



China Haisheng Juice Holdings Co., Ltd.

中國海升果汁控股有限公司

Stock Code: 359



Interim Report 2006



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UNAUDITED INTERIM RESULTS

The board (the “Board”) of directors (the “Directors”) of the Company hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2006, with the comparatives figures for the corresponding period in 2005, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

| | | For the six months ended | |
|---------------------------------------|-------|---------------------------------|--------------|
| | | 30 June 2006 | 30 June 2005 |
| | | (Unaudited) | (Unaudited) |
| | NOTES | RMB'000 | RMB'000 |
| Turnover | 3 | 312,816 | 274,856 |
| Cost of sales | | (213,755) | (172,714) |
| | | <hr/> | <hr/> |
| Gross profit | | 99,061 | 102,142 |
| Other income | | 2,283 | 2,191 |
| Distribution costs | | (27,457) | (21,357) |
| Administrative expenses | | (19,870) | (11,948) |
| Other operating expenses | | (1,396) | (987) |
| Finance costs | | (22,012) | (18,656) |
| | | <hr/> | <hr/> |
| Profit before taxation | | 30,609 | 51,385 |
| Income tax expense | 4 | (212) | (97) |
| | | <hr/> | <hr/> |
| Profit for the period | 5 | 30,397 | 51,288 |
| | | <hr/> | <hr/> |
| Attributable to: | | | |
| Equity holders of the parents | | 30,260 | 51,056 |
| Minority interests | | 137 | 232 |
| | | <hr/> | <hr/> |
| | | 30,397 | 51,288 |
| | | <hr/> | <hr/> |
| Dividends | | | |
| – Dividends paid | 7 | 30,555 | – |
| – Proposed dividends | 7 | – | – |
| | | <hr/> | <hr/> |
| Earnings per share, basic (RMB cents) | 8 | 2.48 | 5.22 |
| | | <hr/> | <hr/> |

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2006

| | | 30 June 2006 (Unaudited) RMB'000 | 31 December 2005 (Audited) RMB'000 |
|---|--------------|---|---|
| | <i>NOTES</i> | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 841,517 | 836,282 |
| Prepaid lease payments | | 21,266 | 21,470 |
| Intangible assets | | 41,275 | 42,650 |
| | | 904,058 | 900,402 |
| CURRENT ASSETS | | | |
| Inventories | 10 | 178,796 | 327,781 |
| Trade and other receivables and prepayments | 11 | 250,598 | 335,969 |
| Bills receivable | 11 | – | 1,000 |
| Pledged bank deposits | | 57,570 | 115,997 |
| Bank balances and cash | | 141,523 | 60,568 |
| | | 628,487 | 841,315 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 12 | 80,604 | 198,733 |
| Bills payable | 12 | 56,411 | 149,003 |
| Amounts due to a related party | 16 | 2,773 | 3,169 |
| Dividend payable to the shareholders of a subsidiary | | – | 2,604 |
| Bank and other borrowings – due within one year | | 400,204 | 440,015 |
| | | 539,992 | 793,524 |
| NET CURRENT ASSETS | | | |
| | | 88,495 | 47,791 |
| | | 992,553 | 948,193 |

| | | 30 June 2006 (Unaudited) RMB'000 | 31 December 2005 (Audited) RMB'000 |
|---|--------------|---|--|
| | <i>NOTES</i> | | |
| CAPITAL AND RESERVES | | | |
| Share capital | 13 | 12,715 | 12,715 |
| Reserves | | 670,247 | 670,542 |
| | | <hr/> | <hr/> |
| Equity attributable to equity holders of the parents | | 682,962 | 683,257 |
| Minority interests | | 1,552 | 1,534 |
| | | <hr/> | <hr/> |
| Total equity | | 684,514 | 684,791 |
| NON-CURRENT LIABILITIES | | | |
| Bank and other borrowings – due after one year | | 308,039 | 263,402 |
| | | <hr/> | <hr/> |
| | | 992,553 | 948,193 |
| | | <hr/> | <hr/> |

The unaudited condensed consolidated interim financial statements on pages 2 to 14 were approved and authorised for issue by the Board on 6 September 2006 and are signed on its behalf by:

Gao Liang
DIRECTOR

Zhu Fang
DIRECTOR

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

| | Share capital | Share premium | Special reserve | Statutory public welfare reserve | Statutory surplus reserve | Accumulated profits | Attributable to equity holders of the parents | Minority interests | Total |
|--|------------------|------------------|--------------------|---|---------------------------------|------------------------|--|-----------------------|-------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| At 1 January 2005 | - | - | 101,365 | 10,028 | 20,055 | 69,058 | 200,506 | 882 | 201,388 |
| Arising from group reorganisation | - | - | 158,397 | - | - | - | 158,397 | - | 158,397 |
| Profit for the period, representing total recognised income and expenses for the period | - | - | - | - | - | 51,056 | 51,056 | 232 | 51,288 |
| At 30 June 2005 | - | - | 259,762 | 10,028 | 20,055 | 120,114 | 409,959 | 1,114 | 411,073 |
| At 1 January 2006 | 12,715 | 189,989 | 258,722 | 15,793 | 31,587 | 174,451 | 683,257 | 1,534 | 684,791 |
| Profit for the period, representing total recognised income and expenses for the period | - | - | - | - | - | 30,260 | 30,260 | 137 | 30,397 |
| Appropriated from accumulated profits | - | - | - | - | - | (30,555) | (30,555) | (119) | (30,674) |
| At 30 June 2006 | 12,715 | 189,989 | 258,722 | 15,793 | 31,587 | 174,156 | 682,962 | 1,552 | 684,514 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

| | For the six months ended | |
|--|--------------------------|--------------|
| | 30 June 2006 | 30 June 2005 |
| | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 |
| NET CASH FROM OPERATING ACTIVITIES | 97,714 | 6,374 |
| NET CASH USED IN INVESTING ACTIVITIES | (24,326) | (71,805) |
| NET CASH FROM FINANCING ACTIVITIES | 7,567 | 149,948 |
| INCREASE IN CASH AND CASH EQUIVALENTS | 80,955 | 84,517 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD | 60,568 | 54,451 |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, representing bank balances and cash | 141,523 | 138,968 |

NOTES TO THE CONDENSED ACCOUNTS

For the six months ended 30 June 2006

1. GENERAL

The Company is a company incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liabilities under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 4 November 2005.

Pursuant to a group reorganisation scheme to rationalise the structure of the Group in preparation for the listing ("Listing") of the Company's shares on the Stock Exchange ("Group Reorganisation"), the Company became the holding company of the Group on 19 October 2005. Details of the Group Reorganisation has been set out in the prospectus issued by the Company dated 25 October 2005. The Company is an investment holding company and the companies now comprising the Group are principally engaged in the manufacture and sale of fruit juice concentrate and related products.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the International Financial Reporting Standards ("IFRS") 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board.

The unaudited condensed consolidated interim financial statements of the Group should be read in conjunction with the 2005 annual accounts.

The accounting policies used in the unaudited condensed consolidated interim financial statements of the Group are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005.

3. TURNOVER AND SEGMENT INFORMATION

No segment information is presented during the period as the Group is principally engaged in one operating segment which is the manufacturing and sales of apple juice concentrate and related products. The Group operates within one geographic segment as its revenues are primarily generated in the People's Republic of China (the "PRC") and its major assets are located in the PRC.

Turnover is stated net of applicable value-added tax (the "VAT") in the PRC and the following table provides an analysis of the Group's sales by geographical market:

| | For the six months ended | |
|-------------------|---------------------------------|----------------|
| | 30 June 2006 | 30 June 2005 |
| | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 |
| North America | 131,411 | 185,414 |
| Europe and Russia | 139,713 | 22,139 |
| Asia | 21,141 | 40,761 |
| Australia | 20,551 | 22,512 |
| Others | – | 4,030 |
| | 312,816 | 274,856 |

4. INCOME TAX EXPENSE

On 17 December 2004, Shaanxi Haisheng Fresh Fruit Juice Co., Ltd. ("Shaanxi Haisheng"), a subsidiary of the Group, was approved by the relevant government authorities to reorganise into a Sino-foreign equity joint stock limited company and the relevant business licence was granted on 4 January 2005. In addition, during the year ended 31 December 2005, other PRC subsidiaries of the Group were all transformed to Sino-foreign equity joint ventures. Pursuant to the relevant laws and regulations in the PRC, Shaanxi Haisheng and certain PRC subsidiaries of the Group are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

Haisheng International Inc., a subsidiary of the Group, is a limited liability company incorporated in the USA and it is subject to progressive corporate and federal tax rate.

The income tax expense comprises:

| | For the six months ended | |
|--------------------------|---------------------------------|----------------|
| | 30 June 2006 | 30 June 2005 |
| | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 |
| Provision for income tax | | |
| – The PRC | – | – |
| – Other jurisdictions | 212 | 97 |
| | 212 | 97 |

The Group did not have any significant unprovided deferred taxation for the period.

5. PROFIT FOR THE PERIOD

| | For the six months ended | |
|--|--|--|
| | 30 June 2006 (Unaudited) RMB'000 | 30 June 2005 (Unaudited) RMB'000 |
| Profit for the period has been arrived at after charging: | | |
| Directors' remuneration (<i>note 6</i>) | 609 | 192 |
| Other staff costs | 10,056 | 7,681 |
| Retirement benefits scheme contributions | 474 | 190 |
| | <hr/> | <hr/> |
| Total staff costs | 11,139 | 8,063 |
| | <hr/> | <hr/> |
| Auditors' remuneration | 70 | 50 |
| Amortisation of land use rights included in administrative expenses | 204 | 169 |
| Amortisation of intangible assets included in cost of sales and selling expenses | 1,375 | 899 |
| Depreciation of property, plant and equipment | 19,091 | 12,473 |
| Cost of inventories recognised in the condensed consolidated income statement | 213,755 | 172,714 |
| | <hr/> | <hr/> |

6. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

| | For the six months ended | |
|---|--|--|
| | 30 June 2006 (Unaudited) RMB'000 | 30 June 2005 (Unaudited) RMB'000 |
| Fees | 93 | – |
| Other emoluments: | | |
| Salaries and allowances | 509 | 185 |
| Contributions to retirement benefits scheme | 7 | 7 |
| | <hr/> | <hr/> |
| | 609 | 192 |
| | <hr/> | <hr/> |

Directors' emoluments

Details of emoluments of individual directors are set out as follows:

| | For the six months ended | | | | | |
|------------------|--------------------------|-------------------------|---|--------------|-------------------------|---|
| | 30 June 2006 | | | 30 June 2005 | | |
| | Fee | Salaries and allowances | Contributions to retirement benefits scheme | Fee | Salaries and allowances | Contributions to retirement benefits scheme |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Mr. Zhao Boxiang | 31 | - | - | - | - | - |
| Mr. Xu Yulin | 31 | - | - | - | - | - |
| Mr. Yim Hing Wah | 31 | - | - | - | - | - |
| Mr. Gao Liang | - | 210 | 2 | - | 63 | 2 |
| Mr. Liang Yi | - | 124 | 2 | - | 53 | 2 |
| Mr. You Yong | - | 88 | 2 | - | 33 | 2 |
| Ms. Zhu Fang | - | 87 | 1 | - | 36 | 1 |
| | <u>93</u> | <u>509</u> | <u>7</u> | <u>-</u> | <u>185</u> | <u>7</u> |

Employees' emoluments

The five highest paid individuals included two Directors for the six months ended 30 June 2006 (2005: three), details of whose emoluments are set out above. The emoluments of the remaining highest paid individuals, which fall within the band of nil to HK\$1,000,000 (equivalent to approximately RMB1,030,000) for the six months ended 30 June 2006 and 2005, respectively, are as follows:

| | For the six months ended | |
|--|--|--|
| | 30 June 2006 (Unaudited) RMB'000 | 30 June 2005 (Unaudited) RMB'000 |
| Salaries and allowances | 795 | 542 |
| Retirement benefits scheme contributions | <u>2</u> | <u>2</u> |
| | <u>797</u> | <u>544</u> |

During the six months ended 30 June 2006 and 2005, respectively, no emoluments were paid by the Group to any of the Directors or five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors waived any emoluments during the six months ended 30 June 2006 and 2005, respectively.

7. DIVIDENDS

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

Pursuant to a resolution passed at the annual general meeting held on 25 May 2006, a final dividend payable to equity shareholders of the parents totalling RMB30,555,000 for the year ended 31 December 2005 was approved.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the period attributable to equity holders of the parents of approximately RMB30,260,000 (2005: RMB51,056,000) and on the weighted average number of 1,222,200,000 (2005: 977,760,000) in issue during the period.

The weighted average number of shares are computed assuming that the Group Reorganisation was effective on 1 January 2005 and throughout the six months ended 30 June 2005. There were no potential ordinary shares outstanding for the six months ended 30 June 2006 and 2005, respectively.

9. CAPITAL EXPENDITURES

During the period, the Group incurred approximately RMB24,326,000 (2005: RMB71,805,000) on capital expenditures.

10. INVENTORIES

| | At 30 June 2006 (Unaudited) RMB'000 | At 31 December 2005 (Audited) RMB'000 |
|------------------|--|--|
| Raw materials | 27,642 | 24,933 |
| Work in progress | 6,294 | 67,712 |
| Finished goods | 144,860 | 235,136 |
| | 178,796 | 327,781 |

All inventories are stated at cost.

11. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE

The Group generally allows credit period ranged from 90 to 120 days to its trade customers. The ageing analysis of trade receivables, included in the trade and other receivables, is as follows:

| | At 30 June 2006 (Unaudited) RMB'000 | At 31 December 2005 (Audited) RMB'000 |
|----------------|--|--|
| Aged: | | |
| 0 – 90 days | 156,910 | 193,646 |
| 91 – 180 days | 26,554 | 50,123 |
| 181 – 365 days | 6,634 | 16,142 |
| | <hr/> 190,098 <hr/> | <hr/> 259,911 <hr/> |

The fair value of the Group's trade, bills and other receivable approximates to corresponding carrying amount.

12. TRADE PAYABLES, BILLS PAYABLE, DIVIDEND PAYABLE AND OTHER PAYABLES

The ageing analysis of trade payables is as follows:

| | At 30 June 2006 (Unaudited) RMB'000 | At 31 December 2005 (Audited) RMB'000 |
|----------------|--|--|
| Aged: | | |
| 0 – 90 days | 23,111 | 59,079 |
| 91 – 180 days | 3,971 | 5,064 |
| 181 – 365 days | 1,286 | 647 |
| Over 1 year | 931 | 129 |
| | <hr/> 29,299 <hr/> | <hr/> 64,919 <hr/> |

The Board considers that the carrying amounts of trade payables, bills payable, dividend payable and other payables approximate their fair values.

13. SHARE CAPITAL

| The Company | Number of shares | Amounts <i>HK\$</i> |
|--------------------------------------|-------------------------|-------------------------------|
| <i>Authorised:</i> | | |
| Ordinary shares of HK\$0.01 each | | |
| At 30 June 2006 and 31 December 2005 | 10,000,000,000 | 100,000,000 |
| | <hr/> | <hr/> |
| | Number of shares | Amounts <i>HK\$</i> |
| <i>Issued and fully paid:</i> | | |
| At 30 June 2006 and 31 December 2005 | 1,222,200,000 | 12,222,000 |
| | <hr/> | <hr/> |

14. CAPITAL COMMITMENTS

| | At 30 June 2006 (Unaudited) RMB'000 | At 31 December 2005 (Audited) RMB'000 |
|--|--|--|
| Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of: | | |
| – property, plant and equipment | 48,651 | 19,490 |
| – intangible assets | 960 | 960 |
| | <hr/> | <hr/> |
| | 49,611 | 20,450 |
| | <hr/> | <hr/> |

15. PLEDGE OF ASSETS

At the respective balance sheet dates, the Group pledged the following assets to banks for credit facilities granted to the Group:

| | At 30 June 2006 (Unaudited) RMB'000 | At 31 December 2005 (Audited) RMB'000 |
|-------------------------------|--|--|
| Property, plant and equipment | 248,821 | 194,858 |
| Prepaid lease payments | 18,954 | 4,725 |
| Pledged bank deposits | 57,570 | 115,997 |
| Trade receivables | 8,031 | 27,616 |
| Inventories | — | 21,678 |
| | <u>333,376</u> | <u>364,874</u> |

16. RELATED PARTY DISCLOSURES

Amounts due to a related party

| | At 30 June 2006 (Unaudited) RMB'000 | At 31 December 2005 (Audited) RMB'000 |
|------------------------------------|--|--|
| Name of related party | | |
| Think Honour International Limited | <u>2,773</u> | <u>3,169</u> |

The above balances are unsecured, non-interest bearing and are repayable on demand.

The Board considers that the carrying amount of amounts due to a related party approximate their fair values.

Compensation of key management personnel

The remuneration of Directors and other members of key management during the period were as follows:

| | For the six months ended | |
|--|--|--|
| | 30 June 2006 (Unaudited) RMB'000 | 30 June 2005 (Unaudited) RMB'000 |
| Short-term benefits | 1,570 | 792 |
| Contribution to retirement benefit scheme contribution | <u>13</u> | <u>13</u> |
| | <u>1,583</u> | <u>805</u> |

The remuneration of Directors and key executives is determined by the remuneration committee of the Company having regard to the performance of individuals and market trends.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of results

The Board hereby announces that, for the six months ended 30 June 2006, the Group recorded an unaudited turnover of approximately RMB312.8 million, representing an increase of approximately 13.8% over the same period of last year, and a gross profit margin of 31.7%, as compared with 37.2% for the same period of last year. The Group has attained an unaudited profit attributable to equity holders of the parents of approximately RMB30.3 million for the period under review, representing a decrease of approximately 40.7% over the same period of last year.

For the period under review, the Group recorded an increase in turnover by approximately 13.8% to approximately RMB312.8 million. Such increase was mainly attributable to the increase in selling price of apple juice concentrate and related products of the Group. During the period, the Group has been exploring new customers in various markets, where higher selling prices of apple juice concentrate and related products were attained. The percentage of sales of the Group in Europe increased to approximately 44.7% for the period under review from approximately 8.1% in the corresponding period of last year. As a result, the overall selling prices as well as the turnover of the Group were increased.

For the period under review, the gross profit margin of the Group was decreased to approximately 31.7% from approximately 37.2% in the same period of last year. The production of apple was affected by the growth cycle and the weather in major apple production areas in the PRC, which are the major sources of apple of the Group. The shortage of apple supply resulted in the significant increase in cost of apple during that period. Since apple is the major raw material of the Group, the increase in its cost resulted in the decrease in gross profit margin.

Distribution costs was increased by 28.6% to approximately RMB27.5 million during the period under review. The increase in distribution costs was mainly attributable to the increase in freight and clearance charges. During the period, percentage of sales with terms that the freight and clearance charges were borne by the Group was increased.

Administrative expenses was increased by 66.3% to approximately RMB19.9 million during the period under review. The commencement of operation of the new factory in Yuncheng as well as the extension of the factory in Qianxian in late 2005 resulted in the increase in the administrative expenses including staff cost and depreciation expenses. In addition, the increase in professional fees associated with the Listing in November 2005 also increased the administrative expenses during the period under review.

Finance cost for the Group amounted to approximately RMB22.0 million in the period under review, representing an increase of 18.0% over the same period of last year. The increase is attributable to the increase in interest rate and average bank borrowings during the period under review.

The Group has attained an unaudited profit attributable to equity holders of the parents of approximately RMB30.3 million for the period under review, representing an decrease of approximately 40.7% over the same period of last year. The decrease in profit attributable to equity holders of the parents was mainly attributable to the decrease in gross profit margin and increase in operating expenses during the period under review as discussed above.

Liquidity, financial resources, gearing and capital commitments

The treasury policy of the Group is centrally managed and controlled at the corporate level. As at 30 June 2006, the Group's borrowings amounted to approximately RMB708.2 million (as at 31 December 2005: RMB703.4 million), among which, approximately RMB400.2 million (as at 31 December 2005: RMB440.0 million) were repayable within one year and approximately RMB308.0 million (as at 31 December 2005: RMB263.4 million) become due more than one year. Approximately RMB298.7 million (as at 31 December 2005: RMB281.3 million) were secured by way of charge of the Group's assets and approximately RMB160.0 million were denominated in US dollars while approximately RMB548.2 million were denominated in RMB.

As at 30 June 2006, the cash and bank balances including pledged bank deposits amounted to approximately RMB199.1 million (as at 31 December 2005: RMB176.6 million).

The current ratio, defined as current assets over current liabilities, was slightly increased from 1.1 as at 31 December 2005 to 1.2 as at 30 June 2006.

The gearing ratio, defined as total liabilities divided by total assets, was decreased from approximately 60.7% as at 31 December 2005 to 55.3% as at 30 June 2006 and debt to equity ratio, defined as total borrowings divided by total equity, remained at 1.0 as at 30 June 2006.

As of 30 June 2006, the Group has RMB49.6 million capital commitments (as at 31 December 2005: RMB20.5 million) and has no significant contingent liabilities.

Pledge of assets

At the respective balance sheet dates, the Group pledged the following assets to banks for credit facilities granted to the Group:

| | At 30 June 2006 | At 31 December 2005 |
|-------------------------------|--------------------|------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Property, plant and equipment | 248,821 | 194,858 |
| Prepaid lease payments | 18,954 | 4,725 |
| Pledged bank deposits | 57,570 | 115,997 |
| Trade receivables | 8,031 | 27,616 |
| Inventories | – | 21,678 |
| | 333,376 | 364,874 |

In relation to the eight year term loan borrowed by the Group from a financial institution in Germany, in the amount of US\$20.0 million, it was secured by the 92.7% equity interest of 青島海升果業有限責任公司 (Qingdao Haisheng Fresh Fruit Juice Co., Ltd. *), a non-wholly owned subsidiary of the Group.

* *for identification purposes only*

Review of operation

For the period under review, the Group is principally engaging in manufacture and distribution of apple juice concentrate and related products with a total production capacity of 205,000 metric tones per annum. The shortage of apple supply resulted in the significant increase in purchase cost of apple of the Group during the period. The Group's results for the six months ended 30 June 2006 decreased over the same period last year. Nevertheless, as the Group managed to provide stable supply of high-quality products and has diversified sales network, the Group still maintain a generic financial position.

Sales and marketing

For the period under review, the Group maintained remarkable sales performance. The Group's products were sold to major markets around the globe including North America, Europe, Russia, Australia and Asia. Apart from the continued consolidation of its original customer bases and markets, the Group has mounted its efforts in developing the markets in Japan, Europe and Russia, and obtained significant progress during the period. The Group's sales in Europe and Russia rose significantly, and the proportion of sales in that market accounted for 44.7% of its turnover.

The Group's customers come from major markets around the world including North America, Europe, Australia and Asia. The diversified market coverage enables the Group to grasp the business opportunities brought by the increase in selling prices at different markets more easily and in good time. As a result, the average selling prices as well as the turnover of the Group were increased.

Production

Due to the shortage of apple supply during the period, the production volume of the Group's production plants decreased compared to the same period of last year.

Raw materials

During the period, resulting from the shortage of apple affected by the growth cycle and the weather in the major apple production areas in the PRC, the purchase cost of apple increased significantly and all the production plants ceased operation during the period earlier than the same period of last year. In order to insure the plentiful supply of apples, the Group has commenced to set up its own base for apple production. As of 30 June 2006, the Group's three production plants entered into agreements with the local government and fruit farmers to complete 134 thousand Mu of the apple production base.

Accreditation

During the period, the Group's Qianxian plant had obtained the SGP accreditation after Dalian plant, Weinan plant and Qingdao plant. During the period, Qianxian Plant also obtained ISO 14001 Certificate after expanding its production capacity in 2005.

Foreign exchange exposure

RMB continued to appreciate during the period but its impact on the Group's financial position is minimal. The Group continued to increase the weight of its loans in US dollars during the period. An European financial institution provided the Company with an 8-year long term loan of 4.5 million US dollars on 13 April 2006.

Human resources and remuneration of our employees

As at 30 June 2006, the Group employed a total of 990 staff (as at 31 December 2005: 888 staff). The Group kept on enhancing the continuous education and training for its management and core executives. At present, the Group engaged an international human resources consulting firm to gradually optimise its human resources management system. The Group proactively offers competitive remuneration and has a sound performance-based remuneration system in place. The Group has also provided insurance plans including statutory pension insurance and medical insurance for its entire staff.

Prospects

Looking forward to the second half of 2006, with the support and protection on the agricultural industry provided by the implementation of the Eleventh Five-year Plan in China, the Group anticipates great opportunities and challenges ahead. The Group plans to strengthen its competitive edges by implementing the following measures:

Raw materials

In order to insure the supply of raw materials, the Group keeps enhancing the strategic alliance with its core suppliers. The Group's five production plants are also developing their own base for apple production around the apple production areas.

Production

As the new pressing season has commenced, the Group is endeavouring to increase its equipment utilisation rate and increase its production volume as well as ensuring the high quality. At present, the Group has no plan to build new or expand its own production lines for expanding its production capacity. However, the Group is looking for the opportunity for expanding its production capacity through merger and acquisition.

Sales and marketing

The Group is also exploring the markets in Japan, Europe and Russia. While increasing its production volumes, the Group is also continuously consolidating its original customer bases and expanding new sales network to increase its turnovers, so as to enhance its global market shares. In addition, the Group has been adjusting its sales strategy to cope with the market trend and need.

DISCLOSURE OF INTERESTS

Directors' and chief executive's interests and short position in shares and underlying shares

As at 30 June 2006, 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 for Securities Transactions by Directors of Listed Companies ("Model Code") in the Listing Rules once the Shares are listed, were as follows:

Long position

| Name | 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:

1. The 576,878,400 Shares were held by Think Honour International Limited ("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.

2. 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. As at 30 June 2006, 5,596,000 Shares of the 95,331,600 Shares were sold, therefore the number of Shares held by Raise Sharp was reduced to 89,735,600. As at 30 June 2006, the entire issued share capital of Raise Sharp was held by Mr. Liang on trust for 1,064 individuals.
3. Shaanxi Haisheng Fresh Fruit Juice Co., Ltd. is an indirect non-wholly owned subsidiary of the Company. For the period ended 30 June 2006, the registered capital of Shaanxi Haisheng Fresh Fruit Juice Co., Ltd. was increased from RMB86,000,000 to RMB185,780,000. The equity interest held by Mr. You Yong and Ms. Zhu Fang was increased from 100,000 Shares to 180,000 Shares as a result of conversion of capital reserve into share capital.

Save as disclosed above, as at 30 June 2006, 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 30 June 2006, 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 | 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% |

| Name | Name of the company | Capacity | Number and class of securities directly or indirectly held | Approximate percentage of shareholding |
|--------------------------------|----------------------------|--------------------|---|---|
| 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. As at 30 June 2006, 5,596,000 Shares of the 95,331,600 Shares were sold, therefore the number of Shares held by Raise Sharp was reduced to 89,735,600. As at 30 June 2006, the entire issued share capital of Raise Sharp was held by Mr. Liang on trust for 1,064 individuals.

CORPORATE GOVERNANCE

The Group has complied, saved for the deviation discussed below, with the code provisions on Corporate Governance Practices as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules for the period under review.

At present, the Company does not have the competent candidate for the position of Chief Executive Officer of the Company. Mr. Gao Liang, therefore, acts as the Chairman and the Chief Executive Officer of the Company on a temporary basis. The Company is recruiting for a competent and suitable person to fill the vacancy of the Chief Executive Officer of the Company.

OTHER INFORMATION

Interim dividend

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2006.

Model code for securities transactions by directors

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code contained in Appendix 10 to the Listing Rules. All Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the period under review.

Remuneration committee

The Remuneration Committee comprising three independent non-executive Directors, namely Mr. Xu Yulin (Chairman), Mr. Zhao Boxiang and Mr. Yim Hing Wah, appointed by the Board. The Committee had adopted terms of reference (containing the minimum prescribed duties) that are in line with the Code and the Company's own code on corporate governance practices.

REVIEW OF INTERIM RESULTS

The unaudited interim results for the six months ended 30 June 2006 have been reviewed by the Audit Committee of the Company, which comprises three independent non-executive Directors. The Audit Committee of the Company who is of the opinion that these interim results comply with applicable accounting standard and legal requirements, and that adequate disclosures have been made.

By order of the Board

China Haisheng Juice Holdings Co., Ltd.

Mr. Gao Liang

Chairman

Xi'an, the PRC, 6 September 2006

As at the date of this report, the Board consists of Messers. Gao Liang, Liang Yi, You Yong and Zhu Fang, being executive Directors and Messers. Zhao Boxiang, Xu Yulin and Yim Hing Wah, being the independent non-executive Directors.