

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

1 General information and group reorganisation

China Huiyuan Juice Group Limited (the “Company”) was incorporated in the Cayman Islands on 14 September 2006 as an exempted company with limited liability under the Company Law (Cap. 22, Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of registered office is Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands.

Pursuant to a group reorganisation (the “Reorganisation”) which included exchange of shares to rationalise the structure of the group in preparation for the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited, the Company acquired the entire issued share capital of Huiyuan Beijing Holdings Limited, Huiyuan Shanghai Holdings Limited and Huiyuan Chengdu Holdings Limited (the “BVI Companies”), the then holding companies of all other companies comprising the group and consequently became the holding company of the group. The Reorganisation was completed on 23 February 2007.

The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 23 February 2007.

The Company is an investment holding company. Its subsidiaries (which, together with the Company, are collectively referred to as the “Group”) are principally engaged in the manufacturing and sales of juice beverages in the People’s Republic of China (the “PRC”).

These combined financial statements were authorised for issue by the Board of Directors of the Company on 23 April 2007.

2 Basis of preparation of the combined financial statements

Although the Reorganisation was not completed until 23 February 2007, the directors of the Company considered that it is meaningful to present the combined financial position and results of operations of the Group for the year ended 31 December 2006, as all the entities comprising the Group were beneficially owned and controlled by the same shareholder before and after the Reorganisation.

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2 Basis of preparation of the combined financial statements *(Continued)*

In addition to the companies comprising the Group, the combined financial statements also include the assets, liabilities, results of operation, cash flows and changes in equity of the following entities which were involved in the same business and were under common control and management with the other companies comprising the Group during the years ended 31 December 2005 and 2006:

Name of company	Place and date of establishment	Issue and fully paid up capital
1 Beijing Huiyuan Juice & Beverage Group Yichang Co., Ltd. ("Yichang") <i>(note (a))</i>	The PRC 10 June 1998	RMB14,250,000
2 Huiyuan Beverage & Food Group Youyu Co., Ltd. ("Youyu") <i>(note (a))</i>	The PRC 12 January 1999	RMB16,133,500
3 Beijing Huiyuan Beverage & Food Yanbian Co., Ltd. ("Yanbian") <i>(note (a))</i>	The PRC 19 July 2002	RMB50,000,000
4 Gongyi Huiyuan Beverage & Good Co., Ltd. <i>(note (a), (b))</i>	The PRC 1 June 2000	RMB18,000,000

Notes:

- (a) These companies were majority owned by Beijing Huiyuan Beverage & Food Group Co., Ltd., a related company, during the years ended 31 December 2005 and 2006, and were engaged in manufacturing and sales of juice beverages in the PRC until 30 June 2006.
- (b) This company was disposed to a third party on 28 December 2005.

The following is the aggregate assets and liabilities and results of operations of the above four entities that are included in these combined financial statements.

(a) Assets and liabilities

	As at 31 December	
	2006 RMB'000	2005 RMB'000
Property, plant and equipments	—	41,533
Other assets	—	1,255
Inventories	—	31,362
Trade and other receivables	—	8,059
Due from related parties	—	127,857
Cash and cash equivalents	—	1,520
Trade and other payables	—	(8,292)
Due to related parties	—	(25,062)
Taxation payable	—	(329)
Borrowings	—	(45,000)
Net assets	—	132,903

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(All amounts in RMB unless otherwise stated)

2 Basis of preparation of the combined financial statements (Continued)

(b) Results of operations

	Year ended 31 December	
	2006 RMB'000	2005 RMB'000
Sales	14,103	51,972
Other income	160	9,467
Operating (loss)/profit	(938)	10,848
Finance costs — net	(1,554)	(4,308)
Income tax expenses	(15)	(4,390)
(Loss)/profit	(2,507)	2,150

As a result of the segregation of these businesses from the Group effective on 30 June 2006, the assets and liabilities of Yichang, Youyu and Yanbian as at 30 June 2006 were reflected as a deemed distribution to the equity holder in the combined statement of changes in equity for the year ended 31 December 2006.

In addition, the combined financial statements also include the following expenses relating to the Group's business which were paid by Beijing Huiyuan Beverage & Food Group Co., Ltd., a related company, on behalf of the Group during the years ended 31 December 2005 and 2006.

	Year ended 31 December	
	2006 RMB'000	2005 RMB'000
Salary expenses	13,911	10,140
Others	14,700	12,568
	28,611	22,708

As at 31 December 2006, the Group had net current liabilities of RMB696,236,000 (2005: RMB397,052,000). Subsequent to 31 December 2006, the Company completed its initial public offering of shares in Hong Kong and raised net proceeds of approximately HK\$3,726,000,000 (equivalent to approximately RMB3,692,000,000). Taking this into account and based on the Group's operating performance and working capital forecast, the directors consider that there are sufficient financial resources available to the Group to meet its liabilities as and when they fall due and to carry on its business in the foreseeable future. Accordingly, the directors have prepared the combined financial statements on a going concern basis.

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(All amounts in RMB unless otherwise stated)

3 Summary of significant accounting policies

The combined financial statements have been prepared in accordance with the following accounting policies which conform with International Financial Reporting Standards (IFRS). In addition, the combined financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The combined financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the combined financial statements are disclosed in Note 5 below.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- IFRIC-Int 7, 'Applying the Restatement Approach under IAS 29', effective for annual periods beginning on or after 1 March 2006. Management do not expect this interpretation to be relevant for the Group;
- IFRIC-Int 8, 'Scope of IFRS 2', effective for annual periods beginning on or after 1 May 2006, and IFRIC-Int 11, 'IFRS 2 — Group and Treasury Share Transactions', effective for annual periods beginning on or after 1 March 2007. Management is currently assessing the impact of IFRIC-Int 8 and IFRIC-Int 11 on the Group's operations;
- IFRIC-Int 9, 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1 June 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the Group has already assessed its embedded derivative using principles consistent with IFRIC-Int 9;
- IFRIC-Int 10, 'Interim Financial Reporting and Impairment', effective for annual periods beginning on or after 1 November 2006. The Group will apply IFRIC-Int 10 from 1 January 2007 but it is not expected to have significant impact on the Group's financial statements;
- IFRIC-Int 12, 'Service Concession Arrangements', effective for annual periods beginning on or after 1 January 2008. IFRIC-Int 12 provides guidance on the accounting by operators in public-to-private service concession arrangements. As the Group does not participate in service concession arrangements, IFRIC-Int 12 is not relevant to the Group's operations;
- IFRS 7, 'Financial instruments: Disclosures', effective for annual periods beginning on or after 1 January 2007 and IAS 1, 'Amendments to capital disclosures', effective for annual periods beginning on or after 1 January 2007. The Group has assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007; and
- IFRS 8, 'Operating Segments', effective for annual periods beginning on or after 1 January 2009. The Group has assessed the impact of IFRS 8 and concluded that it will not have significant impact on the Group's financial statements.

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(All amounts in RMB unless otherwise stated)

3 Summary of significant accounting policies (Continued)

3.1 Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully combined from the date on which control is transferred to the Group. They are de-combined from the date on which control ceases.

Acquisitions of entities that are under common control have been combined using the uniting of interests method. Other acquisitions of subsidiaries by the Group are accounted for using the purchase method of accounting. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of the cost of acquisitions over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

The Group applies a policy of treating transactions with minority interests as transactions with equity participants of the Group. Gains and losses arising on disposals to minority interests are recorded in the Group's equity. Differences between any consideration paid and the relevant share acquired of the carrying value of net assets of subsidiaries arising on purchases from majority interests are also recorded in the Group's equity.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3.2 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

3.3 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "Functional Currency"). The combined financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the Functional Currency using the applicable exchange rates quoted by the People's Bank of China prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

3 Summary of significant accounting policies (Continued)

3.3 Foreign currency translation (Continued)

(c) *Group companies*

The results and financial positions of all the group entities (none of which has the currency of a hyperinflationary economy) that have a Functional Currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) All resulting exchange differences are recognised as a separate component of equity.

On combination, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings, are taken to equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

The Group did not enter into any hedge contracts during any of the periods presented.

3.4 Property, plant and equipment

Property, plant and equipment which consist of buildings, machinery, motor vehicles and furniture and equipment, are stated at historical cost less accumulated depreciation and impairment loss. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with such costs will flow to the Group and such cost incremental can be measured reliably. Repairs and maintenance are charged to the income statement in the period incurred.

Depreciation of assets are calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. The estimated useful lives of property, plant and equipment are as follows:

Buildings	30 years
Machinery	13 years
Motor vehicles	5–8 years
Furniture and office equipment	5–6 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 3.8).

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

3 Summary of significant accounting policies (Continued)

3.4 Property, plant and equipment (Continued)

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

Construction in progress represents property, plant and equipment under construction or pending installation, and is stated at cost less impairment losses. Cost comprises direct costs of construction including borrowing costs attributable to the construction during the period of construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use.

3.5 Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods varying from 30 to 50 years. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights.

3.6 Barter transactions

When goods are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue. When goods are sold in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods given up, adjusted by the amount of any cash or cash equivalents transferred.

3.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the companies' share of the net identifiable assets of the acquired companies at the date of acquisition. Goodwill on acquisition of these companies is included in intangible assets. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Trademarks

Trademarks are stated at historical cost. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives.

(c) License right

License rights are stated at historical cost less accumulated amortisation and accumulated impairment losses, if any. Historical cost comprises the capitalized present value of the fixed minimum periodic payments to be made in subsequent years in respect of the acquisition of the license right.

License rights are amortised using the straight-line method to allocate the cost of licenses over their estimated useful lives.

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3 Summary of significant accounting policies (Continued)

3.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3.9 Financial assets — loans and receivables

The Group's financial assets are loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except those with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "trade and other receivables" in the balance sheet.

Purchases and sales of investments are recognised on trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

3.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads based on normal operating capacity. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion and the estimated costs necessary to make the sale.

3.11 Trade and other receivables

Trade receivables and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtors, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

3.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Notes to the Combined Financial Statements

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3 Summary of significant accounting policies (Continued)

3.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the income statement in the period in which they are incurred.

3.14 License fee payables

License fee payables are initially recorded at the fair value, which represents the present value of the fixed minimum periodic payments to be made in subsequent years at the time of the acquisition (Note 3.7(c)). They are subsequently stated at amortised cost using the effective interest method less amounts paid.

3.15 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit and loss it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

3.16 Employee benefits

(a) Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement benefit plans administered by the relevant municipal and provincial governments in the PRC. The relevant municipal and provincial government undertake to assume the retirement benefit obligation payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

3 Summary of significant accounting policies (Continued)

3.16 Employee benefits (Continued)

(b) *Share-based compensation*

The Group operates a number of equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the share-based compensation is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or shares granted as at the dates of grant, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options or shares that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options and shares that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(c) *Other benefits*

Other directors and employee's obligations are recorded as a liability and charged to the income statements when the Group is continually obliged or when there is a past practice that has created a constructive obligation.

3.17 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement as other gains over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are recognised in the income statement as other income on a straight-line basis over the expected lives of the related assets.

3.18 Revenue recognition

Revenue comprises the fair value of the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) *Sales of goods*

Sales of goods are recognised when the title to the goods has been passed to the customer, which is at the date when the customer receives and accepts the goods, and collectibility of the related receivables is reasonably assured.

(b) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

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3 Summary of significant accounting policies (Continued)

3.19 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

3.20 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.21 Dividend distribution

Dividend distribution to the companies' equity holders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the companies' equity holders.

4 Financial risk management

4.1 Financial risk factors

The activities of the Group expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk, cash flow and fair value interest rate risk.

Risk management is carried out by core management team of the Group under policies approved by the Board of Directors.

(a) *Foreign exchange risk*

The Group's production depends on import of certain raw materials and the Group is exposed to foreign currency exchange risk arising from various currency exposures primarily with respect to the United States Dollar ("USD") and the Euro. The Group has not used any forward contracts or derivatives to hedge its exposure to foreign currency exchange risk.

(b) *Credit risk*

The Group has no significant concentrations of credit risk. Most of the Group's sales are settled in cash or by cheque by its customers on delivery of goods. Credit sales are made only to selected long-term customers. The Group has policies in place to ensure that accounts receivables are followed up on a timely basis.

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4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(c) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Prior to the Reorganisation, majority of the Group's surplus cash was placed with deposits maintained by a related company. Unused proceeds from fund raising through issuance of shares or borrowings will be put in short-term deposits with banks in Hong Kong and the PRC. The Group's objective is to maintain adequate cash and cash equivalents and committed credit lines to ensure sufficient and flexible funding is available to the Group.

(d) *Cash flow and fair value interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates. As at each balance sheet dates, substantially all of the Group's borrowings were carried at commercial banks' lending rates. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

4.2 Fair value estimation

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

5 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) *Useful lives and impairment assessment of property, plant and equipment*

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions.

Management will increase the depreciation charge where useful lives are less than previously estimated lives, it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations. These calculations require the use of judgment and estimates.

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5 Critical accounting estimates and judgments (Continued)

Critical accounting estimates and assumptions (Continued)

(b) *Useful lives and impairment assessment of goodwill and trademark*

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 3.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 9).

The Group's management determines the estimated useful lives and related amortisation charges for its trademark. This estimate is based on projected sales of those products associated with these trademarks. It could change significantly as a result of competitors' actions as well as customers' taste. Management will increase the amortisation charge where useful lives are less than previously estimated lives, or it will write-off or write-down to the recoverable amount when there is any indication that the carrying amount is not recoverable.

(c) *Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. Management reassesses the estimations at each balance sheet date.

(d) *Income taxes*

The Group is mainly subject to income taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(e) *Provision for impairment of trade receivables*

The Group makes provision for doubtful debts based on an assessment of the recoverability of trade receivables. Provisions are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debt expenses in the period in which such estimates has been changed.

6 Segment reporting

No business segment information of the Group is presented as the Group's revenue, expenses, assets, liabilities and capital expenditure are primarily attributable to the manufacture and sales of juice and other beverage products. The Group's principal market is the PRC and its sales to overseas customers contributed to less than 10% of the revenues and results. Also, less than 10% of the Group's total assets are located outside the PRC. Accordingly, no geographical segment is presented.

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7 Sales

Sales recognised during the year are as follows:

	Year ended 31 December	
	2006 RMB'000	2005 RMB'000
Sales		
— Juice (a)	1,956,635	1,262,502
— Other beverages	109,640	129,598
Total	2,066,275	1,392,100

Note:

- (a) The Group made barter sales of approximately RMB16,625,000 (2005: RMB13,941,000) during the year in exchange for transportation vehicles, refrigerators, other tangible assets and advertising services.

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

8 Property, plant and equipment

	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Furniture and office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 2005						
Opening net book amount	279,185	1,057,051	37,554	7,827	378,544	1,760,161
Additions	4,725	3,438	24,470	4,041	249,305	285,979
Transfer upon completion	31,667	340,175	55	49	(371,946)	—
Disposals (Note 32)	(81,740)	(30,704)	(3,232)	—	(33,299)	(148,975)
Depreciation	(9,417)	(97,437)	(7,169)	(3,646)	—	(117,669)
Closing net book amount	224,420	1,272,523	51,678	8,271	222,604	1,779,496
At 31 December 2005						
Cost	238,662	1,545,318	89,446	20,605	222,604	2,116,635
Accumulated depreciation	(14,242)	(272,795)	(37,768)	(12,334)	—	(337,139)
Net book amount	224,420	1,272,523	51,678	8,271	222,604	1,779,496
Year ended 31 December 2006						
Opening net book amount	224,420	1,272,523	51,678	8,271	222,604	1,779,496
Additions	4,191	8,500	9,621	7,469	207,306	237,087
Transfer upon completion	8,070	136,205	321	100	(144,696)	—
Disposals (Note 32)	—	(18,131)	(11,867)	—	(8,458)	(38,456)
Deemed distribution to equity holder	(4,926)	(34,960)	(817)	(357)	—	(41,060)
Depreciation	(6,640)	(110,751)	(10,227)	(3,504)	—	(131,122)
Closing net book amount	225,115	1,253,386	38,709	11,979	276,756	1,805,945
At 31 December 2006						
Cost	245,842	1,613,879	84,191	24,317	276,756	2,244,985
Accumulated depreciation	(20,727)	(360,493)	(45,482)	(12,338)	—	(439,040)
Net book amount	225,115	1,253,386	38,709	11,979	276,756	1,805,945

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

8 Property, plant and equipment (Continued)

Notes:

- (a) Depreciation expenses have been charged to combined income statement as follows:

	Year ended 31 December	
	2006 RMB'000	2005 RMB'000
Cost of sales	112,344	95,764
Selling and marketing expenses	7,678	5,338
Administrative expenses	11,100	16,567
	131,122	117,669

- (b) Lease rentals amounting to approximately RMB7,389,000 for the year ended 31 December 2006 (2005: RMB9,255,000) relating to leasing of buildings and machinery are included in the combined income statements.

- (c) As at 31 December 2006, property, plant and equipment pledged as security for bank loans were as follows:

	2006 RMB'000	2005 RMB'000
Net book value of property, plant and equipment pledged	89,647	211,559
Corresponding borrowings	127,580	219,640

- (d) Buildings with net book value approximately RMB60,270,000 as at 31 December 2006 (2005: RMB122,588,000) are built on land which the Group is in the process of applying for the land use rights.

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

9 Intangible assets

	Goodwill RMB'000	Trademarks RMB'000	License right RMB'000	Total RMB'000
Year ended 31 December 2005				
Opening net book amount	164,232	170,987	—	335,219
Amortisation	—	(5,930)	—	(5,930)
Closing net book amount	164,232	165,057	—	329,289
At 31 December 2005				
Cost	164,232	177,905	—	342,137
Accumulated amortisation	—	(12,848)	—	(12,848)
Net book amount	164,232	165,057	—	329,289
Year ended 31 December 2006				
Opening net book amount	164,232	165,057	—	329,289
Additions	—	—	11,863	11,863
Amortisation	—	(5,931)	(3,650)	(9,581)
Closing net book amount	164,232	159,126	8,213	331,571
At 31 December 2006				
Cost	164,232	177,905	11,863	354,000
Accumulated amortisation	—	(18,779)	(3,650)	(22,429)
Net book amount	164,232	159,126	8,213	331,571

Notes:

- (a) Amortisation of intangible assets has been charged to administrative expenses in the combined income statement.
- (b) Impairment tests for goodwill

The goodwill as at each balance sheet date was generated from acquisition of certain subsidiaries, all of which are engaged in the production of juice in the PRC. Therefore, these acquired subsidiaries were collectively viewed as one cash-generating unit ("CGU"). The recoverable amount of a CGU is determined based on value-in-use calculations. Value in use calculations use cash flow projections based on financial forecasts approved by management covering a five-year period, and a discount rate of 10%. Cash flow projections during the forecast period for the CGU are based on the expected gross margin rate and growth rate during the forecast period which have been determined based on past performance and management's expectations for the market development.

The directors are of the view that there was no impairment of goodwill as at 31 December 2006.

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

10 Land use rights

	2006 RMB'000	2005 RMB'000
At beginning of year		
Cost	92,594	76,675
Accumulated amortisation	(4,587)	(3,285)
Net book value	88,007	73,390
Representing:		
Opening net book amount	88,007	73,390
Additions	152,286	40,517
Amortisation	(4,900)	(1,890)
Disposals	(4,722)	(24,010)
Closing net book amount	230,671	88,007

The Group is in the process of applying for formal legal title to land use rights amounting to approximately RMB43,417,000 (2005: RMB20,099,000) as at 31 December 2006.

(a) Amortisation of land use rights have been charged to the combined income statement as follows:

	2006 RMB'000	2005 RMB'000
Cost of sales	3,479	1,342
Administrative expenses	1,421	548
	4,900	1,890

Land use rights pledged as security for borrowings were as follows:

	2006 RMB'000	2005 RMB'000
Net book value of land use rights pledged	5,011	3,111
Corresponding borrowings	7,132	3,337

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

11 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The offset amounts are as follows:

	2006 RMB'000	2005 RMB'000
Deferred tax assets:		
— deferred tax asset to be recovered after more than 12 months	21,252	13,482

Provided for in respect of:

	2006 RMB'000	2005 RMB'000
Government grant received	7,388	10,014
Provision for impairment of receivables	541	239
Provision for impairment of inventories	2,326	1,226
Amortisation of trademark	8,932	—
Other temporary differences	2,065	2,003
	21,252	13,482
Temporary differences for which deferred tax assets were not recognised:		
Losses carried forward	—	5,375

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

11 Deferred income tax (Continued)

The movement in deferred tax assets is as follows:

	Provisions RMB'000	Deferred government grants RMB'000	Amortisation of trademark RMB'000	Others RMB'000	Total RMB'000
At 1 January 2005	3,328	11,282	—	171	14,781
Charged to combined income statement	—	(1,268)	—	(31)	(1,299)
At 31 December 2005	3,328	10,014	—	140	13,482
Charged to equity	—	—	9,015	—	9,015
Charged to combined income statement	1,401	(2,626)	(83)	63	(1,245)
At 31 December 2006	4,729	7,388	8,932	203	21,252

	2006 RMB'000	2005 RMB'000
Deferred tax liabilities:		
— deferred tax liabilities to be recovered after more than 12 months	—	38,902
Provided for in respect of:		
Amortisation of trademark	—	38,902

The movement in deferred tax liabilities is as follows:

	Amortisation of trademark RMB'000
At 1 January 2005	39,614
Charged to combined income statement	(712)
At 31 December 2005	38,902
Charged to combined income statement	(356)
Charged to equity	(38,546)
At 31 December 2006	—

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

12 Inventories

	2006 RMB'000	2005 RMB'000
Raw material	462,844	355,196
Finished goods	59,990	73,566
	522,834	428,762

As at 31 December 2006, inventories carried at net realisable value amounted to approximately RMB15,603,276 (2005: RMB19,086,000).

13 Trade and other receivables

	Note	2006 RMB'000	2005 RMB'000
Trade receivables	(a)	155,177	116,808
Bills receivable	(b)	54,776	32,013
Prepayments	(c)	124,256	43,575
Other receivables	(d)	13,352	8,055
		347,561	200,451

(a) Trade receivables

	2006 RMB'000	2005 RMB'000
Trade receivables	163,063	136,828
Less: Provision for impairment of receivables	(7,886)	(20,020)
	155,177	116,808

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

13 Trade and other receivables (Continued)

(a) Trade receivables (Continued)

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, which are widely dispersed within the PRC. Majority of the Group's sales are settled in cash or by cheque on delivery of goods. The remaining amounts are with credit terms of 90 – 180 days. At 31 December 2005 and 2006, the ageing analysis of the trade receivables were as follows:

	2006 RMB'000	2005 RMB'000
Within 3 months	105,361	90,997
Between 4 and 6 months	42,277	24,008
Between 7 and 12 months	15,287	15,478
Between 1 and 2 years	138	4,042
Between 2 and 3 years	—	2,108
Over 3 years	—	195
	163,063	136,828

Movements on the provision for impairment of trade receivables are as follows:

	2006 RMB'000	2005 RMB'000
At 1 January	(20,020)	(8,352)
Provision for receivables impairment	(7,696)	(11,668)
Receivables written off during the year as uncollectable	2,900	—
Amounts reversed due to subsequent collection	16,930	—
At 31 December	(7,886)	(20,020)

(b) Bills receivable

Bills receivable are bills of exchange with maturity dates of less than 6 months and are non-interest bearing.

Bills receivable pledged as security for bank loans were as follows:

	2006 RMB'000	2005 RMB'000
Net book value of bills pledged	—	98
Corresponding borrowings	—	98

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

13 Trade and other receivables (Continued)

(c) Prepayments

	2006 RMB'000	2005 RMB'000
Prepayments for raw materials	92,963	40,760
Prepaid rental	—	2,815
Prepaid advertisement expenses	31,293	—
	124,256	43,575

(d) Other receivables

	2006 RMB'000	2005 RMB'000
Government grant receivables	3,526	220
Deposits receivables	4,523	3,126
Advances to employees	2,156	3,092
Others	3,147	1,617
	13,352	8,055

14 Amounts due from related parties

Amounts due from related parties comprised:

	Note	2006 RMB'000	2005 RMB'000
Trade-related receivables	(a)	12	38
Loan and other balances due from related companies	(b)	140,451	883,485
		140,463	883,523

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

14 Amounts due from related parties (Continued)

(a) Trade-related receivables

At 31 December 2005 and 2006, the ageing analysis of the trade-related receivables are as follows:

	2006 RMB'000	2005 RMB'000
Within 3 months	—	26
Between 2 and 3 years	—	12
Over 3 years	12	—
	12	38

(b) Loans and other balances due from related parties

	2006 RMB'000	2005 RMB'000
Loans (Note 32(c))	—	554,547
Other balances (Note 32(c))	140,451	328,938
	140,451	883,485

Except for balances due from Beijing Huiyuan Beverage & Food Group Co., Ltd., a related company, which bore average interest rate of 5.22% (2005: 5.22%), during the year, all other balances with related companies are non-interest bearing. In addition, all balances due from related companies are unsecured and repayable on demand.

15 Restricted cash

Restricted cash comprised bank deposits for maintenance of banking facilities and settlement of notes payable.

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

16 Cash and bank deposits

Cash and bank deposits comprised:

	2006 RMB'000	2005 RMB'000
Cash on hand	1,067	1,526
Cash at banks	89,743	24,468
	90,810	25,994

Analysis of cash and bank deposits by currency was as follows:

	2006		2005	
	Original currency ('000)	RMB'000	Original currency ('000)	RMB'000
Renminbi	87,343	87,343	22,040	22,040
United States Dollars	433	3,383	456	3,679
Euros	8	84	29	275
		90,810		25,994

At present, Renminbi is not a freely convertible currency in the international market. The conversion of Renminbi into foreign currency and remittance of Renminbi out of the PRC is subject to the rules and regulation of exchange control promulgated by the PRC government.

17 Owners' equity

(a) Capital reserve

Capital reserve represents the aggregate capital contributed by the then equity holder of the Group.

(b) Statutory reserves

Under the relevant PRC laws and regulations, PRC companies are required to appropriate a certain percentage of their respective net profit to two statutory funds — the statutory reserve fund and the statutory staff welfare fund. Details of the two funds are as follows:

— *Statutory reserve fund*

PRC companies are required to allocate 10% of the companies' net profit to the fund until such fund reaches 50% of the companies' registered capital. The statutory reserve fund can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the companies, provided that such fund is maintained at a minimum of 25% of the companies' registered capital.

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

17 Owners' equity (Continued)

(b) Statutory reserves (Continued)

— *Statutory staff welfare fund*

PRC companies are required to transfer 5% to 10% of the companies' net profit to the fund. This fund can only use to provide staff welfare facilities and other collective benefits to the companies' employees. This fund is non-distributable other than in liquidation.

(c) Distributions to equity holder

In connection with the Reorganisation, the Group effected the following distributions to its equity holder during the year ended 31 December 2006:

- (i) On 30 June 2006, three companies which were effectively owned by Mr. Zhu Xinli, the beneficial owner, ceased their juice businesses and thereafter, the businesses previously operated by the three companies were undertaken by the Group. As a result of the segregation of the businesses of these three entities with the Group, the assets and liabilities of these three companies amounting to approximately RMB129,722,000 as at 30 June 2006, were disposed of as a deemed distribution to the equity holder in the combined statement of changes in equity for the year ended 31 December 2006.
- (ii) During the year ended 31 December 2006, Luzhong Huiyuan Food & Beverage Co., Ltd., a group company, acquired a 100% equity interest in Beijing Huiyuan Group Luzhong Co., Ltd. ("Huiyuan Luzhong") from companies controlled and owned by Mr. Zhu Xinli at cash consideration of RMB81,780,000. This transaction was considered to be a transfer of business under common control and the acquired assets and liabilities have been accounted for at historical cost in a manner similar to the uniting of interest method. Accordingly, the financial statements of Huiyuan Luzhong for the years ended 31 December 2005 and 2006 have been included in the accompanying combined financial statements. The cash consideration paid by the Group has been treated as a deemed distribution to the equity holder.
- (iii) In August 2006, Huiyuan Beverage & Food Group Co., Ltd., a company owned and controlled by Mr. Zhu Xinli, transferred the legal right of the "Huiyuan" trademark to the Group. Consideration for such transfer amounted to RMB200,000,000 and has been accounted for as a deemed distribution in the combined statement of changes in equity for the year ended 31 December 2006.

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

18 Borrowings

	2006 RMB'000	2005 RMB'000
Non-current		
Other financial institution borrowings	54,411	86,062
Current		
Bank borrowings	781,172	640,064
Other financial institution borrowings	38,301	36,915
	819,473	676,979
Total borrowings	873,884	763,041
Borrowings:		
Secured and guaranteed	302,712	763,041
Unsecured	571,172	—

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates was as follows:

	2006 RMB'000	2005 RMB'000
Within 6 months	92,712	122,977
Between 7 and 12 months	781,172	640,064
	873,884	763,041

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

18 Borrowings (Continued)

The maturity date of the borrowings was analysed as follows:

	2006 RMB'000	2005 RMB'000
Within 1 year	819,473	676,979
Between 1 and 2 years	36,274	34,425
Between 2 and 5 years	18,137	51,637
	873,884	763,041

The effective interest rates at the balance sheet dates were as follows:

	2006 RMB'000	2005 RMB'000
Bank borrowings	5.76%	5.45%
Other financial institution borrowings	5.31%	4.58%
Non-current borrowings	5.31%	4.75%
Current borrowings	5.74%	5.45%

The carrying amounts of the Group's borrowings approximate their fair value.

The Group's borrowings at the balance sheet dates were denominated in the following currencies:

	2006 RMB'000	2005 RMB'000
Currencies		
Renminbi	781,172	640,064
Euros	92,712	122,977
	873,884	763,041

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

18 Borrowings (Continued)

Securities and guarantees:

	As at 31 December	
	2006 RMB'000	2005 RMB'000
Borrowings secured by property, plant and equipment	127,580	219,640
Borrowings secured by land use rights	7,132	3,337
Borrowings secured by bills receivable	—	98
Borrowing secured by guarantees given by related parties	168,000	539,966
	302,712	763,041

The Group had the following undrawn banking facilities:

	2006 RMB'000	2005 RMB'000
Expiring within one year	—	105,000

19 Deferred government grants

	2006 RMB'000	2005 RMB'000
Opening net amount at beginning of year	62,059	72,628
Addition	32,804	2,721
Amortisation charge	(24,251)	(13,290)
Closing net amount at end of year	70,612	62,059
At end of year		
Cost	112,536	79,733
Accumulated amortisation	(41,924)	(17,674)
Net book amount	70,612	62,059

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

19 Deferred government grants (Continued)

Analysis of government grants received/receivable by the Group was as follows:

	2006 RMB'000	2005 RMB'000
For acquisition of land use rights	44,156	33,296
For acquisition of property, plant and equipment	28,502	19,205
For operating expenses over certain periods of time	27,500	24,000
Others	12,378	3,232
	112,536	79,733

20 Long-term payable for property, plant and equipment

Long-term payable on acquisition of certain property, plant and equipment is payable in equal annual instalment over 15 years. Such balances are unsecured and non-interest bearing. The payable is measured at fair value being future cash outflows discounted at market interest rates on similar borrowings.

21 Trade and other payables

	As at 31 December	
	2006 RMB'000	2005 RMB'000
Trade payables	236,990	169,686
Bills payable	26,385	67,810
Advance from customers	46,168	68,087
Payable for property, plant and equipments	177,829	202,477
Payable for land use rights	127,300	17,724
Salary and welfare payable	36,999	14,766
Advertising and other marketing expenses payable	53,823	—
Accrued expenses	39,510	17,369
Deposits payable	23,124	17,701
Other taxes	27,596	11,830
Payable for share issuance costs	23,443	—
Others	20,637	28,717
	839,804	616,167

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

21 Trade and other payables (Continued)

Details of ageing analysis of trade payables is as follows:

	2006 RMB'000	2005 RMB'000
Within 3 months	208,772	118,874
Between 4 and 6 months	14,503	11,399
Between 7 and 12 months	3,289	10,181
Between 1 and 2 years	3,447	18,152
Between 2 and 3 years	2,955	10,200
Over 3 years	4,024	880
	236,990	169,686

22 Amounts due to related parties

Amounts due to related parties comprised:

	2006 RMB'000	2005 RMB'000
Trade-related payables (Note (a))	70,788	22,534
Loans and other balances due to related parties (Note (b))	21,072	632,616
	91,860	655,150

(a) Trade-related payables

Details of ageing analysis of trade payables are as follows:

	2006 RMB'000	2005 RMB'000
Within 3 months	62,074	14,844
Between 4 and 6 months	1,638	—
Between 7 and 12 months	5,336	6,860
Between 1 and 2 years	941	158
Between 2 and 3 years	129	126
Over 3 years	670	546
	70,788	22,534

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

22 Amounts due to related parties (Continued)

(b) Loans and other balances due to related parties

	2006 RMB'000	2005 RMB'000
Loans (Note 32(c))	—	465,911
Other balances (Note 32(c))	21,072	166,705
	21,072	632,616

Except for the loans due to Beijing Huiyuan Beverage & Food Group Co., Ltd., a related company (2006: nil, 2005: RMB465,911,000), which bore average interest rate of 5.22% (2005: 5.22%), other balances with related parties were non-interest bearing. All balances due to related parties are unsecured and repayable on demand.

23 Other income

	2006 RMB'000	2005 RMB'000
Sales of raw material (Note 32(b))	90,852	87,800
Cost of raw material sold	(53,878)	(77,208)
Net gain from sales of raw materials	36,974	10,592
Amortisation of deferred government grants	24,251	13,290
Other subsidy income	14,407	10,338
Interest income (Note 32(b))	30,336	37,048
Loss on disposal of land use right	(4,330)	—
(Loss)/gain on disposals of property, plant and equipment	(1,654)	4,415
Rental income from property, plant and equipment	—	1,113
Others	3,392	2,978
	103,376	79,774

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

24 Expenses by nature

	2006 RMB'000	2005 RMB'000
Raw materials used and changes in inventories	1,141,794	716,471
Advertising and other marketing expenses	261,594	165,534
Depreciation of property, plant and equipment	131,122	117,669
Amortisation of land use rights and prepayment for land use rights	4,900	1,890
Amortisation of trademark and license right	9,581	5,930
Employee benefit expense (Note 25)	96,204	67,096
Transportation and related charges	78,185	57,584
Water and electricity	76,238	60,158
Repairs and maintenance	22,135	14,575
Provision for impairment of inventories	18,066	3,534
(Write back of)/provision for impairment of receivables	(9,234)	11,668
Office and communication expenses	9,728	6,876
Travelling expense	6,060	4,946
Rental expenses	7,389	9,255
Auditors' remuneration	3,000	298
Other expenses	26,844	47,620
Total	1,883,606	1,291,104

25 Employee benefit expense

	Note	Year ended 31 December	
		2006 RMB'000	2005 RMB'000
Wages and salaries		75,719	52,571
Contributions to pension plan and other benefits	(a)	20,485	14,525
		96,204	67,096

- (a) The employees of the Group participate in certain defined contribution pension plans organised by the relevant municipal and provincial government under which the Group are required to make monthly defined contributions to this plan at rates ranging from 18% to 22% of the employees' basic salary dependent upon the applicable local regulations.

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

25 Employee benefit expense (Continued)

(b) Directors' emoluments paid to the directors of the Company

The aggregate amounts of the emoluments paid and payable to the directors of the Company by the Group during the year were as follows:

	2006 RMB'000	2005 RMB'000
Salaries, wages and bonuses	1,033	768
Contributions to pension plan	28	18
Welfare and other expenses	42	175

The emoluments of the directors were as follows:

Name of director	2006			Total RMB'000
	Salaries, wages and bonuses RMB'000	Contributions to pension plan RMB'000	Welfare and other expenses RMB'000	
Zhu Xinli	440	10	20	470
Jiang Xu	152	10	7	169
Lu Changqing	276	8	15	299
Qin Peng	—	—	—	—
Leng Xuesong	—	—	—	—
Wang Bing	55	—	—	55
Zhao Yali	55	—	—	55
Tsui Yiu Wa	55	—	—	55

Name of director	2005			Total RMB'000
	Salaries, wages and bonuses RMB'000	Contributions to pension plan RMB'000	Welfare and other expenses RMB'000	
Zhu Xinli	360	6	74	440
Jiang Xu	168	6	65	239
Lu Changqing	240	6	36	282

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

25 Employee benefit expense *(Continued)*

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group were as follows:

	2006	2005
Directors	2	2
Other senior management	3	3

The five highest paid individuals include two (2005: two) directors whose emoluments were reflected in the analysis presented in Note 25(b). Details of remuneration of members of other senior management amongst the five highest paid individuals were as follows:

	2006 RMB'000	2005 RMB'000
Salaries, wages and bonuses	1,783	732
Contributions to pension plan	27	17
Welfare and other expenses	33	204

The emoluments of these members of senior management fell within the following band:

	Year ended 31 December	
	2006	2005
Nil–HK\$1,000,000 (equivalent to approximately RMB1,020,000)	3	3

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(All amounts in RMB unless otherwise stated)

26 Finance costs — net

	2006 RMB'000	2005 RMB'000
Interest expenses:		
— Bank borrowings	38,404	46,777
— Other borrowings	5,242	6,893
— Related parties borrowings	8,505	10,779
— Discount interest for bank draft	873	7,904
	53,024	72,353
Less: Interest capitalised	(596)	(3,134)
	52,428	69,219
Exchange losses/(gains) on borrowings	2,900	(26,869)
	55,328	42,350
Weighted average effective interest rates used to calculate capitalisation amount	5.30%	5.28%

27 Income tax expenses

	2006 RMB'000	2005 RMB'000
Current tax — PRC enterprise income tax	8,845	27,641
Deferred income tax (<i>Note 11</i>)	889	587
	9,734	28,228

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

27 Income tax expenses (Continued)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate of companies comprising the Group as follows:

	Year ended 31 December	
	2006 RMB'000	2005 RMB'000
Profit before tax	230,717	138,420
Tax calculated at the statutory tax rate of 33%	76,136	45,679
Preferential tax rates on the income of certain subsidiaries	(72,132)	(40,780)
Utilisation of previously unrecognised tax losses	—	(4,097)
Tax losses not recognised	—	12,891
Expenses not deductible for tax purposes	5,730	14,535
Income tax expenses	9,734	28,228

Hong Kong profits tax has not been provided as the Group has no assessable profit derived from Hong Kong.

PRC enterprises income tax is provided on the basis of the profit for statutory financial reporting purposes, adjusted for income and expenses items which are not assessable or deductible for income tax purpose. The applicable enterprise income tax rate for the companies of the Group is 33%, which comprises 30% attributable to national enterprise income tax and 3% attributable to local municipal income tax, except that the following companies are entitled to preferential tax treatment.

Name of company	Preferential tax treatment	For the year starting
JiuJiang Huiyuan Food & Beverage Co., Ltd.	<ul style="list-style-type: none"> • Preferential tax rate of 24% • Tax exemption for two years followed by a 50% deduction in tax rate in the next three years 	2005 The first profit-making year after offsetting prior years' losses
Shanghai Huiyuan Food & Beverage Co., Ltd.	<ul style="list-style-type: none"> • Preferential tax rate of 27% • Tax exemption for two years followed by a 50% deduction in tax rate in the next three years 	2001 2004
Beijing Huiyuan Group Huanggang Co., Ltd.	<ul style="list-style-type: none"> • Tax exemption for two years followed by a 50% deduction in tax rate in the next three years 	The first profit-making year after offsetting prior years' losses

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

27 Income tax expenses (Continued)

Name of company	Preferential tax treatment	For the year starting
Beijing Huiyuan Food & Beverage Co., Ltd.	<ul style="list-style-type: none"> • Preferential tax rate of 24% • Tax exemption for two years followed by a 50% deduction in tax rate in the next three years • 50% deduction in tax rate for three years 	1999 1999 2004
Harbin Huiyuan Food & Beverage Co. Ltd.	<ul style="list-style-type: none"> • Tax exemption for two years followed by a 50% deduction in tax rate in the next three years 	2005
Luzhong Huiyuan Food & Beverage Co., Ltd.	<ul style="list-style-type: none"> • Tax exemption for two years followed by a 50% deduction in tax rate in the next three years 	The first profit-making year after offsetting prior years' losses
Beijing Xinyuan Food & Beverage Co., Ltd.	<ul style="list-style-type: none"> • Preferential tax rate of 24% • Tax exemption for two years followed by a 50% deduction in tax rate in the next three years 	2005 2005
Beijing Huiyuan Beverage & Food Group Chengdu Co., Ltd.	<ul style="list-style-type: none"> • Preferential tax rate of 15% • Tax exemption for two years followed by a 50% deduction in tax rate in the next three years 	2001 The first profit-making year after offsetting prior years' losses
Beijing Huiyuan Group Kaifeng Co., Ltd.	<ul style="list-style-type: none"> • Tax exemption for two years followed by a 50% deduction in tax rate in the next three years 	The first profit-making year after offsetting prior years' losses
Beijing Huiyuan Xianyang Beverage Co., Ltd.	<ul style="list-style-type: none"> • Tax exemption for two years followed by a 50% deduction in tax rate in the next three years 	The first profit-making year after offsetting prior years' losses

28 Earnings per share

No earnings per share information are presented as its inclusion, for the purpose of these combined financial statements, is not considered meaningful.

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

29 Notes to combined cashflow statement

(a) Cash generated from operations

	2006 RMB'000	2005 RMB'000
Profit for the year	220,983	110,192
Adjustments for:		
Income tax expenses	9,734	28,228
Amortisation of deferred government grants	(24,251)	(13,290)
Depreciation	131,122	117,669
Amortisation	14,481	7,820
Loss on disposal of land use right	4,330	—
Loss/(gain) on disposals of property, plant and equipment	1,654	(4,415)
Interest income	(30,336)	(37,048)
Interest expenses	52,428	69,219
Exchange losses/(gains) on borrowings	2,900	(26,869)
	383,045	251,506
Changes in working capital:		
Inventories	(120,773)	(33,997)
Amounts due from related parties	26	5,873
Trade and other receivables	(151,837)	(29,074)
Amounts due to related parties	39,851	(5,627)
Trade and other payables	157,337	72,317
Deferred revenue	42,124	—
Cash generated from operations	349,773	260,998

(b) Deemed distribution of certain companies

During the year ended 31 December 2006, three companies which were effectively owned by the beneficial owner ceased their juice business and thereafter, the business previously operated by the three companies were undertaken by the Group. As a result of the segregation of the business of these three entities with the Group, the assets and liabilities of these three companies amounting to approximately RMB129,722,000 as at 30 June 2006, were disposed of as a deemed distribution to the equity holder in the combined statement of changes in equity for the year ended 31 December 2006.

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

29 Notes to combined cashflow statement (Continued)

(b) Deemed distribution of certain companies (Continued)

Details of the assets and liabilities disposed as at 30 June 2006 (date of disposals) were as follows:

	RMB'000
Property, plant and equipment	41,060
Other assets	1,204
Inventories	26,701
Trade and other receivables	8,033
Due from related parties	86,038
Cash and cash equivalents	1,520
Trade and other payables	(18,627)
Due to related parties	(16,285)
Taxation payables	78
Net assets disposed of	129,722
Settled by offsetting balance due from a related company	129,722

(c) Major non-cash transactions

- (i) During the years ended 31 December 2005 and 2006, certain group companies acquired and disposed of equity interests in certain companies. The consideration of these acquisitions and disposals amounted to RMB62,163,000 and RMB27,106,000 during the years ended 31 December 2005 and 2006, and was settled by the Group's beneficial owner.
- (ii) Other than the deemed disposals of the companies as mentioned in Note 29(b), the following related party transactions were settled through balances due from/to the related parties during the years ended 31 December 2006:

	2006	2005
	RMB'000	RMB'000
Offsetting of balances due from and due to related parties	285,584	—
Proceeds from disposals of property, plant and equipment	53,241	134,309
Purchase of property, plant and equipment	10,867	4,403
Interest income	28,309	36,350
Interest expenses	8,505	10,779

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

30 Contingencies

	As at 31 December	
	2006 RMB'000	2005 RMB'000
Guarantee given to banks in respect of borrowings of a related company	—	92,000

31 Commitments

(a) Capital commitments

Capital expenditures contracted for at the balance sheet date but not yet incurred were as follows:

	As at 31 December	
	2006 RMB'000	2005 RMB'000
Purchase of property, plant and equipment	13,203	44,001

(b) Operating lease commitments

The Group leases various, offices, warehouses and plant and machinery under non-cancellable operating lease agreements.

The lease expenditures charged to the combined income statement during the year are disclosed in Note 24.

The future aggregate minimum lease payments under non-cancellable operating leases were as follows:

The Group is the lessee

	As at 31 December	
	2006 RMB'000	2005 RMB'000
No later than 1 year	533	480
Later than 1 year and no later than 5 years	419	779
	952	1,259

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

32 Related-party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

- (a) During the year, the Company's directors and the Group's management are of the view that the following companies/individuals were related parties of the Group:

Name of related party	Relationship with the Group
Beijing Huiyuan Juice & Beverage Co., Ltd.	Company beneficially owned by Mr. Zhu Xinli
Beijing Huiyuan Beverage & Food Group Co., Ltd.	Company beneficially owned by Mr. Zhu Xinli
China Hui Yuan Juice Holdings Co., Ltd.	Company beneficially owned by Mr. Zhu Xinli
Beijing Bellywashers Food & Beverage Co., Ltd.	Company beneficially owned by Mr. Zhu Xinli
Beijing Huiyuan Group Feicheng Co., Ltd.	Company beneficially owned by Mr. Zhu Xinli
Beijing Huiyuan Group Guilin Ecological Fruit Industry Co., Ltd.	Company beneficially owned by Mr. Zhu Xinli
Beijing Huiyuan Group Jizhong Food & Beverage Co., Ltd.	Company beneficially owned by Mr. Zhu Xinli
Beijing Huiyuan Longteng Food & Beverage Co., Ltd.	Company beneficially owned by Mr. Zhu Xinli
Beijing Huiyuan Beverage & Food Group Qiqihaer Co., Ltd.	Company beneficially owned by Mr. Zhu Xinli
Beijing Yongxin Fruit Co., Ltd.	Company beneficially owned by Mr. Zhu Xinli
Huiyuan Juice Gannan Fruit Production Co., Ltd.	Company beneficially owned by Mr. Zhu Xinli
Huiyuan International Holdings Limited.	Company beneficially owned by Mr. Zhu Xinli
Shandong Yongxin Industrial Co., Ltd.	Company beneficially owned by Mr. Zhu Xinli
Total International Holdings Limited.	Company beneficially owned by Mr. Zhu Xinli
Huiyuan Merhav Food (Beijing) Co., Ltd.	Company beneficially owned by Mr. Zhu Xinli
Huiyuan Beverage & Food Group Yingxian Co., Ltd.	Company beneficially owned by Mr. Zhu Xinli
Shandong Zibo Huiyuan Food & Beverage Co., Ltd.	Company beneficially owned by Mr. Zhu Xinli
Chongqing Sanxia Fruit Industry Group Co., Ltd.	Company beneficially owned by Mr. Zhu Xinli
Beijing Huiyuan Group Wanrong Co., Ltd.	Company beneficially owned by Mr. Zhu Xinli
Beijing Her&Him Beverage Co., Ltd.	Company beneficially owned by Mr. Zhu Xinli
Beijing Kangle Packing Co., Ltd.	Company beneficially owned by Mr. Zhu Xinli
Beijing Blue-Cat Beverage Co., Ltd	Company beneficially owned by Mr. Zhu Xinli
Beijing Huiyuan Jiulonggou Green Ecological Agriculture Co., Ltd.	Company beneficially owned by Mr. Zhu Xinli
*Huiyuan Beverage & Food Youyu Co., Ltd.	Company beneficially owned by Mr. Zhu Xinli
*Beijing Huiyuan Juice & Beverage Group Yichang Co., Ltd.	Company beneficially owned by Mr. Zhu Xinli
*Beijing Huiyuan Beverage & Food Yanbian Co., Ltd.	Company beneficially owned by Mr. Zhu Xinli

- * These companies which were effectively owned by Mr. Zhu Xinli ceased their juice businesses and were disposed of to the equity holders on 30 June 2006. Thereafter, these companies became related parties of the Group (see note 17(c)).

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

32 Related-party transactions (Continued)

(b) The following transactions were carried out with related parties:

Continuing

	Year ended 31 December	
	2006 RMB'000	2005 RMB'000
Sales of raw materials to related parties		
Beijing Huiyuan Group Feicheng Co., Ltd.	2,676	726
Beijing Huiyuan Group Jizhong Food & Beverage Co., Ltd	5,153	837
Beijing Yongxin Fruit Co.,Ltd.	6,822	2,060
Huiyuan Merhav Food (Beijing) Co., Ltd.	2,821	—
Chongqing Sanxia Fruit Industry Group Co., Ltd.	188	46
	17,660	3,669
Purchase of raw materials from related parties		
Beijing Huiyuan Beverage & Food Group Co., Ltd.	520	4,767
Beijing Huiyuan Group Feicheng Co., Ltd.	35,084	3,915
Beijing Huiyuan Group Guilin Ecological Fruit Industry Co., Ltd.	241	—
Beijing Huiyuan Group Jizhong Food & Beverage Co., Ltd	46,951	28,545
Beijing Huiyuan Beverage & Food Group Qiqihar Co.,Ltd.	954	—
Beijing Yongxin Fruit Co., Ltd.	32,546	19,734
Huiyuan Merhav Food (Beijing) Co., Ltd.	6,666	1,030
Shandong Zibo Huiyuan Food & Beverage Co., Ltd.	18,888	9,189
Chongqing Sanxia Fruit Industry Group Co., Ltd.	292	9,340
Beijing Her&Him Beverage Co., Ltd.	866	—
Beijing Kangle Packing Co.,Ltd.	16,314	29,082
Beijing Huiyuan Juice & Beverage Group Yichang Co., Ltd.	621	—
Beijing Huiyuan Beverage & Food Yanbian Co., Ltd	4	—
Huiyuan Beverage & Food Youyu Co., Ltd	38	—
	159,985	105,602

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

32 Related-party transactions (Continued)

(b) The following transactions were carried out with related parties: (Continued)

Continuing (Continued)

	Year ended 31 December	
	2006 RMB'000	2005 RMB'000
Rental expenses for lease of property, plant and equipment and land use rights		
Beijing Huiyuan Beverage & Food Group Co., Ltd.	2,957	1,722
Income for provision of power and other utilities		
Beijing Huiyuan Beverage & Food Group Co., Ltd.	1,303	328
Expenses for power and other utilities		
Beijing Huiyuan Group Jizhong Food & Beverage Co., Ltd	963	71
Key management compensation		
Salaries and other employee benefits	4,614	3,836

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

32 Related-party transactions (Continued)

(b) The following transactions were carried out with related parties: (Continued)

Discontinued

	Year ended 31 December	
	2006 RMB'000	2005 RMB'000
Sales of raw materials to related parties		
Beijing Huiyuan Beverage & Food Group Co., Ltd.	204	293
Beijing Bellywashers Food & Beverage Co., Ltd.	6,018	6,844
Beijing Huiyuan Group Feicheng Co., Ltd.	633	3,373
Beijing Huiyuan Group Guilin Ecology Fruit Production Co., Ltd.	1,039	6,618
Beijing Huiyuan Group Jizhong Food & Beverage Co., Ltd.	412	22,719
Beijing Huiyuan Longteng Food & Beverage Co., Ltd.	—	720
Beijing Huiyuan Beverage & Food Group Qiqihaer Co., Ltd.	2,244	6,030
Beijing Yongxin Fruit Co., Ltd.	2,008	2,652
Huiyuan Merhav Food (Beijing) Co., Ltd.	48	37
Shandong Zibo Huiyuan Food & Beverage Co., Ltd.	56	5,545
Chongqing Sanxia Fruit Industry Group Co., Ltd.	70	1,275
Beijing Huiyuan Group Wanrong Co., Ltd.	7	—
Beijing Her&Him Beverage Co., Ltd.	—	5,951
Beijing Kangle Packing Co., Ltd.	937	1,200
Beijing Blue-Cat Beverage Co., Ltd.	—	1,637
Huiyuan Beverage & Food Youyu Co., Ltd.	501	—
Beijing Huiyuan Juice & Beverage Group Yichang Co. Ltd	294	—
Beijing Huiyuan Beverage & Food Yanbian Co., Ltd	1,801	—
	16,272	64,894
Purchase of raw materials from related parties		
Beijing Huiyuan Beverage & Food Group Co., Ltd.	358	25,243
Beijing Bellywashers Food & Beverage Co., Ltd.	13,553	27
Beijing Huiyuan Group Feicheng Co., Ltd.	653	—
Beijing Huiyuan Group Guilin Ecology Fruit Production Co., Ltd.	5,995	10,711
Beijing Huiyuan Group Jizhong Food & Beverage Co., Ltd.	15,607	—
Beijing Huiyuan Longteng Food & Beverage Co., Ltd.	97	108
Beijing Huiyuan Beverage & Food Group Qiqihaer Co., Ltd.	1,916	1,215
Beijing Yongxin Fruit Co., Ltd.	118	—
Shandong Zibo Huiyuan Food & Beverage Co., Ltd.	5,532	15,000
Chongqing Sanxia Fruit Industry Group Co., Ltd.	1,692	—
Beijing Huiyuan Juice & Beverage Group Yichang Co., Ltd.	7,506	—
Beijing Huiyuan Beverage & Food Yanbian Co., Ltd.	576	—
Huiyuan Beverage & Food Youyu Co., Ltd.	1,448	—
Beijing Blue-Cat Beverage Co., Ltd.	174	—
	55,225	52,304

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

32 Related-party transactions (Continued)

(b) The following transactions were carried out with related parties: (Continued)

Discontinued (Continued)

	Year ended 31 December	
	2006 RMB'000	2005 RMB'000
Sales of goods to related parties		
Beijing Huiyuan Beverage & Food Group Co., Ltd.	869	465
Beijing Bellywashers Food & Beverage Co., Ltd.	524	5
Beijing Huiyuan Group Feicheng Co., Ltd.	89	1
Beijing Huiyuan Group Guilin Ecology Fruit Production Co., Ltd.	3,265	1,980
Beijing Huiyuan Group Jizhong Food & Beverage Co., Ltd.	21	4,725
Beijing Huiyuan Beverage & Food Group Qiqihaer Co., Ltd.	497	5
Huiyuan Beverage Gannan Fruit Production Co., Ltd.	137	—
Huiyuan Merhav Food (Beijing) Co., Ltd.	30	52
Shandong Zibo Huiyuan Food & Beverage Co., Ltd.	130	276
Chongqing Sanxia Fruit Industry Group Co., Ltd.	1,186	2,224
Beijing Her&Him Beverage Co., Ltd.	191	30,298
Beijing Kangle Packing Co., Ltd.	3	4
Beijing Blue-Cat Beverage Co., Ltd.	—	996
Beijing Huiyuan Beverage & Food Yanbian Co., Ltd.	2,701	—
Beijing Huiyuan Juice & Beverage Group Yichang Co. Ltd	119	—
Huiyuan Beverage & Food Youyu Co., Ltd.	153	—
	9,915	41,031
Purchase of goods from related parties		
Beijing Bellywashers Food & Beverage Co., Ltd.	1,493	10,517
Beijing Huiyuan Group Feicheng Co., Ltd.	222	950
Beijing Huiyuan Group Guilin Ecology Fruit Production Co., Ltd.	205	557
Beijing Huiyuan Group Jizhong Food & Beverage Co., Ltd.	64	174
Beijing Huiyuan Beverage & Food Group Qiqihaer Co., Ltd.	5,418	5,597
Shandong Zibo Huiyuan Food & Beverage Co., Ltd.	142	2,047
Chongqing Sanxia Fruit Industry Group Co., Ltd.	86	100
Beijing Huiyuan Beverage & Food Yanbian Co., Ltd.	476	—
Beijing Huiyuan Juice & Beverage Group Yichang Co. Ltd	1,332	—
	9,438	19,942

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

32 Related-party transactions (Continued)

(b) The following transactions were carried out with related parties: (Continued)

Discontinued (Continued)

	Year ended 31 December	
	2006 RMB'000	2005 RMB'000
Rental income from lease of property, plant and equipment		
Beijing Huiyuan Beverage & Food Group Co., Ltd.	—	845
Beijing Bellywashers Food & Beverage Co., Ltd.	—	268
	—	1,113
Rental expenses for lease of property, plant and equipment and land use rights		
Beijing Huiyuan Beverage & Food Group Co., Ltd.	3,354	6,109
Income for provision of power and other utilities		
Beijing Bellywashers Food & Beverage Co., Ltd.	—	1,392
Beijing Yongxin Fruit Co., Ltd	2,363	—
	2,363	1,392
Net book value of land use right and property, plant and equipment sold to related parties		
Beijing Huiyuan Beverage & Food Group Co., Ltd. (note (i))	7,611	87,918
Beijing Huiyuan Group Feicheng Co., Ltd.	8,481	—
Beijing Huiyuan Group Guilin Ecology Fruit Production Co., Ltd.	387	—
Beijing Huiyuan Group Jizhong Food & Beverage Co., Ltd	606	—
Beijing Huiyuan Beverage & Food Group Qiqihaer Co., Ltd.	—	4,414
Beijing Yongxin Fruit Co., Ltd.	430	7,185
Chongqing Sanxia Fruit Industry Group Co., Ltd.	764	21,739
Huiyuan Merhav Food (Beijing) Co., Ltd.	48	—
Beijing Huiyuan Group Wanrong Co., Ltd.	123	—
Beijing Huiyuan Juice & Beverage Group Yichang Co. Ltd	7	—
Beijing Huiyuan Juice & Beverage Group Yanbian Co. Ltd	132	—
	18,589	121,256

note (i) During the year, Jiujiang Huiyuan Food & Beverage Co., Ltd., a group company, disposed of a land use right amounting to approximately RMB4,330,000 and a property amounting to approximately RMB3,256,000 to Beijing Huiyuan Beverage & Food Group Co., Ltd. at zero consideration, resulting in net loss on disposals of approximately RMB7,586,000. All other disposals of land use rights and property, plant and equipment to related parties were entered into at net book value of the Group.

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

32 Related-party transactions (Continued)

(b) The following transactions were carried out with related parties: (Continued)

Discontinued (Continued)

	2006 RMB'000	2005 RMB'000
Purchase of property, plant and equipment from related parties		
Beijing Huiyuan Group Feicheng Co., Ltd.	67	45
Beijing Huiyuan Beverage & Food Group Qiqihaer Co., Ltd.	235	—
Shandong Zibo Huiyuan Food & Beverage Co., Ltd.	—	1,692
Chongqing Sanxia Fruit Industry Group Co., Ltd.	—	1,782
Beijing Her&Him Beverage Co., Ltd.	1,015	879
Beijing Huiyuan Group Guilin Ecology Fruit Production Co., Ltd.	1,765	5
Beijing Bellywashers Food & Beverage Co., Ltd.	5,959	—
Beijing Huiyuan Group Jizhong Food & Beverage Co., Ltd.	1,917	—
Beijing Huiyuan Beverage & Food Group Co., Ltd.	458	—
Beijing Huiyuan Beverage & Food Yanbian Co., Ltd.	506	—
	11,922	4,403
Interest income from loans to related parties		
Beijing Huiyuan Beverage & Food Group Co., Ltd.	28,309	36,350
Interest expense from loans from related parties		
Beijing Huiyuan Beverage & Food Group Co., Ltd.	8,505	10,779

During the year, Beijing Huiyuan Beverage & Food Group Co., Ltd., a related company, entered into certain advertising and marketing contracts on behalf of the Group. Related advertising and marketing expenses recorded by the Group under such arrangement amounted to approximately RMB178,254,000 (2005: RMB152,289,000) during the year.

In addition, the Group entered into arrangements with Beijing Huiyuan Beverage & Food Group Co., Ltd., under which Beijing Huiyuan Beverage & Food Group Co., Ltd. would collect the proceeds from sales of goods on behalf of the Group. As at 31 December 2006, the related trade receivable recorded by the Group under such arrangement amounted to approximately RMB47,414,000 (2005: RMB118,162,000).

In the opinion of the Company's directors, the above related party transactions were carried out in the ordinary course of business and in accordance with the terms of the underlying agreements.

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

32 Related-party transactions (Continued)

(c) Year-end balances due from or due to related parties were as followings:

	Note	As at 31 December	
		2006 RMB'000	2005 RMB'000
Trade receivables			
Beijing Huiyuan Beverage & Food Group Co., Ltd.		—	2
Beijing Bellywashers Food & Beverage Co., Ltd.		—	24
Huiyuan Merhav Food (Beijing) Co., Ltd.		12	12
	14 (a)	12	38
Loans due from related parties			
Beijing Huiyuan Beverage & Food Group Co., Ltd.	14 (b)	—	554,547
Maximum balance during the year		852,080	984,464
Other balances due from related parties			
Beijing Huiyuan Juice & Beverage Co., Ltd.		—	22,052
Beijing Huiyuan Beverage & Food Group Co., Ltd.		65,489	228,217
Beijing Bellywashers Food & Beverage Co., Ltd.		1,204	1,157
Beijing Huiyuan Group Feicheng Co., Ltd.		6,743	1,116
Beijing Huiyuan Group Guilin Ecology Fruit Production Co., Ltd.		—	9,571
Beijing Huiyuan Group Jizhong Food & Beverage Co., Ltd.		11,436	30,517
Beijing Huiyuan Longteng Food & Beverage Co., Ltd.		74	8
Beijing Huiyuan Beverage & Food Group Qiqihaer Co., Ltd.		342	19,282
Beijing Yongxin Fruit Co., Ltd.		10,015	—
Huiyuan Merhav Food (Beijing) Co., Ltd.		2,496	1,576
Huiyuan Beverage & Food Group Yingxian Co., Ltd.		—	425
Shandong Zibo Huiyuan Food & Beverage Co., Ltd.		16,920	509
Chongqing Sanxia Fruit Production Group Co., Ltd.		20,769	1,269
Beijing Her&Him Beverage Co., Ltd.		58	—
Beijing Kangle Packing Co., Ltd.		2,091	13,239
Beijing Huiyuan Group Wanrong Co., Ltd.		1,275	—
Beijing Huiyuan Beverage & Food Yanbian Co., Ltd.		1,539	—
	14 (b)	140,451	328,938
Maximum balance during the year		140,451	883,485

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

32 Related-party transactions (Continued)

(c) Year-end balances due from or due to related parties were as followings: (Continued)

	Note	As at 31 December	
		2006 RMB'000	2005 RMB'000
Trade payables			
Beijing Huiyuan Juice & Beverage Co., Ltd.		7,454	580
Beijing Huiyuan Beverage & Food Group Co., Ltd.		1,412	6,022
Beijing Bellywashers Food & Beverage Co., Ltd.		35	—
Beijing Huiyuan Juice & Beverage Group Yichang Co., Ltd.		5,370	—
Huiyuan Beverage & Food Youyu Co., Ltd.		267	—
Beijing Huiyuan Group Feicheng Co., Ltd.		3,144	36
Beijing Huiyuan Group Guilin Ecology Fruit Production Co., Ltd.		3,667	86
Beijing Huiyuan Group Jizhong Food & Beverage Co., Ltd.		23,505	6,749
Beijing Huiyuan Longteng Food & Beverage Co., Ltd.		97	—
Beijing Huiyuan Beverage & Food Group Qiqihaer Co., Ltd.		2,440	1,657
Beijing Huiyuan Beverage & Food Yanbian Co., Ltd.		953	—
Beijing Yongxin Fruit Co., Ltd.		3,301	—
Huiyuan Merhav Food (Beijing) Co., Ltd.		1,143	738
Huiyuan Beverage & Food Group Yingxian Co., Ltd.		—	143
Shandong Zibo Huiyuan Food & Beverage Co., Ltd.		4,434	—
Chongqing Sanxia Fruit Production Group Co., Ltd.		7,367	6,181
Beijing Her&Him Beverage Co., Ltd.		—	34
Beijing Kangle Packing Co., Ltd.		4,976	308
Beijing Blue-Cat Beverage Co., Ltd.		174	—
Beijing Huiyuan Group Wanrong Co., Ltd.		1,049	—
	22 (a)	70,788	22,534
Loans due to related parties			
Beijing Huiyuan Beverage & Food Group Co., Ltd.	22 (b)	—	465,911

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

32 Related-party transactions (Continued)

(c) Year-end balances due from or due to related parties were as followings: (Continued)

	Note	As at 31 December	
		2006 RMB'000	2005 RMB'000
Other payable			
Beijing Huiyuan Juice & Beverage Co., Ltd.		12,124	5,117
Beijing Huiyuan Beverage & Food Group Co., Ltd.		—	73,392
Beijing Huiyuan Juice & Beverage Group Yichang Co., Ltd.		3,462	—
Beijing Huiyuan Group Guilin Ecology Fruit Production Co., Ltd.		1,344	3,632
Beijing Huiyuan Group Jizhong Food & Beverage Co., Ltd.		—	18,021
Beijing Huiyuan Beverage & Food Group Qiqihaer Co., Ltd.		—	576
Beijing Yongxin Fruit Co., Ltd.		—	40,000
Huiyuan Merhav Food (Beijing) Co., Ltd.		—	124
Shandong Zibo Huiyuan Food & Beverage Co., Ltd.		—	25,827
Chongqing Sanxia Fruit Production Group Co., Ltd.		—	16
China Hui Yuan Juice Holding Co. Ltd.		4,142	—
	22 (b)	21,072	166,705
		21,072	632,616
Guarantees given to certain banks in respect of bank borrowings of a related company			
Guarantees given to certain banks in respect of bank borrowings of a related company		—	92,000

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

33 Group companies

Details of the companies comprising the Group which have become subsidiaries of the Company since 23 February 2007 (date of Reorganisation) are as follows:

Name of company	Date of incorporation/ establishment	Place of incorporation/ establishment	Issue and fully paid share capital/ registered capital	Attributable equity interests to the Group	Principal activities
<i>Directly held</i>					
Huiyuan Beijing Holdings Limited	8 March 2005	The British Virgin Islands (the "BVI")	US\$50,000	100%	Investment holdings
Huiyuan Shanghai Holdings Limited	2 March 2005	The BVI	US\$50,000	100%	Investment holdings
Huiyuan Chengdu Holdings Limited	2 March 2005	The BVI	US\$50,000	100%	Investment holdings
<i>Indirectly held</i>					
¹ Beijing Huiyuan Food & Beverage Co., Ltd.	12 December 1994	The PRC	US\$20,000,000	100%	Manufacture of fruit and vegetable juices
¹ Luzhong Huiyuan Food & Beverage Co., Ltd.	12 June 2002	The PRC	US\$20,100,000	100%	Manufacture of fruit and vegetable juices
¹ Beijing Huiyuan Group Huanggang Co., Ltd.	27 May 2003	The PRC	RMB100,000,000	100%	Manufacture of fruit and vegetable juices
¹ Beijing Huiyuan Group Kaifeng Co., Ltd.	11 March 2004	The PRC	RMB50,000,000	100%	Manufacture of fruit and vegetable juices
¹ Harbin Huiyuan Food & Beverage Co., Ltd.	18 June 2004	The PRC	RMB60,000,000	100%	Manufacture of fruit and vegetable juices
¹ Jiujiang Huiyuan Food & Beverage Co., Ltd.	1 August 2002	The PRC	RMB80,000,000	100%	Manufacture of fruit and vegetable juices
¹ Beijing Huiyuan Beverage & Food Group Chengdu Co., Ltd.	10 August 2001	The PRC	RMB250,000,000	100%	Manufacture of fruit and vegetable juices
¹ Beijing Huiyuan Group Xianyang Beverage & Food Co., Ltd.	23 September 2003	The PRC	RMB80,000,000	100%	Manufacture of fruit and vegetable juices
¹ Shanghai Huiyuan Food & Beverage Co., Ltd.	24 October 2001	The PRC	US\$12,500,000	100%	Manufacture of fruit and vegetable juices
¹ Beijing Xinyuan Food & Beverage Co., Ltd.	27 November 2001	The PRC	US\$10,000,000	100%	Manufacture of fruit and vegetable juices
¹ Beijing Huiyuan Group Luzhong Co., Ltd.	6 November 2001	The PRC	RMB80,000,000	100%	Inactive
¹ Xinjiang Huiyuan Food & Beverage Co., Ltd.	27 December 2006	The PRC	RMB20,000,000	100%	Manufacture of fruit and vegetable juices

¹ The English names of these companies represent management's best efforts at translating the Chinese names of these companies as no English names have been registered.

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

34 Subsequent events

- (a) On 9 January 2007, a group company signed a term facility agreement with certain commercial banks under which the Group was granted a term loan facility amounting to US\$70,000,000 (equivalent to approximately RMB546,000,000). Such loan is unsecured, bears interest at London Inter-bank Offering Rates ("LIBOR") plus 1.5% per annum and is repayable after January 2010.

In accordance with the term facility agreement, the Group has undertaken to comply with certain financial covenants. The entire loan facility has been drawn down on 18 January 2007.

- (b) On 5 February 2007, the Company, China Hui Yuan Juice Holdings Co., Ltd., the then holding company, and the holders of convertible bonds issued by China Hui Yuan Juice Holdings Co., Ltd. in June 2006 (the "June 2006 Convertible Bond"), entered into an agreement (the "Agreement") pursuant to which the Company agreed to issue an aggregate of US\$85,000,000 (equivalent to approximately RMB663,000,000) convertible bonds due 28 June 2011 (the "Convertible Bonds") to the holders of the June 2006 Convertible Bond in exchange for the surrender of the June 2006 Convertible Bonds by the holders. The Convertible Bonds have the same terms and conditions as the June 2006 Convertible Bonds.

Upon completion of the Agreement, the Company would record the estimated fair value of the Convertible Bonds as at the completion date as a distribution to the holding company.

The major terms and conditions of the Convertible Bonds are as follows:

(i) Interest rate:

The Company shall pay an interest on the Convertible Bonds at 2.0% per annum prior to the date on which dealings in the Company's shares first commence on The Stock Exchange of Hong Kong Limited (the "Listing Date") and 2.5% per annum following the Listing Date. A bondholder may (but is not obliged to) elect to receive some or all of the interest payments payable to it on any interest payment date by way of receipt of Convertible Bonds with an equivalent principal amount.

(ii) Conversion price:

Each bondholder has the right to convert any outstanding Convertible Bonds into the ordinary shares of the Company at 85% of the offer price upon the Company's initial public offering of shares (the "Offer Price").

(iii) Maturity:

The Company must redeem any outstanding Convertible Bonds on 28 June 2011 at a price that will enable the bondholders to receive a 7.5% internal return rate on the principal amount of the Convertible Bonds being redeemed (excluding any additional Convertible Bonds received as interest payment in kind).

(iv) Redemption:

On 28 June 2009, each bondholder has an option, subject to the approval of the majority bondholders, to require the Company to redeem the outstanding Convertible Bonds held by it at a price as determined under the Agreement.

Notes to the Combined Financial Statements

(All amounts in RMB unless otherwise stated)

34 Subsequent events (Continued)

(iv) Redemption: (Continued)

In addition to the above, Mr. Zhu Xinli, a shareholder of the Group has also undertaken to compensate the bondholders in respect of any shortfall in the prescribed rate of return of the bondholders as set out in the Agreement.

- (c) The Company has conditionally adopted a pre-IPO share option scheme and a share option scheme. On 30 January 2007, the Company has granted share options under the pre-IPO share option scheme under which the option holders are entitled to acquire an aggregate of 3,100,000 shares of the Company over a vesting period of 3 years. No options have been granted under the share option scheme.
- (d) On 23 February 2007, the Company issued an aggregate of 828,424,999 shares of US\$0.00001 each to the then shareholders of the other companies comprising the Group in exchange for the entire equity interests of the BVI Companies, in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited. Details of the Reorganisation are set out in Note 1 to the accompanying combined financial statements.
- (e) In addition, on 23 February 2007, the Company completed its placing and public offering of shares by issuing 559,072,502 shares of US\$0.00001 each at a price of HK\$6 per share (including 159,072,502 shares issued to an existing shareholder). The Company's shares were then listed on Main Board of the Stock Exchange of Hong Kong Limited. On 1 March 2007, an over-allotment option was exercised by the Company's underwriters and an additional 60,000,000 shares of US\$0.00001 each were issued at a price of HK\$6 per share. Net proceeds from these share issues amounted to approximately HK\$3,726,000,000 (equivalent to RMB3,692,000,000).
- (f) The National People's Congress of the PRC approved the Unified CIT Law (the "New Tax Law") on 16 March 2007. With effective from 1 January 2008, the tax rate subject to the Group will be 25%, with certain grandfathering provisions and preferential provisions. The reduction/increment in tax rate do not have any measurement impact on the accompanying combined financial statements, as the new tax law was neither enacted nor substantially enacted by 31 December 2006.

The Group is assessing the impact of the New Tax Law on the combined financial statements for the year ending 31 December 2007.