



**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)*

*(Stock Code: 8259)*



**Interim Report**

**For the six months ended 30 June 2006**

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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 (“GEM Listing Rules”) for the 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.*

\* For identification purpose only



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**HALF-YEAR RESULTS (UNAUDITED)**

The board of Directors (the “Board”) of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and six months ended 30 June 2006, with the comparatives of the corresponding periods in 2005, as follows:

**Consolidated Income Statement**

	<i>Note</i>	<b>Unaudited</b>		<b>Unaudited</b>	
		<b>For the three months ended 30 June</b>		<b>For the six months ended 30 June</b>	
		<b>2006</b>	2005	<b>2006</b>	2005
		<b>RMB'000</b>	<i>RMB'000</i>	<b>RMB'000</b>	<i>RMB'000</i>
<b>Turnover</b>	2	<b>162,865</b>	151,686	<b>349,962</b>	310,370
Cost of sales		<b>(133,988)</b>	(90,124)	<b>(286,733)</b>	(185,013)
<b>Gross profit</b>		<b>28,877</b>	61,562	<b>63,229</b>	125,357
Other operating income		<b>509</b>	752	<b>2,684</b>	4,306
Distribution expenses		<b>(16,278)</b>	(17,184)	<b>(29,699)</b>	(35,931)
Administrative expenses		<b>(7,255)</b>	(8,552)	<b>(14,023)</b>	(13,646)
Other operating expenses		<b>(142)</b>	(203)	<b>(212)</b>	(203)
<b>Profit from operations</b>		<b>5,711</b>	36,375	<b>21,979</b>	79,883
Net finance costs		<b>(7,776)</b>	(7,969)	<b>(16,297)</b>	(12,617)
Share of losses from an associate		<b>(312)</b>	–	<b>(654)</b>	–
<b>Profit/(loss) before taxation</b>	3	<b>(2,377)</b>	28,406	<b>5,028</b>	67,266
Income tax	4	<b>(650)</b>	(1,001)	<b>(1,321)</b>	(5,771)
<b>Profit/(loss) for the period</b>		<b>(3,027)</b>	27,405	<b>3,707</b>	61,495
<b>Attributable to:</b>					
Equity shareholders of the Company		<b>(3,171)</b>	27,619	<b>3,385</b>	61,441
Minority interests		<b>144</b>	(214)	<b>322</b>	54
<b>Profit/(loss) for the period</b>		<b>(3,027)</b>	27,405	<b>3,707</b>	61,495
Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the period	5	<b>27,133</b>	33,946	<b>27,133</b>	33,946
Basic earnings/(loss) per share	6	<b>RMB(0.002)</b>	RMB0.02	<b>RMB0.002</b>	RMB0.04

\* For identification purpose only

## Consolidated Balance Sheet

	<i>Note</i>	<b>Unaudited 30 June 2006 RMB'000</b>	Audited 31 December 2005 RMB'000
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment	7	601,682	554,189
Lease prepayments		33,893	31,256
Interest in an associate		62,090	62,744
Goodwill		1,452	1,452
Total non-current assets		<u>699,117</u>	<u>649,641</u>
Current assets			
Inventories		237,088	480,343
Trade receivables	8	136,329	167,791
Other receivables and prepayments		130,349	73,500
Cash and cash equivalents		320,723	61,187
Total current assets		<u>824,489</u>	<u>782,821</u>
Total assets		<u><b>1,523,606</b></u>	<u><b>1,432,462</b></u>
<b>LIABILITIES</b>			
Current liabilities			
Short-term bank loans		484,716	663,885
Trade payables	9	21,211	56,523
Other payables and accrued expenses		83,781	117,573
Income tax payable		4,800	3,164
Total current liabilities		<u>594,508</u>	<u>841,145</u>
Net current assets/(liabilities)		<u>229,981</u>	<u>(58,324)</u>
Total assets less current liabilities		<u>929,098</u>	<u>591,317</u>
Non-current liabilities			
Long-term bank loans		287,842	–
Other long-term liabilities		249	249
Total non-current liabilities		<u>288,091</u>	<u>249</u>
Total liabilities		<u>882,599</u>	<u>841,394</u>
<b>CAPITAL AND RESERVES</b>			
Paid-in capital	10	180,888	169,730
Capital surplus		10	10
Share premium		274,813	212,606
Statutory reserves		70,310	70,310
Retained earnings		105,638	129,386
Total equity attributable to equity shareholders of the Company		<u>631,659</u>	<u>582,042</u>
Minority interests		9,348	9,026
Total equity		<u>641,007</u>	<u>591,068</u>
Total equity and liabilities		<u><b>1,523,606</b></u>	<u><b>1,432,462</b></u>

## Condensed Consolidated Cash Flow Statement

**Unaudited**  
**For the six months**  
**ended 30 June**

	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
Net cash inflow from operating activities	<b>218,412</b>	141,018
Net cash outflow from investing activities	<b>(127,695)</b>	(161,736)
Net cash inflow/(outflow) before financing activities	<b>90,717</b>	(20,718)
Net cash inflow from financing activities	<b>168,819</b>	32,646
Net increase in cash and cash equivalents	<b>259,536</b>	11,928
Cash and cash equivalents at beginning of the period	<b>61,187</b>	86,545
Cash and cash equivalents at end of the period	<b>320,723</b>	98,473
Analysis of balances of cash and cash equivalents		
Cash and bank balances	<b>320,723</b>	98,473

## Consolidated Statement of Changes in Equity – unaudited

	Total equity attributable to equity shareholders							
	Paid-in capital	Capital surplus	Share premium	Statutory reserves	Retained earnings	of the Company	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2006	169,730	10	212,606	70,310	129,386	582,042	9,026	591,068
Issuance of new shares	11,158	–	69,838	–	–	80,996	–	80,996
Share issue expenses	–	–	(7,631)	–	–	(7,631)	–	(7,631)
Profit for the period	–	–	–	–	3,385	3,385	322	3,707
Dividends to equity shareholders of the Company	–	–	–	–	(27,133)	(27,133)	–	(27,133)
Balance as at 30 June 2006	<u>180,888</u>	<u>10</u>	<u>274,813</u>	<u>70,310</u>	<u>105,638</u>	<u>631,659</u>	<u>9,348</u>	<u>641,007</u>
Balance as at 1 January 2005	169,730	10	212,606	51,867	105,847	540,060	8,358	548,418
Profit for the period	–	–	–	–	61,441	61,441	54	61,495
Dividends to equity shareholders of the Company	–	–	–	–	(33,946)	(33,946)	–	(33,946)
Capital contributions from minority interests	–	–	–	–	–	–	50,038	50,038
Dividends to minority interests	–	–	–	–	–	–	(80)	(80)
Balance as at 30 June 2005	<u>169,730</u>	<u>10</u>	<u>212,606</u>	<u>51,867</u>	<u>133,342</u>	<u>567,555</u>	<u>58,370</u>	<u>625,925</u>

Notes:

### 1. Basis of preparation and accounting policies

The unaudited consolidated interim financial statements have been prepared in accordance with the requirements of the GEM Listing Rules of the Stock Exchange, including compliance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") adopted by the International Accounting Standard Board ("IASB").

The unaudited consolidated interim financial statements are prepared on the historical cost basis.

The accounting policies have been consistently applied by the Group and are consistent with those used in the preparation of the Group's consolidated financial statements for the year ended 31 December 2005.

The preparation of interim financial statements in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

### 2. Turnover

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.

### 3. Profit/(loss) before taxation

Profit/(loss) before taxation is arrived at after charging/(crediting) the following items:

	Unaudited For the three months ended 30 June		Unaudited For the six months ended 30 June	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
(a) Net finance costs:				
Interest on bank loans repayable within five years	9,569	6,626	17,627	12,075
Bank charges and others	(1,644)	1,435	(1,104)	746
Interest income	(149)	(92)	(226)	(204)
(b) Other item:				
Depreciation	2,418	5,602	5,654	13,099

#### 4. **Income tax**

The Company is subject to PRC income tax, before any relief or concessions, at a rate of 24%. In accordance with the relevant PRC tax rules and regulations, the Company is entitled to a 50% relief on PRC income tax in years when the Company's export sales amount to 70% or more of its total sales. According to the Company's previous years' sales records and sales in the first half of 2006, the Board expects that the Company will meet the requirements and be entitled to 50% relief on its PRC income tax for 2006. This tax preferential policy is subject to approval from the local tax authorities.

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 concessions, at rates of 15% to 33%. In accordance with the relevant PRC tax rules and regulations, certain of 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.

#### 5. **Dividends**

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).

Pursuant to a resolution passed at the shareholders' meeting on 18 May 2006, a dividend payable to equity shareholders of the Company totaling RMB 27,133,000 for 2005 was approved.

Pursuant to a resolution passed at the shareholders' meeting on 17 May 2005, a dividend payable to equity shareholders of the Company totaling RMB 33,946,000 for 2004 was approved.

#### 6. **Earnings/(loss) per share**

##### (a) *Basic earnings/(loss) per share*

For the three months and the six months ended 30 June 2006, the calculation of earnings/(loss) per share is based on the unaudited profit/(loss) attributable to equity shareholders of the Company of approximately RMB(3,171,000) and RMB3,385,000, respectively, (for the three months and six months ended 30 June 2005, the unaudited profit attributable to equity shareholders of the Company was approximately RMB27,619,000 and RMB61,441,000, respectively) and the weighted average number of shares in issue during the respective period. For the three months and the six months ended 30 June 2006, the weighted average number of shares in issue was 1,723,335,333 and 1,766,343,978, respectively. (for the three months and the six months ended 30 June 2005, the weighted average number of shares in issue was 1,697,300,000).

##### (b) *Diluted earnings/(loss) per share*

Diluted earnings/(loss) per share has not been presented for the three months and six months ended 30 June 2006 and 2005 as there were no dilutive potential ordinary shares outstanding during these periods.

## 7. Property, plant and equipment

During the six months ended 30 June 2006, the Group had additions to property, plant and equipment in the amount of approximately RMB53,149,000 (six months ended 30 June 2005: RMB42,157,000).

## 8. Trade receivables

An ageing analysis of trade receivables is as follows:

	<b>Unaudited 30 June 2006 RMB'000</b>	Audited 31 December 2005 RMB'000
Within 3 months	132,857	94,659
Over 3 months but less than 6 months	1,405	72,537
Over 6 months	2,067	595
	<hr/>	<hr/>
Total	<b>136,329</b>	<b>167,791</b>

Customers are generally granted credit terms of 3 to 6 months, depending on the credit standing of individual customers.

## 9. Trade payables

An ageing analysis of trade payables is as follows:

	<b>Unaudited 30 June 2006 RMB'000</b>	Audited 31 December 2005 RMB'000
Within 6 months	16,867	47,555
Over 6 months but less than 1 year	3,482	7,656
Over 1 year	862	1,312
	<hr/>	<hr/>
Total	<b>21,211</b>	<b>56,523</b>

## 10. Paid-in capital

	<b>Unaudited 30 June 2006 RMB'000</b>	Audited 31 December 2005 RMB'000
Registered, issued and fully paid:		
1,138,800,000 (2005: 1,138,800,000) Domestic shares of RMB0.10 each (2005: RMB0.10 each)	113,880	113,880
670,080,000 (2005: 558,500,000) H shares of RMB0.10 each (2005: RMB0.10 each)	67,008	55,850
	<hr/>	<hr/>
Total	<b>180,888</b>	<b>169,730</b>



## 11. Commitments

- (a) As at 30 June 2006, the Group had capital commitments in respect of property, plant and equipment not provided for in the interim financial statements as follows:

	<b>Unaudited 30 June 2006 RMB'000</b>	Audited 31 December 2005 RMB'000
Contracted for	3,882	–
Authorised but not contracted for	40,332	100,000
	<hr/> <b>44,214</b> <hr/>	<hr/> 100,000 <hr/>

- (b) As at 30 June 2006, the Group was committed to contribute EUR3,400,000 to Xianyang Andre Juice Co., Ltd. as capital contributions.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

For the six months ended 30 June 2006, the Group's turnover increased to approximately RMB349,962,000 as compared to approximately RMB310,370,000 for the corresponding period in 2005, representing an increase of approximately RMB39,592,000 or 13%. The Group's turnover was principally derived from the manufacture and sale of apple juice concentrate, pear juice concentrate, apple essence, feedstuff and related products. The increase in turnover was mainly attributable to the increase in sales volume of apple juice concentrate. The increase in sales volume was mainly due to active market expansion and increase in the market share of the Company.

For the six months ended 30 June 2006, the Group's gross profit was reduced to approximately RMB63,229,000 and the gross profit margin was approximately 18%. For the corresponding period in 2005, the gross profit was approximately RMB125,357,000 and gross profit margin was approximately 40%. The decrease in gross profit and gross profit margin was mainly attributable to the increase in production costs arising from the decrease in apple supply and thus significant increase in material cost in 2006.

For the six months ended 30 June 2006, the Group's net profit (i.e. the profit for the period attributable to equity shareholders of the Company) was approximately RMB3,385,000 as compared to approximately RMB61,441,000 for the corresponding period in 2005, representing a decrease of approximately RMB58,056,000. The decrease in net profit was mainly attributable to the rise in production costs and thus the decrease in gross profit margin.

For the six months ended 30 June 2006, the Group incurred distribution expenses of approximately RMB29,699,000, as compared to approximately RMB35,931,000 for the corresponding period in 2005, representing a decrease of approximately RMB6,232,000. The Group's distribution expenses mainly included transport, export inspection and marketing expenses. Such decrease was mainly attributable to the decrease in sea freight charges.

For the six months ended 30 June 2006, the Group incurred administration expenses of approximately RMB14,023,000 as compared to approximately RMB13,646,000 for the corresponding period in 2005, representing an increase of approximately RMB377,000. Such increase was mainly attributable to the commencement of operation of the two new factories in Dalian and Xianyang in the second half of 2005 which led to the increase in general administrative expenses.

For the six months ended 30 June 2006, the net finance costs of the Group increased to approximately RMB16,297,000, as compared to approximately RMB12,617,000 for the corresponding period in 2005, representing an increase of approximately RMB3,680,000 or 29%. Such increase was mainly due to the increase in the amount of bank borrowings resulting from expansion of production scale, the rise in basic interest rate in the People's Republic of China (the "PRC") and the London Interbank Offered Rate Index in the international finance market during the period.

## **Business Review**

### *Cooperation with International Renowned Enterprises*

Besides the introduction of strategic investors like Chengdu President Enterprise Food Co., Ltd., Mitsui & Co., Ltd. and International Finance Corporation ("IFC"), the Group entered into a share transfer agreement with AGRANA Juice GmbH ("AGRANA"), a wholly owned subsidiary of AGRANA AG on 9 June 2006. AGRANA AG is one of the world's leaders in fruit preparations and Europe's largest manufacturer of fruit juice concentrates. Through transferring 50% equity interest in Xianyang Andre Juice Co., Ltd.\* (咸陽安德利果蔬汁有限公司) ("Xianyang Andre") to AGRANA, the Company is expected to obtain better opportunities to further develop its market and distribution channel in Europe as well as in other international markets, thereby enhancing the market capabilities and sales volume of the Company. By introducing strategic investors, the Directors believe that the Company can benefit from improved corporate governance structure, enhanced research and development capability, upgraded product quality, diversified product mix, expanded market place and increased market share.

### *Enhancing Market Coverage*

With years of continuous effort, the Group has already expanded its sales network to major countries and regions in the world, including the US, Japan, European countries and PRC market.

To further enhance the European market and sales volume, the Company and AGRANA had entered into the Distribution and Agency Agreement pursuant to which the Company agreed to appoint AGRANA as its distributor in the region agreed by the parties. AGRANA also agreed to appoint the Company as its sales agent in the US in respect of the products of AGRANA.

### *Traceability and Farm Management Improvement Linkages Project*

Following the occurrence of a series of food accidents in Europe and the emphasis on anti-terrorism on food after the 911 events in the US, the establishment of a product traceability system becomes increasingly important. A product traceability system requires food and drink manufacturers to possess ability to trace the country of origin of raw materials, the manufacturing

process of materials, manufacturer, supply chain and other critical problems. To increase its competitiveness, the Company had entered into a Linkages Cooperation Agreement with IFC for the development of a Traceability and Farm Management Improvement Linkages Project (the “Project”) in the PRC.

The Project is a technology supporting system, mainly funded by IFC, aims to improve the standards in the supply chain of the Company to respond to what is increasingly expected as the norm by the Company’s international customers. One of the targets of the Project is to assist the Company to develop systems of traceability and better management techniques.

The Project will also adopt EUREPGAP. EUREPGAP is a well recognized accreditation system for agricultural industry in the world. The Company will be a pioneer in implementing such system in fruit juice concentrate manufacturing industry in the PRC, in the event that it proceeds to implement the Project.

#### *Product Diversification*

The Group had further implemented various aspects of the production of pectin during the reporting period. The construction of the factory premises located in Yantai was started on 26 August 2005. The required production equipment was purchased and is being installed. The Directors believe that the production and sales of pectin can be further enhanced in accordance with its plan.

#### *Cooperation with International Financial Institutions*

The Group has arranged various long-term and short-term funding arrangements in foreign currency with international renowned financial institutions such as IFC, Rabobank, The Hongkong and Shanghai Banking Corporation Limited and Bank of China (Hong Kong) Limited. The Directors believe that such long-term and short-term funding arrangements in foreign currency can reduce the Group’s exchange rate risk and finance cost, and can facilitate better business development.

#### *Subscription and Placing of H Shares*

On 23 February 2006, the Company entered into a subscription agreement with IFC, pursuant to which IFC agreed to subscribe an aggregate of 50,000,000 new H shares of the Company at a price of HK\$0.70 per H share.

The Company also entered into a placing agreement on 23 February 2006 with Guotai Junan Securities (Hong Kong) Limited, pursuant to which Guotai Junan Securities (Hong Kong) Limited agreed to place an aggregate of 61,580,000 new H shares of the Company at a price of HK\$0.70 per H share.

The above subscription and placing were completed on 10 March 2006. From 13 March 2006, the new H shares, representing an aggregate of approximately 6.17% of the total share capital of the Company as enlarged by the issue of the new H shares, are traded on the GEM.

## **Future Prospects**

In 2006, with the gradual implementation of specific measures inclining to the agricultural industry under the PRC government's macroeconomic policies, and the gradual improvement of various related PRC laws and regulations, the Group will enjoy more development and financing opportunities. Aiming at enlarging its business scale, the Group will strive to further enlarge market, enhance productivity, diversify products, expand sales, disperse markets and to develop financing channels, etc. Moreover, the Group has obtained the approval from shareholders' meeting to make applications for switching the listing of the H shares from GEM to the Main Board of the Stock Exchange. The Company will make applications to the China Securities Regulatory Commission and the Stock Exchange according to the related rules and regulations and with reference to the market condition and the Group's own situation. Future development plans of the Company are summarized as follows:

### *Expand Markets*

While strengthening its position in the existing markets, the Group will at the same time focus on market diversification. In respect of the overseas market, apart from strengthening its US market and the developed European market and Japanese market, the Group is actively liaising with its various customers and has set up sales office in Canada with a view to achieve further breakthroughs in the European, North American, Asian and even Australian markets. At the same time, the Group will actively promote its products in the domestic PRC market.

### *Uplift Production Capacity*

To meet the growing demand for juice concentrate both in local and overseas markets and considering the abundant supply of apple resources in Dalian, the Group plans to build a new production line in factory situated in Dalian with an expected production capacity of approximately 30,000 tonnes of juice concentrate per pressing season, bringing the annual production capacity of the Group's self-constructed production lines to reach approximately 210,000 tonnes of juice concentrate. Moreover, the Group intends to build another new production line in Xianyang Andre with an expected production capacity of approximately 30,000 tonnes of juice concentrate per pressing season. In addition, the Group will focus on small and medium sized enterprises both in the PRC and overseas and will also seek opportunities such as mergers and acquisitions, to further boost its annual production capacity of juice concentrate, thereby strengthening the Group's leading position in the industry.

### *Product Diversification*

Other than clear apple juice concentrate, clear pear juice concentrate, apple essence, pear essence and feedstuff, the Group will endeavour to bring significant breakthroughs in the development and production of pomace, the production of cloudy apple juice concentrate, fructose (including apple fructose and pear fructose), other fruit juice types and retail drinks. The critical technology of industrialization of pectin production has been completed. Volume production can be started in the second half of 2006. For cloudy apple juice concentrate and fructose which are of high profit margin, through many years of research and development, the Group has achieved breakthrough in such industrialized production technology. In the last pressing season, the Group managed to

produce a small amount of such qualified products. Volume production will be commenced in the next pressing season. For other fruit juice types, the Group has successfully developed samples of carrot juice concentrate, date juice concentrate, sweet potato juice concentrate, etc. Breakthrough in the critical production technology of guava juice will soon be achieved. The Group will catch the most appropriate time to launch new products according to the market demand. In addition, with the increase in the production volume of juice concentrate, retail-size package of juice concentrate will be promoted in the near future. The cooperation with renowned beverage manufacturer to produce OEM package of retail drinks will be implemented as soon as possible.

#### *Development of Financing Channels*

The Group will actively pursue opportunities to cooperate with other international financial institutions so that the Group can further develop financing channels and diversify funding varieties, especially long-term funding in foreign currency. The Group can thereby reduce its foreign exchange risk and finance cost, improve its capital structure, enhance its risk-hedging ability, and at the same time facilitate better business development.

#### *Making Use of the Opportunity arising from the Revaluation of RMB*

The operating revenue of the Group is substantially denominated in US dollars. In light of the recent revaluation of RMB, the Group has made corresponding adjustments in order to offset the potential negative impacts as a result thereof. Such corresponding adjustments include the increase in selling price, the introduction of exchange rate fluctuation clause in sale contracts, the increase in the proportion of loan denominated in US dollars, the proportion of sea freight expenses denominated in US dollars, the development of the domestic market and the increase in the output of high-acidity products which are of higher profit margin, etc. The Directors believe that, the revaluation of RMB will eliminate some enterprises with small scale of operation, poor product quality and poor risk-sheltering ability, and therefore will accelerate the industry reorganization and provide a development opportunity for the Group.

### **INITIAL AND AMENDED LOAN AGREEMENT WITH IFC**

On 21 April 2005, the Company entered into a loan agreement (the “Loan Agreement”) with IFC for a loan of US\$15,000,000 (approximately HK\$117,000,000) repayable commencing on 15 March 2007 by 10 approximately equal instalments until all monies payable under the Loan Agreement have been fully repaid. Pursuant to the Loan Agreement, Glory Cause Land Afforestation Co., Ltd.\* (光彩事業國土綠化整理有限公司), being the controlling shareholder of the Company, Beijing RAJ Network Sales Co., Ltd.\* (北京瑞澤網絡銷售有限責任公司), Yantai Donghua Fruit Co., Ltd.\* (烟台東華果業有限公司) and Donghua Fruit Industry Co., Ltd. have collectively undertaken to IFC and the Company to retain their legal and beneficial aggregate ownership of not less than 40% in the share capital of the Company so long as any part of the principal of or interest on the loan under or any other sums due under the Loan Agreement remain outstanding and unpaid. In the event that their legal and beneficial aggregate ownership falls below the above aggregate percentage level, the Company shall be required to repay the principal amount of the loan from time to time outstanding and the interest thereon accrued.

\* For identification purpose only

On 21 March 2006, after the subscription of shares by IFC (details of which are set out under the section headed “Subscription and Placing of H Shares” above), the Company entered into an Amended and Restated Agreement to the Loan Agreement (the “Amended Loan Agreement”) with IFC to amend the facility to be granted by IFC under the Loan Agreement from US\$15,000,000 to US\$8,000,000 and to make certain other incidental changes to the Loan Agreement, including the cancellation of all assets charged by IFC. The Amended Loan Agreement was signed subject to the entering into of (a) the Yantai Share Retention Agreement, pursuant to which each of Glory Cause Land Afforestation Co., Ltd.\* (光彩事業國土綠化整理有限公司), being the controlling shareholder of the Company, Beijing RAJ Network Sales Co., Ltd.\* (北京瑞澤網絡銷售有限責任公司), Yantai Donghua Fruit Co., Ltd.\* (烟台東華果業有限公司) and Donghua Fruit Industry Co., Ltd. will undertake to maintain an aggregate interest of no less than 40% in the issued share capital of the Company; and (b) Donghua Share Retention Agreement, pursuant to which Mr. Wang An and Mr. Zhang Hui will agree to maintain the specified percentage interests in each of Yantai Donghua Fruit Co., Ltd.\* (烟台東華果業有限公司) and Donghua Fruit Industry Co., Ltd..

As at the date of this report, both the Yantai Share Retention Agreement and the Donghua Share Retention Agreement have not yet been finalised and the loan of US\$8,000,000 under the Amended Loan Agreement is not yet available to be drawn down.

#### **TERM FACILITY AGREEMENT**

On 2 June 2006, the Company as borrower entered into the Term Facility Agreement with certain financial institutions whereby the lenders have agreed to make available to the Company a term facility in an aggregate amount of US\$60,000,000 (approximately HK\$468,000,000).

The terms of the Term Facility Agreement impose specific performance obligations on the part of the controlling shareholders of the Company. Under the Term Facility Agreement, each of the following will constitute an event of default upon which the Facility will, among others, become immediately due and payable: (i) Mr. Wang An does not or ceases to have or is not or ceases to be entitled to exercise, directly or through his controlled corporations, management control over each of the Company and its material subsidiaries; and (ii) the aggregate shareholding in the Company that is beneficially owned by Mr. Zheng Yue Wen and Mr. Wang An, whether directly or through their respective controlled corporations, is not or ceases to be larger than the aggregate shareholding (whether direct or indirect) in the Company of and/or held to the order of any other person and/or persons acting in concert with such other person.

As at the date of this report, Mr. Zheng Yue Wen and Mr. Wang An, whether directly or through their respective controlled corporations, collectively held approximately 41.98% of the total issued share capital of the Company. Mr. Zheng Yue Wen and Mr. Wang An are also executive Directors of the Company.

## **EMPLOYMENT AND REMUNERATION POLICY**

As at 30 June 2006, the Group had a total of 648 employees. The Group's employment and remuneration policies remained unchanged with those described in the prospectus of the Company. The salaries and benefits of employees of the Group are kept at a competitive level and employees are rewarded on a performance related basis with general framework of the Group's salary and bonus system which is reviewed annually. A wide range of benefits, including statutory compulsory welfare plans, is also provided to employees.

## **DIVIDEND**

The Board has proposed a final dividend of RMB0.015 per share for the year ended 31 December 2005. The proposal to declare and pay this final dividend was passed at the annual general meeting held on 18 May 2006.

The Board proposed not to distribute interim dividend for the period ended 30 June 2006.

## **SIGNIFICANT INVESTMENT**

There were no significant investments made by the Group during the six months ended 30 June 2006.

## **MATERIAL ACQUISITIONS AND DISPOSALS**

Apart from the share transfer agreement entered with AGRANA on 9 June 2006 for transferring 50% equity interest in Xianyang Andre to AGRANA, no material acquisitions or disposals of subsidiaries and associated companies has been made by the Company during the six months ended 30 June 2006.

## **CONTINGENT LIABILITIES**

As at 30 June 2006, the Directors are not aware of any material contingent liabilities.

## **CHARGE ON ASSETS**

As at 30 June 2005, the Group did not have any charge on its assets.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group generally financed its operations and investing activities with internally generated financial resources and loans from banks. As at 30 June 2006, the Group had outstanding bank loans amounted to approximately RMB772,558,000 which is borrowed at fixed interest rates ranging from 5.62% to 6.60%.

As at 30 June 2006, the Group had a net cash and cash equivalent position of approximately RMB320,723,000. The Group's gearing ratio at 30 June 2006 was approximately 58% (30 June 2005: approximately 50%) which is calculated based on the Group's total liabilities of

approximately RMB882,599,000 (30 June 2005: approximately RMB637,360,000) and total equity and liabilities of approximately RMB1,523,606,000 (30 June 2005: approximately RMB1,263,285,000). The Directors considered that the Group had sufficient financial resources to meet its ongoing operation requirements.

## 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. However, the results of operations and the financial position of the Group may be affected by any changes in the exchange 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.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2006, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's shares.

## DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND SHORT POSITIONS

As at 30 June 2006, the interests and short positions of the Directors and Supervisors and the chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were (a) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); and (b) required to be recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the directors of the Company as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

### Long Position in the shares of the Company

Name of directors	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in domestic shares	Percentage in total share capital
Zheng Yue Wen (Note 1)	Domestic shares	558,714,000 (L)	Interest of controlled corporation	Personal	49.062%	30.887%
Wang An (Note 2)	Domestic shares	480,047,730 (L)	Interest of controlled corporation	Personal	42.154%	26.538%



*Notes:*

- (1) As at 30 June 2006, Zheng Yue Wen was taken to be interested in the 558,714,000 domestic shares through its controlled corporations. Out of the 558,714,000 domestic shares, 光彩事業國土綠化整理有限公司 (Glory Cause Land Afforestation Co., Ltd.\*) was having a direct interest of 546,624,000 domestic shares whereas 北京瑞澤網絡銷售有限責任公司 (Beijing RAJ Network Sales Co., Ltd.\*) was having a direct interest of 12,090,000 domestic shares. As at 30 June 2006, 光彩事業國土綠化整理有限公司 (Glory Cause Land Afforestation Co., Ltd.\*) was controlled (as to 79%) by 北京亞太世紀科技發展有限責任公司 (Beijing Asia Pacific Century Technology Development Limited Liability Company\*) which in turn was controlled (as to 80%) by 北京瑞澤網絡銷售有限責任公司 (Beijing RAJ Network Sales Co., Ltd.\*). As at 30 June 2006, Zheng Yue Wen controlled 43% interest in 北京瑞澤網絡銷售有限責任公司 (Beijing RAJ Network Sales Co., Ltd.\*).

On 30 June 2006, 光彩事業國土綠化整理有限公司 (Glory Cause Land Afforestation Co., Ltd.\*) and 北京瑞澤網絡銷售有限責任公司 (Beijing RAJ Network Sales Co., Ltd.\*) entered into an agreement with 山東安德利集團有限公司 (Shandong Andre Group Co., Ltd.\*), pursuant to which 光彩事業國土綠化整理有限公司 (Glory Cause Land Afforestation Co., Ltd.\*) and 北京瑞澤網絡銷售有限責任公司 (Beijing RAJ Network Sales Co., Ltd.\*) would transfer their 267,267,000 domestic shares and 12,090,000 domestic shares respectively to 山東安德利集團有限公司 (Shandong Andre Group Co., Ltd.\*). The transfer is conditional upon, among other things, the Company obtaining the written approval by the relevant PRC authority and the successful registration of the transfer by the Company. As at 30 June 2006, the conditions for the transfer has not been satisfied.

- (2) As at 30 June 2006, China Pingan Investment Holdings Limited was having a direct interest of 200,690,730 domestic shares and Wang An controlled 90% interest in China Pingan Investments Holdings Limited. On 30 June 2006, 山東安德利集團有限公司 (Shandong Andre Group Co., Ltd.\*) acquired 279,357,000 domestic shares from 光彩事業國土綠化整理有限公司 (Glory Cause Land Afforestation Co., Ltd.\*) and 北京瑞澤網絡銷售有限責任公司 (Beijing RAJ Network Sales Co., Ltd.\*) and Wang An controlled 80% interest in 山東安德利集團有限公司 (Shandong Andre Group Co., Ltd.\*).
- (3) The letter “L” denotes a long position.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND SHORT POSITIONS

As at 30 June 2006, so far as the Directors are aware, the following persons (other than the Directors, Supervisors and the chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company which are discloseable under Divisions 2 and 3 of Part XV of the SFO and recorded in the register kept by the Company pursuant to section 336 of the SFO:

### Long Position in the Shares of the Company

Name of substantial shareholder	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in domestic shares/H shares	Percentage in total share capital
Zheng Yue Wen (Note 1)	Domestic shares	558,714,000 (L)	Interest of controlled corporation (controlled 43% interest of such corporation)	Personal	49.062%	30.887%
北京瑞澤網絡銷售 有限責任公司 Beijing RAJ Network Sales Co., Ltd.* (Note 1)	Domestic shares	12,090,000 (L)	Beneficial owner	Corporate	1.062%	0.668%
北京亞太世紀 科技發展有限 責任公司 Beijing Asia Pacific Century Technology Development Limited Liability Company*	Domestic shares	546,624,000 (L)	Interest of controlled corporation (controlling 80% interest of such corporation)	Corporate	48.000%	30.219%
北京亞太世紀 科技發展有限 責任公司 Beijing Asia Pacific Century Technology Development Limited Liability Company*	Domestic shares	546,624,000 (L)	Interest of controlled corporation (controlling 79% interest of such corporation)	Corporate	48.000%	30.219%

Name of substantial shareholder	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in domestic shares/H shares	Percentage in total share capital
Wang An (Note 2)	Domestic shares	200,690,730 (L)	Interest of controlled corporation (controlling 90% interest of such corporation)	Personal	17.623%	11.095%
	Domestic shares	279,357,000 (L)	Interest of controlled corporation (controlling 80% interest of such corporation)	Personal	24.531%	15.445%
China Pingan Investment Holdings Limited (Note 2)	Domestic shares	200,690,730 (L)	Beneficial owner	Corporate	17.623%	11.095%
HSBC International Trustee Limited (Note 3)	Domestic shares	284,700,000 (L)	Trustee	Corporate	25.000%	15.739%
Prosper United Limited	Domestic shares	284,700,000 (L)	Interest of controlled corporation (controlling 100% interest of such corporation)	Corporate	25.000%	15.739%
ACME Team International Limited	Domestic shares	284,700,000 (L)	Interest of controlled corporation (controlling 100% interest of such corporation)	Corporate	25.000%	15.739%

Name of substantial shareholder	Class of shares	Number of shares held	Capacity	Type of interest	Percentage in domestic shares/H shares	Percentage in total share capital
Donghua Fruit Industry Co., Ltd.	Domestic shares	284,700,000 (L)	Beneficial owner	Corporate	25.000%	15.739%
山東安德利集團有限公司 Shandong Andre Group Co., Ltd.* (Note 2)	Domestic shares	279,357,000 (L)	Beneficial owner	Corporate	24.531%	15.445%
統一企業股份有限公司 Uni-President Enterprise Corp. (Note 4)	Domestic shares	84,695,270 (L)	Beneficial owner	Corporate	7.437%	4.682%
Atlantis Investment Management Ltd. (Note 5)	H shares	57,120,000 (L)	Investment manager	Corporate	8.524%	3.158%
IFC	H shares	50,000,000 (L)	Beneficial owner	Corporate	7.462%	2.764%
INVESCO Hong Kong Limited (previously known as INVESCO Asia Limited) in its capacity as manager/ advisor of various accounts	H shares	35,130,000 (L)	Investment manager	Corporate	5.243%	1.942%

*Notes:*

- (1) On 30 June 2006, 光彩事業國土綠化整理有限公司 (Glory Cause Land Afforestation Co., Ltd.\*) and 北京瑞澤網絡銷售有限責任公司 (Beijing RAJ Network Sales Co., Ltd.\*) entered into an agreement with 山東安德利集團有限公司 (Shandong Andre Group Co., Ltd.\*), pursuant to which 光彩事業國土綠化整理有限公司 (Glory Cause Land Afforestation Co., Ltd.\*) and 北京瑞澤網絡銷售有限責任公司 (Beijing RAJ Network Sales Co., Ltd.\*) would transfer their 267,267,000 domestic shares and 12,090,000 domestic shares respectively to 山東安德利集團有限公司 (Shandong Andre Group Co., Ltd.\*). The transfer is conditional upon, among other things, the Company obtaining the written approval by the relevant PRC authority and the successful registration of the transfer by the Company. As at 30 June 2006, the conditions for the transfer has not been satisfied.
- (2) Wang An controlled 90% interest in China Pingan Investment Holdings Limited and 80% interest in 山東安德利集團有限公司 (Shandong Andre Group Co., Ltd.\*).

- (3) The corporate substantial shareholder notices filed to the Stock Exchange and the Company dated 4 July 2006 showed that HSBC International Trustee Limited controlled 100% interest in Prosper United Limited.
- (4) The corporate substantial shareholder notices filed by 統一企業股份有限公司 (Uni-President Enterprises Corp.) to the Stock Exchange and the Company on 8 September 2004 showed that it was taken to be interested in 84,695,270 domestic shares through its controlled corporations, with 成都統一企業食品有限公司 (Chengdu President Enterprises Food Co., Ltd.), its direct controlled corporation, having interest of 84,695,270 domestic shares in the Company. No notice had been given to or received by the Stock Exchange or the Company by 成都統一企業食品有限公司 (Chengdu President Enterprises Food Co., Ltd.) in relation to its interest in the Company.
- (5) Based on the information available on the website of the Stock Exchange, the corporate substantial shareholder notice filed to the Stock Exchange showed that Atlantis Investment Management Ltd., in the capacity of investment manager, holds 57,120,000 H shares, representing 8.524% and 3.158% of the total H shares and the total share capital of the Company respectively.
- (6) The letter “L” denotes a long position.

## **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.

## **CORPORATE GOVERNANCE PRACTICES**

The articles of association, terms of reference of audit committee and terms of reference of supervisory committee of the Company form the framework for the code of corporate governance practice of the Company.

The Board has reviewed its corporate governance documents and is of the view that such documents have incorporated the principles and code provisions in the “Code on Corporate Governance Practices” of the GEM Listing Rules.

## **DIRECTORS’ SECURITIES TRANSACTIONS**

The Company has adopted the required standard of dealings set out in Rule 5.48 to 5.67 of the GEM Listing Rules (the “Required Standard”) as the Company’s code of conduct regarding securities transactions by its Directors. A copy of the Required Standard was sent to each Director one month before the date of the Board meeting to approve the Company’s 2006 half year results, with a reminder that the Director cannot deal in the securities and derivatives of the Company until after such results have been published.

Under the Required Standard, Directors are required to notify the chairman of the Company and receive a dated acknowledgement in writing before dealing in the securities and derivatives of the Company and, in the case of the chairman of the Company himself, he must notify the chairman of the audit committee and receive a dated acknowledgement in writing before any dealing.

All Directors, upon specific enquiries, have confirmed that they have complied with the Required Standard during the six-month period ended 30 June 2006.

Specific employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with the Required Standard. No incident of non-compliance was noted by the Company for the six-month period ended 30 June 2006.

## AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based on the guidelines recommended by the Hong Kong Institute of Certified Public 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. The audit committee comprises three independent non-executive Directors, namely Wu Jian Hui, who is the Chairman of the audit committee, Hu Xiao Song and Yu Shou Neng.

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 interim results for the six months ended 30 June 2006, with the Directors.

By Order of the Board  
**Zheng Yue Wen**  
*Chairman*

Yantai, the PRC, 9 August 2006

As at the date hereof, the Board comprises:

Mr. Zheng Yue Wen (*Executive Director*)  
Mr. Wang An (*Executive Director*)  
Mr. Zhang Hui (*Executive Director*)  
Mr. Yu Hui Lin (*Executive Director*)  
Mr. Zhang Wan Xin (*Non-executive Director*)  
Mr. Ren Xiao Jian (*Non-executive Director*)  
Mr. Lo Chih-Hsien (*Non-executive Director*)  
Mr. Hu Xiao Song (*Independent non-executive Director*)  
Mr. Wu Jian Hui (*Independent non-executive Director*)  
Ms. Yu Shou Neng (*Independent non-executive Director*)