

Chairman's Statement



ZHU Xinli
Chairman

In 2006, Huiyuan Juice recorded major achievements in four areas, including operating results, market position, shareholder base and capital structure. To meet the future development goals, Huiyuan Juice successfully went public through listing on the Main Board of the Hong Kong Stock Exchange on 23 February 2007. The shares of the Company were well-received by investors. As a result, we were able to strengthen our capital structure, and our shareholder base has been expanded further. On behalf of the Board, I hereby present to shareholders the audited full-year financial results of Huiyuan Juice for 2006 and the development strategies going forward.

Operating results

The Group has achieved strong operating results in 2006, which is evidence to the fact that our operating strategies to strengthen our brand name recognition, to increase our product range and to expand our production network has successfully won the trust of new consumers, which in turn further promoted our sales. For the year ended 31 December 2006, the Group's sales amounted to RMB2,066.3 million, an increase of 48.4% over 2005. The increase in our revenue was mainly due to the continued growth of the juice market, and our 100% juice series occupies a leading position in the market, resulting in our steadily rising turnover. The Group has also given impetus to the fast growth in sales by introducing new products. During the year, the Group started to advertise its nectars under the "Guo Xian Mei" brand and successfully captured larger market share and consumer recognition of our products. Although the prices of certain raw materials rose significantly during the year, thanks to our multi-product strategies and economics of scale, we were able to mitigate the negative effect of increasing production costs. As a result, our gross profit margin only decreased slightly from 34.1% in 2005 to 32.7%. Our profit attributable to equity holders increased by 106.1%, which was a record high since the inception of the Group. Since the Group was listed in 2007, the Board does not recommend the payment of dividend for the year ended 31 December 2006.

Leading position in the market

Brand name recognition and development is the cornerstone of our growth. Over the years, the brand name of "Huiyuan" has been linked to health drinks by Chinese consumers and is synonymous with the image of being nutritious, delicious and healthy. The Group is committed to the development of product mix to cater to the evolving changes of customer preference and to promote sales in our target markets. In February 2006, the Group marketed the "Guo Xian Mei" series targeting young ladies who are conscious of their health and well-being. With a slogan of "Drink Guo Xian Mei AND Get Pretty Quick", together with a host of sales and marketing activities organized by the Group, the products are selling very well after the launch. According to a survey by AC Nielsen, for the year ended 31 December 2006, the market shares of Huiyuan Juice for 100% juice and nectars amounted to 40.8% and 38.8% respectively, thus staying firmly in the leading position.

Professional shareholder base

In the wake of our continued development, we need a broader vision, better governance and more talented people to help us grow bigger and stronger. In 2006, Huiyuan Juice introduced Danone Asia, an internationally renowned food and beverage manufacturer as our strategic investor, and Warburg Pincus as our financial investor. This move has reinforced our shareholder base and strengths; in addition, they contribute positively towards our financial decisions, corporate governance and strategy.

A sound capital structure

Our hard work in 2006 is showing its returns in 2007. The Group was listed on the Main Board of the Hong Kong Stock Exchange in 2007. The public offer was 938 times oversubscribed, and together with the over-allotment option, the Company raised a total of HK\$3,726 million, and our strategic investor also contributed additional investment as a result to maintain its shareholding percentage in Huiyuan Juice. We believe we have the full confidence of investors in our future growth, which brings significant opportunities for the entire Group, and I must thank all the shareholders once again for their support and trust. Not only has the proceeds from the IPO made available more financial resources for us for our future development, but it has paved the way for our access to the international capital market and improved our governance structure and transparency to encounter any challenge ahead.

Future development

China is rich in fruit resources, once we can foster the simple habit of drinking fruit juice, not only can we cultivate a wholesome diet culture, but we can also work for the well being of consumers and provide more opportunities to local farmers in selling their fruits. Based on this simple philosophy, Huiyuan Juice was established in 1992. In the wake of the rapid economic growth of China, consumers are becoming more accustomed to western styles of food and beverage, and wholesome beverages and foods have become more widely adopted. As such, Huiyuan Juice continues to develop at a fast pace, which is a reflection of the market trend. According to the estimate of Euromonitor, the sales volume of vegetable and fruit juice of China is expected to increase from 5.3 billion litres in 2006 to 7.8 billion litres in 2010, or a CAGR of 10.1%, whereas the global growth rate is only 3.9%. For the year ended 31 December 2006 compared with the last year, the Group's growth rate of its juice products sales volume was 51.9%. With the ever expanding market, Huiyuan Juice is well-positioned to capture any future opportunity and the Board is confident that the Company can sustain its rapid growth at a rate higher than the industry.

Objectives and strategies

Our objectives are to maximize our shareholder's value, to introduce a healthy food and drink culture in China, to introduce delicious products and to generate solid returns. We shall adhere to the following principles for our long-term growth:

- continue to focus on the fast growing fruit juice market of China, consolidate and further expand the market share of Huiyuan
- construct more plants and further expand our distribution network in strategic regions
- further consolidate our basis of supply for raw materials together with domestic and international suppliers
- leverage on the merits of our strategic and financial investors

We have never overlooked the importance of professional management. As Huiyuan Juice has moved on to a new level, we will leverage the international experience of Danone Asia and Warburg Pincus in professional management, so that we can improve our transparency and realize our undertaking to increase shareholder's value, making Huiyuan Juice a well-known brand name in China and a recognized company in the international capital market.

Acknowledgement

The continued development of Huiyuan Juice hinges on the support and efforts of everyone. On behalf of the Board, I hereby express my heartfelt gratitude to our customers, suppliers, business partners and shareholders for their unfailing support, and in particular to the dedicated efforts of our staff.

ZHU Xinli

Chairman and President

Beijing, 23 April 2007