



Large-Scale Diversified Products



Management Discussion and Analysis

Review of Results

The Board is pleased to announce that, for the year ended 31 December 2005, the Group recorded an audited turnover of approximately RMB654.0 million (2004: RMB550.3 million), representing an increase of approximately 18.9% over last year, and a gross profit margin of 36.5%, as compared with 33.7% for last year. The Group has attained an audited profit attributable to equity holders of the parents of approximately RMB122.7 million for the year under review (2004: RMB108.0 million), representing an increase of 13.6% over last year.

For the year ended 31 December 2005, the Group recorded an increase in turnover by approximately 18.9% to approximately RMB654.0 million. Such increase was mainly attributable to the increase in both the sales volume and selling price of apple juice concentrate and related products of the Group.

The commencement of operation of a new factory in Qingdao in 2004 made a full year contribution in 2005 and resulted in the increase in the production volume as well as the sales volume.

During the year under review, there was a general increase in the selling price of the Group's products, especially in Europe. The shortage of production of apple juice concentrate in Europe resulted in the increase in the demand for apple juice concentrate from the PRC. As more of the Group's products were sold in markets where the selling price was increased, the percentage of sales in such markets increased.

The Group's gross profit margin increased from approximately 33.7% in 2004 to approximately 36.5% in 2005. Such increase was mainly attributable to the general increase in the selling price of the Group's apple juice concentrate discussed above.

Other income increased from approximately RMB15.1 million in 2004 to approximately RMB27.7 million in 2005. The increase was mainly attributable to the increase in PRC Government subsidies which, in turn, was mainly due to the continuing encouragement of the development of apple juice concentrate and other related products in the PRC and the recognition of the Group as one of the leading manufacturers and exporters of apple juice concentrate by various levels of the PRC government.

Distribution costs were increased by 20.0% from approximately RMB52.1 million in 2004 to approximately RMB62.5 million in 2005. The increase in distribution costs was driven by and in line with the increase in sales.

Administrative expenses increased by 117.8% from approximately RMB21.3 million in 2004 to approximately RMB46.3 million in 2005. The increase in administrative expenses was mainly attributable to the inclusion of the expenses in relation to the listing of the Shares of the Company in November 2005 amounted to approximately RMB15.9 million. The commencement of operation of the new factory in Qingdao in the fourth quarter of 2004 also resulted in the increase in the administrative expenses including staff cost and depreciation expenses.

Finance cost for the Group amounted to approximately RMB32.6 million in 2005, representing an increase of 79.4% over last year. The increase is attributable to the increase in average bank borrowings during the year under review.

The Group has attained an audited profit attributable to equity holders of the parents of approximately RMB122.7 million for the year under review (2004: RMB108.0 million), representing an increase of 13.6% over last year. The increase in profit attributable to equity holders of the parents was in line with the increase in turnover of the Group during the year.

Management Discussion and Analysis



Liquidity, financial resources, gearing and capital commitments

As at 31 December 2005, the Group's borrowings amounted to approximately RMB703.4 million (2004: RMB660.1 million), among which, approximately RMB281.3 million (2004: RMB155.2 million) were secured by way of charge of the Group's assets and approximately RMB144.5 million were denominated in US dollars while approximately RMB558.9 million were denominated in RMB. The maturity profile of the Group's borrowings is set out below:

| | As at 31 December | |
|---|-------------------|---------|
| | 2005 | 2004 |
| | RMB'000 | RMB'000 |
| Repayable: | | |
| On demand or within one year | 440,015 | 514,633 |
| In the second year | 71,900 | 66,765 |
| In the third to fifth year inclusive | 191,502 | 78,722 |
| Total borrowings | 703,417 | 660,120 |

The total equity of the Group increased significantly from approximately RMB201.4 million as at 31 December 2004 to approximately RMB685.0 million as at 31 December 2005. Such significant increase was attributable to (i) the private placement of Shares taken place in 2005, of which net proceeds of approximately RMB157.5 million were raised; (ii) the public offer and placing of Shares taken place in 2005, of which net proceeds of approximately RMB185.8 million were raised; and (iii) the profit attributable to the equity holders of the parents during the year of approximately RMB122.7 million.

As a result, the gearing ratio, defined as total liabilities divided by total assets, was significantly decreased from approximately 81.8% as at 31 December 2004 to 60.7% as at 31 December 2005 and debt to equity ratio, defined as total borrowings divided by total equity, was significantly decreased from 3.3 as at 31 December 2004 to 1.0 as at 31 December 2005.

The treasury policy of the Group is centrally managed and controlled at the corporate level. During the year under review, large amount of short term borrowings were replaced by long term borrowings in order to improve the liquidity of the Group. As a result, the current ratio, defined as current assets over current liabilities, was significantly increased from 0.81 as at 31 December 2004 to 1.1 as at 31 December 2005.

As of 31 December 2005, the Group has RMB20.5 million capital commitments (2004: RMB18.6 million) and has no significant contingent liabilities.

Charges on assets

The Group has pledged the following assets for security of the Group's borrowings, which amounted to approximately RMB281.3 million:

| | As at 31 December | |
|-------------------------------|-------------------|---------|
| | 2005 | 2004 |
| | RMB'000 | RMB'000 |
| Property, plant and equipment | 194,858 | 171,857 |
| Prepaid lease payments | 4,725 | 10,194 |
| Pledged bank deposits | 115,997 | 67,471 |
| Trade receivable | 27,616 | 53,361 |
| Inventories | 21,678 | – |
| Total | 364,874 | 302,883 |



Business Review

Expansion of production capacity

In 2005, in order to better enjoy the economies of scale and further expand its competitiveness, the Group constructed a new plant for apple juice concentrate with an annual capacity of 50,000 metric tonnes in Yuncheng, Shanxi Province, the PRC. The Group had also expanded its plant in Qianxian County, Shaanxi Province, the PRC to an annual capacity of 45,000 metric tonnes of apple juice concentrate. These two projects were completed and in operations in October 2005. As such, the Group's total annual capacity hits the mark of 205,000 metric tonnes of apple juice concentrate. With the completion of these two projects, the efficiency and the economies of scale achieved with the Group's highly efficient and standardised equipment was further reflected in the years to come. At present, the Group has five plants in Shaanxi, Shangdong, Liaoning and Shanxi, the PRC, and it is well-positioned as being located in the provinces which are the richest in apple resources, hence a complementary effect to each other in its strengths and a diversification of risk.

Sales and marketing

In 2005, the Company maintained its remarkable sales performance and was leading in export among other players of the industry. The Group's products were sold to major markets in the world including North America, Europe, Australia and Asia. Apart from the continued consolidation of its original customer base, the Group had mounted its efforts in developing the markets in Japan, Russia and Australia. With the price of apple juice in Europe increasing in the fourth quarter of the year, the Group's sales in Europe rose significantly, and the proportion of sales in that market accounted for 22.3% in 2005, from 8.5% in 2004. This has the effect of a greater extent of diversification in its market network and an avoidance of the risk for having a small number of markets. It has also enabled the Group to adjust the direction and focus of its sales, which will ensure that a higher profit margin can be obtained.

Raw materials

During the pressing season for 04-05 (from August 2004 to March 2005), apples experienced a good harvest, the apple price was relatively lower. From August 2005 onwards, when the new pressing season began, since the growing cycle of apples had been disturbed, production volumes of the principal apple production regions in the PRC were affected to various extent. Of which, the apple production area in western China was particularly marked. In order to secure the supply of raw materials for the Group, the Group forged a stronger strategic alliance relationship with its principal suppliers, and has systematically planned the development of its apple production base.

Accreditation

The Company had passed the FDA accreditation of the USA for safety production of food, which had created favorable conditions for its products to be exported to the USA.

The Group's plants in Dalian, Weinan and Qingdao, the PRC had obtained the SGP accreditation this year, and all of the five plants of the Group has been accredited by and become a qualified supplier of the largest beverage company in the world.

Prospects

Looking forward, in spite of the fierce competition in the industry of apple juice concentrate, by optimising its investment, financial management regime and work flow as well as further improvement of its operation and management structure and its operational capability, the Group is definitely on its way to getting better results and ensuring the realisation of its strategic objectives.

- *Diversification of products*

At present, apple juice concentrate remains the principal source of the Group's profit. The Company will, in accordance with the market demand of the PRC and by leveraging on its strengths in resources, develop new products as its new drivers of profit.

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- *Exploring the market and developing new customers*
The Group will continue to put more efforts in exploring markets such as Russia and Japan with more new customers to be identified, so as to enlarge its market share in markets of higher values. Also, in view of the potential demand in the PRC market which cannot be overlooked, the Group will continue to focus on the market and to identify high-value and reputable customers, thereby increasing its market share in the PRC.
- *Quality management*
The Group has been committed in its quality management. It has stringent controls from the purchasing of raw materials to production and finally to its final products. The Company will place heavy emphasis on its purchasing of raw materials and inspection and ensure the quality of its products. It will also improve its quality management system and put into place advanced inspection facilities in order to ensure the consistency of its product quality with more improvement.
- *Development of growing base for raw materials*
In order to tackle the risk of shortage of supply in raw materials, the Group has commenced development of its own apple production base, which will enhance both the quality and the steady supply of its raw materials, and this is a focus of the Group's future development.
- *Tackling of the risk of foreign exchange rates*
Although RMB was revaluated during the year under review, there was no significant impact on the Group's financial position as the Group had raised loans in US dollar accordingly in 2005. US dollar is one of the major settlement currencies for sales of the Group. In order to safeguard from further revaluation in RMB in the future, the Group intends to increase the weight of its loans in US dollars, and increase the variety of its settlement currencies.

Human resources and remuneration of our employees

As at 31 December 2005, the Group employed a total of 888 staff. The increase in the number of staff was mainly because of the addition of its newly added plants and expansion of plants.

The Group commits resources every year for the training of its management and core business staff for their continued education, as such will improve both their technical know-how and standard of management.

The Group offers competitive remuneration and has in place a sound remuneration system to attract persons of higher caliber, and to encourage its staff to have more breakthrough in innovation. The Group has also provided the statutory pension insurance and medical insurance for all of its staff.