Management Discussion and Analysis

In this section, "we", "us" and "our" refer to the Company and where the context requires, the Group.

Financial Review

Our key financial indicators are as follows:

	Year ended 31 December 2006	2005	Year-on-year change (%)
Items of income statement			
(Expressed in RMB'000 unless otherwise stated)			
Sales	**2,066,275**	1,392,100	48.4%
Gross profit	**675,930**	474,234	42.5%
Operating profit	**286,045**	180,770	58.2%
EBITDA *(Note 1)*	**428,748**	333,128	28.7%
Profit attributable to equity holders	**221,611**	107,509	106.1%
Earnings per share (RMB Yuan) *(Note 2)*	**0.268**	0.130	106.1%
Selected financial ratios			
Gross profit margin (%)	**32.7%**	34.1%	
Operating profit margin (%)	**13.8%**	13.0%	
Margin of profit attributable to equity holders (%)	**10.7%**	7.7%	
Effective tax rate (%)	**4.2%**	20.4%	
Return on equity holders' equity (%)	**14.3%**	6.9%	
Gearing ratio (total debt to total equity) *(Note 3)*	**56.5%**	47.3%	
Average inventory turnover (days) *(Note 4)*	**137**	171	

Notes:

1. EBITDA refers to earnings before interest, tax, depreciation and amortization.

2. The calculation of earnings per share is based on the profit attributable to equity holders for the year ended 31 December 2006 of RMB221,611,000 (2005: RMB107,509,000) and a total of 828,425,000 ordinary shares in issue immediately before the issue of shares under our global offering and the exercise of the Danone Top-up Right.

3. The gearing ratio is based on total debt divided by total equity as at 31 December.

4. The calculation of average inventory turnover (days) is based on the closing inventory balances divided by the cost of sales and multiplied by 365 days.

Sales

Sales in 2006 of our core juice products, comprising 100% fruit juices, nectars and juice drinks, increased by 55.0% from RMB1,262.5 million in 2005 to RMB1,956.6 million in 2006 primarily a result of strong growth in sales volume across all of our core juice products. Our total juice products sales volume increased by 51.9% from 439,849 tonnes in 2005 to 668,180 tonnes in 2006. In particular, our nectars continue to be our main revenue driver accounting for 43.4% of our total juice products sales and 42.6% of our total juice products sales volume in 2006. At the same time, our average selling prices only increased marginally in 2006 as compared with average selling prices for our juice products in 2005.

Our sales of 100% fruit juices increased by 34.3% from RMB299.7 million in 2005 to RMB402.5 million in 2006, due to an increase of 29.4% in sales volume for the same periods and a 3.8% increase in average selling price for juices within our 100% fruit juice category. The overall increase in sales of our 100% fruit juices was primarily due to a substantial increase in sales volume of our family-sized products. Our overall sales volume increased because of better sales distribution through supermarkets and hypermarkets.

Our sales of nectars increased by 74.7% from RMB486.5 million in 2005 to RMB849.9 million in 2006 primarily due to a substantial increase of 67.4% in sales volume (as compared to 2005) and a 4.4% increase in average selling price for nectars. The increases were driven by increased sales volume for both single serving and family-sized package products sold through our increasing network of supermarkets and hypermarkets and other distribution outlets as well as the introduction of new products.

Our sales of juice drinks increased by 47.8% from RMB476.4 million in 2005 to RMB704.2 million in 2006, primarily due to a substantial increase in sales volume of our family-sized juice drinks, partially offset by a slight decrease in average selling price for family-sized juice drinks, and a strong increase in sales volume and average selling price of our smaller single serving juice drinks.

Our sales of other beverage products decreased by 15.4% from RMB129.6 million in 2005 to RMB109.6 million in 2006 as a result of our continuing focus on our core juice products.

Cost of sales

Cost of sales increased by 51.5% from RMB917.9 million in 2005 to RMB1,390.4 million in 2006 which was slightly higher as compared to our 48.4% increase in sales for the same periods. The increase in cost of sales was primarily a result of increases in raw material costs due to our increased sales volume. The increase in our raw material costs was primarily because of (i) an increase of 71.1% in our costs of juice concentrates and purees from RMB175.3 million in 2005 to RMB300.0 million in 2006 due to an increase in our product volume and increase in average price for imported juice concentrates; (ii) an increase of 92.3% in our costs of sugar from RMB79.3 million in 2005 to RMB152.5 million in 2006 primarily due to an increase in our overall production volume and also an increase in average purchase price for sugar; and (iii) an increase of 43.6 % in our costs of packaging materials from RMB350.0 million in 2005 to RMB502.5 million in 2006 primarily due to an increase in our production volume.

Gross profit

Our gross profit increased by 42.5% from RMB474.2 million in 2005 to RMB675.9 million in 2006 due to our increased sales. Our gross profit margin decreased slightly from 34.1% in 2005 to 32.7% in 2006.

Other income

Our other income increased by 29.6% from RMB79.8 million in 2005 to RMB103.4 million in 2006 primarily as a result of net gain from sales of raw materials (being the recyclable containers for juice concentrates and purees), as well as an increase in amortization of deferred government grants.

Selling and marketing expenses

Our selling and marketing expenses increased by 55.2% from RMB244.2 million in 2005 to RMB379.0 million in 2006 primarily due to an increase in our advertising and promotional costs relating to our products in general which amounted to RMB261.6 million in 2006 as compared to RMB165.4 million in 2005, an increase in transportation and related charges which amounted to RMB78.2 million in 2006 (RMB57.6 million in 2005) which resulted from our increased sales. Increased salaries and benefits for our sales representatives as well as an increase in headcount of our sales representatives also contributed to the increase in our selling and marketing expenses.

Administrative expenses

Administrative expenses decreased by 11.5% from RMB129.0 million in 2005 to RMB114.2 million in 2006 primarily due to reduction in our rental expense and recovery of doubtful debt.

Finance costs

Finance costs increased by 30.4% from RMB42.4 million in 2005 to RMB55.3 million in 2006 primarily as a result of a foreign exchange loss of RMB2.9 million (as compared to a foreign exchange gain of RMB26.9 million in 2005).

Income tax expenses

Income tax expenses decreased by 65.5% from RMB28.2 million in 2005 to RMB9.7 million in 2006. The decrease was due to an overall decrease in our effective tax rate of 20.4% in 2005 to 4.2% in 2006, primarily as a result of the commencement of the tax exemption period of additional production facilities including Huanggang Huiyuan, Chengdu Huiyuan and Xianyang Huiyuan in early 2006.

Loss attributable to minority interest

The loss attributable to minority interest in 2006 was RMB0.6 million as compared to a profit of RMB2.7 million in 2005 because certain of our group companies incurred losses during the year 2006 and were closed during 2006.

Profit attributable to our equity holders

The profit for 2006 attributable to our equity holders increased by 106.1% from RMB107.5 million in 2005 to RMB221.6 million in 2006. Our margin for profit attributable to our equity holders increased from 7.9% in 2005 to 10.7% in 2006.

Liquidity and Capital Resources

In 2006, our working capital and other capital requirements were principally funded by operations and cash at hand, short term and long term bank borrowings.

The following table presents selected cash flow data from our combined cash flow statements for the periods indicated:

	2006	2005
	(RMB in million)	
Net cash generated from operating activities	**293.5**	180.4
Net cash from/(used in) investing activities	**287.9**	(114.3)
Net cash used in financing activities	**(516.6)**	(105.6)
Net increase/(decrease) in cash and cash equivalents	**64.8**	(39.5)
Cash and cash equivalents at year end	**90.8**	26.0

Gearing ratio (total debt/total equity) of the Group was 56.5% as at 31 December 2006, representing an increase of 19.5% as compared to 47.3% recorded in 2005.

Operating activities

Net cash generated from operating activities in 2006 was RMB293.5 million, while we had a profit before tax in 2006 of RMB230.7 million. The difference of RMB62.8 million was primarily due to a RMB131.1 million depreciation of property, plant and equipment, a RMB157.3 million increase in trade and other payables due to third parties as a result of our increased purchase of raw materials and our accrual of marketing expenses and a RMB39.9 million in amounts due to related parties as a result of our purchase of raw materials from related parties, which were offset by a RMB120.8 million increase in inventories, a RMB151.8 million increase in trade and other receivables as a result of an increase in credit sales and prepayments for raw materials.

Investing activities

Our net cash from investing activities in 2006 was RMB287.9 million as compared to net cash used in investing activities of RMB114.3 million in 2005 which was primarily a result of a RMB556.9 million decrease in loans/balances from related parties and proceeds from the sale of property, plant and equipment. The cash outflow for 2006 was mainly used for our expansion of production facilities and the related purchase of property, plant and equipment.

Financing activities

Net cash outflow for financing activities in 2006 was RMB516.6 million as compared to an outflow of RMB105.6 million in 2005. The increase in cash used in financing activities of RMB411.0 million was primarily a result of a RMB528.4 million repayment of borrowings from related parties (as compared to an amount of RMB70.0 million in 2005) and a RMB281.8 distribution to equity holders (as compared to nil in 2005). The cash outflow in 2006 was partially offset by a RMB130.5 million capital injection and a RMB62.5 million proceeds from borrowings from related parties.

Capital expenditure

Capital expenditures comprised purchases of property, plant and equipment, and additions to land use rights.

During the two years ended 31 December 2005 and 2006, we consistently increased our annual total capital expenditures. The following table sets forth our capital expenditures for the periods indicated.

	Year ended 31 December	
	2006	2005
	(RMB in million)	
Purchase of property, plant and equipment	**253.2**	126.7
Purchase of land use rights	**42.7**	25.3
Total capital expenditures	**295.9**	152.0

As at 31 December 2006, we had capital commitments of RMB13.2 million for the purchase of property, plant and equipment.

We expect that our capital expenditures will amount to approximately RMB758 million in 2007 which is currently planned to be primarily used to increase production capital for juice beverages via the construction of two factories, the purchase of land use rights and maintenance of our production facilities. We plan to finance our 2007 capital expenditure requirements primarily with part of the net proceeds from the Global Offering and cash generated from our operations.

In January 2007, we drew down the full amount from a US$70,000,000 syndicated loan term facility ("**January 2007 Syndicated Loan**") arranged by ABN AMRO BANK N.V. acting on behalf of 10 financial institutions. Pursuant to the terms of the facility agreement, we plan to use US$63 million of the January 2007 Syndicated Loan to refinance our Renminbi indebtedness to PRC domestic banks and plan to use the rest of the January 2007 Syndicated Loan to finance our capital expenditure and working capital requirements. The January 2007 Syndicated Loan is repayable in 5 semi-annual installment starting in January 2010.

Inventory analysis

Our inventories primarily consist of raw materials (including packaging materials, juice concentrates and purees, and additive such as sugars) and finished goods (including juices and other beverage products). Raw materials make up the majority of our inventory. The following table sets forth a summary of our inventory turnover for the periods indicated:

	Year ended 31 December	
	2006	2005
Turnover of inventory (days) (1)	**137**	171

Note:

(1) Turnover of inventory represents inventory at the end of the year divided by costs of sales and multiplied by 365 days.

The following table sets forth an inventory turnover day analysis with further breakdown of the inventory balance for finished goods versus raw materials.

	Year ended 31 December	
Inventory turnover days	**2006**	2005
Finished goods balance (in RMB'000)	**59,990**	73,566
Cost of sales (in RMB'000)	**1,390,345**	917,866
Turnover days	**16**	29
Raw materials balance (in RMB'000)	**462,844**	355,196
Raw materials used (in RMB'000)	**1,141,794**	737,399
Turnover days	**148**	176
Total inventories (in RMB'000)	**522,834**	428,762

As can be seen from the above table, inventory turnover days for finished goods are usually kept within 30 days, in line with industry practice. Inventory turnover days for raw materials are much longer. Raw materials comprise puree, juice concentrate, sugar, packaging materials and other ingredients which can be kept in good condition for over six months due to their longer expiry date. These items have a much longer shelf life as compared to juice finished goods.

During the two years ended 31 December 2005 and 2006, we were able to control and reduce our inventory turnover days as a result of our enhanced inventory management, especially with respect to packaging materials. This improvement was partly due to shortened purchase order cycles for packaging as a result of both Tetra Pak and SIG Combibloc setting up manufacturing facilities in China. Our increased inventory for 31 December 2006 is primarily a result of our increased sales and because of our practice to acquire substantial amounts of inventory in the fourth quarter of each year in preparation for the peak production season in the first quarter of the following year.

Contingent liabilities

As at 31 December 2006, we did not have any outstanding contingent liabilities.

Off-balance sheet transactions

As at 31 December 2006, we had not entered into any off-balance sheet transactions.

Pledge of Assets

As at 31 December 2006, the property, plant, equipment and land use right with net book value of RMB94.7 million of the Group were pledged to secure certain bank borrowings.

Capital leases

As at 31 December 2006, we did not have any capital leases.

Market risk

We are exposed to various types of market risks, including interest rate risk, foreign exchange risks and credit risk.

Interest rate risk

We are exposed to interest rate risk resulting from fluctuations in interest rates on our debt. Our debt consists of variable rate debt obligations with original maturities ranging from one to seven years. We undertake debt obligations to support general corporate purposes including capital expenditures and working capital needs. We have no significant concentration of interest rate risk.

Foreign exchange rate risk

All of our transactions are mainly conducted in Renminbi, except for the purchase of certain juice concentrates from Brazil, Israel and the United States and the purchase of certain machine and equipment from overseas sources. As at 31 December 2006, 10.6% of our borrowings were denominated in Euro. Substantially all of our net proceeds from our global offering and listing of shares in February 2007 are in foreign currency, namely Hong Kong dollars. Fluctuations in exchange rates may adversely affect the value, translated or converted into Renminbi, of our net assets, earnings and any dividends we declare.

Credit risk

Our cash and cash equivalents are deposited principally with state-owned banks in the PRC. The carrying amount of trade receivables and cash included in the combined financial statements represent our maximum exposure to credit risk in relation to our financial assets. We have no other financial assets that carry significant exposure to credit risk. We have no significant concentration of credit risk.

Business Review

For details on our business review, please refer to the Chairman's Statement on pages 12 to 15.

Employees

As at the 31 December 2006, we had 6,371 employees, approximately 373 of whom were engineers and technicians who had attended technical school or higher education.

As at the 31 December 2006, our employees' deployment by function was as follows:

Functions	
Production	2,737
Sales and marketing	2,531
Management and other administration	504
Research and development (including quality assurance)	247
Finance and accounting	217
Purchase and supply	135
Total Headcount	6,371

We enter into individual employment contracts with our employees to cover matters such as wages, employee benefits, safety and sanitary conditions at the workplace, confidentiality obligations for commercial secrets, and grounds for termination. Other than employment contracts with middle and senior management, these employment contracts have a term of between one and three years with a probation period between one and three months. We reward our employees for innovations and improvements by giving them incentive bonuses.

We invest in continuing education and training programs for our management staff and other employees with a view to constantly upgrading their skills and knowledge. We have arranged for internal and external vocational training courses to develop our employees' skills and knowledge. These training courses range from further educational studies to basic production process and skill training to professional development courses for our management personnel.

Welfare Contributions

In accordance with applicable PRC regulations on social insurance, we participate in a pension contribution plan, a medical insurance plan, an unemployment insurance plan, a maternity insurance plan, a work-related injury insurance plan for our employees as required by local government.

We have a labor union, which is a member of the All China General Trade Union. The labor union organizes various activities to improve the quality of life for our employees. In addition, over the past few years our labor union organized employee suggestion and feedback programs, which directly and indirectly created economic values for us. We have not experienced any strikes, major labor disputes or actions.

Market Review

Market Review of the China Juice Beverage Market

The juice beverage market in China continued to experience significant growth in 2006 and the fruit and vegetable juices category continues to be the fastest growing soft drink category in China last year. In 2006, fruit and vegetable juice beverages are the second largest sector by value after carbonates, and is expected to experience a faster growth rate compared to carbonates for the period between 2005 and 2010. In volume terms, China sold 5.3 billion litres of fruit and vegetable juices in 2006 and Euromonitor expects the China fruit and vegetable juices market to grow at a 10.1% compound annual growth rate from 2006 to 7.8 billion liters in 2010. The fruit and vegetable juices beverage market can be divided into three segments, namely 100% juice, nectars and juice drinks.

The growth in China's juice beverage market is primarily driven by increasing consumer demand. Increase in urban population and disposable income, and increasing consumer affluence and sophistication, continues to push demand for natural and healthy beverage products such as fruit and vegetable juices. The rapid development of extensive distribution chains in the form of supermarkets, hypermarkets and convenience stores also facilitate increased accessibility to the mass market, which should also increase consumption of juice products in China. The growth of the juice beverage market is concentrated in the urban areas in East China and South China in particular where we have focused the expansion of our distribution network.

The following table shows the market shares of the top ten 100% juice, nectars and juice drink brands in China as extracted from AC Nielsen's report on 9 April 2007. According to AC Nielsen's report, nectars are juice beverage with juice content of 26-99% and juice drinks are juice beverages with juice content of 25% and below.

For the year ended 31 December 2006	Market Share Volume (%)	Market Share Value (%)
100% Juice		
Huiyuan Juice	**40.8**	**34.2**
Second ranked competitor	**17.0**	**22.1**
Third ranked competitor	**10.3**	**10.2**
Fourth ranked competitor	**10.0**	**10.4**
Fifth ranked competitor	**6.5**	**5.3**
Sixth ranked competitor	**5.5**	**6.1**
Next four competitors	**3.8**	**5.2**
26% – 99% Concentration		
First ranked competitor	**39.8**	**38.0**
Huiyuan Juice*	**38.8**	**35.9**
Third ranked competitor	**3.9**	**3.0**
Fourth ranked competitor	**1.6**	**1.3**
Fifth ranked competitor	**1.2**	**2.4**
Sixth ranked competitor	**1.2**	**2.9**
Next three competitors	**2.6**	**2.6**
25% & Below Concentration		
First ranked competitor	**33.2**	**31.0**
Second ranked competitor	**16.8**	**19.8**
Third ranked competitor	**11.0**	**9.8**
Fourth ranked competitor	**8.3**	**8.2**
Huiyuan Juice*	**6.6**	**6.4**
Sixth ranked competitor	**4.7**	**4.9**
Next three competitors	**7.1**	**8.1**

* *Huiyuan Juice includes Huiyuan and "Zhen" series, a sub-brand of Huiyuan.*

"Nielsen Information reflects estimates of market conditions based on samples, and is prepared primarily as a marketing research tool for consumer packaged goods manufactures and others in the consumer goods industry. This information should not be viewed as a basis for investments and references to Nielsen should not be considered as Nielsen's opinion as to the value of any security or the advisability of investing in the company."