



SunGreen

Interim Report 2006



SUNGREEN INTERNATIONAL HOLDINGS LIMITED

綠陽國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8306)

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This report, for which the directors (the “Directors”) of Sungreen International Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) for the purposes of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



HIGHLIGHTS

- Achieved a turnover of approximately RMB82.0 million for the six months ended 30 June 2006, representing an approximately 16.6% increase as compared with that of the corresponding period in 2005.
- Profit of the Group attributable to equity holders of the parent for the six months ended 30 June 2006 amounted to approximately RMB6.2 million, representing a slightly decrease of approximately 1.0% over the corresponding period in 2005.
- The Directors do not recommend an interim dividend for the six months ended 30 June 2006.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

The board of directors of Sungreen International Holdings Limited (the “Board”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2006, together with the comparative figures for the corresponding period in 2005 as follows:

	Notes	Six months ended 30 June		Three months ended 30 June	
		2006 RMB (unaudited)	2005 RMB (unaudited)	2006 RMB (unaudited)	2005 RMB (unaudited)
Revenue	2	82,040,729	70,372,161	44,277,165	44,825,468
Cost of sales		(48,688,241)	(41,504,598)	(25,384,700)	(26,305,294)
Gross profit		33,352,488	28,867,563	18,892,465	18,520,174
Other operating income		5,119,475	326,525	2,828,274	298,472
Selling and distribution costs		(18,799,680)	(9,803,401)	(9,775,354)	(6,606,943)
Administrative expenses		(6,924,693)	(6,545,889)	(4,324,212)	(3,412,018)
Other operating expenses		-	(53,605)	-	(51,413)
Profit from operations	3	12,747,590	12,791,193	7,621,173	8,748,272
Finance costs		(1,083,146)	(1,854,060)	(581,261)	(1,234,638)
Profit before tax		11,664,444	10,937,133	7,039,912	7,513,634
Income tax expenses	4	(1,067,942)	-	(714,942)	-
Profit for the period		10,596,502	10,937,133	6,324,970	7,513,634
Attributable to:					
Equity holders of the parent		6,207,664	6,269,100	3,784,543	4,270,681
Minority interest		4,388,838	4,668,033	2,540,427	3,242,953
		10,596,502	10,937,133	6,324,970	7,513,634
Dividends	5	-	-	-	-
Earnings per share, basic (cents)	6	7.76	7.84	4.73	5.34

UNAUDITED CONSOLIDATED BALANCE SHEET

	Notes	As at 30 June 2006 RMB (unaudited)	As at 31 December 2005 RMB (audited)
Non-Current Assets			
Intangible assets		2,164,333	2,620,833
Property, plant and equipment	7	34,698,712	36,082,090
Prepaid lease payments		28,557,363	28,870,275
		<u>65,420,408</u>	<u>67,573,198</u>
Current Assets			
Inventories		16,088,008	12,496,778
Trade receivables	8	47,865,126	29,800,027
Other receivables and prepayments		12,884,605	11,434,805
Held for trading investments		300,000	350,000
Prepaid lease payments		628,930	630,483
Amount due from a related company		1,310,000	1,310,000
Amount due from a director		–	3,950
Other advance		–	2,000,000
Bank balances and cash		74,098,324	62,006,821
		<u>153,174,993</u>	<u>120,032,864</u>
Current Liabilities			
Trade payables	9	1,892,605	933,687
Tax liabilities		1,067,942	–
Other payables and accrued charges		7,324,342	4,381,370
Amount due to a related company		1,260,889	834,303
Dividend payable to the shareholders of a subsidiary		17,225,492	17,225,492
Bank borrowings – due within one year	10	48,000,000	33,000,000
		<u>76,771,270</u>	<u>56,374,852</u>
Net Current Assets		<u>76,403,723</u>	<u>63,658,012</u>
		<u>141,824,131</u>	<u>131,231,210</u>
Capital and Reserves			
Share capital	11	848,000	848,000
Reserves		102,628,000	96,423,917
Equity attributable to equity holders of the parent		103,476,000	97,271,917
Minority interests		38,348,131	33,959,293
Total equity		<u>141,824,131</u>	<u>131,231,210</u>



UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2006

	Share capital RMB	Share premium RMB	Capital reserve RMB	Statutory reserve RMB	Translation reserve RMB	Special reserve RMB	Retained profits RMB	Total RMB	Minority interests RMB	Total RMB
As at 1 January 2005	8,268	-	-	5,115,227	-	74,420	7,571,979	12,769,894	27,056,297	39,826,191
Arise upon conversion issue	180,564	28,418,236	-	-	-	-	28,598,800	-	-	28,598,800
Share issued on listing	212,000	52,788,000	-	-	-	-	53,000,000	-	-	53,000,000
Contribution from shareholders	-	-	6,782,518	-	-	-	6,782,518	-	-	6,782,518
Capitalisation issue of shares	243,436	(243,436)	-	-	-	-	-	-	-	-
Transaction costs attributable to issue of new shares	-	(12,056,881)	-	-	-	-	(12,056,881)	-	-	(12,056,881)
Profit for the period	-	-	-	-	-	-	6,269,100	6,269,100	4,668,033	10,937,133
Arising in reorganisation	203,732	-	-	-	-	(203,732)	-	-	-	-
As at 30 June 2005	848,000	68,905,919	6,782,518	5,115,227	-	(129,312)	13,841,079	95,363,431	31,724,330	127,087,761
Exchange difference arising on translation of foreign operations recognised directly in equity	-	-	-	-	(885,884)	-	-	(885,884)	-	(885,884)
Transaction costs attributable to issue of new shares	-	8,294,719	-	-	-	-	8,294,719	-	-	8,294,719
Appropriated from retained profits	-	-	-	1,752,840	-	-	(1,752,840)	-	-	-
(Loss) Profit for the period	-	-	-	-	-	-	(5,500,349)	(5,500,349)	2,234,963	(3,265,386)
As at 31 December 2005 and 1 January 2006	848,000	77,200,638	6,782,518	6,868,067	(885,884)	(129,312)	6,587,890	97,271,917	33,959,293	131,231,210
Exchange difference arising on translation of foreign operations recognised directly in equity	-	-	-	-	(3,581)	-	-	(3,581)	-	(3,581)
Profit for the period	-	-	-	-	-	-	6,207,664	6,207,664	4,388,838	10,596,502
As at 30 June 2006	848,000	77,200,638	6,782,518	6,868,067	(889,465)	(129,312)	12,795,554	103,476,000	38,348,131	141,824,131

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2006	2005
	RMB	<i>RMB</i>
	(unaudited)	(unaudited)
Net cash outflow from operating activities	(3,141,137)	(4,328,165)
Net cash inflow/(outflow) from investing activities	1,315,786	(2,901,015)
Net cash inflow from financing activities	13,916,854	20,943,119
Net increase in cash and cash equivalents	12,091,503	13,713,939
Cash and cash equivalents at the beginning of the period	62,006,821	46,166,867
Cash and cash equivalents at the end of the period, representing bank balances and cash	74,098,324	59,880,806



Notes:

1. GROUP RESTRUCTURING AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company was incorporated in Bermuda on 14 April 2004 as an exempted company under the Companies Act 1981 of Bermuda (as amended) and its shares have been listed on the GEM of the Stock Exchange with effect from 28 February 2005. The Directors consider that the Company's parent and ultimate holding company is Callaway Group Limited, a company incorporated in British Virgin Islands.

The financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Company.

The Company is an investment holding company. Its principal subsidiary is engaged in the research and development, manufacture, sale and distribution of organic potash fertilizers products.

Under a group reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the GEM of the Stock Exchange, the Company became the holding company of the Group on 16 February 2005. Details of the group reorganisation are set out in appendix V of the prospectus of Company dated 21 February 2005.

Prior to 16 February 2005, the entire interests of the Company and the entities now controlled by the Company (the "Subsidiaries") were separately held by Callaway Group Limited. On 16 February 2005, Callaway Group Limited transferred the entire interests in the Subsidiaries to the Company. As International Financial Reporting Standards ("IFRS") does not specify the accounting for business combinations under common control, the Group has elected to apply principles of uniting of interests (merger accounting) in respect of this business combination under common control. Accordingly, the consolidated income statement, consolidated cash flow statement and relevant notes included in the results of the Group have been prepared as if current group structure had been in existence throughout the year ended 31 December 2005.

The accounting policies adopted in preparing the unaudited consolidated results for the six months ended 30 June 2006 is consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005. The consolidated results for the six months ended 30 June 2006 are unaudited but have been reviewed by the Company's audit committee.

2. REVENUE

The Group is engaged in the research and development, manufacture, sale and distribution of organic potash fertilisers. Revenue recognised during the three months and six months ended 30 June 2006 are as follows:

	Six months ended 30 June		Three months ended 30 June	
	2006 RMB (unaudited)	2005 RMB (unaudited)	2006 RMB (unaudited)	2005 RMB (unaudited)
Sales of				
General use fertilisers	22,750,526	15,979,926	11,415,724	9,030,578
Specific use fertilisers				
– for vegetable use	25,021,498	17,023,579	11,484,950	12,028,905
– for fruit use	14,720,416	20,879,772	9,848,106	16,586,077
– for tobacco use	3,906,453	3,503,493	3,003,811	2,614,022
– for cotton use	5,488,292	2,714,997	4,626,957	2,602,513
– for seeding use	8,110,566	9,696,738	3,186,038	1,590,699
– for garlic use	152,330	81,813	–	17,905
– for golden tree use	983,035	330,550	494,202	193,476
– for yellow melon use	–	161,293	–	161,293
– for golden vegetable use	15,698	–	981	–
– for banana use	64,755	–	–	–
– for ramie use	175,094	–	–	–
– for golden orange use	430,189	–	172,076	–
– for watermelon use	221,877	–	44,320	–
	82,040,729	70,372,161	44,277,165	44,825,468

No segment information is presented as research and development, manufacture, sale and distribution of organic potash fertilisers is the only reportable business segment of the Group and the operations are mainly carried out in the The People's Republic of China (the "PRC"). Accordingly, the Directors consider that there is only one business segment and one geographical segment.

3. PROFIT FROM OPERATIONS

The Group's profit from operations is arrived at after charging:

	Six months ended 30 June		Three months ended 30 June	
	2006 RMB (unaudited)	2005 RMB (unaudited)	2006 RMB (unaudited)	2005 RMB (unaudited)
Amortisation of intangible assets	465,500	422,500	214,250	211,250
Depreciation of property, plant and equipment	2,430,323	3,434,498	1,198,688	1,850,371
	2,895,823	3,856,998	1,412,938	2,061,621



4. INCOME TAX EXPENSES

The amounts represented provision for the PRC Enterprise Income Tax (“EIT”) on the Group’s estimated assessable profit for the six months ended 30 June 2006.

Upon the reorganisation of Shaanxi Juchuan Fuwanjia Co., Ltd. (“Juchuan Fuwanjia”), a subsidiary established in the PRC, into a PRC sino-foreign equity joint venture company on 26 March 2004, it was entitled to an exemption from PRC EIT payable of 15% for two years commencing from its first profit-making year of operation, followed by a 50% relief from the PRC EIT for the next three years. Junchuan Fuwanjia has no assessable profits for the period from 1 January 2004 to 26 March 2004.

No provision of Hong Kong Profits Tax had been made for the period as the Company and its subsidiaries have no assessable profits arising in or deriving from Hong Kong.

There was no significant unprovided deferred taxation for the period or at the respective balance sheet dates.

5. DIVIDENDS

No dividend has been paid or declared by the Group for the six months ended 30 June 2006 (2005: Nil).

6. EARNINGS PER SHARE

The calculation of the basic earnings per share for the three months and six months ended 30 June 2006 is based on the profit attributable to equity holders of the parent of RMB3,784,543 and RMB6,207,664 respectively (profit for the three months and six months ended 30 June 2005: RMB4,270,681 and RMB6,269,100 respectively) and on weighted average of 80,000,000 (2005: 80,000,000) ordinary shares that have been in issue throughout the period on the assumption that the Group Reorganisation had been completed on 1 January 2005.

Diluted earnings per share has not been presented as there is no dilutive potential ordinary share in existence during the period.

7. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months period, the Group acquired approximately RMB1,118,000 property, plant and equipment for group expansion.

8. TRADE RECEIVABLES

The Group allows a credit period from 30 days to 180 days to its trade customers. However, for certain customers with long established relationship and good past payment histories, a longer credit period may be granted. The aged analysis of trade receivables is as follows:

	As at 30 June 2006 RMB (unaudited)	As at 31 December 2005 RMB (audited)
Aged:		
0-60 days	22,851,842	14,003,875
61-120 days	21,725,711	6,342,147
121-180 days	4,937,884	9,786,399
181-365 days	868,906	1,250,854
Over 365 days	42,021	–
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	50,426,364	31,383,275
Less: Allowances for bad and doubtful debts	(2,561,238)	(1,583,248)
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	47,865,126	29,800,027

9. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	As at 30 June 2006 RMB (unaudited)	As at 31 December 2005 RMB (audited)
Aged:		
0-90 days	1,690,565	901,660
91-180 days	202,040	–
181-365 days	–	32,027
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	1,892,605	933,687
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10. BANK BORROWINGS

During the period, the Group had raised bank loans of RMB15,000,000. At 30 June 2006, the Group had outstanding bank loans of RMB48,000,000.



11. SHARE CAPITAL

	<i>Notes</i>	Number of shares	Par value per share HK\$	Amount HK\$
Authorised:				
As at 1 January 2005	<i>a</i>	1,000,000	0.10	100,000
Effect of sub-division of shares of HK\$0.1 each into 10 shares of HK\$0.01 each	<i>a</i>	9,000,000	0.01	–
Share capital after sub-division		10,000,000	0.01	100,000
Increase on 16 February 2005	<i>b</i>	4,990,000,000	0.01	49,900,000
As at 30 June 2005 and 2006		5,000,000,000	0.01	50,000,000
Issued:				
As at 1 January 2005	<i>a</i>	1,000,000	0.10	–
Effect of sub-division of shares of HK\$0.1 each into 10 shares of HK\$0.01 each on 16 February 2005	<i>a</i>	9,000,000	0.01	–
Shares capital after sub-division		10,000,000	0.01	–
Credit the 10,000,000 ordinary shares issued nil paid as consideration for acquisition of subsidiary	<i>c</i>	–	–	100,000
Shares allotted and issued for acquisition of subsidiary	<i>c</i>	10,000,000	0.01	100,000
Conversion issue	<i>d</i>	17,034,284	0.01	170,343
Issuance of shares on listing	<i>e</i>	20,000,000	0.01	200,000
Capitalisation issue credited as fully paid conditional on share premium amount of the Company as a result of the placing of the Company's share	<i>f</i>	22,965,716	0.01	229,657
As at 30 June 2005 and 2006		80,000,000	0.01	800,000
In RMB equivalent				848,000

11. SHARE CAPITAL (Continued)

Notes:

- (a) The Company was incorporated in Bermuda on 14 April 2004 with an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.1 each. On 26 April 2004, 1,000,000 shares of HK\$0.1 each were allotted and issued to Callaway Group Limited at par and nil paid. On 16 February 2005, every issued and unissued share of the Company was subdivided into 10 shares of HK\$0.01 each.
- (b) On 16 February 2005, the authorised share capital of the Company was increased from HK\$100,000 to HK\$50,000,000 by creation of additional 4,990,000,000 shares of HK\$0.01 each, which ranked pari passu with the existing shares in all respects.
- (c) On 16 February 2005, Callaway Group Limited and Legend Profit Holdings Limited transferred the entire shares of US\$1 each in the capital of Sungreen Investments Limited to the Company in consideration of, and in exchange for, the allotment and issue of 10,000,000 shares, credited as fully paid to Callaway Group Limited and Legend Profit Holdings Limited, and all 10,000,000 unpaid shares held by Callaway Group Limited credited as fully paid at par (see Note (a)).
- (d) On 28 February 2005, 17,034,284 shares were converted by the convertible note holders upon the conversion issue.
- (e) On 28 February 2005, 20,000,000 ordinary shares of HK\$0.01 each were issued at HK\$2.5 each by way of placing, generating cash proceeds of approximately RMB53,000,000 (HK\$50,000,000). The premium over the par value of the shares was credited to the share premium account.
- (f) Immediately after the placing and conversion issue mentioned in Note (d) above, share premium of RMB243,436 (HK\$229,657) was capitalised for the issuance of 22,965,716 shares of HK\$0.01 each on a pro-rata basis to shareholders of the Company at the close of the business on 21 February 2005.

12. CAPITAL COMMITMENTS

	As at 30 June 2006 RMB (unaudited)	As at 31 December 2005 RMB (audited)
Capital expenditure authorised but not contracted for in respect of development project of additional plant and machinery for the expansion in the production capacity	<u>30,095,000</u>	<u>30,120,000</u>
Capital expenditure contracted but not provide for in respect of purchase of property, plant and equipment	<u>-</u>	<u>159,000</u>

13. CONTINGENT LIABILITIES

	As at 30 June 2006 RMB (unaudited)	As at 31 December 2005 RMB (audited)
Guarantees given to banks in respect of general banking facilities granted to third parties	<u>12,000,000</u>	<u>12,000,000</u>

14. PLEDGE OF ASSETS

As at 30 June 2006, the Group has pledged its prepaid lease payment and buildings of approximately RMB36,176,000 (2005: RMB13,044,000) for the banking facilities granted by the banks to the Group.

15. SUBSEQUENT EVENTS

There have been no material events which took place subsequent to 30 June 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Turnover and gross profit

The Group's unaudited consolidated turnover for the six months ended 30 June 2006 amounted to approximately RMB82.0 million, representing a growth of approximately 16.6% over the corresponding period in 2005. The increase was mainly attributable to the continued rise in demand for our Fuwanjia Organic Potash Fertilizers during the period.

Gross profit of the Group for the six months ended 2006 was approximately RMB33.4 million, representing an increase of approximately 15.5% over the corresponding period in 2005. The Group's gross profit margin for the period was about 40.7%, whilst the Group's gross profit margin was approximately 41.0% for the same period in 2005. The decrease was due to the refundable value added tax of 6% was imposed during the six months in 2006 but not 2005. Although the valued added tax is refundable and has no effect on the Group's profit, it reduced the growth of turnover of the Group and increased the other operating income of the Group. If no value added tax is imposed during the year, turnover of the Group will be approximately RMB87.0 million, representing a growth of approximately 23.7% over the corresponding period in 2005 whereas gross profit margin for the period will be about 44.1%, which is about 3.1% higher than the same period in 2005.

Profit for the period

Profit attributable to the equity holders of the parent for the six months ended 30 June 2006 amounted to approximately RMB6.2 million, representing a slight decrease of 1.0% over the corresponding period in 2005. The decrease was mainly due to the impose of income tax in the year of 2006 after the two year full tax exemption holiday. Profit before tax for the six months ended 30 June 2006 amounted to approximately RMB11.7 million, representing an increase of approximately 6.6% over the corresponding period in 2005. The increase was mainly due to the growth in turnover of the Group because of the growing demand for the Group's product.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Liquidity and financial resources

As at 30 June 2006, the Group had cash and bank balances of approximately RMB74.1 million, representing approximately 48.4% of its current assets and 33.9% of its total assets. During the period under review, the Group raised RMB15.0 million new bank borrowings for the Group's working capital and capital expenditure. As at 30 June 2006, the Group had outstanding bank borrowings of RMB48.0 million.

The Group's current ratio and gearing ratio, expressing as total liabilities over total assets of the Group, are approximately 2.0 and 35.1%. The Directors are of the opinion that the Group has sufficient resources and working capital to meet its foreseeable capital expenditure.

Business Review

The overall business growth of the Group was satisfactory for the six months ended 30 June 2006. Due to our continuous advertising promotion for our brand name of "Fuwanjia" and holding of field demonstration to end users in addition to our continuous expansion of sales network in the PRC, the Group recorded significant growth in turnover. Also, the Group kept on development of new product to cope with different customer needs that contributed part of the increase in turnover. During the period under review, five new specific use organic potash fertilizers had been launched to the market, namely golden vegetable use, banana use, ramie use, golden orange use and watermelon use.

Prospect

In coming future, the Group will keep expanding its sales network in the PRC and promoting our brand name through different kinds of advertisement. Also, the Group will keep focus on research and development of different kinds of organic potash fertilizers in order to meet the needs from different customers and enlarge the Group's product range. We believe that continuous sales network expansion and product range enlargement will keep our business growth in the next few years.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a summary of the Group's actual business progress to date compared with the business objectives set out in the Company's prospectus dated 21 February 2005 (the "Prospectus") for the six months period ended 30 June 2006.

Business objectives as disclosed in the Prospectus

Actual business progress

To expand business into the Asia Pacific region

To commence conduct market studies and sign up distributor in Thailand, with a focus on fruit-used fertilisers and General use fertilisers for its tropical fruit and grains

We have changed the market to Columbia after market study. Field demonstration had been completed and follow-up work is in progress.

To engage one additional sales staff in the Company's headquarter to coordinate overseas related business and services

Additional staff has been engaged in the Company's headquarter to coordinate overseas related business and services.

To review sales record and make necessary changes to its sales policy of Malaysia, Indonesia and Vietnam markets

We have sent samples to Vietnam customer to conduct field demonstration. We changed market from Indonesia to India after market study. After feasibility study, we further have changed market from India and Malaysia to Canada and USA.

To expand the PRC sales network

To update and implement internal sales management policy and interim performance review

Internal sales management policy had been updated and interim sales performance had been reviewed.

To engage additional personnel in the industry development division

Optimal level of personnel had been engaged in the industry development division.



COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS (CONTINUED)

Business objectives as disclosed in the Prospectus

Actual business progress

To enhance its research and development capability

To complete research and development work of organic compound fertilisers

The production of organic compound fertilisers has been postponed after market study. Specific use fertilisers for golden vegetable use has been developed instead to cope with the market needs.

To review market feedbacks with respect to the effectiveness of herbal used fertilisers, and make technical adjustments if necessary

The production of specific use fertilisers for herbal use has been postponed after market study. Specific use fertilisers for banana use has been developed instead to cope with the market needs.

To review the Group's existing products and replace those maturing ones

We have reviewed the Group's existing products and made necessary adjustment on product range.

To set up a new production plant on the Second Yang Ling Site

To submit detailed engineering drawings to relevant authorities for approval, and identify suitable equipment for the plant

The design and layout plans are being revised in order to cope with the change in Company's needs. The revised design and layout plans reached final stage.

To enhance its brand name recognition

To advertise on television, radio broadcast, mass transportation and public place

Advertisement has been conducted as planned.

To promote the Group's ultimate aim as a food chain partner in plant nutrients

Promotion has been conducted as planned.

To increase its production output

Expecting to increase the production output on the Yang Ling Site

Production output was increased in line with sales

To maintain the production output of organic acid on the Baoji Site

Production output of organic acid had been increased after expansion of production facilities in Baoji Site.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS (CONTINUED)

On the date of commencement of dealings in the Shares on GEM (the “Listing Date”), the Company obtained net proceeds, after deducting all relevant expenses, of approximately HK\$39 million from the new issue of shares by way of placing. Up to 30 June 2006, the Group has applied the net proceeds as follows:

Business objectives	Planned uses of proceeds as set out in the Prospectus (HK\$ million)	Actual amount of proceeds used up to 30 June 2006 (HK\$ million)
To expand business into the Asia Pacific region	3.2	2.1
To expand the PRC sales network	4.4	3.4
To enhance research and development capability	5.0	2.2
To set up a new production plant on the Second Yang Ling Site	6.0	4.2
To enhance its brand name recognition	9.0	6.6
To strengthen the management team and international marketing team	2.2	1.1
To increase production output	1.5	2.7
Total	<u>31.3</u>	<u>22.3</u>

The remaining net proceeds as at 30 June 2006 have been placed as short-term interest bearing deposit with banks in Hong Kong and/or the PRC.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2006, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of the Hong Kong Special Administrative Region (the “SFO”), as recorded in the register maintained by the Company under Section 352 of the SFO or as required to be notified to the Company and the Stock Exchange in accordance with Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (CONTINUED)

Long positions in the shares of the Company (the "Shares")

Name of director	Capacity	Number of Shares	Percentage of shareholding (%)
Zhuo Ze Fan	Held by controlled corporation (<i>Note</i>)	34,905,059	43.63

Note: These Shares were held by Callaway Group Limited which was beneficially owned as to 87.07% by Mr. Zhuo Ze Fan, 4.60% by Ms. Cui Yan Wen and 8.33% by True Assist Limited. Callaway Group Limited held 34,905,059 Shares on the Listing Date and up to 30 June 2006. By virtue of the SFO, Mr. Zhuo was deemed to be interested in the Shares held by Callaway Group Limited.

Save as disclosed herein, as at 30 June 2006, none of directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or were required to notify the Company and the Stock Exchange in accordance with Rules 5.46 to 5.67 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2006, the following persons or companies (other than the directors or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of SFO:

Name of substantial shareholder	Capacity	Number of Shares	Percentage of shareholding (%)
Callaway Group Limited	Beneficial owner	34,905,059	43.63
Ms. Cui Yan Wen (<i>Note 1</i>)	Held by spouse	34,905,059	43.63
Legend Profit Holdings Limited	Beneficial owner	11,948,657	14.94
Wonder Opportunity Limited (<i>Note 2</i>)	Held by controlled corporation	11,948,657	14.94
Mr. Wang Wen Ming (<i>Note 2</i>)	Held by controlled corporation	11,948,657	14.94
Ms. Chen Dong Jin (<i>Note 2</i>)	Held by spouse	11,948,657	14.94
Stichting Shell Pensioenfonds	Investment manager	6,000,000	7.50
Ms. An Yu	Beneficial owner	5,714,285	7.14
SW Kingsway Capital Holdings Limited (<i>Note 3</i>)	Held by controlled corporation	5,199,999	6.50
World Developments Limited (<i>Note 4</i>)	Held by controlled corporation	5,199,999	6.50
Innovative Assets Limited (<i>Note 4</i>)	Held by controlled corporation	5,199,999	6.50
Kingsway International Holdings Limited (<i>Note 4</i>)	Held by controlled corporation	5,199,999	6.50
Mr. Lam Ka Chung William (<i>Note 5</i>)	Held by controlled corporation	5,199,999	6.50
Ms. Lam Wong Yuk Sin Mary (<i>Note 5</i>)	Held by controlled corporation	5,199,999	6.50
Mr. Choi Koon Shum Jonathan (<i>Note 6</i>)	Held by controlled corporation	5,199,999	6.50
Ms. Kwan Wing Kum Janice (<i>Note 7</i>)	Held by spouse	5,199,999	6.50

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY (CONTINUED)

Notes:

1. Callaway Group Limited was beneficially owned as to 87.07% by Mr. Zhuo Ze Fan, 4.60% by Ms. Cui Yan Wen and 8.33% by True Assist Limited. Mr. Zhuo Ze Fan was an executive Director and chairman of the Company and the spouse of Ms. Cui Yan Wen. True Assist Limited was beneficially owned as to 50% by Ms. Chen Dong Jin, 30% by Mr. Wang Wen Ming and 20% by Mr. Wu Jing Jin. Ms. Chen Dong Jin was the spouse of Mr. Wang Wen Ming. Mr. Wu Jing Jin was a non-executive Director of the Company. By virtue of the SFO, Ms. Cui was deemed to be interested in the Shares held by Mr. Zhuo.
2. Legend Profit Holdings Limited was beneficially owned by Wonder Opportunity Limited. Wonder Opportunity Limited was beneficially owned as to 59% by Mr. Wang Wen Ming, 30% by Mr. Wu Jing Jin and 11% by Mr. Zhang Xin Li. By virtue of the SFO, Wonder Opportunity Limited and Mr. Wang were deemed to be interested in the Shares held by Legend Profit Holdings Limited. Ms. Chen Dong Jin, being the spouse of Mr. Wang, was deemed to have interest in the Shares held by Mr. Wang by virtue of the SFO.
3. These Shares were held through wholly owned subsidiaries of SW Kingsway Capital Holdings Limited (“SW Kingsway”). By virtue of the SFO, SW Kingsway was deemed to have interest in the Shares held by its wholly owned subsidiaries.
4. World Developments Limited held 74% of interest in SW Kingsway and was a wholly owned subsidiary of Innovative Assets Limited which in turn was a wholly owned subsidiary of Kingsway International Holdings Limited (“Kingsway International”). By virtue of the SFO, World Development Limited, Innovative Assets Limited and Kingsway International were deemed to have interest in the Shares held by SW Kingsway.
5. Mr. Lam Ka Chung William (“Mr. Lam”) and his spouse, Ms. Lam Wong Yuk Sin Mary (“Mrs. Lam”), beneficially owned or controlled 41% of the issued share capital of Kingsway International and were deemed (by virtue of the SFO) to be interested in the Shares held by Kingsway International.
6. Mr. Choi Koon Shum Jonathan (“Mr. Choi”) beneficially owned or controlled 46% of the issued share capital of Kingsway International and was deemed (by virtue of the SFO) to be interested in the Shares held by Kingsway International.
7. Ms. Kwan Wing Kum Janice, being the spouse of Mr. Choi, was deemed to have interest in the Shares held by Mr. Choi by virtue of the SFO.

Save as disclosed herein, so far as known to any director or chief executive of the Company, no other person (other than the directors and chief executive of the Company) had any interest and short positions in the shares and underlying shares of the Company as required to be recorded in the register required to be kept under Section 336 of the SFO as at 30 June 2006.

FOREIGN EXCHANGE EXPOSURE

Since most of the income and expense as well as assets and liabilities of the Group are denominated in RMB, the Directors consider the Group has no material foreign exchange exposure.



SHARE OPTION SCHEME

The Company has adopted a share option scheme. A summary of the principal terms and conditions of the share option scheme is set out in note 28 to the 2005 annual financial statements. Up to 30 June 2006, no option has been granted pursuant to such share option scheme.

COMPETING INTERESTS

During the period under review, none of the Directors or the management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had any interest in a business that competed or might compete with the business of the Group.

EMPLOYEES AND REMUNERATION POLICIES

At 30 June, 2006, the Group had approximately 260 employees. The Group has maintained good relations with its staff and has not experienced any disruption of its operations due to labour disputes. The Group provides fringe benefits in accordance with the relevant laws and regulations of the PRC and Hong Kong including contributions to society security scheme of the PRC and the contributions to the Mandatory Providers Fund Scheme of Hong kong. The Group remunerated its employees in accordance with their work performance and experience.

COMPLIANCE ADVISER'S INTERESTS

As at 30 June 2006, neither Hantec Capital Limited (the “Compliance Adviser”) nor its directors or employees or associates had any interests in the securities of the Company, including options or rights to subscribe for such securities.

Pursuant to the agreement dated 21 February 2005 entered into between the Company and the Compliance Adviser, the Compliance Adviser received and shall receive an annual fee for acting as the Company’s Compliance Adviser for the period commencing from (and including) the Listing Date and ending on (and including) the last day of the second full (and not part thereof) financial year after the Listing Date.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

PLEDGE OF ASSETS

At 30 June 2006, the Group has pledged its prepaid lease payments and buildings of approximately RMB36,176,000 for the banking facilities granted by the banks of the Group.

CORPORATE GOVERNANCE

The Company has complied throughout the six months ended 30 June 2006 with the code provision set out in the Code on Corporate Governance Practices contained in Appendix 15 to the GEM Listing Rules with certain deviations in respect of the distinctive roles of chairman and chief executive officer as described in the 2005 annual report. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The Board keeps to believe that this structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. The Board still has full confidence in Mr. Zhuo Ze Fan, and believes that his appointment to the posts of Chairman and General Manager is beneficial to the business prospects of the Company. Also, the Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, all directors had complied with the required standard of dealings and its code of conduct regarding directors' securities transactions.

AUDIT COMMITTEE

The Company established an audit committee on 16 February 2005 with written terms of reference in compliance with the GEM Listing Rules. The authority and duties of the audit committee are based on the guidelines set out in "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants.

The audit committee provides a link between the Board of Directors and the Company's auditors in matter coming within the scope of the Group audit. It also reviews and supervises the financial reporting process and internal control procedures of the Group. The members of the audit committee comprises three independent non-executive directors, namely Mr. Zhao Shou Guo, Mr. Yue Kwai Wa, Ken and Mr. Ng Tang.

The Group's unaudited consolidated results for the six months ended 30 June 2006 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards.

On behalf of the Board
Sungreen International Holdings Limited
Zhuo Ze Fan
Chairman

Xi'an City,
Shaanxi Province,
The People's Republic of China,
9 August 2006