

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2005.

Principal Activities

The Group's principal activities are manufacture and sale of fruit juice concentrate and other related products. The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 32 to the consolidated financial statements.

Group Reorganisation

The Company was incorporated in the Cayman Islands with limited liability under the Companies Law, Chapter 22 (Laws 3 of 1961, as consolidated and revised) of the Cayman Islands on 5 January 2004.

Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the initial public offering of the Company's shares on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 19 October 2005.

Details of the reorganisation are set out in note 1 to the consolidated financial statements.

The shares of the Company were listed on the Stock Exchange with effect from 4 November 2005.

Results and Appropriations

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 26 of the annual report.

The Directors recommend the payment of a final dividend of RMB2.5 cents per ordinary share of the Company for the year ended 31 December 2005.

Property, Plant and Equipment

During the year, the Group incurred capital expenditure of RMB410 million in the acquisition of property, plant and equipment which mainly comprised building and plant and machinery. Details of movements in the property, plant and equipment of the Group are set out in note 13 to the financial statements.

Summary Financial Information

A summary of the published results and assets, liabilities and minority interest of the Group for the last four financial years is set out on page 2 of the annual report. This summary does not form part of the audited financial statements.

Share Capital and Convertible Bonds

On 25 November 2004, Wisdom Expect Investments Limited ("Wisdom Expect"), a wholly owned subsidiary of the Company, entered into a subscription agreement ("Subscription Agreement") with GS Capital Partners 2000 Employee Fund, L.P., GS Capital Partners 2000 GmbH & Co. Beteiligungs KG, GS Capital Partners 2000 Offshore, L.P., GS Capital Partners 2000, L.P. and Goldman Sachs Direct Investment Fund 2000, L.P. (together the "Investors"), Think Honour International Limited ("Think Honour"), Raise Sharp International Limited ("Raise Sharp"), Mr. Gao Liang and Mr. Liang Yi, pursuant to which the Investors subscribed for the convertible bonds (the "Convertible Bonds") in an aggregate principal amount of US\$20 million issued by Wisdom Expect. The subscription monies received by Wisdom Expect were applied to finance the acquisition of the equity interests in Shaanxi Haisheng, Dalian Haisheng and Weinan Haisheng by Wisdom Expect as part of the reorganisation of the Group and for general working capital purposes. The due performance of the obligations under the Subscription Agreement by Think Honour, Raise Sharp and Wisdom Expect were guaranteed by Mr. Gao Liang and Mr. Liang Yi.

Share Capital and Convertible Bonds *(continued)*

The Convertible Bonds were issued by Wisdom Expect on 20 January 2005 under the Investors' request pursuant to the terms of the Subscription Agreement. On 19 April 2005, the Convertible Bonds were fully converted into an aggregate of 50 preference shares of US\$1.00 each in the share capital of Wisdom Expect. On 19 October 2005, the Investors converted an aggregate of 50 preference shares of US\$1.00 each in the share capital of Wisdom Expect into an aggregate of 50 ordinary shares of US\$1.00 each in the share capital of Wisdom Expect. Details of movements in the share capital during the year are set out in note 22 to the financial statements, respectively.

Distributable Reserves of the Company

Movements in the reserves of the Group and the Company during the year are set out on note 24a to the consolidated financial statements. Under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to Shareholders subject to the provisions of its memorandum and articles of association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's articles of association ("Articles of Association"), dividends shall be distributed out of the retained profits or other reserves, including the share premium account, of the Company.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

Directors

The Directors during the year and up to the date of this report were:

Executive Directors:

Mr. Gao Liang (*Chairman*)

Mr. Liang Yi

Mr. You Yong

(appointed on 23 September 2005)

Ms. Zhu Fang

(appointed on 23 September 2005)

Non-executive Director:

Ms. Joyce I-Yin Hsu

(appointed on 23 September 2005 and resigned on 16 February 2006)

Ms. Liu Yi Lan, Katherine

(appointed on 25 April 2006)

Independent Non-executive Directors:

Mr. Xu Yulin

(appointed on 23 September 2005)

Mr. Yim Hing Wah

(appointed on 23 September 2005)

Mr. Zhao Boxiang

(appointed on 23 September 2005)

Pursuant to the Articles of Association, all Directors will retire and, being eligible, offer themselves for re-election at the annual general meeting. The non-executive Directors are subject to retirement by rotation in the same manner as the executive Directors. The biographical details of the Directors are set out on pages 13 to 14 of this annual report.

Directors' Report

Appointment of Independent Non-executive Directors

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange. The Company considers all of the independent non-executive Directors to be independent.

Directors' Service Contracts

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from 19 October 2005.

Ms. Joyce I-Yin Hsu and each of the independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of three years commencing from 19 October 2005.

Save as disclosed above, none of the Directors proposed for re-election at the forthcoming annual general meeting has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Contracts of Significance

No contracts of significance to which the Company, or any of its holding companies, subsidiaries, or fellow subsidiaries, was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

At no time during the year was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2005, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code in the Listing Rules once the Shares are listed, were as follows:

Long position

| Name of directors | Name of the company | Capacity | Number and class of securities directly or indirectly held | Approximate percentage of shareholding |
|-------------------|--|------------------------------------|--|--|
| Mr. Gao Liang | The Company | Interest of controlled corporation | 576,878,400 Shares (Note 1) | 47.20% |
| Mr. Liang Yi | The Company | Trustee | 95,331,600 Shares (Note 2) | 7.80% |
| Mr. You Yong | Shaanxi Haisheng Fresh Fruit Juice Co., Ltd. (Note 3) | Beneficial owner | 100,000 Shares | 0.116% |
| Ms. Zhu Fang | Shaanxi Haisheng Fresh Fruit Juice Co., Ltd. (Note 3) | Beneficial owner | 100,000 Shares | 0.116% |

Notes:

- The 576,878,400 Shares were held by Think Honour, the issued share capital of which was owned as to 80% by Mr. Gao Liang, 10% by Mr. Liang Yi and 10% by Mr. You Yong. Among the 10% of the issued share capital of Think Honour held by Mr. You Yong, 9% is held on trust by Mr. You Yong for eight individuals, namely Mr. Peng Limin (2%), Ms. Zhu Fang (1.5%), Mr. Suo Dong (1.5%), Mr. Luan Heping (1%), Ms. Yue Jingna (0.75%), Ms. Wang Xuemei (0.75%), Mr. Ding Li (0.75%) and Ms. Xie Haiyan (0.75%). Accordingly, Mr. Gao Liang is deemed to be interested in the 576,878,400 Shares held by Think Honour by virtue of the SFO.
- The 95,331,600 Shares were held by Raise Sharp International Limited ("Raise Sharp"), the entire issued share capital of which was held by Mr. Liang Yi on trust for 1,130 individuals. Accordingly, Mr. Liang Yi is deemed to be interested in the 95,331,600 Shares held by Raise Sharp by virtue of the SFO.
- Shaanxi Haisheng Fresh Fruit Juice Co., Ltd. is an indirect non-wholly owned subsidiary of the Company.

Save as disclosed above, as at 31 December 2005, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporation that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' and Other Person'S Interests in Shares and Underlying Shares

As at 31 December 2005, the interests and short positions of every person, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Long position

| Name of Shareholders | Name of the company | Capacity | Number and class of securities directly or indirectly held | Approximate percentage of shareholding |
|--------------------------------|---------------------|------------------------------------|--|--|
| Think Honour | The Company | Beneficial owner | 576,878,400 Shares (Note 1) | 47.20% |
| Ms. Yue Jingna | The Company | Interest of spouse | 576,878,400 Shares (Note 2) | 47.20% |
| Goldman, Sachs & Co. | The Company | Interest of controlled corporation | 244,440,000 Shares (Note 3) | 20.00% |
| The Goldman Sachs Group, Inc. | The Company | Interest of controlled corporation | 244,440,000 Shares (Note 3) | 20.00% |
| GS Advisors 2000, L.L.C | The Company | Investment manager | 183,759,488 Shares | 15.04% |
| GS Capital Partners 2000, L.P. | The Company | Beneficial owner | 134,784,127 Shares | 11.03% |
| Raise Sharp | The Company | Beneficial owner | 95,331,600 Shares (Note 4) | 7.80% |

Notes:

1. The issued share capital of Think Honour was owned as to 80% by Mr. Gao Liang, 10% by Mr. Liang Yi and 10% by Mr. You Yong. Among the 10% of the issued share capital of Think Honour held by Mr. You Yong, 9% is held on trust by Mr. You Yong for eight individuals, namely Mr. Peng Limin (2%), Ms. Zhu Fang (1.5%), Mr. Suo Dong (1.5%), Mr. Luan Heping (1%), Ms. Yue Jingna (0.75%), Ms. Wang Xuemei (0.75%), Mr. Ding Li (0.75%) and Ms. Xie Haiyan (0.75%).
2. Ms. Yue Jingna is the spouse of Mr. Gao Liang. Ms. Yue Jingna is deemed to be interested in the 576,878,400 Shares in which Mr. Gao Liang is interested by virtue of the SFO.
3. GS Capital Partners 2000 Employee Fund, L.P., GS Capital Partners 2000 GmbH & Co. Beteiligungs KG, GS Capital Partners 2000 Offshore, L.P., GS Capital Partners 2000, L.P. and Goldman Sachs Direct Investment Fund 2000, L.P. (together, the "Investors") are interested in an aggregate of 244,440,000 Shares. The general partner or managing partner of each of the Investors is a direct or indirect wholly-owned subsidiary of The Goldman Sachs Group, Inc.. Goldman, Sachs & Co., a wholly-owned subsidiary of The Goldman Sachs Group, Inc., held by The Goldman Sachs Group, Inc. directly and indirectly through intermediate subsidiaries, is the investment manager of each of the Investors. Pursuant to the SFO, each of Goldman, Sachs & Co. and The Goldman Sachs Group, Inc. is deemed to be interested in the aggregate 244,440,000 Shares in which the Investors are interested in total.
4. The entire issued share capital of Raise Sharp is held by Mr. Liang Yi on trust for 1,130 individuals.

Purchase, Sale or Redemption of the Company's Listed Securities

There was no purchase, sale or redemption by the Company or any of its subsidiaries, of the Company's listed securities during the year ended 31 December 2005.

Emolument Policy

The emolument policy of the employees of the Group is established by the Human Resources Division on the basis of their merit, qualifications and competence and reviewed by the remuneration committee of the Company. The emoluments of the Directors are decided by the remuneration committee of the Company, having regard to the Company's operating results, individual performance and comparable market statistics.

Major Customers and Suppliers

The five largest customers accounted for approximately 66% of the Group's total turnover for the year and the largest customer accounted for approximately 39% of the Group's total turnover. The five largest suppliers accounted for approximately 28% of the Group's total purchases for the year and the largest supplier accounted for approximately 6% of the Group's total purchases.

None of the Directors, their associates, or any shareholder (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) has any interest in the Group's five largest suppliers or the Group's five largest customers.

Bank and Other Borrowings

Particulars of bank and other borrowings of the Group as at 31 December 2005 are set out in note 21 to the consolidated financial statements.

Use of Proceeds

Upon listing, the Group has issued 244,400,000 new shares and raised approximately RMB211.1 million. In relation to the listing of shares, approximately RMB26.5 million expenses were incurred, of which, approximately RMB9.4 million were charged into share premium. As at 31 December, 2005, the Group applied approximately RMB130 million for the construction of new factory in Yuncheng and approximately RMB40 million for expanding the production capacity of the factory in Qianxian.

Audit Committee

The Company has an audit committee which was established on 19 October 2005 to assist the Board in fulfilling its oversight responsibilities of the Company's compliance with legal and regulatory requirements with respect to financial matters.

The audit committee, comprising three independent non-executive Directors, is responsible for reviewing the accounting principles and practices adopted by the Group, the interim and annual reports of the Group, connected transactions and discussed with management the auditing, internal control and financial reporting matters.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year.

Directors' Report

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that the Company has maintained a sufficient public float throughout the year ended 31 December 2005.

Connected and Related Party Transactions

During the year ended 31 December 2005, there was no connected transactions (as defined in and Listing Rules) undertaken by the Group and details of the related parties transactions undertaken in the normal course of business by the Group are set out in note 29 to the consolidated financial statements.

Auditors

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

China Haisheng Juice Holdings Co., Ltd.

Mr. Gao Liang

Chairman

Xi'an, the PRC, 25 April 2006