Annual Report | 2009

China Huiyuan Juice Group Limited
中國滙源果汁集團有限公司 *

(incorporated in the Cayman Islands with limited liability)
Stock Code: 1886

* For identification purpose only

About Us

China Huiyuan Juice Group Limited (the "Company", together with its subsidiaries as the "Group" or "Huiyuan Juice"), a leading manufacturer of fruit and vegetable juice in China, is principally engaged in the production and sale of fruit juice, fruit and vegetable juice and other beverages. As at the date of this report, the Group has 38 subsidiaries with 17,111 employees. Juice products of Huiyuan Juice are categorized into 100% juice, nectars and juice drinks by concentration. According to the research on retailing sector conducted by Nielsen in 2009, the Group's 100% juice and nectars continue to rank as the market leader with market shares of 52.0% and 45.6%, respectively, in terms of sales volume. Most of the products of the Group are sold under the brand of "Huiyuan". The Group believes that "Huiyuan" juice is one of the most familiar and recognized fruit and vegetable juices among Chinese consumers.

2009 Annual Report
China Huiyuan Juice Group Limited

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Corporate Information

Board of Directors

Executive Directors
Mr. ZHU Xinli *(Chairman)*
Mr. JIANG Xu
Mr. LI Wenjie

Non-executive Director
Mr. QIN Peng

Independent Non-executive Directors
Mr. WANG Bing
Ms. ZHAO Yali
Mr. TSUI Yiu Wa, Alec
Mr. SONG Quanhou

Company Secretary
Mr. Ngai Wai Fung *(FCIS, FCS (PE), CPA, ACCA)*

Authorized Representatives
Mr. ZHU Xinli
1# Huiyuan Villa
Beixiaoying Town, Shunyi District, Beijing, PRC

Mr. Ngai Wai Fung *(FCIS, FCS (PE), CPA, ACCA)*
26A Wah Shan Mansion,
17 Tai Koo Shing Road, Quarry Bay, Hong Kong

Financial Management and Audit Committee
Mr. TSUI Yiu Wa, Alec *(Chairman)*
Mr. WANG Bing
Mr. SONG Quanhou

Remuneration and Nomination Committee
Mr. QIN Peng *(Chairman)*
Mr. TSUI Yiu Wa, Alec
Mr. WANG Bing

Registered Office
Scotia Centre
4th Floor
P.O. Box 2804
George Town, Grand Cayman
Cayman Islands

Head Office
Huiyuan Road, Beixiaoying Town, Shunyi District
Beijing, PRC

Registered Address in Hong Kong
Edinburgh Tower, 33/F, The Landmark
15 Queen's Road Central
Hong Kong

Company Website
www.huiyuan.com.cn

Principal Share Registrar and Transfer Office
Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street, P.O. Box 705
George Town, Grand Cayman
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office
Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre, 183 Queen's Road East
Wanchai, Hong Kong

Auditor
PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central, Hong Kong

Listing Exchange Information
Place of listing: Main Board of The Stock Exchange of Hong Kong Limited
Stock Code: 1886
Board lot: 500 shares

Principal Bankers

ABN AMRO Bank

Bank of Communications

Bank of China

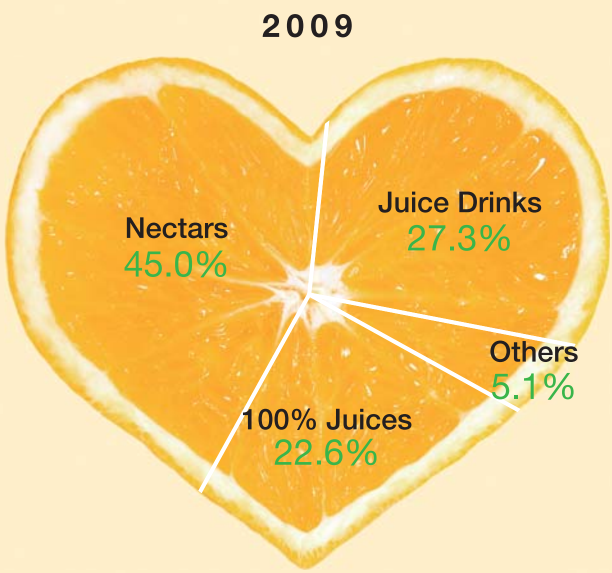
Financial Highlights

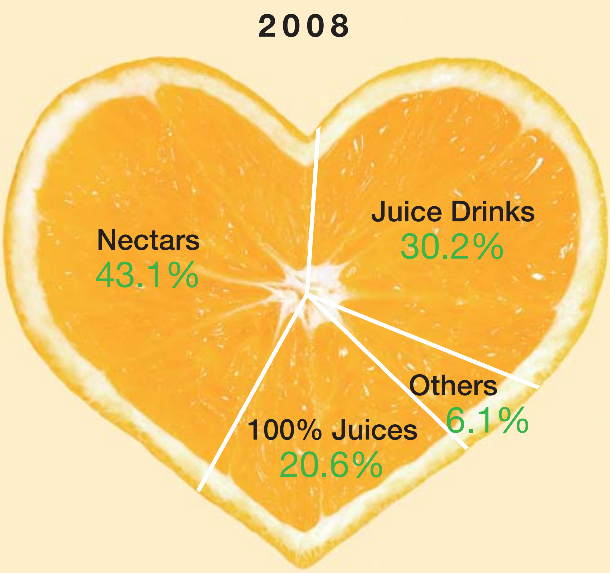
Comparison of results of 2009 and 2008

	For the year ended 31 December (RMB '000) 2009	2008
Revenue	**2,832,627**	2,819,739
Cost of sales	**1,812,048**	1,910,880
Gross profit	**1,020,579**	908,859
Profit before income tax	**264,610**	118,850
Profit attributable to equity holders	**233,474**	88,940
EBITDA	**151,757**	402,109
Fair value change in the conversion rights of Convertible Bonds	**400,621**	(109,669)
Earnings/(losses) per share (RMB cents) (Note 1) — basic	**15.9**	6.1
— diluted	**(6.9)**	6.0

Note 1: Please refer to Note 34 to the Consolidated Financial Statements for the calculation of earnings per share.

Sales by product





Financial Highlights (Continued)

Financial ratio

	For the year ended 31 December 2009	2008	Change
Return on equity	**4.9%**	1.9%	157.9%
Return on assets	**3.3%**	1.2%	175.0%
Gearing ratio (total debt/total equity) (Note 1)	**28.8%**	43.8%	–34.2%

Operating ratio (Note 2)

	For the year ended 31 December 2009	2008	Change
Turnover of finished goods	**33 days**	25 days	+8 days
Turnover of raw materials	**211 days**	148 days	+63 days
Turnover of trade receivables	**48 days**	34 days	+14 days
Turnover of trade payables	**64 days**	29 days	+35 days

Note 1: The total debt includes total borrowings of RMB688.5 million as at 31 December 2009 (as at 31 December 2008: RMB938.5 million) and convertible bonds of RMB698.2 million as at 31 December 2009 (as at 31 December 2008: RMB1,069.4 million).

Note 2: The turnover of finished goods as at 31 December is calculated as the balance of finished goods as at 31 December divided by cost of sales for the year multiplied by 365 days.
The turnover of raw materials as at 31 December is calculated as the balance of raw materials as at 31 December divided by raw materials used for the year multiplied by 365 days.
The turnover of trade receivables as at 31 December is calculated as the total balance of trade receivables and bills receivable as at 31 December divided by sales for the year multiplied by 365 days.
The turnover of trade payables as at 31 December is calculated as the total balance of trade payables as at 31 December divided by cost of sales for the year multiplied by 365 days.

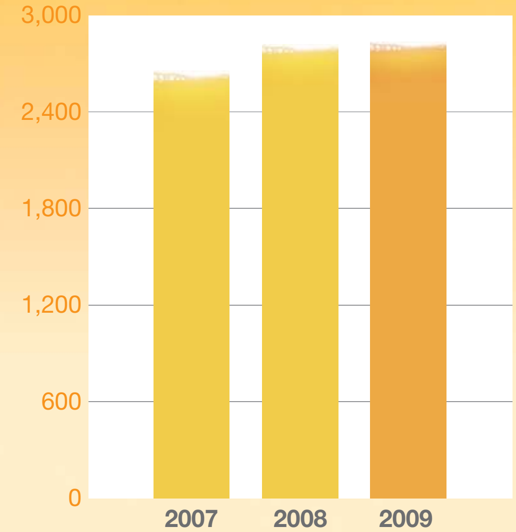
Five-year financial summary

	For the year ended 31 December (RMB million)				
	2009	2008	2007	2006	2005
Results					
Revenue	**2,832.6**	2,819.7	2,656.3	2,066.3	1,392.1
Gross profit	**1,020.6**	908.9	949.2	675.9	474.2
Profit for the year	**233.5**	88.9	640.2	221.0	110.2
Gross profit margin	**36.0%**	32.2%	35.7%	32.7%	34.1%
Net profit margin	**8.2%**	3.2%	24.1%	10.7%	7.9%
Profit attributable to equity holders of the Company	**233.5**	88.9	640.2	221.6	107.5

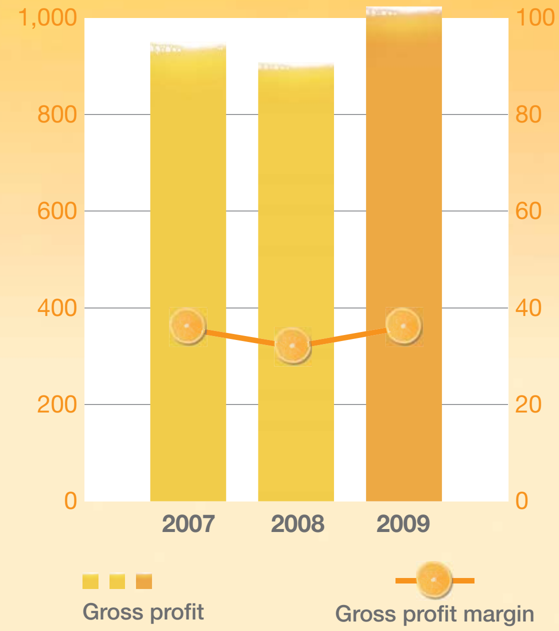
	As at 31 December (RMB million)				
	2009	2008	2007	2006	2005
Assets, liabilities and equity					
Total assets	**7,072.6**	7,191.3	6,887.2	3,496.4	3,776.0
Total liabilities	**2,263.7**	2,603.3	2,226.0	1,949.0	2,162.3
Equity attributable to equity holders of the Company	**4,808.9**	4,588.0	4,661.2	1,547.4	1,555.4
Minority interests	**—**	—	—	—	58.3

Financial Highlights (Continued)

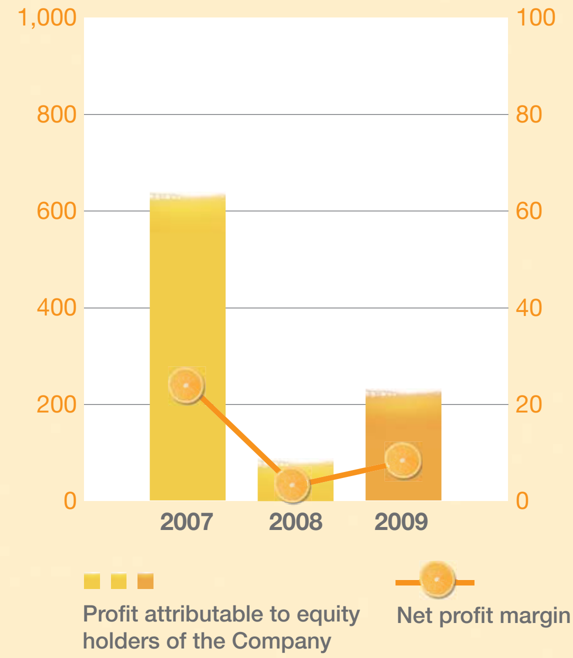
Sales
(RMB million)



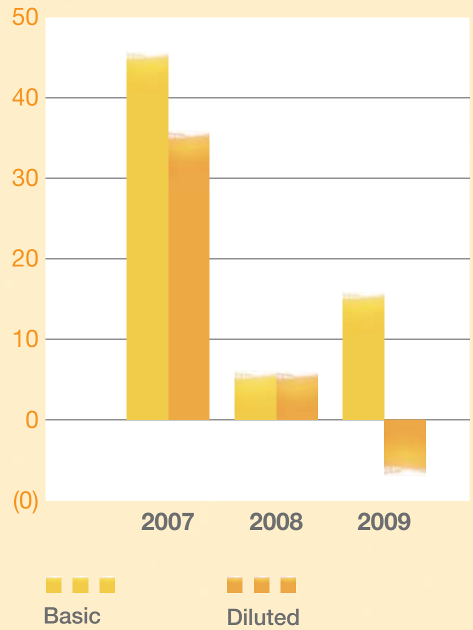
Gross profit
(RMB million) (%)



Profit Attributable to Equity Holders of the Company
(RMB million) (%)



Earnings per Share
(RMB cents)



Chairman's Statement

ZHU Xinli
Chairman

2009 was a year that saw signs of economic recovery, while many countries in the world started to emerge from economic woe gradually. In China, the economic stimulus policies had driven the strong growth of its domestic market, which led the recovery of the country's economy. China's economic growth reached 8.7%, which was higher than the expected target at the beginning of the year. In the first half of 2009, China Huiyuan Juice Group Limited (the "Company", together with its subsidiaries as the "Group" or "Huiyuan Juice") was in a stagnant development as many enterprises around the world were amid the lingering global financial crisis. The operating results of the first half of 2009 of the Group were also affected by the uncertainties of the possible voluntary cash takeover offered by The Coca-Cola Company. The management implemented several reorganisation and strategic plans which dampened short-term sales. However, these plans, which were implemented in the first half of the year, began to show positive effects in the second half of the year. Significant improvements were made in the Group's business, mitigating the adverse economic impacts and other matters stated above. The rebound in market demand for the Group's products laid a solid foundation for the results in the second half of 2009 and the future.

Operating results

For the year ended 31 December 2009, the Group recorded a revenue of RMB2,832.6 million, representing a slight increase of 0.5% as compared to 2008. Overall gross profit margin increased from 32.2% in 2008 to 36.0% in 2009. The profit attributable to equity holders reached RMB233.5 million, representing a year-on-year increase of approximately 162.5%. The board of directors of the Company (the "Board") recommended a final dividend of RMB0.04 per share.

In terms of the operating results, the Group's revenue for the second half of the year significantly increased by 122.0% as compared to the first half of the year and by 28.0% as compared to the same period of 2008; adjusted profit attributable to equity holders for the second half of 2009 amounted to RMB161.9 million, representing an increase of approximately 40.2% as compared to the same period of 2008. The rapid growth was attributable to an overall stabilised economy of China in the second half of the year. Furthermore, starting from the first half of the year, the Group endeavored to seize all opportunities to enhance its sales by actively expanding the coverage and improving the efficiency of its sales distribution network as well as providing more incentives to its internal sales representatives. Owing to such many efforts, the Group's results for the second half of 2009 demonstrated the true potential of Huiyuan. We believe that the Group will achieve a better performance in 2010.

Products and market development

Huiyuan Juice carried out various measures with different focuses in response to market changing conditions in the first and second half of 2009. The Group continued to seize all opportunities to reinforce its strength for long-term business development.

According to Nielsen, Huiyuan maintained its leading position in juice beverage market of China in 2009. The market share (by sales volume) of our 100% juices and nectars in China was 52.0% and 45.6% respectively, maintaining our leading position in these two markets. The Group enhanced its product mix in response to different demand of different consumer groups. It also launched a series of new products, such as "Lemon me", "Super Berry Fruit", "Seabuckthorn juice", "Fruit juice milk" and "Pulpy King". These products were well received by the market, enabling Huiyuan products to reach more new customers.

Chairman's Statement (Continued)

Leveraging on the brand recognition and quality of its products, along with the continuing efforts to launch fruit and juice products with new flavours, the Group carried out strategic initiatives in relation to both product and market development, including in-depth studies on how to take advantage of its leading position in juice market to penetrate into other beverage markets. The Group achieved satisfactory results in rolling out new products, improving production process and implementing new sales and marketing strategies and measures.

In line with its expanded product lines, the Group continued to strengthen its presence in local juice markets all across China through two major channels, i.e., direct sales and sales through distributors. After acquiring the sales distribution networks of nine major distributors in 2009, the Group had established around 50 direct sales branches in major cities in the PRC. The number of distributors also increased to around 3,000 in 2009. Furthermore, the Group had established additional 600 sales offices within the areas covered by its sales distribution networks, serving around 1.2 million end retailers. As a result, the Group was able to carry out its multi-channel sales and marketing activities, i.e., direct sales or sales through distributors, according to specific situations of different markets. Such enhanced distribution capability further significantly strengthened the confidence of the Group's distributors, so that they, in preparation for sale in the spring festival season of 2010, placed orders earlier than usual with full advance payment. Timely delivery of the products so ordered by the distributors to end retailers before the spring festival as well as the Group's enhanced marketing efforts facilitated sales at end retailers during the spring festival season of 2010. Such success had enabled Huiyuan products to enhance brand recognition among family consumers in China and extend its reach to a more health conscious young generation, establishing a foundation for further brand-building, market expansion and sales increase in the long term.

Social Responsibilities

Driven by its core value of shouldering social responsibilities through giving back to society, the Group organised "100% health and care — strategic cooperation between Huiyuan Juice and the One Foundation" in 2009. Besides the donation of RMB1 million in one lump-sum to the One Foundation, the Company will also donate RMB1 to the One Foundation for every bottle of its CsheVhe juice sold. All donations are earmarked for child care and education programmes. This event has facilitated the cooperation between the brand and charity work, maximising the brand's social and charity value. It will also encourage public participation, enhance the development of public welfare in China and demonstrate Huiyuan Juice's commitment to the community.

Future Prospects

During the period under review, the Group achieved various significant objectives as compared to other market players in the prosperous juice market in China, demonstrating the substantial growth potential and opportunities of the juice market of China and the significant position of Huiyuan Juice in the market and the value of its brand.

Chairman's Statement (Continued)

Looking forward, we will further develop new products to cater for consumers' different tastes and optimise sales and marketing strategies. We will also focus our development on the following three aspects in 2010:

— To implement management of performance goals for staff and put equal emphasis on results and process management.

— To strengthen market monitoring measures to achieve sustained market growth.

— To reinforce energy-saving and consumption reduction efforts in conjunction with the launch of more new products.

With the expansion of our business scale, our management considers it critical to achieve its performance targets while maintaining a sustainable development.

With a fast growing economy, maintaining the balance between business development and environmental protection has become a new challenge for the companies in China. In the new year, Huiyuan will enhance its energy-saving and consumption reduction efforts by taking measures to reduce consumption on various aspects, including water, power and raw materials, in order to foster a good corporate image.

In 2010, we will seek further growth by adhering to our mission to "cultivate a juice drinking habit, and promote juice as part of a healthy diet to benefit the consumers" and bring innovations and refreshing new products to the juice market of China with the help of the "drink juice to stay healthy" campaign organised by the Beverage Industry Association of China. We plan to launch a sparkling juice beverage product in the first half of 2010. Such product is the first of its kind in China, allowing the customers to enjoy a new drinking experience as well as recognizing our strong creativity and capability in rolling out new products with unique flavour and image.

The Directors believe that leveraging on our brand popularity, the excellent product quality, diversified product mix and stringent control on production and sales distribution networks, we will be able to keep up with the fast growing juice market in China. With its excellent market sensitivity and creativity, we will also continue to obtain more extensive support from consumers to make Huiyuan an national brand that the Chinese are proud of, and maximise returns of the shareholders.

Acknowledgement

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

ZHU Xinli
Chairman and President

Beijing, 24 March 2010


汇源

Quality *manufacturing bases*

Extensive *marketing network throughout the whole nation*

Management Discussion and Analysis

Market review

Review of the China Juice Beverage Market

The juice beverage market in China continued its steady growth in 2009. The increase in urban population and disposable income continued to drive demand for natural and healthy beverage products such as fruit and vegetable juices. According to Nielsen, China recorded sales of 3.0 billion liters of fruit and vegetable juices in China in 2009, representing a 9.5% increase as compared to 2008.

The Group recorded a sales volume of 841,374 tons of fruit and vegetable juices in 2009, representing a 0.9% increase as compared to 2008. The Group's growth in product sales fell behind the average growth in product sales in the fruit and vegetable juice market of China mainly due to the uncertainties arising from the conditional offer made by The Coca-Cola Company in September 2008 to take over and privatize the Company (the "Proposed Coca-Cola Takeover Offer") and the temporary negative impact of a number of restructuring and strategic initiatives implemented by the Company in the first half of 2009. The benefits of such restructuring and strategic initiatives had started to reflect in the operational results of the Group for the second half of 2009. The Group recorded a 20.7% increase in sales volume in the second half of 2009 as compared to the same period of 2008.

In terms of market share, Huiyuan continues to rank as the market leader according to the statistics provided by Nielsen. The following table shows Huiyuan's market shares in 100% juice, nectars and juice drinks in China in 2009 as extracted from Nielsen's report Note.

	Market Share	
For the year of 2009	**Volume**	**Value (%)**
100% Juice		
Huiyuan Juice	**52.0**	**45.9**
Second ranked competitor	13.7	17.1
Third ranked competitor	6.7	7.2
Fourth ranked competitor	5.2	5.8
Fifth ranked competitor	4.6	5.7
Six ranked competitor	4.2	3.3
Next two competitors	5.9	4.7
26%–99% Concentration Note (1)		
Huiyuan Juice Note (2)	**45.6**	**40.1**
Second ranked competitor	30.9	29.5
Third ranked competitor	4.5	6.6
Fourth ranked competitor	2.6	1.6
Fifth ranked competitor	1.7	2.1
Next two competitors	1.7	2.9
25% & Below Concentration Note (1)		
First ranked competitor	33.1	34.1
Second ranked competitor	18.9	16.1
Third ranked competitor (two brands)	16.0	13.4
Fourth ranked competitor (two brands)	8.5	10.4
Fifth ranked competitor	5.6	6.0
Huiyuan Juice (three brands) Note (3)	**5.4**	**4.3**
Next two ranked competitors	4.5	7.7

Notes:

(1) According to Nielsen, nectars are defined as juice beverages with juice content of 26–99% and juice drinks are juice beverages with juice content of 25% and below.

(2) Huiyuan Juice includes "Huiyuan", "Quan You", "Guo Xianmei", the sub-brands of Huiyuan.

(3) Huiyuan Juice includes "Huiyuan", "Lemon me", "Kiwi Super Fruit" and "Zhen" series, the sub-brands of Huiyuan.

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

Management Discussion and Analysis (Continued)

Business review

For details of our business review, please refer to the Chairman's Statement on pages 6 to 9.

Financial review

Overview

The key financial indicators of the Group are as follows:

	Year ended 31 December 2009	2008	Year-on-year change (%)
Income statement items			
(Expressed in RMB'000 unless otherwise stated)			
Sales	**2,832,627**	2,819,739	0.5%
Gross profit	**1,020,579**	908,859	12.3%
Profit before taxation	**264,610**	118,850	122.6%
Profit attributable to equity holders	**233,474**	88,940	162.5%
EBITDA	**151,757**	402,109	-62.3%
Earnings/(losses) per share (RMB cents) (Note 1)			
— basic	**15.9**	6.1	160.6%
— diluted	**-6.9**	6.0	-215.0%
Selected financial ratios			
Gross profit margin (%)	**36.0%**	32.2%	
Margin of profit attributable to equity holders (%)	**8.2%**	3.2%	
EBITDA margin (%)	**5.4%**	14.3%	
Return on equity holders' equity (%)	**4.9%**	1.9%	
Gearing ratio (total debt to total equity) (Note 2)	**28.84%**	43.8%	

Notes:

(1) Please refer to Note 34 of the Consolidated Statements of comprehensive income for the calculation of earnings per share.

(2) The gearing ratio is based on total debt divided by total equity as at 31 December 2009.

Sales

Sales of the Group's core juice products, comprising 100% fruit juices, nectars and juice drinks, increased by 1.5% from RMB2,647.5 million in 2008 to RMB2,687.5 million in 2009 primarily due to an increase in sales across 100% fruit juices and nectars, which was partly offset by a decrease in sales of juice drinks.

Sales of 100% fruit juices, which accounted for 22.6% of the Group's total sales, increased by 9.9% from RMB581.6 million in 2008 to RMB639.2 million in 2009 primarily due to a 9.6% increase in average selling prices and a 0.3% increase in sales volume.

Management Discussion and Analysis (Continued)

Sales of nectars continued to be the Group's main revenue driver accounting for 45.0% of its total sales and 41.1% of its total sales volume in 2009. Sales of nectars increased by 4.8% from RMB1,214.9 million in 2008 to RMB1,273.8 million in 2009, primarily due to a 2.4% increase in average selling prices and a 2.4% increase in sales volume.

Sales of juice drinks, which accounted for 27.3% of the Group's total sales, decreased by 9.0% from RMB850.9 million in 2008 to RMB774.6 million in 2009, primarily due to a 8.5% decrease in average selling prices.

Sales of other beverage products decreased by 15.8% from RMB172.2 million in 2008 to RMB145.1 million, primarily due to a decrease in sales of bottled water and tea.

Cost of sales

Cost of sales decreased by 5.2% from RMB1,910.9 million in 2008 to RMB1,812.0 million in 2009. The decrease in cost of sales was primarily due to a 2.1% decrease in sales volume and a 3.2% decrease in average cost of sales per ton.

Gross profit

Gross profit increased by 12.3% from RMB908.9 million in 2008 to RMB1,020.6 million in 2009, primarily due to the decrease in costs of sales and the increase in sales. Gross profit margin increased from 32.2% in 2008 to 36.0% in 2009.

Other income

Other income decreased significantly by 60.2% from RMB72.6 million in 2008 to RMB28.9 million in 2009, primarily due to (i) the decrease in interest income on structured and time deposits, in the amount of RMB25.1 million; and (ii) the loss of RMB10.0 million incurred by disposal of certain obsolete production equipment in the first half year of 2009.

Selling and marketing expenses

Selling and marketing expenses increased by 40.1% from RMB603.6 million in 2008 to RMB845.9 million in 2009, mainly due to (i) the purchase of vehicles, refrigerators and marketing consumables to reward distributors for their sales performance in the spring festival season of 2009; (ii) the payments made in the first half of 2009 by cash or in kind to distributors for enhancing the relationship between the Group and the distributors which was affected by the uncertainties associated with the Proposed Coca-Cola Takeover Offer; and (iii) the increase in the payroll costs as a result of the increase in the number of sales staff in the second half of 2009.

Management Discussion and Analysis (Continued)

Administrative expenses

Administrative expenses increased by 72.7% from RMB164.3 million in 2008 to RMB283.7 million in 2009, primarily as a result of (i) the increase in provision for impairment of certain raw materials and finished goods and receivables mainly as a result of the decrease in sales for the first half of 2009; (ii) an increase in depreciation of certain idle production equipment as a result of the decrease in production volume in the first half of 2009; (iii) the professional fees paid in connection with the Proposed Coca-Cola Takeover Offer in the first half of 2009; and (iv) the increase in the number of subsidiaries and sales offices of the Group in 2009. The percentage of administrative expense related to sales for the second half of 2009 remained stable as compared to the same period of 2008.

Finance income/cost

The Group recorded net finance income of RMB345.3 million in 2009 as compared to a net finance cost of RMB96.6 million in 2008, primarily as a result of (i) a RMB400.6 million gain in changes in fair value of the Convertible Bonds in 2009 as compared to a RMB109.7 million loss in changes in fair value of the Convertible Bonds in 2008; and (ii) a RMB14.3 million decrease in bank loan interest expenses due to the decrease in bank loan interest rates in 2009, which was partially offset by a RMB68.4 million decrease in foreign exchange gain from RMB69.1 million in 2008 to a RMB0.7 million in 2009.

Income tax expenses

Income tax expenses increased by 4.1% from RMB29.9 million in 2008 to RMB31.1 million in 2009, primarily due to (i) the write-off of a RMB7.5 million deferred tax asset which had been recognized for unutilized tax loss in previous years in the first half of 2009 and (ii) the increase in operating profits in the second half of 2009.

Profit attributable to equity holders of the Company

As a result of the foregoing, profit attributable to equity holders of the Company increased by 162.5% from RMB88.9 million in 2008 to RMB233.5 million in 2009. The margin for profit attributable to its equity holders increased from 3.2% in 2008 to 8.2% in 2009.

Liquidity and Capital Resources

The Group's working capital and other capital requirements were principally funded by operations and cash at hand, short-term and long-term bank borrowings.

Management Discussion and Analysis (Continued)

As at 31 December 2009, the Group had an aggregate of RMB688.5 million in outstanding bank loans and RMB698.2 million in outstanding Convertible Bonds as compared to RMB938.5 million of outstanding bank loans and RMB1,069.4 million of outstanding Convertible Bonds in 2008. The gearing ratio (total debt (including Convertible Bonds)/total equity) of the Group was 28.7% in 2009, representing a decrease of 15.1 percentage points as compared to 43.8% in 2008.

The Group's borrowings include bank loans and the Convertible Bonds. As at 31 December 2009, the Group had the following indebtedness:

	Repayable within one year	Repayable after one year	Total
	(RMB in million)		
Bank loans	403.2	285.3	688.5
Convertible Bonds	—	698.2	698.2
Total	403.2	983.5	1,386.7
Analysed as:			
Secured	—	—	—
Unsecured	403.2	983.5	1,386.7

Management Discussion and Analysis (Continued)

Operating activities

Net cash generated from operating activities was RMB136.7 million in 2009, while the Group's profit before income tax for the same period was RMB264.6 million. The difference of RMB127.9 million was primarily due to a RMB400.6 million change in fair value of the Convertible Bonds, a RMB337.5 million increase in inventory and trade and other receivables as a result of an increase in sales for the second half of 2009, partially offset by a RMB210.4 million depreciation charge of fixed assets and a RMB326.8 million increase in trade and other payables due to third parties as a result of the increase in purchase of raw materials at the end of 2009 for preparation of sales for the period from late 2009 to the spring festival season of 2010.

Investing activities

Net cash used in investing activities in 2009 was RMB437.9 million as compared to net cash used in investing activities of RMB483.2 million in 2008 primarily as a result of a RMB777.7 million investment used in the purchase of property, plant and equipment, a RMB63.3 million investment used in purchase of land use rights and a RMB116.3 million investment used in purchase of a business of manufacturing and sales of milk beverage, which was partially offset by RMB62.3 million generated from restricted cash, RMB287.8 million generated from other loans and receivables, and RMB151.4 million received from disposal of a subsidiary.

Financing activities

Net cash used in financing activities in 2009 was RMB289.5 million, as compared to net cash generated from financing activities of RMB307.6 million in 2008, primarily as a result of a RMB307.4 million repayment of bank loans.

Capital Expenditure

Capital expenditures comprised primarily purchases of property, plant and equipment, and acquisition of land use rights. The Group consistently increased its annual total capital expenditures in 2009. During the year ended 31 December 2009, the Group spent RMB777.7 million on the purchase of property, plant and equipment, including the prepayment of RMB119.8 million for acquisition of refrigerators, and RMB63.3 million on the acquisition of land use rights.

As at 31 December 2009, the Group had capital commitments of 439.0 million for the purchase of property, plant and equipment, including the capital commitment of RMB136.9 million for acquisition of refrigerators. The refrigerators will be used on selected important points of sales covered by the Group's sales distribution networks to promote sales of the Group products.

The Group expects that its capital expenditure in 2010 will be mainly applied on the addition of new production facilities, purchase of land use rights and maintenance of existing production facilities to increase production capacity for juice beverages. The Group plans to finance its capital expenditure requirements in 2010 primarily with cash generated from its operations and bank loans.

The Group had drawn down the full amount of the US$70 million syndicated loan in January 2007. The syndicated loan is repayable in five semi-annual installments from January 2010.

Management Discussion and Analysis (Continued)

The Group had further obtained and drawn down a US$45 million syndicated loan in May 2008 and a US$23 million short-term bank loan in June 2008. The Group repaid the US$45 million syndicated loan in April 2009.

Analysis on Turnover of Inventories, Trade Receivables and Trade Payables

The Group's inventories primarily consist of raw materials (including packaging materials, juice concentrates and purees, sugars and additives) and finished goods (including juices and other beverage products). Raw materials make up the majority of the Group's inventory. Raw materials turnover days and turnover days for trade payables increased from 148 and 29 days, respectively, in 2008 to 211 and 64 days, respectively, in 2009 due to the increase in purchase of raw materials at the end of 2009 for preparation of sales for the period from late 2009 to the spring festival season of 2010.

Turnover days for trade receivables increased to 48 days from 34 days in 2008 due to an increase in sales for the second half of 2009.

Contingent liabilities

As at 31 December 2009, the Group did not have any outstanding contingent liabilities.

Off-balance sheet transactions

As at 31 December 2009, the Group had not entered into any off balance sheet transactions.

Pledge of assets

As at 31 December 2009, none of the property, plant, equipment and land use right of the Group were pledged to secure bank borrowings.

Capital leases

As at 31 December 2009, the Group did not have any capital leases.

Management Discussion and Analysis (Continued)

Market Risks

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, and capital risk. Financial risk management is carried out by the group treasury which identifies, evaluates and hedges financial risk.

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 market lending rates.

Foreign Exchange Rate Risk

The Group's production depends on importation 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 is also exposed to foreign currency exchange risk arising from the bank deposits, Convertible Bonds and bank borrowings denominated in the USD. The Group did not use forward contract/derivative instruments in 2009 but may use them from time to time to hedge against certain material foreign exchange exposures.

As at 31 December 2009, assuming the exchange rate of RMB increased/decreased by 1% against the USD with all other variables remaining unchanged, the Group's post-tax profit for 2009 would have been decreased/increased by RMB13,867,800 (2008: RMB20,078,970), mainly due to the foreign exchange losses/gains on retranslation of USD-denominated Convertible Bonds and bank borrowings.

As at 31 December 2009, assuming the exchange rate of RMB increased/decreased by 1% against the Euro with all other variables remaining unchanged, the Group's post-tax profit for 2009 would have been increased/decreased by RMB3,407,906 (2008: RMB1,418,995), mainly due to the foreign exchange gains/losses on retranslation of Euro-denominated prepayments for equipments.

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 the selected customers, including distributors with long-term relationship with the Group and supermarket operators having entered into contracts with the Group with credit terms. The Group assesses the credit quality of its customers by taking into account various factors including their financial position and previous record. The utilization of credit limits is regularly monitored. The Group has policies in place to ensure that trade receivables are followed up in a timely manner. The balance of the trade receivables from the five largest customers was RMB68,283,000 as at 31 December 2009 (2008: RMB52,773,000), representing 20% of the total balance of trade receivables as at 31 December 2009 (2008: 35%).

Management Discussion and Analysis (Continued)

Employees and Welfare Contribution

As at 31 December 2009, the Group had 17,111 employees, including 2,535 employees in production approximately 676 of whom were engineers and technicians who had attended technical school or higher education. The employees' remuneration packages are determined with reference to their experience and qualifications and general market conditions.

As at 31 December 2009, the Group's employees' deployment by function was as follows:

Functions	
Production	2,535
Sales and marketing	13,036
Management and other administration	709
Research and development (including quality assurance)	291
Finance and accounting	456
Purchase and supply	84
Total headcount	17,111

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

The Group invests in continuing education and training programs for its management staff and other employees with a view to constantly upgrading their skills and knowledge. The Group has arranged for internal and external vocational training courses to develop its employees' skills and knowledge. These training courses ranged from further educational studies to basic production process and skill training to professional development courses for its management personnel.

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

The employees of the Group have established a labor union, which is a member of the All China General Trade Union. The labor union organizes various activities to improve the quality of life for our employees.

Report of the Directors

The directors of the Company present their report together with the audited consolidated financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2009.

Principal activities

The Company was incorporated in the Cayman Islands on 14 September 2006 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company is an investment holding company. The Company's principal subsidiaries are primarily engaged in the manufacturing and sales of juice products. Details of the activities of the subsidiaries of the Group are set out in note 1 to the consolidated financial statements on page 58.

Results and dividends

The consolidated results of the Group for the year ended 31 December 2009 are set out on page 55. The Board has resolved to recommend the payment of a final dividend of RMB4.0 cents per share for the year ended 31 December 2009.

Property, plant and equipment

Details of movements in the property, plant and equipment of the Group are set out in note 8 to the consolidated financial statements on page 82.

Summary of financial information

A summary of the Group's results, assets, liabilities and minority interests for the last five financial years is set out in the section headed "Financial highlights" on page 4.

Share capital

Details of the movement in the Company's share capital during the year ended 31 December 2009 are set out in note 17 to the consolidated financial statements on page 92.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Reserves

Details of movements in the reserves of the Company and the Group for the year ended 31 December 2009 are set out in note 19 to the consolidated financial statements on page 93.

Distributable reserves

As at 31 December 2009, the Company's distributable reserve is RMB478.8 million. The Board has resolved to recommend the payment of a final dividend of RMB4.0 cents per share for the year ended 31 December 2009. Subject to approval of the shareholders at the forthcoming annual general meeting of the Company, the final dividend will be distributed to shareholders of the Company whose names appear on the register of members of the Company at the close of business on 2 June 2010.

Directors

The directors who held office during the year ended 31 December 2009 and up to the date of this report are:

Executive Directors:

Mr. ZHU Xinli *(Chairman and President)*
Mr. JIANG Xu
Mr. Wu Chungkuan (resigned on 18 March 2010)
Mr. LI Wenjie (appointed on 18 March 2010)

Non-executive Directors:

Mr. QIN Peng
Mr. Sun Qiang Chang (resigned on 3 June 2009)

Report of the Directors (Continued)

Independent Non-executive Directors:
Mr. WANG Bing
Ms. ZHAO Yali
Mr. TSUI Yiu Wa, Alec
Mr. SONG Quanhou

In accordance with the Article 130 of the Company's articles of association, Mr. ZHU Xinli, Mr. JIANG Xu and Mr. Wang Bing will retire from office as director by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with the Article 114 of the Company's articles of association, Mr. LI Wenjie shall hold office till the forthcoming annual general meeting and, being eligible, offer himself for re-election.

Independence of the independent non-executive directors

The Board has received from each of the independent non-executive directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Hong Kong Listing Rules, and considers that all of the independent non-executive directors are independent.

Biographical details of the directors' and senior management

Biographical details of the directors and the senior management of the Group as at the date of this report are set out on pages 45 to 49 of this annual report.

Directors' service contracts

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Report of the Directors (Continued)

Directors' and controlling shareholder's interests in contracts

Save for the related party transactions of the Group with the companies controlled by Mr. Zhu Xinli, an executive director, no other director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group for the year ended 31 December 2009.

The details of such related party transactions are set out in note 39 the consolidated financial statements on page 114. Save for related party transactions mentioned above, there was no contract of significance to the business of the Group for the year ended 31 December 2009, in which directors or the controlling shareholder of the Company had a material interest, either directly or indirectly.

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures

As at 31 December 2009, the interests and short positions of the directors and chief executive of the Company in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code"), were as follows:

Long positions

	Details of the Shares held					
Name of director	Personal interest	Family interest	Corporate interest	Other interest	Number of shares	Percentage of the Company's issued share capital
Zhu Xinli	–	–	610,000,000[a]	–	610,000,000[a]	41.53%
	–	–	9,136,588[b]	–	9,136,588[b]	0.62%

Report of the Directors (Continued)

Name of director	Date of grant	Date of expiry	Exercise price per share (HK$)	Number of underlying shares comprised in the outstanding options as at 1 January 2009	Number of underlying shares comprised in the options granted during the year	Number of underlying shares comprised in the options cancelled or lapsed during the year	Number of underlying shares comprised in the options exercised during the year	Number of underlying shares comprised in the outstanding options as at 31 December 2009
	Details of outstanding options granted under the Share Option Scheme							
Mr. Tsui Yiu Wa, Alec	25 February 2008	25 February 2018	6.39	150,000		–	–	150,000

Short positions

Name of director	Personal interest	Family interest	Corporate interest	Other interest	Number of shares	Percentage of the Company's issued share capital
	Details of the Shares held					
Zhu Xinli[c]	–	–	610,000,000[a]	–	610,000,000[a]	41.53%
	–	–	9,136,588[b]	–	9,136,588[b]	0.62%

Notes:

(a) These shares were beneficially owned by China Huiyuan Holdings which is indirectly wholly-owned by Mr. Zhu Xinli through Huiyuan Holdings. As Mr. Zhu Xinli is entitled to exercise more than one-third of the voting power at the general meetings of China Huiyuan Holdings, by virtue of the SFO, Mr. Zhu Xinli is deemed to be interested in the shares held by China Huiyuan Holdings;

(b) China Huiyuan Holdings holds US$6,000,000 Convertible Bonds which are convertible into 9,136,588 Shares. China Huiyuan Holdings is indirectly wholly-owned by Mr. Zhu Xinli through Huiyuan Holdings, so Mr. Zhu Xinli is deemed to be interested in these shares.

(c) Pursuant to an agreement dated 23 September 2006 between Danone Asia and, among the other parties, Mr. Zhu Xinli, Huiyuan Holdings and China Huiyuan Holdings, following the completion of the six-month lock-up period from the Listing Date and for such period in which Danone Asia holds at least 66% of the shares of the Company acquired by it from China Huiyuan Holdings as a result of a share swap under the reorganization of the Company, each of Mr. Zhu Xinli, Huiyuan Holdings and China Huiyuan Holdings, has agreed not to transfer, or agree to transfer, or engage in any negotiation for the sale or transfer of any of the shares of the Company to any third party purchaser unless he/it shall first have offered such shares for purchase to Danone Asia. Under the same agreement, each of Mr. Zhu Xinli, Huiyuan Holdings, China Huiyuan Holdings has also granted a right of first refusal to Danone Asia that if any of them receives a bona fide offer from any third party purchaser for any of his/its shares in the Company and in the event that he/it wishes to sell such shares to the third party purchaser, he/it shall be obliged to first offer to sell such shares to Danone Asia at the same price and on the same terms and conditions of the proposed purchase by the third party purchaser. The details of such agreement are described in the section headed "Our History and Development — Strategic Investor" in the Prospectus.

Report of the Directors (Continued)

Save as disclosed above, as at 31 December 2009, none of the directors nor the chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Directors' rights to acquire shares

Save as disclosed in the paragraph headed "directors' and chief executive's interests and short positions in shares, underlying shares and debentures" in this report, at no time during the year ended 31 December 2009 or the period following 31 December 2009 up to the date of this report, was the Company or any of its subsidiaries or its holding company or any of the subsidiaries of the Company's holding company a party to any arrangement to enable the directors or the chief executive of the Company or their respective associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors and chief executive, or their spouse and children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during such period.

Share Option Schemes

The Company has adopted two share option schemes, namely the Pre-IPO Share Option Scheme and the Share Option Scheme, the details of which are set out below:

1. Pre-IPO Share Option Scheme

The Company adopted the Pre-IPO Share Option Scheme on 30 January 2007. The purpose of our Pre-IPO Share Option Scheme is to provide certain members of senior management of the Group an opportunity to have a personal stake in the Company and motivate the grantees to optimize their performance and efficiency to facilitate the long-term growth and profitability of the Group. The principal terms of the Pre-IPO Share Option Scheme, as approved on 30 January 2007 are similar to the terms of the Share Option Scheme except for the following:

(a) the subscription price per share shall be the Offer Price per share; and

(b) save for the options which have been granted before 23 February 2007, i.e., the Listing Date, no further options will be offered or granted, as the right to do so will end upon the Listing Date.

Report of the Directors (Continued)

The Pre-IPO Share Option Scheme shall remain in full force and effect for a period of 10 years from 23 February 2007 and the options granted have a 10-year exercise period. Commencing from the first, second and third anniversary of grant of an option, the relevant grantee may exercise up to 30%, 60% and 100%, respectively, of the shares comprised in his or her option.

As at 31 December 2009, a total of 1,000,000 shares (representing approximately 0.07% of the existing issued share capital of the Company) may be issued by the Company upon exercise of all options which had been granted under the Pre-IPO Share Option Scheme.

Movement of the options granted under the Pre-IPO Share Option Scheme during the year ended 31 December 2009 is as follows:

Name of grantee	Date of grant	Date of expiry	Exercise price per share (HK$)	Number of underlying shares comprised in the outstanding options as at 1 January 2009	Number of underlying shares comprised in the options lapsed or cancelled during the year	Number of underlying shares comprised in the options exercised during the year	Number of underlying shares comprised in the outstanding options as at 31 December 2009
Ng Yuk Keung	30 January 2007	22 February 2017	6.00	700,000	–	–	700,000
Dong Ying	30 January 2007	22 February 2017	6.00	300,000	–	–	300,000
				1,000,000	–	–	1,000,000

2. Share Option Scheme

The Share Option Scheme was approved on 30 January 2007. The purpose of the Share Option Scheme is to provide incentive and/or reward to any director or employee of the Group or of any entity in which the Company has equity interest, any executive of the controlling shareholder of the Group, and any other person (including any consultant, adviser, distributor, contractor, supplier, agent, customer, business partner, joint venture business partner, promoter or service provider of any member of the Group) who in the sole discretion of the Board has contributed or will contribute to the Group for their contribution to the Group and their continuing efforts to promote the Group's interests.

The Board may, at its absolute discretion, offer an option to eligible person to subscribe for the shares at an exercise price and subject to the other terms of the Share Option Scheme.

Report of the Directors (Continued)

The total number of Shares which may be issued upon exercise of all options to be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme shall not in aggregate exceed 138,749,750 Shares of the Company, being 10% of the total number of shares in issue immediately prior to the date on which dealings in the shares of the Company commenced on the Hong Kong Stock Exchange. The total number of shares issued and to be issued upon the exercise of the options granted to or to be granted to each eligible person under the Share Option Scheme and any other schemes of the Company or any of its subsidiaries (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares of the Company in issue.

The Share Option Scheme will remain in force for a period of 10 years from 23 February 2007 and the options granted have a 10-year exercise period. Commencing from the first, second, third and fourth anniversary of grant of an option granted, the relevant grantees may exercise up to 25%, 50%, 75% and 100%, respectively, of the shares comprised in his or her option.

Movement of the options granted under the Share Option Scheme during the year ended 31 December 2009 is as follows:

Name of grantee	Date of grant	Date of expiry	Exercise price per share (HK$)	Number of underlying shares comprised in the outstanding options as at 1 January 2009	Number of underlying shares comprised in the options lapsed or cancelled during the year	Number of underlying shares comprised in the options exercised during the year	Number of underlying shares comprised in the outstanding options as at 31 December 2009
Mr. Tsui Yiu Wa, Alec	25 February 2008	25 February 2018	6.39	150,000	–	–	150,000
An aggregate of 515 employees	25 February 2008	25 February 2018	6.39	28,810,500	–	–	28,810,500
				28,960,500	–	–	28,960,500

Report of the Directors (Continued)

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

As at 31 December 2009, so far as are known to the Board, the following parties were recorded in the register, kept by the Company pursuant to Section 336 of the SFO, as being directly or indirectly interested or deemed to be interested in 5% or more of the issued share capital of the Company:

Long positions

Name	Number of shares	Percentage of the Company's share capital
Mr. Zhu Xinli	610,000,000[(a)]	41.53%
	9,136,588[(d)]	0.62%
Huiyuan Holdings	610,000,000[(a)]	41.53%
	9,136,588[(d)]	0.62%
China Huiyuan Holding	610,000,000[(a)]	41.53%
	9,136,588[(d)]	0.62%
Danone[(b)]	337,497,501	22.98%
	610,000,000[(c)]	41.53%
Danone Asia[(b)]	337,497,501	22.98%
	610,000,000[(c)]	41.53%
APG Group	98,774,501	6.70%

Short positions

Name	Number of shares	Percentage of the Company's share capital
Mr. Zhu Xinli[(c)]	610,000,000[(a)]	41.53%
	9,136,588[(d)]	0.62%
Huiyuan Holdings[(c)]	610,000,000[(a)]	41.53%
	9,136,588[(d)]	0.62%
China Huiyuan Holding[(c)]	610,000,000[(a)]	41.53%
	9,136,588[(d)]	0.62%

Report of the Directors (Continued)

Notes:

(a) Huiyuan Holdings is wholly owned by Mr. Zhu Xinli and China Huiyuan Holdings is a wholly owned subsidiary of Huiyuan Holdings. Each of Mr. Zhu and Huiyuan Holdings is therefore deemed to be interested in the shares held by China Huiyuan Holdings.

(b) Danone Asia is a strategic investor in the Company. Danone Asia is a wholly owned subsidiary of Danone. Danone is therefore deemed to be interested in the shares held by Danone Asia.

(c) Pursuant to an agreement dated 23 September 2006 between Danone Asia and, among the other parties, Mr. Zhu Xinli, Huiyuan Holdings and China Huiyuan Holdings, following the completion of the six-month lock-up period from the Listing Date and for such period in which Danone Asia holds at least 66% of the shares of the Company acquired by it from China Huiyuan Holdings as a result of a share swap under the reorganization of the Company, each of Mr. Zhu Xinli, Huiyuan Holdings and China Huiyuan Holdings, has agreed not to transfer, or agree to transfer, or engage in any negotiation for the sale or transfer of any of the shares of the Company to any third party purchaser unless he/it shall first have offered such shares for purchase to Danone Asia. Under the same agreement, each of Mr. Zhu Xinli, Huiyuan Holdings, China Huiyuan Holdings has also granted a right of first refusal to Danone Asia that if any of them receives a bona fide offer from any third party purchaser for any of his/its shares in the Company and in the event that he/it wishes to sell such shares to the third party purchaser, he/it shall be obliged to first offer to sell such shares to Danone Asia at the same price and on the same terms and conditions of the proposed purchase by the third party purchaser. The details of such agreement are described in the section headed "Our History and Development — Strategic Investor" in the Prospectus.

(d) China Huiyuan Holdings holds US$6,000,000 Convertible Bonds which are convertible into 9,136,588 Shares. China Huiyuan Holdings is indirectly wholly-owned by Mr. Zhu Xinli through Huiyuan Holdings, so each of Mr. Zhu Xinli and Huiyuan Holdings is deemed to be interested in these shares.

Save as disclosed above, the directors are not aware of any persons who should be registered an interest or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO as at 31 December 2009.

Dilutive effect of the Convertible Bonds

As at 31 December 2009, a total of US$14,000,000 Convertible Bonds had been converted into 21,318,703 Ordinary Shares and a total of US$71,000,000 Convertible Bonds remained outstanding.

As at 31 December 2009, if China Huiyuan Holdings and other Bond Holders fully converted their Convertible Bonds into the Ordinary Shares at a price of HK$5.1, i.e., at a 15% discount to the Offer Price, a total of 107,911,089 Ordinary Shares would have been issued and the then issued share capital of the Company would have been enlarged to comprise a total of 1,576,727,293 Ordinary Shares. As such, assuming that the all the outstanding options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme were fully exercised as at 31 December 2009, the public float would have been diluted to 29.96% from 32.77% prior to such conversion.

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

During the year ended 31 December 2009, neither the Company, nor any of its subsidiaries purchased, sold and redeemed any of the Company's listed securities.

Report of the Directors (Continued)

Emolument policy

Details of the directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in notes 29 to the consolidated financial statements on pages 106 to 108.

As at 31 December 2009, the Group had 17,111 employees (31 December 2008: 4,935 employees). The emolument policy of the employees of the Group is set up by the Board on the basis of merit, qualifications and competence. The emoluments payable to the directors will depend on their respective contractual terms under their employment contracts or service agreements as approved by the Remuneration and Nomination Committee, having regard to the Company's operating results, individual performance and comparable market statistics. No director should determine his or her own remuneration.

In addition to basic salaries, the Company has the Pre-IPO Share Option Scheme and the Share Option Scheme as an incentive for directors and eligible employees. Details of the schemes are set out in note 20 to the financial statements on pages 95 to 97.

Retirement benefits scheme

The Group does not have any employee who is required to participate in the Mandatory Provident Fund in Hong Kong. The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The employees of the PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to this retirement benefits scheme is to make the required contributions under the scheme.

Use of proceeds from listing and post balance sheet events

The net proceeds from the Company's initial public offering including the exercise of the over-allotment option in connection with its initial public offering amounted to approximately HK$3,726 million. These net proceeds were partially applied during the period from the Listing Date up to 31 December 2009 and such application is consistent with the proposed usage of the net proceeds set forth in the Prospectus. The balance of the net proceeds is deposited in the Group's interest-bearing bank accounts.

The details of the significant post balance sheet events of the Group are set out in note 40 to the consolidated financial statements on page 118.

Report of the Directors (Continued)

Major customers and suppliers

In the year ended 31 December 2009, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

Banking facilities and other borrowings

Details of the bank facilities and other borrowings of the Company as at 31 December 2009 are set out in note 22 to the consolidated financial statements on pages 99 to 100.

Corporate governance

The Company is committed to maintaining a high standard of corporate governance practice. Information on the corporate governance practice adopted by the Company is set out in the Corporate Governance Report on pages 38 to 44.

Sufficiency of public float

According to information that is publicly available to the Company and within the knowledge of the Board, as at 31 December 2009, the Company has maintained sufficient public float as required under the Hong Kong Listing Rules.

Connected transactions

The Group had entered into the raw materials purchase agreement and the recyclable container sales agreement (the "Connected Transactions Agreement") with certain companies controlled by Mr. Zhu Xinli, the ultimate controlling shareholder of the Group, in connection with listing of the Shares of the Company on the Hong Kong Stock Exchange.

Due to the increased operation demand, the Group and the parties to the Connected Transactions Agreement entered into the Raw Materials Purchase and Recyclable Containers Sales Agreement to revise the original caps regarding the raw materials purchase and the recyclable container sales in respect of the year of 2008 and provide new caps for such transactions in respect of three years ended 31 December 2008 and 2009 and ending 31 December 2010, respectively, which have been approved by the shareholders at the extraordinary general meeting of the Company held on 16 May 2008.

Report of the Directors (Continued)

On 27 July 2009, Shangdong Xinming Food & Beverage Co., Ltd., a wholly-owned subsidiary of the Company, entered into the Assets Transfer Agreement with Shandong Zibo Huiyuan Food & Beverage Co., Ltd., an associate of the controlling shareholder of the Company, Mr. Zhu Xin Li, to purchase certain assets relating to the sales and production of milk beverage for a cash consideration of RMB131,332,968. On the same date, Huiyuan Beijing Holdings Limited, a wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with Beijing Huiyuan Beverage & Food Group Co., Ltd., an associate of the controlling shareholder of the Company, Mr. Zhu Xin Li, to sell the entire equity interests in Tai An Huiyuan Food & Beverage Co., Ltd. for a cash consideration of RMB157,537,362. As a result, on 27 July 2009, the Company and the other parties to the Raw Materials Purchase and Recyclable Containers Sales Agreement entered into the Supplemental Raw Materials Purchase and Recyclable Containers Sales Agreement for the Company to purchase additional production materials, i.e. bottle embryos, from them and to revise annual caps for 2009 and 2010 accordingly in respect of the raw materials purchase under the Raw Materials Purchase and Recyclable Containers Sales Agreement. Such supplemental agreement and the revised caps have been proposed to and approved by the shareholders at the extraordinary general meeting of the Company held on 4 September 2009.

The aggregate amount of each of the raw materials purchase and the recyclable container sales for the year ended 31 December 2009 and the respective annual caps are set out below:

1. Raw materials purchase

Purchase item	Aggregate Amount (RMB)	Annual Cap (RMB)
Juice concentrates, fruit purees and fructose	543,568,000	698,600,000
External packaging materials	75,803,000	181,500,000
Total	619,371,000	880,100,000

2. Recyclable container sales

Sales item	Aggregate Amount (RMB)	Annual Cap (RMB)
Recyclable container	23,089,000	84,430,000

Report of the Directors (Continued)

The independent non-executive directors have confirmed that the continuing connected transactions described above:

(a) had been entered into in the ordinary course of the Group's business;

(b) had been entered into on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

(c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In accordance with Rule 14A.38 of the Hong Kong Listing Rules, the Board engaged the auditor of the Company to perform certain factual finding procedures on the above continuing connected transactions on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants.

The auditor has reported their factual findings on the selected samples based on the agreed procedures to the Board.

Related parties transactions

The Group is also involved in a number of related party transactions during the year ended 31 December 2009 which have been disclosed in note 39 to the consolidated financial statements on pages 114 to 117.

Non-competition Deed

As disclosed in the Prospectus, the independent non-executive directors will review, on an annual basis, (i) the compliance by Mr. Zhu Xinli, the controlling shareholder of the Company, and his associates with the non-competition undertakings under the Non-competition Deed (as defined in the Prospectus); and (ii) all the decisions taken in relation to whether to exercise the option pursuant to the Non-competition Deed and whether to pursue any business opportunities which may be referred or offered to the Company by Mr. Zhu Xinli and his associates pursuant to the Non-competition Deed. The independent non-executive directors have conducted such review for the year ended 31 December 2009 and found that the Non-competition Deed has been fully complied.

Report of the Directors (Continued)

Charitable donations

During the year ended 31 December 2009, the Group made charitable donations amounting to approximately RMB1,456,000.

Financial Management and Audit Committee

The Group's annual report for the year ended 31 December 2009 has been reviewed by the Financial Management and Audit Committee. Information on the work of the Financial Management and Audit Committee and its composition are set out in the Corporate Governance Report on page 42.

Auditor

The consolidated financial statements of the Group for the year ended 31 December 2009 have been audited by PricewaterhouseCoopers. A resolution for the re-appointment of PricewaterhouseCoopers as the Company's auditor will be proposed at the forthcoming annual general meeting.

Possible Voluntary Conditional Cash Offers

On 3 September 2008 The Coca-Cola Company, Atlantic Industries and the Company jointly made an announcement (the "Joint Announcement") that ABN AMRO Asia Corporate Finance Limited, which has been re-named as RBS Asia Corporate Finance Limited, would, on behalf of Atlantic Industries, a wholly-owned subsidiary of The Coca-Cola Company, subject to the satisfaction of the Pre-Condition (as defined in the Joint Announcement), make voluntary conditional cash offers: (a) to acquire all of the issued shares in the share capital of the Company; (b) to acquire all the outstanding Convertible Bonds of the Company; and (c) for the cancellation of all the outstanding options of the Company.

The Pre-Condition includes antitrust approval in relation to the Share Offer (as defined in the Joint Announcement) or the completion thereof having been obtained in terms reasonably satisfactory to the Offeror (as defined in the Joint Announcement) pursuant to the provisions of any laws or regulations in the PRC, in each case where necessary for completion of the Share Offer.

Report of the Directors (Continued)

On 18 March 2009, the Ministry of Commerce of the PRC announced that it had decided not to grant the anti-trust approval. Accordingly, the Pre-Condition cannot be satisfied and the Offers ceased to be made.

On behalf of the board

ZHU Xinli
Chairman

Beijing, 24 March, 2010

Corporate Governance Report

Corporate governance practices

The Company is committed to maintaining a high standard of corporate governance practice for enhancing accountability and transparency of the Company to the investors and the shareholders. During the year ended 31 December 2009, the Company has complied with the principles set out in the "Code of Corporate Governance Practices" (the "**Corporate Governance Code**") as contained in Appendix 14 of the Hong Kong Listing Rules except for the deviation set out in the section headed "The Chairman and the Chief Executive Officer" in this report.

Directors' securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as contained in Appendix 10 of the Hong Kong Listing Rules as the standards for the directors' dealings in the securities of the Company. Having made specific enquiry of all directors, the Company confirms that the directors of the Company complied with the required standard set out in the Model Code for the year ended 31 December 2009.

Board of directors

Board responsibilities

The Board is responsible for the overall management of the Company, including establishing and overseeing the Company's strategic development, business plans, financial objectives, capital investments proposals and assumes the responsibilities of corporate governance of the Company.

The Board may from time to time delegate all or any of its powers that it may think fit to a director or member of senior management of the Company. The Board has formulated clear and specific rules and policies on such delegation of power to facilitate efficient operation of the Company and is supported by three committees, which are the Remuneration and Nomination Committee, the Financial Management and Audit Committee and the Strategy and Development Committee.

Board members

The Board, as at the date of this report, consists of eight directors, including three executive directors, one non-executive director and four independent non-executive directors:

Executive directors

Mr. ZHU Xinli *(Chairman)*
Mr. JIANG Xu
Mr. LI Wenjie

Non-executive directors

Mr. QIN Peng

Independent non-executive directors

Mr. WANG Bing
Ms. ZHAO Yali
Mr. TSUI Yiu Wa, Alec
Mr. SONG Quanhou

The details of the directors' biographical information are contained in the section headed "Directors and Senior Management" of this annual report.

There is no financial, business, family or other material/relevant relationships among the directors of the Company.

Independent non-executive directors

More than one-third of the members of the Board are independent non-executive directors, which exceeds the minimum requirement under the Hong Kong Listing Rules. Mr. Tsui Yiu Wa, Alec, an independent non-executive director, has appropriate financial management expertise in compliance with Rule 3.10 of the Hong Kong Listing Rules. The Company has received an annual confirmation from each of the independent non-executive directors on their respective independence pursuant to Rule 3.13 of the Hong Kong Listing Rules and considers that each of them to be independent.

Terms

All of the non-executive and independent non-executive directors were appointed for a term of three years, which may be terminated according to the articles of association of the Company and any applicable laws, and subject to retirement by rotation at the annual general meeting of the Company once every three years in accordance with the articles of association.

Board meetings

Notices for regular board meetings are given to each member of the Board at least 14 days prior to the meeting, whereby the directors can put forward his proposed items into the agenda. The agenda and the relevant board papers are then circulated to the directors three days before a Board meeting to enable them to make informed decisions at the meeting. Drafts of the Board minutes and Board committee meeting minutes are circulated to the directors and the relevant Board committee members respectively for their review before finalization, and the final version of these minutes are kept by the company secretary of the Company and are available for inspection by the Board and auditor of the Company.

Corporate Governance Report (Continued)

Every director is entitled to have access to Board papers and relevant materials and have unrestricted access to advice and services of the company secretary, and is able to seek independent professional advice as and when required at the Company's expense.

Attendance

A1.1 of the Corporate Governance Code stipulates that the board should meet regularly and meetings should be held at least four times a year at approximately quarterly intervals. During the reporting year, the Board convened a total of five Board meetings and two, three and one meetings for each of the Remuneration and Nomination Committee, the Financial Management and Audit Committee and the Strategy and Development Committee, based on the need of the operation and business development of the Company. Details of attendance are as follows:

Name	Board meetings	Board committee meetings: Remuneration and Nomination Committee	Financial Management and Audit Committee	Strategy and Development Committee
	(Times of attendance/times of meeting)[1]			
Executive directors				
ZHU Xinli *(Chairman)*	5/5	N/A	N/A	1/1
JIANG Xu	5/5	N/A	N/A	N/A
WU Chungkuan[2]	5/5	N/A	N/A	N/A
Non-executive directors				
SUN Qiang Chang[3]	1/5	N/A	1/3	N/A
QIN Peng	5/5	2/2	N/A	1/1
Independent non-executive directors				
WANG Bing	5/5	2/2	3/3	N/A
ZHAO Yali	5/5	N/A	N/A	1/1
TSUI Yiu Wa, Alec	5/5	2/2	3/3	N/A
SONG Quanhou[4]	5/5	N/A	2/3	1/1

Corporate Governance Report (Continued)

Notes:

1. Directors who did not attend the meeting in person have entrusted other directors to attend and vote at the meeting.

2. Mr. Wu Chungkuan resigned as an executive director of the Company effective from 18 March 2010.

3. Mr. Sun Qiang Chang resigned as a non-executive director of the Company effective from 3 June 2009.

4. Mr. Song Quanhou was appointed to the Financial Management and Audit Committee after Mr. Sun Qiang Chang's resignation on 3 June 2009.

The Chairman and the Chief Executive Officer

The positions of the chairman of the Board and the president (i.e., the chief executive officer) of the Company are held by Mr. Zhu Xinli. Although this deviates from the practice in A.2.1 of the Corporate Governance Code where the two positions should be held by different individuals, Mr. Zhu has considerable and extensive experience in the juice and beverage industry and in enterprise operation and management in general. The Board believes that it is in the best interest of the Company to have an executive chairman so the Board can benefit from his knowledge of the business and his capability in leading the Board in discussing the strategy and long-term development of the industry.

From a corporate governance point of view, the decisions of the Board are made collectively by way of voting and therefore the chairman of the Board should not be able to monopolize the voting result. The Board considers that the balance of power between the Board and the senior management can still be maintained under the current structure.

Board committees

Remuneration and Nomination Committee

The Remuneration and Nomination Committee consists of a non-executive director and two independent non-executive directors, namely the non-executive director, Mr. Qin Peng, and the independent non-executive directors, Mr. Wang Bing and Mr. Tsui Yiu Wa, Alec. Mr. Qin is the chairman of the Remuneration and Nomination Committee.

The primary functions of the Remuneration and Nomination Committee are to:

(a) make recommendations to the Board on the policy and structure for remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing such policies;

(b) determine terms of specific remuneration package for executive directors and senior management;

(c) review and approve performance-based remuneration by reference to corporate goals and objectives resolved by directors from time to time;

Corporate Governance Report (Continued)

(d) review the structure, size and composition of the Board regularly and make recommendations to the Board regarding any proposed changes; and

(e) identify, select or make recommendations to the Board on the selection of individuals nominated for directorships.

At the meetings held during the reporting year, the Remuneration and Nomination Committee has reviewed the directors' fees in terms of the corporate and individual performance, the employment terms of the management staff within the Group, the employee share option to be granted and assessed the nominations of the new directors.

Financial Management and Audit Committee

The Financial Management and Audit Committee consists of three independent non-executive directors, namely the independent non-executive directors, Mr. Tsui Yiu Wa, Alec and Mr. Wang Bing and Mr. Song Quanhou. Mr. Tsui, who has the relevant financial management expertise, is the chairman of the Financial Management and Audit Committee.

The primary functions of the Financial Management and Audit Committee are to review and supervise the financial reporting process and internal control system of the Company, nominate and monitor external auditor and provide advice and comments to the Board. During the year, the Financial Management and Audit Committee convened three meetings. All solutions passed at the meetings were duly recorded and retained.

Major work completed by the Financial Management and Audit Committee during the year includes:

- Reviewing the Group's interim and annual report;
- Reviewing accounting policies adopted by the Group and issues related to accounting practice;
- Supervising internal auditing of the Group;
- Assisting the Board to evaluate on the effectiveness of financial reporting procedure and internal control system;
- Advice on material events or draw the attention of management on related risks.

Corporate Governance Report (Continued)

Strategy and Development Committee

The Strategy and Development Committee consists of an executive director, two independent non-executive directors and a non-executive director, namely the executive director, Mr. Zhu Xinli, the non-executive director, Mr. Qin Peng, and the independent non-executive directors, Ms. Zhao Yali and Mr. Song Quanhou. Mr. Zhu is the chairman of the Strategy and Development Committee. The primary functions of the Strategy and Development Committee are to:

(a) review and formulate the strategic positioning and development plans of the Company on a regular basis and make recommendations to the Board regarding any proposed changes;

(b) review and formulate strategies for market development and operation of the Company on a regular basis and make recommendations to the Board regarding any proposed changes; and

(c) review strategies of the Company on its material projects, business expansion, capital expenditure, asset restructuring and operation and make recommendations to the Board regarding any proposed changes.

At the meeting held during the reporting year, the Strategy and Development Committee has reviewed the three year strategy plan and evaluated the merger and acquisition plan of the Group.

Accountability and audit

Auditor's remuneration

The remuneration paid/payable to the Company's auditor, PricewaterhouseCoopers, during the year ended 31 December 2009 in relation to non-audit assurance service and audit service are RMB2,000,000 and RMB3,800,000, respectively.

Directors' responsibilities for financial statements

The directors acknowledge their responsibility for preparing the financial statements of the Company, and for ensuring that the financial statements are prepared in accordance with applicable statutory requirements and accounting standards.

Auditor's statement

The statement of the Company's auditor, PricewaterhouseCoopers, on its reporting responsibilities in respect of the consolidated financial statements of the Group for the year ended 31 December 2009 is set out on pages 50 and 51.

Corporate Governance Report (Continued)

Internal control and risk management

The Board acknowledges that it is responsible for maintaining a sound system of internal controls to safeguard the shareholders' interest. The Group's internal control system has been designed to provide reasonable assurance that assets are safeguarded, operational controls are in place, business risks are suitably reduced, proper accounting records and financial information are maintained, and, where appropriate, relevant legislation, regulation and best practices are complied with.

The Board has delegated to the Financial Management and Audit Committee responsibility for reviewing the effectiveness of the Group's internal control system. The Financial Management and Audit Committee works with the Group's Internal Audit Department to carry out internal audit works based on an internal audit plan which is reviewed and approved by the Financial Management and Audit Committee. The Group's Internal Audit Department, reports its findings and recommendations for any corrective action required to the Financial Management and Audit Committee. The Financial Management and Audit Committee reviews the reports submitted by the Internal Audit Department and the issues on the internal control system of the Group are then discussed and evaluated by the Board every year.

The Internal Audit Department conducted an examination on various material control aspects during the year including financial, operational and compliance controls with the aim of mitigating the overall business and operational risk of the Group. Internal control reports were submitted to the Financial Management and Audit Committee for review and the findings and recommendations were discussed at the committee meetings. The significant findings have been remediated by the management of the Company.

Investor relations

The Board values the importance of communications with the shareholders. The annual general meeting ("AGM") of the Company held on 26 May 2009 was an important occasion for the Board and the shareholders to communicate directly with each other. The chairmen of the Board and the Board committees and the external auditor were present at the AGM to communicate with the shareholders. The AGM circular distributed to all shareholders before the AGM contained information regarding the proposed resolutions on each substantially separate issue. In addition, the Company has announced its annual and interim results in a timely manner in accordance with the requirements of the Hong Kong Listing Rules.

Directors and Senior Management

Executive Directors

Mr. ZHU, Xinli (朱新禮)

aged 58, is the chairman of the Board and the founder of the Group. He is also the president of the Group. With over 18 years' experience in juice and beverage industry, he is primarily responsible for our Group's overall strategic planning and business management. He has pursued CEO courses in China Europe International Business School, Cheung Kong Graduate School of Business and Stanford College. He has been engaged as a visiting professor by China Agricultural University, Nankai University and the Chinese Academy of Agricultural Sciences since 2001. He has 30 years' experience in enterprise operation and management. Before founding our Group in 1992, he had worked as the deputy director of the foreign economic and trade department of Yiyuan County, Shandong Province. He is an executive deputy chairman of the board of the Association of Chinese Beverage Industry and the deputy director of its Juice Division. He received the Award for Prominent Contribution to Chinese Beverage Industry in 2003, the honor of National Labor Model in 2005 and the CCTV Annual Economic Figures, Agricultural Figures in China's 30-year Reform and Opening up and Top Ten Outstanding Leaders in Light Industry during 30-year Reform in 2008. He was appointed as a director of the Board in September 2006.

Mr. JIANG, Xu (江旭)

aged 48, is an executive director of the Board. He is also a vice president of the Group. He has 12 years' experience in juice and beverage production, sales and marketing. Since joining us in March 1997, he had held various positions, including the general manager of Beijing Huiyuan Beverage & Food Group Co., Ltd., the general manager of our sales in North East China region and the vice president of Beijing Huiyuan Beverage & Food Group Co., Ltd. He has resigned from all directorships in Beijing Huiyuan Beverage & Food Group Co., Ltd. and the companies controlled by it. He was appointed as a director of the Board in September 2006.

Mr. LI, Wenjie (李文杰)

aged 50, currently is a vice president of the Company in charge of marketing. He holds a Master degree in Business Administration. He has 18 years' experience in sales, marketing and operation in beverage industry. Before joining the Group in November 2009, he worked with Uni-President Enterprises Corporation from 1985 to 2005 serving as business unit manager and general manager at its various subsidiaries. He was a sales and marketing director of the Group from 2005 to 2006. During the period from 2006 to 2009 he was the general manger of Beijing Uni-President Food Co., Ltd. and Foshan Sanshui Jianlibao Trading Co., Ltd..

Directors and Senior Management (Continued)

Non-executive Directors

Mr. QIN, Peng (秦鵬)

aged 55, is a non-executive director of the Board. He holds a Bachelor degree in Social Science from University of Paris V in France and a Master degree in Sociology from the Institute of Political Sciences of Paris. He has 27 years' experience in juice and beverage brand management, sales and marketing, business development and corporate management. Since 1983, he has held various positions in the Danone Group. He is currently the chairman of greater China of the Danone Group. In addition, he is a director of Guo Xiang Investment Limited and the chairman of the board of Shanghai Danone Asia Pacific (Shanghai) Management Limited. He was appointed as a non-executive director of the Board in September 2006.

Independent Non-executive Directors

Mr. WANG, Bing (王兵)

aged 42, is an independent non-executive director of the Board. He holds a Bachelor degree in Economics and a Master degree in Business Administration from the China Europe International Business School. He is currently the chief executive officer of Dingtian Asset Management Co., Ltd.. He has over 12 years' experience in investment banking, operations in capital markets and financial management. He was appointed as an independent non-executive director of the Board in September 2006.

Ms. ZHAO, Yali (趙亞利)

aged 52, is an independent non-executive director of the Board. She holds a Bachelor degree from Tianjin Light Industry College and is a professor-grade senior engineer. She is the head and executive committee member of China Light Industry Federation. Her current titles in various associations include the chairman of China Beverage Industry Association and the chairman of its juice sub-committee, the member of Examination Committee on National Standards of Food Safety Examination Committee and the chairman of Technical Committee 472 on Beverage of Standardization Administration of China. In addition, she was an independent director of Guotou Zhonglu Juice Corporation, a company listed on the Shanghai Stock Exchange. She was appointed as an independent non-executive director of the Board in September 2006.

Mr. TSUI, Yiu Wa, Alex (徐耀華)

aged 61, is an independent non-executive director of the Board. He holds a Bachelor degree in Science and a Master degree in Industrial Engineering from the University of Tennessee. He completed the Program for Senior Managers in Government at the John F. Kennedy School of Government at Harvard University. He has more than 30 years of experience in the securities market and financial management. He is currently the chairman of WAG Worldsec Corporate Finance Limited, a Hong Kong based financial

Directors and Senior Management (Continued)

and management consulting services company. He is also a vice chairman of China Mergers and Acquisitions Association and a chairman of Hong Kong Professional Consultants Association. He served at various international companies, including Arthur Andersen & Co, Swire Bottlers Limited and China Light and Power Company Limited for 12 years in relation to information technology, financial analysis, corporate planning and management. He was formerly the chairman of the Hong Kong Securities Institute, the chief operating officer of Hong Kong Exchanges and Clearing Limited, the chief executive officer of the Hong Kong Stock Exchange and the adviser and council member of the Shenzhen Stock Exchange. Currently he serves as an independent non-executive director in a number of listed companies which are listed on Hong Kong main board, in United States or in Shanghai, including Industrial and Commercial Bank of China (Asia) Limited, China Chengtong Development Group Ltd., COSCO International Holdings Limited, China Power International Development Limited, China BlueChemical Limited, Greentown China Holdings Limited, Melco PBL Entertainment Limited, Pacific Online Limited, ATA Inc. Ltd. and China Oilfield Services Limited. He was appointed as an independent non-executive director of the Board in September 2006.

Mr. SONG, Quanhou (宋全厚)

aged 48, is an independent non-executive director of the Board. He holds a Master degree in food engineering from the former China National Academy of Light Industry and Science. He is a professor-grade senior engineer. He currently acts as a Deputy Director of China National Research Institute of Food and Fermentation Industries (CNRIFFI). He has been actively involved in preparing, implementing and enforcing various nationwide food and beverage quality control and testing standards since 1995 and has extensive knowledge and experience in China's food and beverage industry. He has also been actively involved in or responsible for various research projects in food and beverage quality control and testing sponsored by the PRC government, international organizations or enterprises. He was appointed as an independent non-executive director of the Board in January 2007.

Senior Management

Mr. ZHU, Xinli (朱新禮)

is the chairman of the Board and the president of the Group. His biographical details are set out above under the paragraph headed "Executive Directors".

Mr. JIANG, Xu (江旭)

is a vice president of the Group in charge of production management. He is an executive director of the Board. His biographical details are set out above under the paragraph headed "Executive Directors".

Mr. LI, Wenjie (李文杰)

is a vice president of the Group in charge of marketing. He is an executive director of the Board. His biographical details are set out above under the paragraph headed "Executive Directors".

Directors and Senior Management (Continued)

Mr. ZHAO, Jinlin (趙金林)
aged 55, is a vice president of the Group in charge of administration. Before joining the Company in 1998, he had served in the People's Liberation Army for more than 25 years. He has over 10 years' extensive experience in human resources, crisis public relationship and corporate culture management.

Mr. DENG, Xueliang (鄧學良)
aged 37, is a vice president of the Group in charge of sales. He has 14 years' experience in human resources, production and marketing in fruit and vegetable juice and beverage industry. Before joining the Group in 1999, he served Xiamen Huierkang Food & Beverage Group Limited from 1997 to 1998. Since 1999, he has held various positions within the Group including the assistant to general manager of the Group's plant at Shunyi, the manager of the Group's human resources department, the general manager of Beijing Huiyuan Group Kaifeng Co., Ltd., the regional general manager for the Henan region and the director for the Kiwi Nectar project.

Mr. GAO, Yanxiang (高彥祥)
aged 49, is a vice president of the Group in charge of R&D. He holds a Ph.D. degree in food engineering. Before joining the Group in 2000, he was an associate professor in Tianjin University of Science and Technology and was engaged in teaching and research. He had worked as a manager in beverage companies for 3 years. He is also a member of the Technology Committee of China Beverage Industry Association and the Technology Committee of International Federation of Fruit Juice Producers. He was awarded as "An Excellent Scientist for 2003" by China Beverage Industry Association in 2003.

Ms. REN, Hongfeng (任洪鳳)
aged 38, is a vice president of the Group fully in charge of procurement and international business. She joined the Company in 1992 and has held various positions, including the Group's international business controller, the procurement controller and the general manager of the Hubei sales area. She has 9 years' experience in international trade and 4 years' experience in juice and beverage production, sales and marketing management. She is a member of the 10th CPPCC Committee of Hubei.

Ms. ZHU, Shengqin (朱聖琴)
aged 34, is a vice president of the Group. She holds an EMBA degree from Cheung Kong Graduate School of Business. Since joining the Company in 1996, she has held various positions, including the marketing manager, chief advertising director, investment vice president and director of the office to the board of directors. She was instrumental in introducing strategic and financial investors, such as the Danone Group of France and Warburg Pincus LLC of the USA. She has made substantial contribution to the Group's global offering and listing on the Hong Kong Stock Exchange in February 2007. She is an important member of the management team of the Group. She was the team leader in the Company's marketing campaigns with CCTV, MTV and the China Team in "America's Cup" sailing competition.

Directors and Senior Management (Continued)

Mr. Shen, Lefeng (申樂峰)

aged 38, is a vice president of the Company, in charge of production. He has 17 years' experience in juice and beverage production. Since joining the Group in 1993, he has held various positions, including the general manager of Shanxi Huiyuan Food & Beverage Co., Ltd., Jiujiang Huiyuan Food & Beverage Co., Ltd, Beijing Huiyuan Food & Beverage Group Chengdu Co., Ltd. and Beijing Huiyuan Group Kaifeng Co., Ltd.. His team was awarded the honor of "Outstanding Teamwork" by the Company.

Ms. SHI, Xiuping (史秀平)

aged 34, is a vice president of the Group in charge of human resources. She graduated from Economic Management College of Party School of the Central Committee of CPC. She is responsible for managing the human resources division of the Group. She joined the Company in 2003 and served as various positions including human resources manager and chief director. She has received training provided for senior managers of human resource management in the China Europe International Business School. She has been awarded various honors for her superior work performance, including the Woman Pace-setter (三八紅旗手) of Beijing Shunyi District and the Heroine awarded by All China Federation of Trade Unions. She has 6 years of management and practical experience in human resources.

Mr. DONG, Ying (董穎)

aged 41, is the financial controller of the Group. He holds a Bachelor degree in Engineering (cum a diploma in business administration) from East China University of Science and Technology. He is a member of the American Institute of Certified Public Accountants and California Society of Certified Public Accountants and a PRC Registered Public Accountant with qualification in securities business. He has 13 years' experience in auditing, risk management and internal control. Before joining the Group in September 2006, he had worked in the assurance department and the system and process assurance department in PricewaterhouseCoopers since 1994.

Mr. Ngai, Wai Fung (魏偉峰)

aged 48, is the company secretary of the Company. Mr. Ngai is a director and head of listing services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. Mr. Ngai is currently the vice president of the Hong Kong Institute of Chartered Secretaries and the chairman of its Membership Committee. Mr. Ngai is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants in the United Kingdom. Mr. Ngai holds a Master of Corporate Finance Degree from the Hong Kong Polytechnic University, Master of Business Administration Degree from Andrews University of the United States and a Bachelor of Laws (with Honours) Degree from the University of Wolverhampton, the United Kingdom. He is also undertaking a PhD course (thesis stage) in Finance at the Shanghai University of Finance and Economics.

Independent Auditor's Report

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Independent Auditor's Report
To the shareholders of China Huiyuan Juice Group Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Huiyuan Juice Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 58 to 118, which comprise the consolidated and company balance sheets as of 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

Independent Auditor's Report (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as of 31 December 2009, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other matters

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 24 March 2010

Consolidated Balance Sheet

As at 31 December 2009

	Note	As at 31 December 2009 RMB'000	2008 RMB'000
ASSETS			
Non-current assets			
Land use rights	7	**494,085**	429,080
Property, plant & equipment	8	**3,298,486**	3,102,455
Intangible assets	9	**498,058**	317,262
Long-term prepayment	9	**—**	148,583
Deferred tax assets	12	**35,760**	31,070
Long-term receivable		**10,483**	—
Total non-current assets		**4,336,872**	4,028,450
Current assets			
Inventories	14	**988,578**	760,560
Trade and other receivables	13	**933,377**	643,666
Derivative financial instrument		**—**	882
Other loans and receivables	11	**64,300**	356,786
Restricted cash	15	**32,054**	94,355
Cash and cash equivalents	16	**717,442**	1,306,621
Total current assets		**2,735,751**	3,162,870
Total assets		**7,072,623**	7,191,320
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	17	**114**	114
Share premium	17	**3,716,982**	3,716,982
Other reserves	19	**168,235**	139,298
Retained earnings			
— Proposed final dividend	35	**58,753**	22,235
— Others	18	**864,889**	709,351
Total equity		**4,808,973**	4,587,980

Consolidated Balance Sheet (Continued)

As at 31 December 2009

	Note	As at 31 December 2009 RMB'000	2008 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	22	**285,299**	478,266
Deferred government grants	23	**64,003**	65,009
Long-term payable for land use rights	24	**7,873**	7,751
Long-term payable for license fee		**2,730**	4,095
Convertible Bonds	25	**698,233**	—
Total non-current liabilities		**1,058,138**	555,121
Current liabilities			
Trade and other payables	21	**735,185**	472,313
Taxation payable		**32,076**	27,305
Deferred revenue		**35,003**	18,970
Convertible Bonds	25	**—**	1,069,396
Borrowings	22	**403,248**	460,235
Total current liabilities		**1,205,512**	2,048,219
Total liabilities		**2,263,650**	2,603,340
Total equity and liabilities		**7,072,623**	7,191,320
Net current assets		**1,530,239**	1,114,651
Total assets less current liabilities		**5,867,111**	5,143,101

Director *Director*

The notes on pages 58 to 118 are an integral part of these consolidated financial statements.

Balance sheet

As at 31 December 2009

	Note	As at 31 December 2009 RMB'000	2008 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	10(a)	**9,899,785**	9,594,921
Loans to subsidiaries	10(b)	**566,034**	1,096,289
Total non-current assets		**10,465,819**	10,691,210
Current assets			
Trade and other receivables		**2,035**	1,427
Derivative financial instruments		**—**	882
Cash and cash equivalents	16	**14,463**	25,587
Total current assets		**16,498**	27,896
Total assets		**10,482,317**	10,719,106
EQUITY			
Equity attributable to owners of the parent			
Ordinary shares	17	**114**	114
Share premium	17	**3,716,982**	3,716,982
Other reserves	19	**4,953,755**	4,944,001
Retained earnings			
— Proposed final dividend	35	**58,753**	22,235
— Others	18	**397,817**	5,505
Total equity		**9,127,421**	8,688,837
LIABILITIES			
Non-current liabilities			
Borrowings	22	**285,299**	478,266
Convertible Bonds	25	**698,233**	—
Total non-current liabilities		**983,532**	478,266
Current liabilities			
Trade and other payables	21	**24,116**	22,372
Borrowing	22	**347,248**	460,235
Convertible Bonds	25	**—**	1,069,396
Total current liabilities		**371,364**	1,552,003
Total liabilities		**1,354,896**	2,030,269
Total equity and liabilities		**10,482,317**	10,719,106
Net current liabilities		**(354,866)**	(1,524,107)
Total assets less current liabilities		**10,110,953**	9,167,103

Director *Director*

The notes on pages 58 to 118 are an integral part of this financial statement.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	Note	Year ended 31 December 2009 RMB'000	2008 RMB'000
Revenue	6	**2,832,627**	2,819,739
Cost of sales	28	**(1,812,048)**	(1,910,880)
Gross profit		**1,020,579**	908,859
Other income — net	26	**28,895**	72,657
Other (losses)/gains — net	27, 39(d)	**(630)**	1,849
Selling and marketing expenses	28	**(845,885)**	(603,644)
Administrative expenses	28	**(283,654)**	(164,293)
Finance cost	30	**(63,625)**	(66,877)
Finance income	31	**8,309**	79.968
Unrealised gain/(loss) from change of fair value of Convertible Bonds	25	**400,621**	(109,669)
Profit before income tax		**264,610**	118,850
Income tax expense	32	**(31,136)**	(29,910)
Profit for the year		**233,474**	88,940
Other comprehensive income for the year		**—**	—
Total comprehensive income for the year		**233,474**	88,940
Attributable to:			
Equity holders of the Company		**233,474**	88,940
Earnings/(losses) per share for profit attributable to the equity holders of the Company during the year (expressed in RMB cents per share)			
— basic	34	**15.9**	6.1
— diluted	34	**(6.9)**	6.0
Dividends	35	**58,753**	22,235

The notes on pages 58 to 118 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2009

		Attributable to equity holders of the Company						
	Note	Share capital RMB'000	Share premium RMB'000	Statutory reserve fund RMB'000	Staff welfare fund RMB'000	Share-based compensation reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2009		**114**	**3,716,982**	**122,539**	**–**	**16,759**	**731,586**	**4,587,980**
Comprehensive income								
Profit for the year		**–**	**–**	**–**	**–**	**–**	**233,474**	**233,474**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**233,474**	**233,474**
Transactions with owners								
Profit appropriation to statutory reserves	19	**–**	**–**	**19,183**	**–**	**–**	**(19,183)**	**–**
Dividends	35	**–**	**–**	**–**	**–**	**–**	**(22,235)**	**(22,235)**
Share-based payment expenses	20, 29	**–**	**–**	**–**	**–**	**9,754**	**–**	**9,754**
Total transactions with owners		**–**	**–**	**19,183**	**–**	**9,754**	**(41,418)**	**(12,481)**
Balance at 31 December 2009		**114**	**3,716,982**	**141,722**	**–**	**26,513**	**923,642**	**4,808,973**
Balance at 1 January 2008		114	3,716,982	95,950	16,523	3,567	828,084	4,661,220
Comprehensive income								
Profit for the year		–	–	–	–	–	88,940	88,940
Other comprehensive income		–	–	–	–	–	–	–
Total comprehensive income		–	–	–	–	–	88,940	88,940
Transactions with owners								
Profit appropriation to statutory reserves	19	–	–	26,589	–	–	(26,589)	–
Dividends	35	–	–	–	–	–	(158,849)	(158,849)
Share-based payment expenses	20, 29	–	–	–	–	13,192	–	13,192
Staff welfare funds payment	19	–	–	–	(16,523)	–	–	(16,523)
Total transactions with owners		–	–	26,589	(16,523)	13,192	(185,438)	(162,180)
Balance at 31 December 2008		114	3,716,982	122,539	–	16,759	731,586	4,587,980

The notes on pages 58 to 118 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 2009

	Note	Year ended 31 December 2009 RMB'000	2008 RMB'000
Cash flows from operating activities			
Cash generated from operations	36	**186,851**	222,848
Interest paid		**(28,753)**	(44,992)
Interest received		**14,233**	39,417
Income tax paid		**(35,636)**	(22,562)
Net cash generated from operating activities		**136,695**	194,711
Cash flows from investing activities			
Business combination	39(c)	**(133,837)**	—
Acquisition of a subsidiary		**17,492**	—
Disposal of a subsidiary	39(d)	**151,403**	—
Purchase of property, plant and equipment (PPE)		**(777,678)**	(1,072,964)
Proceeds from disposal of PPE		**7,560**	14,498
Purchase of land use rights		**(63,301)**	(95,205)
Refund of consideration for/(purchase of) sales distribution network		**10,379**	(148,583)
Decrease/(increase) in restricted cash		**62,301**	(84,322)
Decrease in other loans and receivables		**287,750**	903,404
Net cash used in investing activities		**(437,931)**	(483,172)
Cash flows from financing activities			
Proceeds from banks and other financial institution borrowings		**56,000**	466,457
Repayments of borrowings from bank and other financial institution		**(307,402)**	—
Redemption of Convertible Bonds	25	**(15,891)**	—
Dividends paid to the Company's shareholders	35	**(22,235)**	(158,849)
Net cash (used in)/generated from financing activities		**(289,528)**	307,608
Net (decrease)/increase in cash and cash equivalents		**(590,764)**	19,147
Cash and cash equivalents at beginning of the year	16	**1,306,621**	1,290,220
Exchange losses on cash and cash equivalents		**1,585**	(2,746)
Cash and cash equivalents at end of the year	16	**717,442**	1,306,621

The notes on pages 58 to 118 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

As at 31 December 2009

1. General information

China Huiyuan Juice Group Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the manufacturing and sales of juice beverages in the People's Republic of China (the "PRC").

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.

These consolidated financial statements were authorised for issue by the Board of Directors of the Company on 24 March 2010.

2. Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated 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.

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

3. Summary of significant accounting policies

The accounting policies applied in the preparation of the consolidated financial statements are consistent with those of the consolidated financial statements for the year ended 31 December 2008, as set out in the annual report of the Group for year ended 31 December 2008, unless otherwise stated.

(a) New and amended standards adopted by the group

The group has adopted the following new and amended IFRS as at 1 January 2009:

- IFRS 7 "Financial Instruments — Disclosures" (amendment) — effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

- IAS 1 (revised). "Presentation of financial statements" — effective 1 January 2009. The revised standard requires "non-owner changes in equity" to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

- IFRS 2 (amendment), "Share-based payment" (effective 1 January 2009) deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation there of subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment does not have a material impact on the group's or company's financial statements.

- IAS 23 (revised), "Borrowing costs" (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The amendment does not have a material impact on the group's or company's financial statement.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

3. Summary of significant accounting policies (Continued)

(a) New and amended standards adopted by the group (Continued)

- IFRS 8, "Operating segments" (effective 1 January 2009). IFRS 8 replaces IAS 14, "Segment reporting", and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes.

(b) The following amendments and interpretation to published standards are mandatory for accounting periods beginning on or after 1 January 2009 but are not relevant to the Group's operations:

- IFRIC 17 "Distribution of non-cash assets to owners" (effective on or after 1 July 2009)
- IAS 39 (amendment), "Financial Instruments: Recognition and Measurement" — "Eligible hedged items" (effective from 1 July 2009)

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group

The following standards and amendments to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2010 or later periods, but the group has not early adopted them:

- IFRS 3 (revised), "Business combinations" (effective from 1 July 2009).

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

3. Summary of significant accounting policies (Continued)

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group (Continued)

- IAS 38 (amendment), "Intangible Assets" (effective from 1 July 2009).
- IAS 27 (revised), "Consolidated and separate financial statements", (effective from 1 July 2009)
- IAS 24 (revised), "Related party disclosures" (effective from 1 January 2011).
- IFRS 9, "Financial instruments" (effective from 1 January 2013).

In addition to those disclosed in note 3(c) above, there are a number of amendments and interpretations to the existing standards which have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods but are not relevant for the Group's operations. For this reason and as otherwise the disclosures would be of excessive length, they are not disclosed.

3.1 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than 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 consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Acquisitions of entities that are under common control have been combined using the uniting of interest 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 acquisition 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 consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

3. Summary of significant accounting policies (Continued)

3.1 Consolidation (Continued)

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.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 3.8). The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

3.2 Segment reporting

The chief operating decision-maker has been identified as the executive directors. The executive directors review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

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 consolidated 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 year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within "finance income". All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "other (losses)/gains — net".

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

3. Summary of significant accounting policies (Continued)

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. The carrying amount of the replaced part is derecognized. Repairs and maintenance are charged to the consolidated statement of comprehensive income 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	3–6 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).

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

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.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

3. Summary of significant accounting policies (Continued)

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 Group's share of the net identifiable assets of the acquired subsidiaries at the date of acquisition. Goodwill on acquisitions of subsidiaries 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. (Note 3.8).

(b) Trademarks and computer software licences

Separately acquired trademarks are shown at historical cost. Trademarks acquired in a business combination are recognised at fair value at the acquisition date. 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 of 30 years.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 10 years.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

3. Summary of significant accounting policies (Continued)

3.7 Intangible assets (Continued)

(c) License rights

License rights are stated at historical cost less accumulated amortisation and accumulated impairment losses, if any. Historical cost comprises the capitalised 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.

(d) Sales distribution networks

Sales distribution networks acquired directly or acquired in a business combination are recognised at fair value at the acquisition date. The sales distribution networks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the sales distribution networks.

3.8 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life or have not yet been available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances 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 impairment are reviewed for possible reversal of the impairment at each reporting date.

3.9 Financial assets — 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 for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables, cash and cash equivalents and other loans and receivables in the balance sheet (Note 3.12 and 3.13).

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

3. Summary of significant accounting policies (Continued)

3.9 Financial assets — loans and receivables (Continued)

Regular purchases and sales of financial assets are recognised on the 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. Financial assets 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. Impairment testing of trade receivables is described in Note 13.

3.10 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of the item being hedged.

The Group's derivative instruments do not qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognised immediately in the consolidated statement of comprehensive income within other gains.

3.11 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 design costs, 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 applicable variable selling expenses.

3.12 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

3. Summary of significant accounting policies (Continued)

3.13 Cash and cash equivalents

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

3.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income 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 end of the reporting period.

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 consolidated statement of comprehensive income in the period in which they are incurred.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

3. Summary of significant accounting policies (Continued)

3.17 Convertible Bonds

Convertible Bonds issued by the Company that contain both a liability and embedded derivatives are classified separately into these respective items on initial recognition. Conversion rights that will be settled other than by the exchange of a fixed amount of cash or other financial assets for a fixed number of the Company's shares are conversion rights derivatives. Redemption rights and interest settlement options at the option of holders which are not closely related to the host contract are also embedded derivatives and are accounted together with conversion right as a single derivative. At the date of issue of the Convertible Bonds, the derivative is recognised at fair value, the host liability is recognised at the residual amount after deducting the fair value of derivative from the fair value of the Convertible Bonds as a whole.

In subsequent periods, the liability component of the Convertible Bonds is carried at amortised cost using the effective interest method. The conversion right derivative is measured at fair value with changes in fair value recognised in the consolidated statement of comprehensive income.

The liability component and the related embedded derivative of the conversion bond is presented as a separate line item on the face of the balance sheet as non-current liabilities, unless there is any redemption right valid in the next 12 months.

If the bonds are converted, the respective conversion right derivative in the Convertible Bonds, together with the carrying value of the liability component at the time of conversion, are transferred to share capital and share premium as consideration for the shares issued.

3.18 License fee payables

License fee payables are initially recorded at 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.

3.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity, respectively.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

3. Summary of significant accounting policies (Continued)

3.19 Current and deferred income tax (Continued)

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 in the consolidated financial statements. However, the deferred income tax is not accounted for if it 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 or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively 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.

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 assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3.20 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 Consolidated Financial Statements (Continued)

As at 31 December 2009

3. Summary of significant accounting policies (Continued)

3.20 Employee benefits (Continued)

(b) Other benefits

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

3.21 Share-based payments

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, employee's remaining in the entity's employer, performance conditions). 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 consolidated statement of comprehensive income, 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.

3.22 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where 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.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

3. Summary of significant accounting policies (Continued)

3.23 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the group's activities as described below. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(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) Bill and hold sales

When goods delivery is delayed at the buyer's request but the buyer takes title and accepts billing, revenue is recognised when the buyer take title, provided:

- it is probable that delivery will be made;
- the item is on hand, identified and ready for delivery to the buyer at the time the sale is recognised;
- the buyer specifically acknowledges the deferred delivery instructions; and
- the usual payment terms apply.

Revenue is not recognised when there is simply an intention to acquire or manufacture the goods in time for delivery.

(c) 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.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

3. Summary of significant accounting policies (Continued)

3.24 Leases (as the lessee for operating 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 consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

3.25 Dividend distribution

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

3.26 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 consolidated statement of comprehensive income as other income 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 consolidated statement of comprehensive income as other income on a straight-line basis over the expected lives of the related assets.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

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, and capital risk. Financial risk management is carried out by group treasury which identifies, evaluates and hedges financial risk in accordance to the Group's policies.

(a) Foreign exchange risk

The Group's production depends on importation of certain raw materials and equipment 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 is also exposed to foreign currency exchange risk arising from the bank deposits, Convertible Bonds and bank borrowings denominated in the USD. The Group did not use forward contract/derivative instruments in 2009 but may use them from time to time to hedge against certain material foreign exchange exposures.

As at 31 December 2009, assuming the exchange rate of RMB increased/decreased by 1% against the USD with all other variables remaining unchanged, the Group's post-tax profit for 2009 would have been decreased/increased by RMB13,867,800 (2008: RMB20,078,970), mainly due to the foreign exchange losses/gains on retranslation of USD-denominated Convertible Bonds and bank borrowings.

As at 31 December 2009, assuming the exchange rate of RMB increased/decreased by 1% against the Euro with all other variables remaining unchanged, the Group's post-tax profit for 2009 would have been increased/decreased by RMB3,407,906 (2008: RMB1,418,995), mainly due to the foreign exchange gains/losses on retranslation of Euro-denominated prepayments for equipment.

(b) Price risk

The group is exposed to price risk in fair value of conversion rights of the Convertible Bonds. A rise of the stock price will be accompanied by an increment of the fair value of the conversion rights, which will increase the liability of the Group.

(c) 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 customers, including distributors with long-term relationship and supermarkets signed sales contracts with credit terms. The Group assesses the credit quality of its customers by taking into account various factors including their financial position and past experience. The credit terms are regularly monitored. The Group has policies in place to ensure that trade receivables are followed up in a timely manner. The balance of the trade receivables from the top 5 largest customers was RMB68,283,000 as at 31 December 2009 (2008: RMB52,773,000), representing 20% of the total balance of trade receivables at 31 December 2009 (2008: 35%).

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

The table below shows the balances of five major banks at the balance sheet date, all of which are state-owned or listed banks in the Chinese domestic capital markets. The balance represents 90% of the total bank balances at 31 December 2009 (2008: 82%).

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

4. Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(c) *Credit risk* (Continued)

Cash and cash equivalents

	2009 RMB'000	2008 RMB'000
Bank of Communications Co., Ltd.	**222,663**	317,818
Industrial and Commercial Bank of China Limited	**185,642**	168,553
Bank of China Limited	**141,665**	209,723
China Citic Bank	**50,729**	204,077
Agricultural Bank of China	**41,584**	75,230
	642,283	975,401

As at 31 December 2009, the Group's other loans and receivables represent time deposits denominated in RMB in banks with maturities in a range from 3 to 6 months. The interest return on these time deposits is estimated in a range from 1.71% to 1.98% per annum. These other loans and receivables are placed in state-owned banks, banks listed in the Chinese domestic capital markets or Beijing branches of international financial institutions.

	2009 RMB'000	2008 RMB'000
Shanghai Pudong Development Bank	**60,000**	60,000
ABN AMRO Bank	**4,300**	—
Bank of Communications Co., Ltd.	**—**	200,000
Bank of Beijing Co., Ltd.	**—**	94,736
Agricultural Bank of China	**—**	2,050
	64,300	356,786

(d) *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. Unused proceeds from fund raising through issuance of shares or borrowings will be put in short-term deposits with banks in 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.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

4. Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(d) Liquidity risk (Continued)

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Group				
At 31 December 2009				
Non-current bank borrowings	—	190,199	95,100	—
Current bank borrowings	403,248	—	—	—
Interest payable for bank borrowings	8,618	3,830	160	—
Convertible Bonds	—	698,233	—	—
Trade and other payables	590,974	—	—	—
Long term payable for land use right	—	1,333	4,000	2,540
Long term payable for license fee	—	2,730	—	—
At 31 December 2008				
Non-current bank borrowings	—	191,307	286,959	—
Current bank borrowings	460,235	—	—	—
Interest payable for bank borrowings	21,768	19,591	9,070	—
Convertible Bonds	1,069,396	—	—	—
Trade and other payables	417,271	—	—	—
Long term payable for land use right	—	1,333	4,000	2,418
Long term payable for license fee	—	4,095	—	—
Company				
At 31 December 2009				
Non-current bank borrowings	—	190,199	95,100	—
Current bank borrowings	347,248	—	—	—
Interest payable for bank borrowings	8,618	3,830	160	—
Convertible Bonds	—	698,233	—	—
Trade and other payables	24,116	—	—	—
At 31 December 2008				
Non-current bank borrowings	—	191,307	286,959	—
Current bank borrowings	460,235	—	—	—
Interest payable for bank borrowings	21,768	19,591	9,070	—
Convertible Bonds	1,069,396	—	—	—
Trade and other payables	22,372	—	—	—

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

4. Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(e) 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 market lending rates.

At 31 December 2009, if interest rates on US dollar-denominated borrowings had been 1% higher/lower with all other variables held constant, post-tax profit for the year would have been RMB96,000 (2008: RMB538,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

4.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the debt-to-equity ratio. This ratio is calculated as the total of borrowings (including or excluding Convertible Bonds) divided by capital and reserves attributable to equity holders of the Company.

As at 31 December 2009, the debt-to-equity ratio was 28.7% (including Convertible Bonds) (2008: 43.8%), and 14.3% (excluding Convertible Bonds) respectively (2008: 20.5%).

4.3 Fair value estimation

Effective 1 January 2009, the group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable input) (level 3).

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

4. Financial risk management (Continued)

4.3 Fair value estimation (Continued)

The following table presents the group's assets and liabilities that are measured at fair value at 31 December 2009.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Liabilities				
Conversion rights	—	—	151,693	151,693

The fair value of conversion rights of the Convertible Bonds, together with redemption rights and interest settlement option (considered as a single derivative) (the "conversion rights") was valued by estimating the value of the whole bond with and without the conversion feature. As for the change in level 3 instruments for the year ended 31 December 2009, please refer to Note 25.

5. Critical accounting estimates and judgements

Estimates and judgements 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 to 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.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

5. Critical accounting estimates and judgements (Continued)

Critical accounting estimates and assumptions (Continued)

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

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 the higher of fair value and value-in-use calculations. These calculations require the use of judgment and estimates.

(b) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 3.7. The recoverable amounts of cash-generating unit have been determined based on the higher of fair value and value-in-use calculations. These calculations require the use of estimates (Note 9).

(c) Useful lives and impairment assessment of sales distribution network

The Group's management determines the estimated useful lives and related amortization charges for sales distribution networks. This estimate is based on the estimated churn periods of the customer base and experience in similar business.

Management will increase the amortization 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.

Sales distribution networks are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of sales distribution network have been determined based on the higher of fair value and value-in-use calculations. These require the use of judgment and estimates.

(d) Useful lives of trademarks

The Group's management determines the estimated useful lives and related amortisation charges for its trademarks. This estimate is based on projected sales of those products associated with the trademark. It could change significantly as a result of competitors' actions as well as changes in 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.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

5. Critical accounting estimates and judgements (Continued)

Critical accounting estimates and assumptions (Continued)

(e) 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 these estimates at each balance sheet date.

(f) Income taxes

The Group is mainly subject to income taxes in the PRC. Significant judgement 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.

(g) 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 judgement 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.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

6. Revenue and segment information

Management determines the operating segments based on the reports reviewed by the executive directors that are used to make strategic decisions. The executive directors assess the business from a products perspective and the Group's revenue, expenses, assets, liabilities and capital expenditure are primarily attributable to the manufacture and sales of juice and other beverage products to external customers. The Group's principal market is the PRC and its sales to overseas customers contributed to less than 10% of the revenues. Also, less than 10% of the Group's total non-current assets are located outside the PRC. Accordingly, no geographical information is presented. Breakdown of the revenue by product category is as follows:

	2009 RMB'000	2008 RMB'000
100% juice products	**639,180**	581,627
Nectars	**1,273,773**	1,214,936
Juice drinks	**774,585**	850,947
Other beverage products	**145,089**	172,229
	2,832,627	2,819,739

The Group made barter sales of approximately RMB38,543,000 (2008: RMB83,302,000) during the year in exchange for transportation vehicles, refrigerators, other tangible assets and advertising services.

7. Land use rights — Group

	2009 RMB'000	2008 RMB'000
At beginning of year		
Cost	**451,000**	351,959
Accumulated amortisation	**(21,920)**	(14,560)
Net book value	**429,080**	337,399
Representing:		
Opening net book amount	**429,080**	337,399
Additions	**61,085**	99,041
Business combination (Note 39(c))	**12,638**	—
Amortisation charge (a) (Note 28)	**(8,718)**	(7,360)
Closing net book amount	**494,085**	429,080

Land use rights consist of prepaid lease payments for land in the PRC for the remaining period of 23–50 years (2008: for the remaining period of 37–50 years).

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

7. Land use rights — Group (Continued)

The Group is in the process of applying for formal legal title to land use rights amounting to RMB55,732,465 (2008: RMB60,795,600) as at 31 December 2009. Because subsidiaries including Anhui Huiyuan Food & Beverage Co., Ltd., Xinjiang Huiyan Food & Beverage Co., Ltd., Benxi Huiyuan Food & Beverage Co., Ltd. and Shandong Xinming Huiyuan Food & Beverage Co., Ltd. have newly-built facilities or are in development phase, application for legal title to land use rights will require certain administrative procedures.

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

	2009 RMB'000	2008 RMB'000
Cost of sales	**6,190**	5,225
Administrative expenses	**2,528**	2,135
	8,718	7,360

(b) There was no land use right pledged as security for borrowings as at 31 December 2009.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

8. Property, plant and equipment — Group

	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 2008						
Opening net book amount	327,304	1,407,679	29,598	38,911	437,620	2,241,112
Additions	26,291	24,955	22,975	23,823	963,482	1,061,526
Transfer upon completion	133,353	437,783	1,702	12,428	(585,266)	—
Disposals	(24)	(733)	(4,940)	(20,170)	(1,998)	(27,865)
Depreciation (Note 28)	(13,359)	(133,942)	(12,186)	(12,831)	—	(172,318)
Closing net book amount	473,565	1,735,742	37,149	42,161	813,838	3,102,455
At 31 December 2008						
Cost	516,783	2,338,640	105,385	69,549	813,838	3,844,195
Accumulated depreciation	(43,218)	(602,898)	(68,236)	(27,388)	—	(741,740)
Net book amount	473,565	1,735,742	37,149	42,161	813,838	3,102,455
Year ended 31 December 2009						
Opening net book amount	**473,565**	**1,735,742**	**37,149**	**42,161**	**813,838**	**3,102,455**
Additions	**10,851**	**78,394**	**34,881**	**84,635**	**296,601**	**505,362**
Transfer upon completion	**133,488**	**282,198**	**5,160**	**2,529**	**(423,375)**	**—**
Business combination (Note 39(c))	**32,533**	**23,034**	**2,057**	**157**	**15,961**	**73,742**
Disposals	**(380)**	**(13,579)**	**(5,042)**	**(1,133)**	**(21,820)**	**(41,954)**
Disposal of a subsidiary (Note 39(d))	**(19,037)**	**(31,363)**	**(343)**	**(116)**	**(79,880)**	**(130,739)**
Depreciation (a) (Note 28)	**(17,864)**	**(165,320)**	**(11,160)**	**(16,036)**	**—**	**(210,380)**
Closing net book amount	**613,156**	**1,909,106**	**62,702**	**112,197**	**601,325**	**3,298,486**
At 31 December 2009						
Cost	**674,194**	**2,684,844**	**140,572**	**154,470**	**601,325**	**4,255,405**
Accumulated depreciation	**(61,038)**	**(775,738)**	**(77,870)**	**(42,273)**	**—**	**(956,919)**
Net book amount	**613,156**	**1,909,106**	**62,702**	**112,197**	**601,325**	**3,298,486**

(a) Depreciation expenses have been charged to consolidated statement of comprehensive income as follows:

	2009 RMB'000	2008 RMB'000
Cost of sales	**166,144**	141,001
Administrative expenses	**28,866**	15,601
Selling and marketing expenses	**15,370**	15,716
	210,380	172,318

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

8. Property, plant and equipment — Group (Continued)

(b) Lease rentals amounting to approximately RMB7,299,000 for the year ended 31 December 2009 (2008: RMB7,950,000) relating to the lease of building and machinery are included in the consolidated statement of comprehensive income.

(c) There is no property, plant and equipment of the Group pledged as security for bank borrowings at 31 December 2009 (2008: nil).

(d) Buildings with a net book amount of approximately RMB65,225,000 as at 31 December 2009 (2008: RMB27,688,000) are built on land which the Group is in the process of applying for the land use rights.

9. Intangible assets — Group

	Sales distribution network RMB'000	Goodwill RMB'000	Trademarks RMB'000	License right RMB'000	Software RMB'000	Total RMB'000
Year ended 31 December 2008						
Opening net book amount	—	166,067	152,458	5,301	—	323,826
Additions	—	—	—	—	439	439
Amortisation charge (a) (Note 28)	—	—	(5,930)	(1,073)	—	(7,003)
Closing net book amount	—	166,067	146,528	4,228	439	317,262
At 31 December 2008						
Cost	—	166,067	177,905	11,863	439	356,274
Accumulated amortisation and impairment (b)	—	—	(31,377)	(7,635)	—	(39,012)
Net book amount	—	166,067	146,528	4,228	439	317,262
Year ended 31 December 2009						
Opening net book amount	**—**	**166,067**	**146,528**	**4,228**	**439**	**317,262**
Additions (c)	**153,734**	**—**	**—**	**—**	**120**	**153,854**
Business combination (Note 39(c))	**39,560**	**—**	**—**	**—**	**—**	**39,560**
Amortisation charge (a) (Note 28)	**(5,556)**	**—**	**(5,930)**	**(1,074)**	**(58)**	**(12,618)**
Closing net book amount	**187,738**	**166,067**	**140,598**	**3,154**	**501**	**498,058**
At 31 December 2009						
Cost	**193,294**	**166,067**	**177,905**	**11,863**	**559**	**549,688**
Accumulated amortisation and impairment (b)	**(5,556)**	**—**	**(37,307)**	**(8,709)**	**(58)**	**(51,630)**
Net book amount	**187,738**	**166,067**	**140,598**	**3,154**	**501**	**498,058**

(a) Amortisation of intangible assets has been charged to "selling and marketing expenses" in the consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

9. Intangible assets — Group (Continued)

(b) Impairment tests for goodwill

The goodwill of RMB166,067,000 was generated from acquisition of 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 this CGU is determined based on its fair value less costs to sell. The Group is listed on The Stock Exchange of Hong Kong Limited thus its fair value is equal to its market capitalization. As the stock price is greater than the net assets per share, as at 31 December 2009, there is no impairment of goodwill.

The directors are of the view that there was no impairment of goodwill as at 31 December 2009.

(c) Sales distribution networks

The Group paid RMB164 million to acquire certain sales distribution networks from certain major distributors in May 2008. The Group decided to terminate purchase agreements of two distributors and initiate an new agreement with another distributor in the second half of 2008, which resulted in a decrease of the total consideration from RMB164 million to RMB154 million. This consideration was determined based on the fair value determined by an independent qualified valuer.

As at 31 December 2008, due to certain commercial reasons and changes of circumstances in the second half of 2008, the transfer had not been completed and these payments were therefore reclassified as long term prepayments. As at 31 December 2009, the finalised consideration of RMB154 million was transferred from long-term prepayment to intangible assets as the Group had assumed ownership of the sales distribution networks during the period. The balance is amortised over the expected useful lives of the sales distribution networks.

In addition, on 27 July 2009, Shandong Xinming Food & Beverage Co., Ltd. ("Xinming Beverage") a wholly-owned subsidiary of the Company entered into an assets transfer agreement with Shandong Zibo Huiyuan Food & Beverage Co., Ltd. ("Zibo Beverage"), a related party, relating to acquisition of a business which manufactures and sells milk beverage. This transaction has been completed by end of September 2009. Besides tangible assets and related liabilities, sales distribution network amounting RMB39,560,000 was identified during this acquisition transaction.

10. Investments in and loans to subsidiaries

(a) Investments in subsidiaries

	Company	
	2009	**2008**
	RMB'000	**RMB'000**
Unlisted equity investments, at cost:	**9,899,785**	9,594,921

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

10. Investments in and loans to subsidiaries (Continued)

(a) Investments in subsidiaries (Continued)

The following is a list of the principal subsidiaries at 31 December 2009:

Name	Place of incorporation	Principal activities	Registered capital	Interest held
Directly held				
Huiyuan Beijing Holdings Limited	The British Virgin Islands (the "BVI")	Investment holdings	US$50,000 (US$1 per ordinary share)	100%
Huiyuan Shanghai Holdings Limited	The BVI	Investment holdings	US$50,000 (US$1 per ordinary share)	100%
Huiyuan Chengdu Holdings Limited	The BVI	Investment holdings	US$50,000 (US$1 per ordinary share)	100%
Indirectly held				
[1]Beijing Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US$40,000,000	100%
[1]Beijing Huiyuan Group Huanggang Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	RMB300,000,000	100%
[1]Beijing Huiyuan Group Kaifeng Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	RMB200,000,000	100%
[1]Harbin Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	RMB200,000,000	100%
[1]Jiujiang Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	RMB200,000,000	100%
[1]Beijing Huiyuan Beverage & Food Group Chengdu Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	RMB250,000,000	100%
[1]Beijing Huiyuan Group Xianyang Beverage & Food Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	RMB200,000,000	100%
[1]Shanghai Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US$40,000,000	100%
[1]Beijing Xinyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US$40,000,000	100%
[1]Luzhong Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US$50,000,000	100%
[1]Xinjiang Huiyan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	RMB20,000,000	100%
[1]Hebei Huiyuan Food & Beverage Co., Ltd	The PRC	Manufacture of fruit and vegetable juices	RMB80,000,000	100%
[1]Qiqihaer Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US$15,000,000	100%
[1]Jilin Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US$20,000,000	100%
[1]Jinzhou Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US$29,990,000	100%
[1]Jiangxi Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US$29,000,000	100%
[1]Guilin Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US$10,000,000	100%
[1]Shanxi Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US$20,000,000	100%
[1]Anhui Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US$29,800,000	100%
[1]Dezhou Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US$40,000,000	100%
[1]Jiangsu Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US$13,000,000	100%
[1]Yanbian Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US$10,000,000	100%

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

10. Investments in and loans to subsidiaries (Continued)

(a) Investments in subsidiaries (Continued)

The following is a list of the subsidiaries at 31 December 2009 (continued):

Name	Place of incorporation	Principal activities	Registered capital	Interest held
Indirectly held (continued)				
[1]Shandong Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US$12,000,000	100%
[1]Beijing Huiyuan biotechnology Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US$10,000,000	100%
[1]Benxi Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	RMB80,000,000	100%
[1]Dangshan Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	RMB30,000,000	100%
[1]Zhongxiang Huiyuan Food & Beverage Co., Ltd.	The PRC	Manufacture of fruit and vegetable juices	US$20,000,000	100%
[1]Beijing Tongchenghongye Trading Co., Ltd.*	The PRC	Marketing & sales of fruit and vegetable juices	RMB100,000	100%
[1]Shandong Shengshuiyu Mineral Water Co., Ltd.*	The PRC	Manufacture of mineral water	RMB20,000,000	100%
[1]Ningxia Huiyuan Food & Beverage Co., Ltd. *	The PRC	Manufacture of fruit and vegetable juices	US$15,000,000	100%
[1]Suqian Huiyuan Food & Beverage Co., Ltd. *	The PRC	Manufacture of fruit and vegetable juices	US$15,000,000	100%
[1]Shandong Xinming Huiyuan Food & Beverage Co., Ltd. *	The PRC	Manufacture of milk and dairy drinks	US$22,000,000	100%
[1]Shanxi Yanglin Huiyuan Food & Beverage Co., Ltd. *	The PRC	Manufacture of fruit and vegetable juices	RMB120,000,000	100%
[1]Shandong Yuanda Huiyuan Food & Beverage Co., Ltd. *	The PRC	Manufacture of fruit and vegetable juices	US$8,000,000	100%
[1]Nanchong Huiyuan Food & Beverage Co., Ltd. *	The PRC	Manufacture of fruit and vegetable juices	US$15,000,000	100%

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.

* These subsidiaries were newly established during the year of 2009, the issued share or registered capital of which amounted to US$75,000,000 and RMB140,100,000.

(b) Loans to subsidiaries

The loans to subsidiaries are unsecured, interest free, denominated in USD and EUR, and repayable over one year. The fair value of loans to subsidiaries is RMB563,378,000 (2008: 1,029,317,000), which is based on cash flows discounted using a rate based on the borrowing rate of 1.58% per annum (2008: 4.29% per annum). The discounted rate equals to LIBOR plus a margin depending on credit rating.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

11. Other loans and receivables — Group

	2009 RMB'000	2008 RMB'000
Time deposits	**64,300**	356,786

In 2009, other loans and receivables represent time deposits denominated in RMB in banks with maturities in a range from 3 months to 6 months. The interest return on these time deposits ranged from 1.71% to 1.98% per annum. The deposits are carried at amortised cost using the effective interest method. In 2008, balance represented time deposits denominated in RMB or USD.

Other loans and receivables are presented within "investing activities" as part of changes in the cash flow statement.

12. Deferred tax assets — Group

	2009 RMB'000	2008 RMB'000
Tax losses	**6,088**	7,611
Amortisation of trademark	**8,264**	8,610
Government grants received	**5,193**	5,510
Unrealised profit	**4,590**	819
Provision for impairment of inventories	**3,370**	3,370
Provision for impairment of property, plant and equipment	**1,784**	2,223
Provision for impairment of receivables	**514**	515
Other temporary differences	**5,957**	2,412
	35,760	31,070

The analysis of deferred tax assets is as follows:

	2009 RMB'000	2008 RMB'000
— Deferred tax asset to be recovered after more than 12 months	**28,477**	29,720
— Deferred tax asset to be recovered within 12 months	**7,283**	1,350

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

12. Deferred tax assets — Group (Continued)

The gross movement on the deferred income tax account is as follows:

	2009 RMB'000	2008 RMB'000
At 1 January	**31,070**	24,092
Consolidated statement of comprehensive income charge (note 32)	**4,690**	6,978
At 31 December	**35,760**	31,070

The movement in deferred tax assets is as follows:

	Provisions RMB'000	Deferred government grants RMB'000	Amortisation of trademark RMB'000	Tax losses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2008	8,935	5,328	9,037	160	632	24,092
Credited/(Charged) to the consolidated statement of comprehensive income	(2,827)	182	(426)	7,450	2,599	6,978
At 31 December 2008	**6,108**	**5,510**	**8,611**	**7,610**	**3,231**	**31,070**
Credited/(Charged) to the consolidated statement of comprehensive income	**(440)**	**(317)**	**(347)**	**(1,522)**	**7,316**	**4,690**
At 31 December 2009	**5,668**	**5,193**	**8,264**	**6,088**	**10,547**	**35,760**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB21,472,000 (2008: RMB19,523,000) in respect of losses amounting to RMB85,887,000 (2008: RMB78,093,000) that can be carried forward against future taxable income. Losses amounting to RMB10,566,000 (2008: RMB10,566,000) and RMB176,744,000 (2008: RMB67,527,000) will expire in 2010 and the year after 2010 respectively.

Deferred income tax liabilities of RMB51,349,000 (2008: RMB29,323,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings, totaling RMB513,490,000 at 31 December 2009 (2008: RMB293,234,000), of certain subsidiaries in the PRC. The Group determined that no deferred withholding tax liabilities shall be recognised in respect of the profits of the PRC subsidiaries for the year ended 31 December 2009 and 2008 since the Group has no plan to distribute such profits in the foreseeable future.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

13. Trade and other receivables — Group

	2009 RMB'000	2008 RMB'000
Trade receivables	**333,587**	141,869
Related parties (a) (Note 39(e))	**2,055**	1,367
Third parties (a)	**347,950**	149,427
Less: Provision for impairment of receivables (a)	**(16,418)**	(8,925)
Bills receivable — third parties (b)	**40,495**	121,137
Prepayments of raw materials and others	**524,605**	318,297
Related parties (Note 39(e))	**15,285**	86,765
Third parties	**509,320**	231,532
Other receivables	**34,690**	62,363
Related parties (Note 39(e))	**18,639**	5,016
Third parties	**16,051**	57,347
	933,377	643,666

The carrying amounts of receivables approximate their fair values.

(a) Credit risk with respect to trade receivables is not significant, as the Group has a large number of customers, which are widely dispersed within the PRC. Except for sales to selected long-term distributors and supermarkets which are settled within the credit terms as agreed in sales contracts, the 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. As at 31 December 2009 and 2008, the ageing analysis of the trade receivables was as follows:

— Third parties

	2009 RMB'000	2008 RMB'000
Within 3 months	**307,156**	96,862
Between 4 and 6 months	**21,353**	11,023
Between 7 and 12 months	**7,515**	23,066
Between 1 and 2 years	**11,926**	18,476
	347,950	149,427

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

13. Trade and other receivables — Group (Continued)

(a) (Continued)

— Related parties

	2009 RMB'000	2008 RMB'000
Within 3 months	**653**	1,367
Over 3 months	**1,402**	—
	2,055	1,367

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

	2009 RMB'000	2008 RMB'000
At 1 January	**(8,925)**	(8,715)
Provision for impairment of receivables	**(7,493)**	(210)
At 31 December	**(16,418)**	(8,925)

As at 31 December 2009, there is no trade receivable past due but not impaired. Trade receivables of RMB16,418,000 (2007: RMB8,925,000) were past due and fully provided for. The individually impaired receivables mainly relate to customers, which are in unexpected difficult economic situations. The ageing of these receivables is as follows:

	2009 RMB'000	2008 RMB'000
7 to 12 months	**4,492**	210
Over 1 year	**11,926**	8,715
	16,418	8,925

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2009 RMB'000	2008 RMB'000
Renminbi Yuan	**314,287**	129,829
U.S. Dollar	**19,300**	12,040
	333,587	141,869

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

13. Trade and other receivables — Group (Continued)

(a) (Continued)

The creation and release of provisions for impaired receivables have been included in administrative expenses in the consolidated statement of comprehensive income (Note 28). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(b) Bills receivable

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

There are no bills receivable pledged as security for bank borrowings as at 31 December 2009 (2008: nil).

14. Inventories — Group

	2009 RMB'000	2008 RMB'000
Raw materials	**824,474**	630,917
Finished goods	**164,104**	129,643
	988,578	760,560

The cost of inventories recognised as expenses and included in "cost of sales" amounted to RMB1,426,770,000 (2008: RMB1,564,620,000).

15. Restricted cash

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

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

16. Cash and cash equivalents

	Group		Company	
	2009	**2008**	**2009**	**2008**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Cash at banks and cash in hand				
Denominated in				
— Renminbi Yuan	**516,461**	1,282,636	**—**	58
— U.S. Dollar	**229,320**	3,426	**10,923**	25,487
— Euro	**3,439**	502	**3,298**	—
— Australian Dollar	**159**	—	**159**	—
— HongKong Dollar	**117**	114,412	**83**	42
	749,496	1,400,976	**14,463**	25,587
Less: Restricted cash (Note 15)				
— guarantee	**(32,054)**	(94,355)	**—**	—
	717,442	1,306,621	**14,463**	25,587

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. Share capital and share premium

	Number of shares of USD0.00001 each (Thousands)	**Share capital RMB'000**	**Share premium RMB'000**	**Total RMB'000**
At 1 January 2009 and 31 December 2009	1,468,817	114	3,716,982	3,717,096

There is no change in share capital and share premium since 1 January 2008.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

18. Retained earnings

	Group RMB'000	Company RMB'000
At 1 January 2008	828,084	328,352
Profit/(loss) for the year	88,940	(141,763)
Profit appropriation to statutory reserves	(26,589)	—
Dividends paid	(158,849)	(158,849)
At 31 December 2008	731,586	27,740
At 1 January 2009	**731,586**	**27,740**
Profit/(loss) for the year	**233,474**	**451,065**
Profit appropriation to statutory reserves	**(19,183)**	**—**
Dividends paid	**(22,235)**	**(22,235)**
At 31 December 2009	**923,642**	**456,570**

19. Other reserves

Group	Statutory reserve fund RMB'000 Note (b)	Staff welfare fund RMB'000	Share-based compensation reserve RMB'000	Total RMB'000
Balance at 1 January 2009	**122,539**	**—**	**16,759**	**139,298**
Profit appropriation to statutory reserves	**19,183**	**—**	**—**	**19,183**
Share-based payment expenses	**—**	**—**	**9,754**	**9,754**
Balance at 31 December 2009	**141,722**	**—**	**26,513**	**168,235**
Balance at 1 January 2008	95,950	16,523	3,567	116,040
Profit appropriation to statutory reserves	26,589	—	—	26,589
Share-based payment expenses	—	—	13,192	13,192
Staff welfare funds payment	—	(16,523)	—	(16,523)
Balance at 31 December 2008	122,539	—	16,759	139,298

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

19. Other reserves (Continued)

Company	Capital reserve RMB'000	Share-based compensation reserve RMB'000	Total RMB'000
Balance at 1 January 2009	**4,927,242**	**16,759**	**4,944,001**
Share-based payment expenses	**—**	**9,754**	**9,754**
Balance at 31 December 2009	**4,927,242**	**26,513**	**4,953,755**
Balance at 1 January 2008	4,927,242	3,567	4,930,809
Share-based payment expenses	—	13,192	13,192
Balance at 31 December 2008	4,927,242	16,759	4,944,001

(a) Capital reserve

Capital reserve as at 1 January 2007 represented the aggregate capital contributed by the then equity holders 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 Consolidated Financial Statements (Continued)

As at 31 December 2009

20. Share option and Pre-IPO share option

(a) Pre-IPO Share Option Scheme

The Company adopted the Pre-IPO Share Option Scheme ("Pre-IPO Share Option Scheme") on 30 January 2007, which became effective on 23 February 2007, the Listing Date. The purpose of the Pre-IPO Share Option Scheme is to provide certain members of senior management of the Group an opportunity to have a personal stake in the Company and motivate the grantees to optimize their performance and efficiency to facilitate the long-term growth and profitability of the Group. The principal terms of the Pre-IPO Share Option Scheme, as approved on 30 January 2007 are similar to the terms of the Share Option Scheme ("Share Option Scheme") approved on 30 January 2007 except for the following:

(i) the subscription price per share shall be the Offer Price per share; and

(ii) save for the options which have been granted before 23 February 2007, i.e., the Listing Date, no further options will be offered or granted, as the right to do so will end upon the Listing Date.

The terms of the Pre-IPO Share Option Scheme and the Share Option Scheme were same as those disclosed in the 2008 Annual Report.

The provisions of the Pre-IPO Share Option Scheme shall remain in full force and effect for a period of 10 years from 23 February 2007.

Under the Pre-IPO Share Option Scheme, each option has a 10-year exercise period within which there is a total vesting period of 3 years. Commencing from the first, second and third anniversaries of the date of grant of an option, the relevant grantee may exercise up to 30%, 60%, and 100%, respectively, of the shares comprised in his or her option.

Date of grant	Number of options outstanding as at 1 January 2009	Number of options lapsed or cancelled during the year	Number of options exercised during the year	Number of options outstanding as at 31 December 2009	Date of expiry	Exercise price (HK$)
30 January 2007	1,000,000	–	–	1,000,000	22 February 2017	6.00

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

20. Share option and Pre-IPO share option (Continued)

(a) Pre-IPO Share Option Scheme (Continued)

The Pre-IPO options outstanding as at 31 December 2009 have the following vesting dates and weighted average exercise price:

	2009		2008	
Vesting Date	**Exercise price (per share) HK$**	**Outstanding options (Thousands)**	**Exercise price (per share) HK$**	**Outstanding options (Thousands)**
23 February, 2008	**6**	**300**	6	300
23 February, 2009	**6**	**300**	6	300
23 February, 2010	**6**	**400**	6	400
	6	**1,000**	6	1,000

As at 31 December 2009, a total of 1,000,000 shares (representing approximately 0.07% of the existing issued share capital of the Company) may be issued by the Company upon exercise of all options which had been granted under the Pre-IPO Share Option Scheme.

(b) Share Option Scheme

The Company adopted the Share Option Scheme on 30 January 2007 which has become effective on 23 February 2007, the Listing Date.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not in aggregate exceed 138,749,750 shares of the Company, being 10% of the total number of shares in issue immediately prior to the date on which dealings in the Shares commenced on The Stock Exchange of Hong Kong Limited. The Share Option Scheme will remain in force for a period of 10 years from 23 February 2007. Under the Share Option Scheme, each option has a 10-year exercise period. The subscription price per share shall be the market price on the grant date.

35,450,000 share options granted under the Share Option Scheme on 25 February 2008 have a vesting period of five years. Commencing from the first, second, third and fourth anniversary of the date of grant, the relevant grantee may exercise up to 25%, 50%, 75% and 100%, respectively, of the shares comprised in his or her option.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

20. Share option and Pre-IPO share option (Continued)

(b) Share Option Scheme (Continued)

Date of grant	Date of expiry	Exercise Price (HK$)	Number of underlying shares comprised in the options outstanding as at 1 January 2009	Number of underlying shares comprised in the options lapsed or cancelled during the year	Number of underlying shares comprised in the options exercised during the year	Number of underlying shares comprised in the options outstanding as at 31 December 2009
25 February 2008	25 February 2018	6.39	28,960,500	–	–	28,960,500

(c) Fair value of share options

The fair value of the Pre-IPO Share Options and the Share Options granted has been valued by an independent qualified valuer using the Binomial valuation model.

	RMB'000
Fair value of Pre-IPO Share Options granted on 30 January 2007	4,031
Fair value of the Share Options granted on 25 February 2008	29,174
	33,205

The details of fair values and significant inputs into the model were as follows:

Grant date	25 February 2008	30 January 2007
Spot share price (HK$)	**6.39**	9
Strike price (HK$)	**6.39**	6
Expected volatility	**44.81%**	34.40%
Maturity (years)	**10**	10
Interest rate	**3.64%**	4.26%
Dividend yield	**2.87%**	1.13%
Suboptimal exercise factor	**1.5**	1.5

The expected volatility is estimated by making reference to the volatility of the Company and the other companies with similar backgrounds and/or nature of business as the Company.

Fair values of the Pre-IPO Share Options and the Share Options are charged to the consolidated statement of comprehensive income over the vesting periods of the options. Total share option expenses charged to the consolidated statement of comprehensive income for year 2009 amounted to RMB9,754,000 (2008: 13,192,000).

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

21. Trade and other payables

Group	2009 RMB'000	2008 RMB'000
Trade payables (a)(b)	**319,077**	152,691
Related parties (Note 39(e))	**—**	3,994
Third parties	**319,077**	148,697
Other payables	**416,108**	319,622
Related parties (Note 39(e))	**4,720**	466
Third parties (c)	**411,388**	319,156
	735,185	472,313

(a) Details of ageing analysis of trade payables are as follows:

— Third parties

	2009 RMB'000	2008 RMB'000
Within 3 months	**308,378**	138,743
Between 4 and 6 months	**4,671**	3,999
Between 7 and 12 months	**1,717**	2,312
Between 1 and 2 years	**2,152**	2,051
Between 2 and 3 years	**870**	174
Over 3 years	**1,289**	1,418
	319,077	148,697

— Related parties

	2009 RMB'000	2008 RMB'000
Within 3 months	**—**	3,438
Between 4 and 6 months	**—**	357
Between 7 and 12 months	**—**	199
Between 1 and 2 years	**—**	—
	—	3,994

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

21. Trade and other payables (Continued)

(b) The carrying amounts of the Group's trade payables were denominated in the following currencies:

	2009 RMB'000	2008 RMB'000
Renminbi Yuan	**308,191**	145,429
U.S. Dollar	**10,886**	7,233
Euro	**—**	29
	319,077	152,691

(c) Details of other payables — third parties are as follows:

	2009 RMB'000	2008 RMB'000
Payable for property, plant and equipment	**101,108**	145,387
Advance from customers	**84,330**	27,206
Deposits payable	**55,293**	45,753
Accrued expenses	**48,247**	30,521
Advertising expenses payable	**38,328**	21,709
Salary and welfare payable	**31,994**	23,542
Other taxes	**27,828**	4,794
Payable for land use rights	**1,376**	3,714
Others	**22,884**	16,530
	411,388	319,156

Company	2009 RMB'000	2008 RMB'000
Payable for expenses	**24,116**	10,338
Payable for interest of borrowing	**—**	12,034
	24,116	22,372

22. Borrowings

Bank borrowings:

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Non-current	**285,299**	478,266	**285,299**	478,266
Current	**403,248**	460,235	**347,248**	460,235
Total borrowings	**688,547**	938,501	**632,547**	938,501
Bank borrowings:				
Unsecured	**688,547**	938,501	**632,547**	938,501

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

22. Borrowings (Continued)

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

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
— Within 6 months	**688,547**	938,501	**632,547**	938,501

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

	Group		Company	
Bank borrowings	**1.54%**	4.29%	**1.58%**	4.29%

Since the non-current bank borrowings are bearing floating interesting rates, which equal to Libor plus appropriate credit rating, their carrying amounts approximate their fair value.

The carrying amounts of current borrowings approximate their fair value.

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

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
U.S. Dollar	**632,547**	938,501	**632,547**	938,501
Reminbi	**56,000**	—	**—**	—
	688,547	938,501	**632,547**	938,501

The Group had no borrowings secured by property, plant and equipment, land use right or guarantees given by related parties.

The Group had no undrawn borrowing facilities as at 31 December 2009 (2008: nil).

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

23. Deferred government grants — Group

	2009 RMB'000	2008 RMB'000
Opening net amount at beginning of year	**65,009**	65,662
Additions	**1,799**	1,060
Amortisation credit (Note 26)	**(2,805)**	(1,713)
Closing net amount at end of year	**64,003**	65,009
At end of year		
Cost	**80,257**	78,455
Accumulated amortisation	**(16,254)**	(13,446)
Net book amount	**64,003**	65,009

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

	2009 RMB'000	2008 RMB'000
For acquisition of property, plant and equipment	**67,703**	34,969
For acquisition of land use right	**8,644**	39,195
Others	**3,910**	4,291
	80,257	78,455

24. Long-term payable for land use right — Group

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

25. Convertible Bonds

	2009 RMB'000	2008 RMB'000
Convertible Bonds due 2011, liability component	**546,540**	517,082
Fair value of embedded derivatives	**151,693**	552,314
	698,233	1,069,396

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

25. Convertible Bonds (Continued)

On 5 February 2007, the Company, China HuiYuan Juice Holdings Co., Ltd., the then holding company of the Company, and the holders of Convertible Bonds issued by China HuiYuan 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") and an additional US$675,000 (equivalent to approximately RMB5,265,000) convertible bonds as an interest payment in kind (the "PIK") 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 on 23 February 2007, the Company recorded the estimated fair value of the Convertible Bonds as a distribution to equity holders.

The major terms and conditions of the Convertible Bonds are the same as those described in the annual financial statements for the year ended 31 December 2008.

As the optional redemption right had lapsed as at 31 December 2009, the Convertible Bonds had been reclassified from current liabilities to non-current liabilities.

As at 28 December 2007 and 27 June 2008, Convertible Bonds issued upon exercise of the PIK option of the Convertible Bonds (the "PIK Bonds") had face values of US$830,000 and US$821,000 respectively. The holder of above bonds exercised their redemption right to redeem PIK Bonds with face value of US$2,326,000 in June 2009.

As at 31 December 2007, bonds with a face value US$14,000,000 have been converted into ordinary shares of the Company at the price of HK$5.1 per share during the period from August to October 2007. Accordingly, ordinary shares of the Company increased by 21,318,607 shares as at 31 December 2007. There was no conversion of bonds during 2008 and 2009.

The fair value of the Convertible Bonds was determined by an independent qualified valuer based on the Binomial valuation model. The fair value of the liability component on initial recognition was valued using a discounted cashflow model. The fair value of the conversion rights, together with redemption rights and interest settlement options (considered as a single derivative) (the "conversion rights") was valued by estimating the value of the whole bond with and without the conversion feature. The difference in value reflects the value of the conversion rights.

	RMB'000
Fair value of conversion rights as at 31 December 2008	552,314
Less: Fair value of conversion rights as at 31 December 2009	(151,693)
Fair value changes of conversion rights	400,621

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

25. Convertible Bonds (Continued)

The fair value change in the conversion rights, redemption rights and interest settlement options for the year is RMB400,302,000 (2008: negative RMB109,669,000), which is recognised in the consolidated statement of comprehensive income and disclosed separately. The related interest expense of the liability component of the Convertible Bonds for the year ended 31 December 2009 amounted to RMB58,131,000 (2008: RMB53,822,000), which is calculated using the effective interest method with an effective interest rate of 11.38%.

	RMB'000
Liability component as at 31 December 2008	517,082
Add: Interest expense for the year (Note 30)	58,131
Less: Interest payment during the year	(12,292)
Payment for redemption of PIK Bonds	(15,891)
Unrealised exchange gain (Note 31)	(490)
Liability component as at 31 December 2009	546,540

The fair value of the liability component of the Convertible Bonds at 31 December 2009 amounted to RMB544,714,000. The fair value is calculated using cash flows discounted at a rate based on borrowing rate of 7.71% per annum.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

26. Other income — net

	2009 RMB'000	2008 RMB'000
Subsidy income	**16,807**	20,084
Net income from sales of materials and scrap	**12,111**	19,278
Interest income from other loans and receivables	**5,597**	30,735
Amortisation of deferred government grants (Note 23)	**2,805**	1,713
Rental income from property, plant and equipment	**1,224**	1,605
Donation	**(1,456)**	(8,337)
(Loss)/gain on disposals of property, plant and equipment	**(10,103)**	1,787
Others	**1,910**	5,792
	28,895	72,657

27. Other (losses)/gains — net

	2009 RMB'000	2008 RMB'000
Interest rate swap product	**106**	1,849
Loss on disposal of a subsidiary (Note 39(d))	**(736)**	—
	(630)	1,849

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

28. Expenses by nature

	2009 RMB'000	2008 RMB'000
Raw materials used in inventories (Note 14)	**1,426,770**	1,564,620
Advertising and other marketing expenses	**626,360**	468,025
Depreciation of property, plant and equipment (Note 8)	**210,380**	172,318
Employee benefit expense (Note 29)	**202,991**	110,680
Water and electricity	**142,400**	121,512
Transportation and related charges	**121,322**	92,054
Repairs and maintenance	**31,833**	44,006
Impairment loss of inventories	**31,357**	2,152
Office and communication expenses	**21,628**	18,234
Amortisation of land use rights and intangible assets (Note 7, 9)	**21,336**	14,363
Travelling expense	**17,326**	13,163
Impairment loss for trade and other receivables	**15,443**	210
Land use tax	**14,446**	14,962
Rental expenses	**7,299**	7,950
Auditors' remuneration	**3,800**	4,300
Other expenses	**46,896**	30,268
Total cost of sales, selling and marketing and administrative expenses	**2,941,587**	2,678,817

29. Employee benefit expense

	2009 RMB'000	2008 RMB'000
Wages and salaries	**166,921**	93,420
Contributions to pension plan and other benefits	**26,316**	4,068
Share-based payment expenses	**9,754**	13,192
	202,991	110,680

(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 a certain rate of the employees' basic salary dependent upon the applicable local regulations.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

29. Employee benefit expense (Continued)

(b) Directors' emoluments

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

	2009 RMB'000	2008 RMB'000
Salaries, wages and bonuses	**5,332**	5,193
Contributions to pension plan	**38**	50
Welfare and other expenses	**45**	52
	5,415	5,295

The emoluments of the directors were as follows:

	2009			
Name of director	Salaries, wages and bonuses RMB'000	Contributions to pension plan RMB'000	Welfare and other expenses RMB'000	Total RMB'000
Zhu Xinli	**2,365**	**24**	**27**	**2,416**
Jiang Xu	**1,067**	**14**	**18**	**1,099**
Wu Chungkuan	**1,100**	**—**	**—**	**1,100**
Qing Peng	**—**	**—**	**—**	**—**
Sun Qiang Chang	**—**	**—**	**—**	**—**
Wang Bing	**200**	**—**	**—**	**200**
Zhao Yali	**200**	**—**	**—**	**200**
Tsui Yiu Wa	**200**	**—**	**—**	**200**
Song Quanhou	**200**	**—**	**—**	**200**

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

29. Employee benefit expense (Continued)

(b) Directors' emoluments (Continued)

	2008			
Name of director	Salaries, wages and bonuses RMB'000	Contributions to pension plan RMB'000	Welfare and other expenses RMB'000	Total RMB'000
Zhu Xinli	2,879	30	30	2,939
Jiang Xu	314	20	22	356
Wu Chungkuan	1,200	—	—	1,200
Qing Peng	—	—	—	—
Sun Qiang Chang	—	—	—	—
Wang Bing	200	—	—	200
Zhao Yali	200	—	—	200
Tsui Yiu Wa	200	—	—	200
Song Quanhou	200	—	—	200

None of the directors waived any emoluments during the years ended 31 December 2009 and 2008.

During the year, no emoluments have been paid to the directors as an inducement to join or as compensation for loss of office (2008: nil).

(c) Five highest paid individuals

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

	2009	2008
Directors	**3**	2
Other senior management	**2**	3

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

29. Employee benefit expense (Continued)

(c) Five highest paid individuals (Continued)

The five highest paid individuals include three (2008: two) directors whose emoluments were reflected in the analysis presented in Note 29(b). Details of remuneration of members of other senior management amongst the five highest paid individuals were as follows:

	2009 RMB'000	2008 RMB'000
Salaries, wages and bonuses	**1,603**	2,077
Contributions to pension plan	**22**	30
Welfare and other expenses	**20**	34
Share-based payment expenses	**364**	1,336
	2,009	3,477

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

	Number of individuals 2009	2008
Nil–HK$1,000,000 (equivalent to approximately RMB880,500 on 31 December, 2009 or RMB881,900 on 31 December, 2008)	**1**	2
Above HK$1,000,000	**1**	1

30. Finance cost

	2009 RMB'000	2008 RMB'000
Interest expenses:		
— Bank borrowings	**16,461**	31,842
— Interest expense relating to Convertible Bonds (Note 25)	**58,131**	53,822
Less: Interest capitalised	**(10,967)**	(18,787)
	63,625	66,877
Weighted average effective interest rates used to calculate capitalisation amount	**1.78%**	4.29%

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

31. Finance income

	2009 RMB'000	2008 RMB'000
Interest income:		
— from bank deposits	**7,649**	10,883
Exchange gain (excluding Convertible Bonds)	**170**	36,532
Exchange gain on liability component of Convertible Bonds (Note 25)	**490**	32,553
	8,309	79,968

32. Income tax expense

	2009 RMB'000	2008 RMB'000
Current income tax — PRC enterprise income tax	**35,826**	36,888
Deferred income tax credit (Note 12)	**(4,690)**	(6,978)
	31,136	29,910

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:

	2009 RMB'000	2008 RMB'000
Profit before income tax	**264,610**	118,850
Tax calculated at the statutory tax rates of 25% (2008: 25%)	**66,153**	29,713
Tax effect:		
Fair value change in conversion rights of Convertible Bonds not subject to tax	**(100,155)**	27,418
Expense not deductible for tax purpose	**67,211**	14,200
Tax losses for which no deferred income tax asset was recognised	**21,472**	6,064
Preferential tax rates on the income of certain subsidiaries	**(22,245)**	(39,883)
Income not subject to tax	**(1,300)**	(7,602)
Income tax expense	**31,136**	29,910

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

32. Income tax expense (Continued)

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

According to the Corporate Income Tax Law of the PRC as approved by the Notional People's Congress on 16 March 2007, the profits of the PRC subsidiaries of the Group derived since 1 January 2008 will be subject to withholding tax at rates of 5% or 10% upon the distribution of such profits to foreign investors based in or companies incorporated in Hong Kong, or for other foreign investors respectively. The Group determined that no deferred withholding tax liabilities shall be recognised in respect of the profits of the PRC subsidiaries for the year ended 31 December 2008 and 2009 since the Group plans to reinvest such profits to set up new companies in the PRC and has no plan to distribute such profits in the foreseeable future.

33. Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB451,064,000 (2008: loss of RMB141,763,000).

34. Earnings/(losses) per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	2009 RMB'000	2008 RMB'000
Profit attributable to equity holders of the Company	**233,474**	88,940
Weighted average number of ordinary shares in issue (thousands)	**1,468,817**	1,468,817
Basic earnings per share (RMB cents)	**15.9**	6.1

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

34. Earnings/(losses) per share (Continued)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive ordinary shares. The Company's potentially dilutive ordinary shares comprised shares which may be issued under its Convertible Bonds and share option schemes. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market price of the Company's shares during the period) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the conversion of the Convertible Bonds and the exercise of the share options, with the difference being adjusted in arriving at the weighted average number of shares for diluted earnings per shares, of which details are as follows:

	2009 RMB'000	2008 RMB'000
Profit attributable to equity holders of the Company	**233,474**	88,940
Add: Interest expense relating to Convertible Bonds	**58,131**	—*
Less: Unrealised exchange gain relating to Convertible Bonds	**(490)**	—*
Less: Fair value changes of conversion rights of Convertible Bonds	**(400,621)**	—*
(Loss)/profit attributable to equity holders of the Company, used to determine diluted (losses)/earnings per share	**(109,506)**	88,940
Weighted average number of ordinary shares in issue (thousands)	**1,468,817**	1,468,817
Adjustment for Convertible Bonds (thousands)	**107,911**	—*
Adjustment for share options (thousands)	**—***	1,707
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,576,728**	1,470,524
Diluted (losses)/earnings per share (RMB cents)	**(6.9)**	6.0

* In 2008, the impact on interest expense of, unrealised exchange loss of and fair value changes of conversion rights of, Convertible Bonds are antidilutive and have therefore been excluded from the calculation of diluted (losses)/earning per share.

In 2009, share options are antidilutive and have therefore been excluded from the calculation of diluted (losses)/earnings per share.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

35. Dividends

The Board recommended the payment of a final dividend of RMB0.040 per ordinary share, totalling RMB58,753,000 (2008: RMB0.015 per ordinary share, totalling RMB22,235,000), which is calculated based on the total number of outstanding ordinary shares at 31 December 2009. Such dividend is to be approved by the shareholders at the forthcoming annual general meeting for 2009.

36. Notes to consolidated cash flow statement

	2009 RMB'000	2008 RMB'000
Profit before income tax	**264,610**	118,850
Adjustments for:		
— Share-based payment expenses (Note 20)	**9,754**	13,192
— Fair value changes of convertible right of Convertible Bonds (Note 25)	**(400,621)**	109,669
— Amortisation of deferred government grants (Note 23)	**(2,805)**	(1,713)
— Depreciation of property, plant and equipment (Note 8)	**210,380**	172,318
— Amortisation of land use right and intangible assets (Notes 7, 9)	**21,336**	14,363
— Provision for inventory	**10,933**	—
— Provision for trade receivable (Note 13)	**7,493**	210
— (Loss)/gain on disposal of property, plant and equipment (Note 26)	**10,103**	(1,787)
— Other gains from derivative instrument (Note 27)	**(106)**	(1,849)
— Interest income from other loans and receivables (Note 26)	**(5,597)**	(30,735)
— Interest income from bank deposits and money market funds (Note 31)	**(7,649)**	(10,883)
— Interest expense relating to Convertible Bonds (Note 30)	**58,131**	53,822
— Interest expense (Note 30)	**5,494**	13,055
— Loss on disposal of a subsidiary (Note 39(d))	**736**	—
— Exchange gains on Convertible Bonds (Notes 25, 31)	**(490)**	(32,553)
— Exchange gain (excluding Convertible Bonds) (Note 31)	**(170)**	(36,532)
	181,532	379,427
Changes in working capital:		
— Inventories	**(241,956)**	(18,516)
— Trade and other receivables	**(95,550)**	125,084
— Trade and other payables	**326,792**	(254,376)
— Deferred revenue	**16,033**	(8,771)
Cash generated from operations	**186,851**	222,848

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

37. Contingencies

There were no material contingent liabilities as at 31 December 2009 (2008: nil).

38. Commitments

(a) Capital commitments

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

	2009 RMB'000	2008 RMB'000
Purchase of property, plant and equipment	**439,319**	63,694

(b) Operating lease commitments

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

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

The Group is the lessee

	2009 RMB'000	2008 RMB'000
No later than 1 year	**3,925**	4,438
Later than 1 year and no later than 5 years	**8,002**	9,900
Later than 5 years	**6,000**	6,000
	17,927	20,338

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

39. 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 companies beneficially owned by Mr. Zhu Xinli were related parties of the Group.

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

Continuing transaction

	2009 RMB'000	2008 RMB'000
Sales of goods and services		
Sales of recyclable containers	**23,089**	24,828
Income for provision of power and other utilities	**4,340**	2,133
Income for lease of trademark use right	**—**	1,479
	27,429	28,440
Purchase of materials and services		
Purchase of raw materials	**619,371**	518,993
Rental expenses for lease of property, plant and equipment and land use rights	**2,000**	2,160
Expenses for power and other utilities	**1,133**	1,724
	622,504	522,877
Key management compensation		
Salaries, wages and bonuses	**9,992**	9,225
Contributions to pension plan	**146**	232
Welfare and other expenses	**176**	256
Share option expenses	**9,754**	13,192
	20,068	22,905

In the year of 2008 and 2009, one subsidiary of the Group, Beijing Huiyuan Food & Beverage Co., Ltd has been using and will continue to use certain offices premises owned by Beijing Huiyuan Beverage & Food Group Co. Ltd., a related company beneficially owned by Mr. Zhu Xinli, at nil cost.

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 Consolidated Financial Statements (Continued)

As at 31 December 2009

39. Related-party transactions (Continued)

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

Discontinued transactions

	2009 RMB'000	2008 RMB'000
Sales of goods and services		
Sales of raw materials to related parties	**711**	521
Sales of goods to related parties	**245**	1,364
Net book value of land use right and property, plant and equipment sold to related parties	**—**	283
Advance paid by related parties on behalf of the Group	**—**	6,713
	956	8,881
Purchase of materials and services		
Purchase of raw materials from related parties	**602**	705
Purchase of goods from related parties	**42**	24
Purchase of property, plant and equipment from related parties	**—**	437
	644	1,166

In 2009, a related company of the Group, Beijing Huiyuan Beverage & Food Group Co. Ltd., provided the Group with the right to use three production lines at no consideration (2008: Three).

(c) Business combinations

On 27 July 2009, Xinming Beverage, a wholly-owned subsidiary of the Company entered into an assets transfer agreement with Zibo Beverage, a related party beneficially owned by Mr. Zhu Xinli to acquire a business engaged in the manufacturing and sales of milk beverage for a cash consideration of RMB133,837,000.

The transaction was completed on 1 October 2009. The acquired business contributed revenue of RMB12,291,000 and a net loss of RMB321,000 to the Group for the period from 1 October 2009 to 31 December 2009.

The consideration is based on fair value determined by an independent qualified valuer and no goodwill has been recognised.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

39. Related-party transactions (Continued)

(c) Business combinations (Continued)

The assets and liabilities as at 1 October 2009 arising from the acquisition are as follows:

	Fair value RMB'000	Acquiree's carrying amount RMB'000
Land use rights (note 7)	12,638	2,253
Property, plant and equipment (note 8)	73,742	69,636
Inventories	7,897	5,391
Fair value of net assets	**94,277**	**77,280**
Sales distribution network (note 9)	39,560	—
Total purchase consideration	**133,837**	
Purchase consideration settled in cash		(133,837)
Cash outflow on acquisition		**(133,837)**

There were no acquisitions in the year ended 31 December 2008.

(d) Disposal of a subsidiary

On 31 July 2009, Huiyuan Beijing Holdings Limited, a wholly-owned subsidiary of the Company entered into an equity transfer agreement with Beijing Huiyuan Beverage & Food Group Co., a related party beneficially owned by Mr. Zhu Xinli to transfer a 100% equity interest in Tai'an Huiyuan Food & Beverage Co., Ltd. for a cash consideration of RMB151,403,000.

Details of net assets and loss on disposal are as follows:

	2009 RMB'000
Proceeds on disposal of the subsidiary	173,050
Less: loan to the subsidiary	(73,690)
Net book value of the subsidiary disposed — shown as below	(100,096)
Loss on disposal of the subsidiary	(736)

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

39. Related-party transactions (Continued)

(d) Disposal of a subsidiary (Continued)

The assets and liabilities arising from the disposal are as follows:

	Acquiree's carrying amount RMB'000
Cash and cash equivalents	21,647
Trade and other receivables and prepayments	25,226
Inventories	10,901
Property, plant and equipment (Note 8)	130,739
Other payables	(14,727)
Loan from shareholder	(73,690)
Net liabilities	**100,096**
Proceeds received in cash	173,050
Cash and cash equivalents in the disposed subsidiary	(21,647)
Cash inflow on disposal	151,403

(e) Year-end balances due from or due to related parties were as follows:

	2009 RMB'000	2008 RMB'000
Trade receivables	**2,055**	1,367
Other balance due from related parties	**18,639**	5,016
Prepayment of raw materials and others*	**15,285**	86,765
Trade payables	**—**	3,994
Other balance due to related parties	**4,720**	466
Maximum balance of receivables during the year:		
Trade receivables	**2,055**	10,067
Other receivables	**18,639**	38,656
Prepayment of raw materials and others	**175,593**	146,504

* These represent prepayments made to Huiyuan Beverage & Food Group Co., Ltd. and its subsidiaries, which are beneficially owned by Mr. Zhu Xinli, a director and Chairman of the Group in respect of the purchase of certain juice concentrate.

The balances due from or to related parties are unsecured and non-interest bearing.

Notes to the Consolidated Financial Statements (Continued)

As at 31 December 2009

40. Events after the balance sheet date

In February 2010, the Group obtained a credit line amounting to RMB400,000,000 from Bank of China.

Glossary of Terms

"Board"	the board of directors of our Company
"Bond Holders"	the holders of Convertible Bonds
"BVI"	the British Virgin Islands
"China Huiyuan Holdings"	China Hui Yuan Juice Holdings Co., Ltd. (中國滙源果汁控股有限公司*), a limited liability company incorporated in the Cayman Islands
"China" or "PRC"	the People's Republic of China excluding, for the purpose of this report, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Company", "our Company", "we", "us" or "our"	China Huiyuan Juice Group Limited (中國滙源果汁集團有限公司*), a limited liability company incorporated in the Cayman Islands on 14 September 2006, and where the context otherwise requires, all of its subsidiaries and associated companies
"Convertible Bonds"	US$85,000,000 convertible bonds due 28 June 2011
"Danone"	Groupe Danone S.A.
"Danone Asia"	Danone Asia Pte. Ltd., a wholly owned subsidiary of Danone incorporated in Singapore
"Financial Management and Audit Committee"	the financial management and audit committee of the Company as set up by the Board on 21 September 2006

Glossary of Terms (Continued)

"Group" or "Huiyuan Juice"	the Company and its subsidiaries at the relevant time or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company or the businesses operated by the present subsidiaries or (as the case may be) its predecessor
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Hong Kong Stock Exchange of Hong Kong Limited (as amended from time to time)
"Huiyuan Holdings"	Huiyuan International Holdings Limited (滙源國際控股有限公司*), a company incorporated in the BVI
"Listing Date"	23 February 2007 being the date on which dealings in the shares of the Company first commence on the Hong Kong Stock Exchange
"Offer Price"	HK$6.00 per share (exclusive of brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee), at which the Shares of the Company were sold under the global offering described in the Prospectus
"Ordinary Shares" or "Shares"	Ordinary shares of US$0.00001 each in the share capital of the Company

Glossary of Terms (Continued)

"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme conditionally adopted pursuant to written resolution passed by the sole shareholder on 30 January 2007, the principal terms of which are summarized in the section headed "Pre-IPO Share Option Scheme" in Appendix VII "Statutory and General Information" to the Prospectus
"Prospectus"	the prospectus issued by the Company on 8 February 2007 in relation to its initial global offering and listing of shares on the Hong Kong Stock Exchange
"Remuneration and Nomination Committee"	the remuneration and nomination committee of the Company as set up by the Board on 21 September 2006
"RMB" or "Renminbi"	Renminbi yuan, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share Option Scheme"	the share option scheme conditionally adopted pursuant to a resolution passed by the Company's shareholders at an extraordinary general meeting of the Company held on 30 January 2007, the principal terms of which are summarized in the section headed "Share Option Scheme" in Appendix VII "Statutory and General Information" to the Prospectus

Glossary of Terms (Continued)

"United States"	The United States of America
"United States $" or "US$"	United States dollars, the lawful currency of the United States

The terms "associate", "connected person", "connected transaction", "controlling shareholder", "independent third party", "subsidiary" and "substantial shareholder" shall have the meanings given to these terms under the Hong Kong Listing Rules.