities in relation to the acquisition of buildings is recognised in the income statement using the effective interest rate method.

#### (iii) Research and development expenses

Research and development costs are expensed as incurred.

### (p) Government grants

Unconditional government grants are recognised in the income statement as revenue upon receipt. These grant amounts are determined and paid at the sole discretion of the local government of certain jurisdictions in the PRC.

Grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for cost of an asset are recognised in the income statement as revenue on a systematic basis over the useful life of the asset.

# Notes on the Financial Statements

(Expressed in Renminbi Yuan)

## 2 Principal accounting policies (cont'd)

### (q) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Initial recognition of assets or liabilities that affect neither accounting nor taxable profit is regarded as a temporary difference which is not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be used. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### (r) Foreign currency transactions

Transactions in foreign currencies are translated into Renminbi at the foreign exchange rate quoted by the People's Bank of China ("PBOC rates") prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Renminbi at the PBOC rates on that date. Foreign exchange differences arising from translation are recognised in the income statement.

The overseas subsidiaries are considered to be an integral part of the Company's operations. Accordingly, the related foreign exchange differences arising on translation are also recognised in the income statement.

### (s) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influences. Related parties may be individuals or other entities.

### (t) Segmental reporting

A segment is a distinguishable component of the Group that is engaged either in providing products (business segment) or providing products within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

# Notes on the Financial Statements

(Expressed in Renminbi Yuan)

## 3 Turnover and segmental information

The Group is principally engaged in the production and sale of condensed juice. Turnover represents income arising from the sale of condensed juice net of value added tax.

The Group's products are mainly exported to the United States. The directors consider that the Group operates within a single business and geographical segment.

## 4 Other operating income

		<b>2003</b>	2002
		<b>RMB'000</b>	RMB'000
Sale of packaging materials	(i)	–	58,179
Government grants	(ii)	<b>6,805</b>	2,418
Others		<b>290</b>	33
Total		<b>7,095</b>	60,630

(i) This represents the sales of all unused steel materials, which are the major materials for the manufacture of drums for the storage of the Group's products.

(ii) Government grants

The Group received four kinds of government grants in 2003. Under the first kind of grant, a total of RMB 5,298,000 (2002: RMB 1,820,000) was paid by Yantai Finance Bureau, Longkou Finance Bureau and Baishui Finance Bureau to the Group to reward the Group for its contribution to the local fruit industry in 2003. Under the second kind of grant, a total of RMB 723,000 (2002: RMB nil) was received from Yantai Forest Bureau and Yantai Finance Bureau, representing interest subsidies paid to the Company to subsidise the loan interest. Under the third kind of grant, a total of RMB 280,000 (2002: RMB nil) was received from Yantai Finance Bureau and Yantai Technology Bureau, representing subsidies to support the Company's research and development. Under the fourth kind of grant, an amount of RMB 504,000 (2002: RMB 598,000), was received from Yantai Finance Bureau, representing a reward for export sales. The grant amounts were determined and paid at the sole discretion of the respective government authorities. There is no assurance that the Group will continue to receive such government grants in the future.

## 5 Other operating expenses

		<b>2003</b>	2002
		<b>RMB'000</b>	RMB'000
Cost of packaging materials sold*		–	58,110
Loss on disposal of property, plant and equipment		<b>17</b>	–
Others		<b>79</b>	148
Total		<b>96</b>	58,258

\*This represents the cost of unused steel materials sold.

# Notes on the Financial Statements

(Expressed in Renminbi Yuan)

## 6 Personnel expenses

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Salaries, wages and staff welfare	<b>5,955</b>	3,533
Contributions to retirement benefit schemes	<b>560</b>	437
Total	<b>6,515</b>	3,970
Average number of employees during the year	<b>375</b>	342

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal governments for its staff. The Group is required to make contributions to the retirement plans at 20% (2002: 20% to 21%) of the salaries, bonuses and certain allowances of its staff of last year. A member of the plan is entitled to a pension, to be paid by the municipal governments, equal to a fixed proportion of the salary prevailing at his retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

## 7 Net finance costs

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Bank charges	<b>331</b>	195
Exchange loss	<b>836</b>	118
Interest expenses	<b>11,315</b>	6,273
Interest income	<b>(240)</b>	(136)
Total	<b>12,242</b>	6,450
Effective interest rate on bank loans per annum	<b>5.1%</b>	6.0%

## 8 Profit before taxation

Profit before taxation is arrived at after charging:

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Depreciation	<b>28,395</b>	15,166
Auditors' remuneration	<b>1,116</b>	60
Research and development expenditure	<b>7</b>	-
Amortisation of goodwill	<b>165</b>	-



# Notes on the Financial Statements

(Expressed in Renminbi Yuan)

## 9 Taxation

- (a) Taxation in the consolidated income statements represents:

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Current tax expenses	<b>2,512</b>	5,933
Deferred taxation (Note 17)	<b>78</b>	568
	<b>2,590</b>	6,501

The Company is subject to PRC income tax, before any relief or concession, at a rate of 24%. In accordance with the relevant PRC tax rules and regulations, the Company is exempt from PRC income tax for two years starting from its first profit-making year, and is entitled to a 50% relief on PRC income tax for the following three years. As 1999 was the Company's first profitable year, the applicable income tax rate for 2003 is 12%.

The subsidiary operating in the United States is subject to income tax at the appropriate current rates of taxation ruling in the United States.

The other subsidiaries operating in the PRC are subject to PRC income tax, before any relief or concession, at rates of 15% to 33%. In accordance with the relevant PRC tax rules and regulations, these subsidiaries are exempt from PRC income tax for two years starting from their first profit-making year, and are entitled to a 50% relief on PRC income tax for the following three years.

- (b) The following is a reconciliation of income taxes calculated at the applicable tax rate with income tax expense:

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Accounting profit before tax	<b>76,761</b>	55,887
Expected PRC income tax expense at a tax rate of 24%	<b>18,423</b>	13,413
Tax effect of exemption and relief granted	<b>(16,323)</b>	(7,492)
Tax effect of the difference in tax rates between the Company and the subsidiaries	<b>46</b>	422
Others*	<b>444</b>	158
Income tax expense	<b>2,590</b>	6,501

\* Others primarily represent the tax effect of non-deductible expenses.

# Notes on the Financial Statements

(Expressed in Renminbi Yuan)

## 10 Directors' and supervisors' emoluments

Details of directors' and supervisors' emoluments are as follows:

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Basic salaries, allowances and other benefits	<b>147</b>	122
Contributions to retirement benefits schemes	<b>25</b>	21
Total	<b>172</b>	143
Number of directors and supervisors	<b>12</b>	12

An analysis of emoluments paid to the directors and supervisors by numbers of individuals and emolument range is as follows:

	<b>2003</b>	2002
	<b>Number</b>	Number
RMB Nil – RMB1,000,000	<b>12</b>	12

For the year ended 31 December 2003, four of the directors and supervisors received individual remuneration of RMB 47,136 (2002: RMB 40,200), RMB 47,136 (2002: 40,200), RMB 47,136 (2002: RMB 39,960) and RMB 30,404 (2002: RMB 23,112), whilst the remaining eight directors and supervisors did not receive any remuneration.

There were no amounts paid during the year to directors and supervisors connected to their retirement from the Company, nor for inducement to join the Company. There was no waiver of any emoluments by the directors or supervisors during the year.

## 11 Senior management's emoluments

Among the five highest paid individuals, three (2002: three) were executive directors whose emoluments are disclosed in note 10 above. The emoluments of the other two (2002: two) individuals are as follows:

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Basic salaries, allowances and other benefits	<b>80</b>	68
Contributions to retirement benefits scheme	<b>14</b>	11
Total	<b>94</b>	79

An analysis of emoluments paid to these highest paid individuals by numbers of individuals and emolument range is as follows:

	<b>2003</b>	2002
	<b>Number</b>	Number
RMB Nil – RMB1,000,000	<b>2</b>	2

There were no amounts paid during the year to the five highest paid individuals in connection with their retirement from the Company, nor for inducement to join.

# Notes on the Financial Statements

(Expressed in Renminbi Yuan)

## 12 Profit attributable to shareholders

The profit attributable to shareholders includes a profit of RMB 74,456,000 (2002: RMB 50,032,000) which has been dealt with in the financial statements of the Company.

## 13 Property, plant and equipment

The property, plant and equipment of the Group for the year ended 31 December 2003 are as follows:

	Buildings	Machinery and equipment	Motor vehicles	Office equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Cost</i>						
Balance at 1 January 2003	45,470	198,846	4,442	3,219	4,451	256,428
Additions	24,450	96,861	4,752	4,501	33,457	164,021
Transfers	18,217	13,046	-	165	(31,428)	-
Disposals	(510)	-	(380)	-	-	(890)
Balance at 31 December 2003	87,627	308,753	8,814	7,885	6,480	419,559
<i>Accumulated depreciation</i>						
Balance at 1 January 2003	(2,991)	(33,718)	(950)	(749)	-	(38,408)
Charge for the year	(3,365)	(23,082)	(1,177)	(771)	-	(28,395)
Written back on disposal	80	-	83	-	-	163
Balance at 31 December 2003	(6,276)	(56,800)	(2,044)	(1,520)	-	(66,640)
<i>Net book value</i>						
At 31 December 2003	81,351	251,953	6,770	6,365	6,480	352,919
At 31 December 2002	42,479	165,128	3,492	2,470	4,451	218,020

As at 31 December 2003, property, plant and equipment of the Group at net book value totaling RMB 38,637,000 (2002: RMB 123,100,000) were pledged to secure certain bank loans amounting to RMB 20,000,000 (2002: RMB 64,000,000)(Note 24) and bills payable amounting to RMB nil (2002: RMB 30,000,000).

For the purpose of the listing of the Company's shares on GEM of The Stock Exchange of Hong Kong Limited, the properties of the Group were revalued as at 31 December 2002 by Chesterton Petty Limited, a firm of independent international valuers. Based on the valuation report issued by Chesterton Petty Limited, the aggregate fair market value of certain properties was above the respective aggregate carrying value by approximately RMB 11,925,000 as at 31 December 2002. According to the Group's accounting policy, the surplus on revaluation was not recorded in the Group's consolidated financial statements. If the surplus on revaluation is included in the Group's consolidated financial statements, an additional depreciation charge of approximately RMB 825,000 would be incurred for the year ended 31 December 2003.

# Notes on the Financial Statements

(Expressed in Renminbi Yuan)

## 13 Property, plant and equipment (cont'd)

The property, plant and equipment of the Company for the year ended 31 December 2003 are as follows:

	<b>Buildings</b>	<b>Machinery and equipment</b>	<b>Motor vehicles</b>	<b>Office equipment</b>	<b>Construction in progress</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Cost</i>						
Balance at 1 January 2003	31,156	113,672	3,214	1,812	–	149,854
Additions	3,213	8,613	2,457	1,842	3,268	19,393
Transfers	2,611	657	–	–	(3,268)	–
Balance at 31 December 2003	<u>36,980</u>	<u>122,942</u>	<u>5,671</u>	<u>3,654</u>	<u>–</u>	<u>169,247</u>
<i>Accumulated depreciation</i>						
Balance at 1 January 2003	(2,511)	(31,076)	(866)	(642)	–	(35,095)
Charge for the year	(1,602)	(10,950)	(725)	(346)	–	(13,623)
Balance at 31 December 2003	<u>(4,113)</u>	<u>(42,026)</u>	<u>(1,591)</u>	<u>(988)</u>	<u>–</u>	<u>(48,718)</u>
<i>Net book value</i>						
At 31 December 2003	<u>32,867</u>	<u>80,916</u>	<u>4,080</u>	<u>2,666</u>	<u>–</u>	<u>120,529</u>
At 31 December 2002	<u>28,645</u>	<u>82,596</u>	<u>2,348</u>	<u>1,170</u>	<u>–</u>	<u>114,759</u>

As at 31 December 2002, property, plant and equipment of the Company at net book value totaling RMB 96,490,000 were pledged to secure certain bank loans amounting to RMB 50,000,000 and bills payable amounting to RMB 30,000,000. No property, plant and equipment of the Company was pledged at 31 December 2003.

## 14 Lease prepayments

	<b>The Group</b>		<b>The Company</b>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000	<b>RMB'000</b>	RMB'000
Balance at 1 January	<b>19,338</b>	9,406	<b>9,185</b>	9,406
Additions	<b>5,133</b>	10,345	–	–
Amortisation	<b>(613)</b>	(413)	<b>(221)</b>	(221)
Balance at 31 December	<u><b>23,858</b></u>	<u>19,338</u>	<u><b>8,964</b></u>	<u>9,185</u>

Lease prepayments represent payments for land use rights.

# Notes on the Financial Statements

(Expressed in Renminbi Yuan)

## 15 Investments in subsidiaries – the Company

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Share of net assets	<b>146,800</b>	50,915

As at 31 December 2003, the Company held the following investments in five subsidiaries:

Name of company	Place and date of incorporation	Principal activities	Registered capital	Paid-in capital	Attributable equity interest %	
					Direct	Indirect
Yantai North Andre Juice Inc.	The United States of America 21 March 2001	Sale of juice	US\$100,000	US\$ 100,000	100%	-
Baishui Andre Juice Co., Ltd.	Shaanxi, PRC 13 December 2001	Manufacture and sale of juice	US\$3,025,000	US\$3,025,000	75%	25%
Yantai Longkou Andre Juice Co., Ltd.	Shandong, PRC 9 April 2002	Manufacture and sale of juice	US\$5,000,000	US\$5,000,000	75%	25%
Xuzhou Andre Juice Co., Ltd.	Jiangsu, PRC 4 November 2002	Manufacture and sale of juice	US\$5,000,000	US\$5,000,000	75%	25%
Andre Juice Co., Ltd.	British Virgin Islands 17 June 2003	Investment holding	-	US\$1	100%	-

## 16 Other investments – the Group and the Company

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Share of net assets	<b>14,886</b>	2,700

As at 31 December 2003, the Company held investments in the following company:

Name of company	Place and date of incorporation	Principal activities	Registered capital	Paid-in capital	Attributable equity interest %	
					Direct	Indirect
Yantai North Andre Pectin Co., Ltd.	Shandong, PRC 25 September 2003	Manufacture and sale of pectin	US\$12,000,000	US\$1,800,000	75%	25%

# Notes on the Financial Statements

(Expressed in Renminbi Yuan)

## 16 Other investments – the Group and the Company (cont'd)

According to “The Supplement of the Regulations for the Capital Contributions of Sino-foreign Joint Venture Enterprises’ Investors” issued by the Ministry of Foreign Trade and Economic Co-operation and the State Administration for Industry & Commerce, the parent company cannot obtain the control of a Sino-foreign joint venture subsidiary unless the parent company has fully contributed its share of the subsidiary’s registered capital. As at 31 December 2003, the Company has not fully contributed its share of registered capital of Yantai North Andre Pectin Co., Ltd. Accordingly, the subsidiary’s financial statements have not been consolidated in the Group’s consolidated financial statements. The investment in Yantai North Andre Pectin Co., Ltd. is accounted for under the equity method in the Group’s consolidated financial statements.

As at 31 December 2003, Yantai North Andre Pectin Co., Ltd. had advances to the Group of RMB14,800,000 (Note 26(ii)) and cash in bank of RMB86,000.

## 17 Deferred tax assets – the Group

The components of deferred tax assets of the Group are set out below:

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Unrealised profits resulting from inter-company transactions	<u>–</u>	<u>78</u>

These deferred tax assets arise from temporary differences of unrealised profits resulting from inter-company transactions, which are eliminated from the carrying amount of inventories, but no equivalent adjustment is made for tax purposes.

Movements of the deferred tax assets:

	<b>Unrealised profits resulting from inter-company transactions</b>
	RMB'000
Balance at 1 January 2003	<b>78</b>
Recognised in consolidated income statement (Note 9(a))	<b>(78)</b>
Balance at 31 December 2003	<u>–</u>

# Notes on the Financial Statements

(Expressed in Renminbi Yuan)

## 18 Goodwill – the Group and the Company

	2003 RMB'000	2002 RMB'000
<b>Cost:</b>		
Balance at 1 January	-	-
Addition arising from acquisition of equity interests in a subsidiary (Note)	<u>1,978</u>	-
Balance at 31 December	<u>1,978</u>	-
<b>Accumulated amortisation:</b>		
Balance at 1 January	-	-
Amortisation for the year	<u>(165)</u>	-
Balance at 31 December	<u>(165)</u>	-
<b>Carrying amounts:</b>		
At 31 December	<u>1,813</u>	-

Note: The Company previously held a 51% equity interest in Yantai Longkou Andre Juice Co., Ltd. ("Longkou Andre"). On 13 September 2002 and 6 December 2002, Yantai North Andre Juice Inc., a wholly owned subsidiary of the Company, entered into agreements in relation to the acquisition of 25% interest in Longkou Andre from Joung Soo Koshin Co., Ltd., a shareholder of the Company, for a total consideration of US\$ 1,375,000. On the same dates, the Company entered into agreements in relation to the acquisition of the 24% interest in Longkou Andre from Yantai Jiacheng Trading Co., Ltd., for a total consideration of USD 1,320,000. The local authorities approved the equity transfer on 28 February 2003 and since then, Longkou Andre became an indirect wholly owned subsidiary of the Company.

## 19 Inventories

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Raw materials	<b>24,856</b>	13,510	<b>9,811</b>	8,555
Finished goods	<u>195,671</u>	105,474	<u>167,024</u>	80,891
	<u>220,527</u>	118,984	<u>176,835</u>	89,446

No inventories were stated at net realisable value as at 31 December 2003.

The cost of inventories recognised as an expense in the consolidated income statement amounted to RMB 201,217,000 for the year ended 31 December 2003 (2002: RMB 209,263,000)

# Notes on the Financial Statements

(Expressed in Renminbi Yuan)

## 20 Trade receivables

An ageing analysis of trade receivables is as follows:

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Within 3 months	<b>103,417</b>	61,247	<b>91,880</b>	53,354
Over 3 months but less than 6 months	<b>20,090</b>	2,584	<b>19,977</b>	2,584
Over 6 months but less than 1 year	-	193	-	-
	<b>123,507</b>	64,024	<b>111,857</b>	55,938

Customers are normally granted credit terms of three to six months (2002: three to six months), depending on the credit standing of individual customers.

## 21 Other receivables and prepayments

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Prepayments in connection with construction work and equipment purchases	<b>4,024</b>	1,703	<b>3,480</b>	1,703
Prepayments to suppliers	<b>4,575</b>	553	<b>4,404</b>	533
Value added tax ("VAT") refund for export sales (Note)	<b>7,426</b>	21,680	<b>7,426</b>	21,680
Restricted deposits for letters of credit and bills payable	<b>5,101</b>	11,923	<b>5,101</b>	11,923
Recoverable input VAT	<b>36,449</b>	10,759	<b>30,598</b>	6,920
Others	<b>1,990</b>	3,321	<b>738</b>	2,919
Total	<b>59,565</b>	49,939	<b>51,747</b>	45,678

Note: The Company's sales are subject to VAT at the rate of 17% but the Company is entitled to VAT refunds of 13% in respect of export sales. As at 31 December 2003, VAT refunds for export sales were pledged to secure certain bank loans, amounting to RMB 11,490,000 (2002: RMB 8,120,000) (Note 24).



# Notes on the Financial Statements

(Expressed in Renminbi Yuan)

## 22 Amounts due from and due to subsidiaries-the Company

Amounts due from and due to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

## 23 Cash and cash equivalents

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Cash in hand	4,462	1,798	1,101	448
Cash at bank	33,966	23,788	27,602	19,522
Total	<u>38,428</u>	<u>25,586</u>	<u>28,703</u>	<u>19,970</u>

## 24 Short-term bank loans

Details of short-term bank loans as at 31 December 2003 are as follows:

		The Group		The Company	
		2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Secured bank loans	(ii)	31,490	72,120	11,490	58,120
Guaranteed bank loans	(iii)	178,794	18,779	178,794	18,779
Unsecured bank loans		102,000	68,000	25,000	23,000
Total	(i)	<u>312,284</u>	<u>158,899</u>	<u>215,284</u>	<u>99,899</u>

(i) Bank loans of RMB 312,284,000 (2002: RMB 158,899,000) as at 31 December 2003 bear interest at rates ranging from 2.50% to 5.84 % (2002: 3.75% to 5.31%) per annum.

(ii) Bank loans of RMB 31,490,000 (2002: RMB 72,120,000) of the Group as at 31 December 2003, were secured by property, plant and equipment and receivables in respect of value added tax refunds for export sales.

As at 31 December 2002, the Company's bank loans of RMB 58,120,000 were secured by property, plant and equipment, and receivables in respect of value added tax refund for export sales. As at 31 December 2003, the Company's bank loans of RMB11,490,000 were secured by receivables in respect of value added tax refund for export sales.

(iii) Bank loans of US\$ 3,237,000 (equivalent RMB 26,794,000) (2002: US\$ 819,700 (equivalent RMB 6,779,000)) and RMB 70,000,000 (2002: RMB 12,000,000) as at 31 December 2003 of the Company were guaranteed by an independent third party, Yantai North Andre Barrel Making Co., Ltd. Bank loans of RMB 82,000,000 as at 31 December 2003 (2002: RMB nil) of the Company were guaranteed by a related party of the Group, Nanchang Creat Group Co., Ltd.

# Notes on the Financial Statements

(Expressed in Renminbi Yuan)

## 25 Trade payables

An ageing analysis of trade payables is as follows:

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Within 6 months	<b>23,521</b>	<b>22,114</b>	<b>15,191</b>	16,323
Over 6 months but less than 1 year	<b>218</b>	<b>33</b>	<b>8</b>	33
Over 1 year	<b>49</b>	<b>49</b>	<b>6</b>	49
Total	<b>23,788</b>	<b>22,196</b>	<b>15,205</b>	16,405

## 26 Other payables and accrued expenses

Other payables and accrued expenses include:

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Staff and workers' bonus and welfare fund (i)	<b>3,665</b>	2,179	<b>1,593</b>	1,638
Amount payable in relation to the acquisition of property, plant and equipment	<b>49,743</b>	48,582	<b>36,308</b>	42,680
Advances from a related party (ii)	<b>14,800</b>	–	<b>9,500</b>	–
Advances from third parties	–	3,000	–	3,000
Bills payable (iii)	<b>60,000</b>	58,000	<b>60,000</b>	58,000
Advance payments from customers	<b>2,199</b>	–	<b>2,199</b>	–
Other taxes payable	<b>5,842</b>	72	<b>35</b>	1
Payables in relation to a government project (iv)	<b>9,600</b>	–	–	–
Others	<b>6,544</b>	5,937	<b>4,666</b>	4,698
Total	<b>152,393</b>	117,770	<b>114,301</b>	110,017

# Notes on the Financial Statements

(Expressed in Renminbi Yuan)

## 26 Other payables and accrued expenses (cont'd)

- (i) This represents provision for staff and workers' bonus and welfare fund, applicable to the Company being a Sino-foreign equity joint venture enterprise before 26 June 2001 and its subsidiaries in Baishui, Longkou and Xuzhou, PRC being Sino-foreign equity joint venture enterprises, provided at a certain percentage of the Company's and the subsidiaries' profit after taxation determined in accordance with PRC accounting rules and regulations. The percentage for this appropriation was decided by the directors of the Company and the subsidiaries.
- (ii) Advances from a related party represent the advances from Yantai North Andre Pectin Co., Ltd (Note 16). The amounts were unsecured, interest free and had no fixed terms of repayment.
- (iii) Bills payable of RMB 60,000,000 were guaranteed by Yantai North Andre Barrel Making Co., Ltd., which is an independent third party of the Group (2002: RMB 20,000,000 guaranteed by Nanchang Creat Group Co., Ltd., which is a related party of the Group and RMB 30,000,000 secured by the Company's property, plant and equipment).
- (iv) This represents special funds received from China Planning and Development Committee which are to be used for an improvement project of the extracting ability of apple essence.

## 27 Other long-term liabilities

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Amount payable in relation to acquisition of buildings (Note i)	<b>892</b>	2,847	–	–
Other borrowings (Note ii)	<b>1,500</b>	–	<b>1,500</b>	–
	<b>2,392</b>	2,847	<b>1,500</b>	–

Note i: This balance represents an amount due to Shaanxi Baishui Municipal Government for the acquisition of buildings in Baishui. This payable will be due over the period from 2005 to 2030.

Note ii: This balance represents interest-free borrowings from the Yantai Finance Bureau. This borrowing is unsecured and will be due for repayment on 30 September 2006.

# Notes on the Financial Statements

(Expressed in Renminbi Yuan)

## 28 Capital and reserves—the Group and the Company

### (a) Capital

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Registered, issued and fully paid:		
1,138,800,000 (2002: 113,880,000)		
Promoter shares of RMB 0.10 each (2002: RMB1.00 each)	<b>113,880</b>	113,880
380,000,000 (2002: nil)		
H shares of RMB 0.10 each	<b>38,000</b>	—
	<b>151,880</b>	113,880

Pursuant to a resolution passed at a shareholders' meeting on 14 September 2002 and approvals from relevant government authorities, the Company was authorised to increase its share capital to a maximum of RMB 157,580,000 immediately after the listing of the Company's H shares on GEM of The Stock Exchange of Hong Kong Limited.

On 17 April 2003, the Company issued 38,000,000 H shares with a par value of RMB 1.00 each, at a price of HK\$ 3.70 per H share by placing.

All the shares issued by the Company rank pari passu.

Pursuant to a resolution passed at a Special General Meeting and the Class Meetings of the holders of the H shares and Promoter shares of the Company on 24 October 2003 and approvals from relevant government authorities, every Promoter share and H share with a nominal or face value of RMB 1.00 in the share capital of the Company was subdivided into ten Promoter shares and ten H shares with a nominal or face value of RMB 0.10 each, respectively (the "Share Subdivision") with effect from 1 December 2003 and the registered capital of the Company remained unchanged after the Share Subdivision became effective.

### (b) Capital surplus

Capital surplus represents exchange differences arising from the use of different exchange rates in translating the paid-in capital contributed by the investors.

# Notes on the Financial Statements

(Expressed in Renminbi Yuan)

## 28 Capital and reserves-the Group and the Company (cont'd)

### (c) Statutory reserves

	The Company		The subsidiaries		Total
	Statutory surplus reserve	Statutory public welfare fund	Reserve fund	Enterprise expansion fund	
	Note i	Note ii	Note iii	Note iv	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2002	3,679	1,391	-	-	5,070
Appropriations from retained earnings	4,445	2,222	1,353	1,353	9,373
Balance at 31 December 2002	<u>8,124</u>	<u>3,613</u>	<u>1,353</u>	<u>1,353</u>	<u>14,443</u>
Balance at 1 January 2003	<b>8,124</b>	<b>3,613</b>	<b>1,353</b>	<b>1,353</b>	<b>14,443</b>
Appropriations from retained earnings	<u>7,445</u>	<u>3,723</u>	<u>3,713</u>	<u>3,713</u>	<u>18,594</u>
Balance at 31 December 2003	<u><b>15,569</b></u>	<u><b>7,336</b></u>	<u><b>5,066</b></u>	<u><b>5,066</b></u>	<u><b>33,037</b></u>

Note i: According to the Company's Articles of Association, the Company is required to transfer 10% of its net profit to statutory surplus reserve. The transfer to this reserve must be made before distributing dividends to shareholders.

The statutory surplus reserve can be used to make up for previous years' losses, if any. It may be converted into share capital by issuing new shares to shareholders proportionate to their existing shareholdings, provided that the balance after such issue is not less than 25% of the registered capital.

Note ii: According to the Company's Articles of Association, the Company is required to transfer 5% of its net profits to the statutory public welfare fund. This fund can only be used on capital items for the collective benefit of the Company's employees (such as for the construction of dormitories, canteens and other staff welfare facilities). This fund is non-distributable other than upon liquidation. Transfers to this fund must be made before distributing dividends to shareholders.

Note iii: According to the Articles of Association of the subsidiaries incorporated in PRC, the subsidiaries are required to transfer a certain percentage of their net profits to the reserve fund. The percentage of this appropriation was decided by the directors of the subsidiaries.

The reserve fund can be used for the subsidiaries' working capital purposes and to make up for previous years' losses, if any. This fund can also be used to increase capital of the subsidiaries, if approved. This fund is non-distributable other than upon liquidation. Transfers to this fund must be made before distributing dividends to the Company.

# Notes on the Financial Statements

(Expressed in Renminbi Yuan)

## 28 Capital and reserves-the Group and the Company (cont'd)

### (c) Statutory reserves (cont'd)

Note iv: According to the Articles of Association of the subsidiaries incorporated in PRC, the subsidiaries are required to transfer a certain percentage of their net profits to the enterprise expansion fund. The percentage of this appropriation was decided by the directors of the subsidiaries.

The enterprise expansion fund can be used for the subsidiaries' business development purposes and for working capital purposes. This fund can also be used to increase capital of the subsidiaries, if approved. This fund is non-distributable other than upon liquidation. Transfers to this fund must be made before distributing dividends to the Company.

### (d) Distributable reserves

Pursuant to the Company's Articles of Association, the Company's net profit for the purpose of profit distribution to shareholders will be the lesser of (i) the net profit determined in accordance with the PRC accounting rules and regulations; or (ii) the net profit determined in accordance with IFRS.

Under PRC company Law and the Company's Articles of Association, net profit after tax can be distributed as dividends after allowance has been made for:

- (i) making up cumulative prior years' losses, if any;
- (ii) allocations of 10% after-tax profit to the Company's statutory surplus reserve;
- (iii) allocations of 5% of after-tax profit to the Company's statutory public welfare fund; and
- (iv) allocations to the discretionary surplus reserve, if approved by the shareholders.

As at 31 December 2003, the Company's retained earnings determined in accordance with the PRC accounting rules and regulations, and IFRS were RMB 68,022,000 (2002: RMB 41,814,000) and RMB 68,022,000 (2002: RMB 47,092,000), respectively. Accordingly, the distributable reserve of the Company as at 31 December 2003 amounted to RMB 68,022,000 (2002: RMB 41,814,000) .

# Notes on the Financial Statements

(Expressed in Renminbi Yuan)

## 29 Dividends

### (a) Dividends attributable to the year

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Final dividend proposed after the balance sheet date of RMB 0.023 per share (2002: RMB 0.23 per share)	<u><b>34,932</b></u>	<u>34,932</u>

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

### (b) Dividends attributable to the previous financial year, approved and paid during the year

	<b>2003</b>	2002
	<b>RMB'000</b>	RMB'000
Final dividend in respect of the previous financial year approved and paid during the year, of RMB 0.23 per share (2002: RMB 0.20 per share)	<u><b>34,932</b></u>	<u>22,776</u>

## 30 Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of RMB 74,456,000 (2002: RMB 50,032,000) and the weighted average of 1,408,443,840 shares (2002: 1,138,800,000 shares) in issue during the year, as if the Share Subdivision (Note 28(a)) had been effective throughout the periods presented.

### (b) Diluted earnings per share

Diluted earnings per share has not been presented as there were no dilutive potential ordinary shares in existence for the years ended 31 December 2002 and 2003.

# Notes on the Financial Statements

(Expressed in Renminbi Yuan)

## 31 Related party transactions

Particulars of significant transactions between the Group and its shareholders and other related parties are as follows:

### *Transactions with shareholders*

On 13 September 2002 and 6 December 2002, Yantai North Andre Juice Inc., a wholly owned subsidiary of the Company, entered into agreements in relation to the acquisition of 25% interest in Longkou Andre from Joung Soo Koshin Co., Ltd., a shareholder of the Company, for a consideration of USD1,375,000. The local authorities approved the equity transfer on 28 February 2003.

### *Transactions with other related parties:*

- (i) As at 31 December 2003, a related party of the Group, Nanchang Creat Group Co., Ltd. provided guarantees for bank loans of the Company amounting to RMB 82,000,000 (2002: RMB nil) (Note 24 (iii)).
- (ii) As at 31 December 2003, the advances from Yantai North Andre Pectin Co., Ltd. amounted to RMB14,800,000 (Note 26(ii)). The advances were unsecured, interest free and had no fixed terms of repayment.

## 32 Financial instruments

The Group's financial assets include cash and cash equivalents, trade and other receivables. The Group's financial liabilities include bank loans, trade and other payables.

The Group does not hold nor has issued financial instruments for trading purposes. Exposure to credit, interest, and currency risks arises in the normal course of the Group's business.

### (a) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an on-going basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral for financial assets. At the balance sheet date, the Group had no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

### (b) Interest rate risk

The interest rates and terms of repayment of the Group's bank loans are disclosed in Note 24.



# Notes on the Financial Statements

(Expressed in Renminbi Yuan)

## 32 Financial instruments (cont'd)

### (c) Foreign currency risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the PBOC or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that are determined largely by supply and demand.

Foreign currency payments, including the remittance of earnings outside the PRC, are subject to the availability of foreign currency (which depends on the foreign currency denominated earnings of the Group) or must be arranged through the PBOC with government approval.

### (d) Fair value

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at 31 December 2002 and 2003.

#### (i) *Cash and cash equivalents, trade and other receivables, trade and other payables (current portion)*

The carrying values approximate their fair values because of the short maturities of these items.

#### (ii) *Bank loans*

The carrying amount of bank loans approximates their fair value based on the borrowing rates currently available for bank loans with similar terms and maturities.

#### (iii) *Other long-term liabilities*

The fair values of long-term liabilities are estimated by discounting future cash flows using current market interest rates offered to the Group for debt with substantially the same characteristics and maturities.

As at 31 December 2003, the carrying amount and fair value of the Group's other borrowings were RMB 1,500,000 and RMB 1,303,000, respectively.

The carrying amount of amounts payable in relation to the acquisition of buildings represents their fair value.

# Notes on the Financial Statements

(Expressed in Renminbi Yuan)

## 33 Commitments

- (a) As at 31 December 2003, the Group and the Company had capital commitments in respect of property, plant and equipment not provided for in the financial statements as follows:

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Contracted for	<b>45,043</b>	89,049	<b>31,809</b>	–
Authorised but not contracted for	<b>68,191</b>	31,830	<b>38,191</b>	–
	<b>113,234</b>	120,879	<b>70,000</b>	–

- (b) As at 31 December 2003, the Group was committed to contribute RMB 63,265,500 and US\$ 2,550,000 to Yantai North Andre Pectin Co., Ltd. as capital contribution.

As at 31 December 2003, the Company was committed to contribute RMB 63,265,500 to Yantai North Andre Pectin Co., Ltd. as capital contribution.

- (c) As at 31 December 2003, the Group and the Company had total future minimum lease payments under non-cancelable operating leases in respect of land use rights and buildings which are payable as follows:

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Within 1 year	<b>1,200</b>	520	<b>1,200</b>	–
After 1 year but within 5 years	<b>2,100</b>	181	<b>2,100</b>	–
Over 5 years	<b>1,973</b>	4,019	–	–
	<b>5,273</b>	4,720	<b>3,300</b>	–

# Notes on the Financial Statements

*(Expressed in Renminbi Yuan)*

## **34 Ultimate holding company**

The directors of the Company consider Beijing RAJ Network Sales Co., Ltd. established in the PRC to be the Company's ultimate holding company.

## **35 Subsequent events**

The following significant events took place subsequent to 31 December 2003:

- (a) On 3 February 2004, the Board of the Company resolved to convene the Special General Meeting (the "SGM") and Class Meetings of the holders of Promoter shares and holders of H shares of the Company for the proposed issuance of not less than 152,000,000 and not more than 304,000,000 new H shares. The SGM and Class Meetings are proposed to be convened on 30 March 2004.
- (b) After the balance sheet date, the directors proposed a final dividend. Further details are disclosed in note 29.