中國綠色食品(控股)有限公司*

CHINA GREEN (HOLDINGS) LIMITED

(incorporated in Bermuda with limited liability)

Interim Report 2003

* *for identification only*

The Board of Directors (the "Board") of China Green (Holdings) Limited (the "Company") are pleased to present the unaudited Interim Report of Company and its subsidiaries (the "Group") for the six months ended 31 October 2003. The consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity of the Group for the six months ended 31 October 2003 and the consolidated balance sheet of the Group as at 31 October 2003 are unaudited and condensed, together with selected explanatory notes, are set out below and have been reviewed by the Company's Audit Committee.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 October 2003

		Six months ended 31 October	
		2003	**2002**
	Note	*RMB'000*	*RMB'000*
Turnover			
Sales of agricultural products	2	135,606	106,888
Cost of sales		(61,256)	(41,876)
Gross profit	2	74,350	62,012
Other revenues		212	54
Income from negative goodwill		226	226
Selling and distribution expenses		(9,054)	(8,220)
General and administrative expenses		(2,135)	(1,647)
Net other operating expenses		(1,162)	(1,156)
Operating profits	3	62,437	54,269
Taxation	4	(7,525)	(6,395)
Profit attributable to shareholders		54,912	47,874
Dividends	5	–	–
Earnings per Share – Basic	6	RMB12 cents	RMB11 cents

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET
As at 31 October 2003

	Note	As at 31 October 2003 RMB'000 (Unaudited)	As at 30 April 2003 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	7	112,139	101,140
Negative goodwill		(6,994)	(7,220)
Long-term prepaid rental		44,700	52,598
		149,845	146,518
Current assets			
Inventories		25,888	15,896
Accounts receivable	8	4,969	9,989
Short-term prepaid rental		–	167
Prepayment and deposits paid		15,394	15,160
Current portion of long-term prepaid rental		15,482	15,606
Bank balances and cash	9	89,953	37,646
		151,686	94,464
Current liabilities			
Due to a director		732	569
Accounts payables and accrued expenses	10	4,252	3,296
Other deposits received		10	10
Taxation payable		30,094	26,092
		35,088	29,967
Net current assets		116,598	64,497
Net assets		266,443	211,015
Represented by:			
Capital and reserves		266,443	211,015

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 October 2003

	Six months ended 31 October	
	2003	**2002**
	RMB'000	*RMB'000*
Net cash inflow from operating activities	65,405	55,592
Net cash used in investing activities	(13,261)	(27,413)
Net cash from financing activities	163	431
Increase in cash and cash equivalents	52,307	28,610
Cash and cash equivalents at 1 May	37,646	2,355
Cash and cash equivalents at 31 October	89,953	30,965
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	89,953	30,965

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 31 October 2003

	Capital including premium	Statutory Common Reserve	Statutory Welfare Reserve	Revaluation Reserve	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 May 2002	1	7,931	3,966	–	64,765	76,663
Issue of capital	15,212	–	–	–	–	15,212
Net profit for the period	–	–	–	–	47,874	47,874
Transfer	–	–	2,621	–	(2,621)	–
Gain on revaluation	–	–	–	2,162	–	2,162
As at 31 October 2002	15,213	7,931	6,587	2,162	110,018	141,911
As at 1 May 2003	15,213	7,931	10,461	2,162	175,248	211,015
Net profit for the period	–	–	–	–	54,912	54,912
Transfer	–	–	3,088	–	(3,088)	–
Gain on revaluation	–	–	–	516	–	516
As at 31 October 2003	15,213	7,931	13,549	2,678	227,072	266,443

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

The Company was incorporated in Bermuda under the Companies Act 1981 of Bermuda as an exempted company with limited liability on 26 July 2002. Pursuant to the reorganisation (the "Reorganisation") of the Company and its subsidiaries, the Company became the holding company of the Group on 12 December 2003. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKEX") on 13 January 2004.

The Group is regarded as a continuing entity resulting from the Reorganisation. These unaudited condensed consolidated interim financial statements have been prepared as if the Company were in existence and had owned each subsidiary throughout the six months ended 31 October 2002 and 2003, or since their respective dates of incorporation. The condensed consolidated income statement and balance sheet were the combined income statements and balance sheets of the Company and its subsidiaries, if any. All significant intra-group transactions and balances have been eliminated on combination.

These unaudited condensed interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("HKSSAP") 25 "Interim Financial Reporting" issued by The Hong Kong Society of Accountants (the "HKSA") and Appendix 16 of the Rules Governing the Listing of Securities (the "Listing Rules") of the HKEX.

The financial information relating to the financial year ended 30 April 2003 included in these interim financial statements is derived from the Accountants' Report included in the Company's prospectus (the "Prospectus") dated 31 December 2003.

The accounting policies and basis of preparation adopted in the Accountants' Report have been consistently applied by the Group in preparing these interim financial statements.

2. Segmental Reporting

(a) Business segment

The Group is principally engaged in the planting and sales of agricultural products. An analysis of the Group's turnover and gross profit by products categories for the six months ended 31 October 2003 and 2002 are as follows:

	Six months ended 31 October	
	2003	**2002**
	RMB'000	*RMB'000*
Turnover		
Fresh produces	73,636	39,737
Processed products	36,219	35,950
Pickled products	25,751	31,201
	135,606	106,888
Gross profit		
Fresh produces	35,604	22,876
Processed products	21,945	22,561
Pickled products	16,801	19,575
	74,350	65,012

(b) *Geographical segment*

An analysis of the Group's result of operation by geographical location for the six months ended 31 October 2003 and 2002 are as follows:

	Six months ended 31 October	
	2003	**2002**
	RMB'000	*RMB'000*
Turnover		
Japan	79,207	90,357
Mainland China	55,344	16,531
Philippines	1,055	–
	135,606	106,888
Gross profit		
Japan	49,557	55,925
Mainland China	24,185	9,087
Philippines	608	–
	74,350	65,012

No analysis of assets and additions to property, plant and equipment by geographical location is presented as over 99% of the Group's assets in terms of net book value at each respective balance sheet dates are located in the People's Republic of China (the "PRC").

3. Operating profits

Operating profits are stated after crediting and charging the following:

	Six months ended 31 October	
	2003	**2002**
	RMB'000	*RMB'000*
Crediting		
Amortisation of negative goodwill	226	226
Interest income	195	37
Rental income	17	17
Charging		
Auditors' remuneration	–	–
Depreciation of owned property, plant and equipment	2,974	1,144
Revaluation deficit on owned property, plant and equipment	–	561
Operating lease expenses – land and building	691	662
Staff costs (including directors emoluments)	21,660	12,450
Research and development expenses	1,162	596
Amortisation of long-term prepaid rental included in cost of goods sold (net of amount capitalised in inventory)	6,226	4,130
Exchange loss	5	2

4. Taxation

	Six months ended 31 October	
	2003	**2002**
	RMB'000	*RMB'000*
Hong Kong profits tax	–	–
PRC enterprise income tax	7,525	6,395
	7,525	6,395

(a) Hong Kong profits tax

No Hong Kong profits tax has been provided as the Group had no assessable profit arising in or derived from Hong Kong.

(b) PRC enterprise income tax

Zhonglu (Fujan) Agriculture Comprehensive Development Company Limited ("Zhonglu"), a wholly owned subsidiary established in the Coastal Open Economic Area of PRC, is subject to PRC enterprise income tax at a rate of 24%. However, it is exempted from PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year tax losses, followed by a 50% reduction in state income tax for the next three years. Zhonglu became profitable after offsetting prior year losses in the year ended 31 December 1999 and, accordingly, exempted from PRC enterprise income tax for the years ended 31 December 1999 and 2000 and was subject to PRC enterprise income tax at a rate of 12% for the years ended 31 December 2001, 2002 and 2003.

(c) Deferred taxation

As at the balance sheet date, no provision for deferred tax has been recognised in the accounts as there has been no material temporary differences for tax purposes.

5. Dividends

The board of directors does not recommend the payment of an interim dividend for the period.

6. Earnings per share

The calculation of the basic earnings per share for the six months ended 31 October 2003 and 2002 is based on the profit attributable to shareholders during the period and assuming 450,000,000 shares in issue, comprising 4,900,000 shares in issue as at the date of the Prospectus and 445,100,000 shares issued pursuant to the Capitalisation issue as described in the section headed "Further information about the Company" in Appendix IV to the Prospectus.

Diluted earnings per share is not presented as there were no dilutive potential shares existed during the period.

7. Property, plant and equipment

During the period, approximately RMB6,707,000 and RMB6,750,000 were spent on acquisition of fixed assets and construction-in-progress (2002: RMB219,000 and RMB12,050,000 respectively).

Land and buildings were revalued at 30 September 2003 on the basis of their open market value in existing use carried out by DTZ Debenham Tie Leung Limited, an independent firm of property valuer. The surplus on revaluation of land and buildings of RMB516,000 has been credited to revaluation reserve.

8. Accounts receivable

Credit terms granted by the Group to customers are generally less than one month.

Included in trade receivables are balances with the following aging analysis:

	As at 31 October 2003 *RMB'000* (Unaudited)	**As at 30 April 2003** *RMB'000* (Audited)
Within 1 month	4,969	7,169
Over 1 month but less than 3 months	–	2,820
	4,969	9,989

9. Bank balances and cash

	As at 31 October 2003 *RMB'000* (Unaudited)	**As at 30 April 2003** *RMB'000* (Audited)
Cash on hand	853	233
Cash at banks	89,100	37,413
	89,953	37,646

10. Accounts payable and accrued expenses

Accounts payables and accrued expenses consist of:

	As at 31 October 2003 *RMB'000* (Unaudited)	**As at 30 April 2003** *RMB'000* (Audited)
Accrued salaries and wages	4,094	3,077
Accrued rental expenses	–	93
Other accrued expenses	7	4
Trade payables *(Note 11)*	151	122
	4,252	3,296

11. Trade payables

Included in trade payables are balances with the following aging analysis:

	As at 31 October 2003 *RMB'000* (Unaudited)	**As at 30 April 2003** *RMB'000* (Audited)
Within 1 month	151	122

12. Commitments

(a) Capital commitments

At the end of the period, the Group had the following capital commitments:

	As at 31 October 2003 *RMB'000* (Unaudited)	**As at 30 April 2003** *RMB'000* (Audited)
Contracted but not provided for – Purchase of property, plant and equipment	2,465	2,000

(b) *Operating lease commitments*

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases in respect of rented premises and cultivation bases for each of the following periods:

	As at 31 October 2003 *RMB'000* (Unaudited)	As at 30 April 2003 *RMB'000* (Audited)
Within one year	2,735	329
In the second to fifth	60,600	71,700
After the fifth years	174,030	165,180
	237,365	237,209

13. Contingent liabilities

The Group did not have any significant contingent liabilities as at the balance sheet date (30 April 2003: Nil).

14. Related party transactions

Pursuant to Statement of Standard Accounting Practice 20 issued by the Hong Kong Society of Accountants "Related Party Disclosures", there was no related party transaction during the six months ended 31 October 2003 and 2002.

15. Post balance sheet event

Pursuant to written resolutions of all the shareholders of the Company passed on 12 December 2003, conditional on the share premium account of the Company being credited as a result of the issue of the offer shares pursuant to the offer, HK$44,510,000 standing to the credit of such account was directed to be capitalised and applied in paying up in full at par an aggregate of 445,100,000 shares for allotment and issue to holders of shares on the register of members of the Company at the close of business on 12 December 2003 in the same proportion as their existing shareholdings in the Company.

On 12 January 2004, the Company issued 172,500,000 shares (including 22,500,000 shares under over-allotment option) to the public by way of placing and public offer at HK$1.28 per share each. The Group raised net proceeds of approximately HK$196,800,000 after deducting related expenses.

On 13 January 2004, the Company was successfully listed on the Main Board of the Stock Exchange.

16. Approval of the interim financial statements

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the board of Directors on 29 January 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial performance

The Group's turnover was increased by 27% during the six months ended 31 October 2003 over the same period in 2002. The increase in turnover was mainly contributed from domestic sales to PRC customers that accounted for approximately 41% of total turnover. As a result of outbreak of SARS epidemic in the PRC and other southeast Asian countries during the first half of 2003, most of the international customers were delayed their annual meetings with the Directors so that the sales contract renewal has been postponed to June to August 2003. As a result the turnover derived from international sales dropped by approximately 13% during the six months ended 31 October 2003 compared to the same period in 2002. With the control of SARS epidemic, the Directors has successfully renewed sales contracts with international customers and the Directors believe that the international sales for the financial year ending 30 April 2004 will be more than that for the year ended 30 April 2003 based on the already signed sales contracts.

In order to compensate the decline in sales in international market, the Group put extra effort in domestic market during the six months ended 31 October 2003. The domestic sales increased by approximately 235% from approximately RMB16,531,000 during the six months ended 31 October 2002 to RMB55,344,000 during the six months ended 31 October 2003.

During the period under review, the gross profit of the Group increased by 14% from RMB65,012,000 in prior period to RMB74,350,000. On the other hand, as a result of lower gross profit margin of domestic sales compared to international sales and the increase in portion of sales of fresh produces in domestic market with lower profit margin, the overall gross profit margin was dropped by approximately 6% from 61% in prior period to 55% for the six months ended 31 October 2003.

During the period under review, the gross profit margin of fresh produces were decreased from 58% of six months ended 31 October 2002 to 48% of six months ended 31 October 2003 where the decrease in gross profit margin of fresh produces was in line with the decrease in gross profit margin of domestic sales of which the sales of fresh produces were accounted for approximately 54% of total turnover. In order to expand the domestic market and increase the competitiveness of the Group's products, the cost incurred in packaging products increased as a result of higher quality of packaging materials used. Besides, agricultural materials with better quality were used for crops planted for domestic sales in order to improve the quality of produces to attract more domestic sales. In additions, the selling prices of the products were kept stable. On the other hand, the gross profit margin of other two categories of products were relatively stable at around 60%. Therefore, as a result of the above, the overall gross profit margin of the Group dropped from 61% for prior period to 55% of the period under review.

The profit attributable to shareholders during the period was increased by approximately 15% from RMB47,874,000 in prior period to RMB54,912,000 which was in line with the increase in gross profit. Although the gross profit margin decreased by approximately 6%, the net profit margin was decreased by approximately only 4% from approximately 45% in the same period of prior year to 41% during the period under review since the effect of decline in gross profit margin was mitigated by the decrease in freight charges and transportation cost, which represented about 64% of total expenses, as a result of decrease in international sales.

Production bases

The Group's aggregate areas of long-leased cultivation bases increased from 19,800 mu as at 31 October 2002 to 26,800 mu as at 31 October 2003, representing an increase of 35% of cultivation area. As at 31 October 2003, the Group operated a total of 19 vegetable cultivation bases and 4 fruit cultivation bases, all of which are located either in Fujian Province or Zhejiang Province of the PRC.

On the other hand, the Group had paid approximately RMB13,457,000 for the improvement of the facilities and infrastructure of different existing cultivation bases for improvement of the production capacity and increase the efficiency.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Finance resources

The Group generally finances its operation with internally generated cash flows and advances provided by its shareholders and directors. As at 31 October 2003, the Group had bank balance and cash of approximately RMB89,953,000 of which RMB82,596,000 were denominated in Renminbi and had amount due to a director of approximately RMB732,000.

Most of the income and expenses of the Group are denominated in Renminbi and U.S. dollars and the Group has not experienced any material difficulties on its operations or liquidity as a result of fluctuations in currency exchange rates during the six months ended 31 October 2003. During the period, the Group had not used any financial instruments for hedging purposes and hence there was no hedging instruments outstanding as at 31 October 2003.

Borrowings and banking facilities

The Group had no bank borrowings and hence zero gearing ratio (calculated by total bank borrowings over the total assets) as at 31 October 2003. The Group also did not have any assets charged as at 31 October 2003.

Commitments

As at 31 October 2003, the Group had outstanding contracted capital commitments of approximately RMB2,465,000 in respect of property, plant and equipment and operating lease commitments of approximately RMB237,365,000 in respect of cultivation bases.

Contingent liabilities

As at 31 October 2003, the Group had no significant contingent liabilities.

PROSPECTS AND STRATEGIES

During the period under review, the Group has been expanding its current operation and exploring other opportunities to add value to its' products in order to fuel the business growth. However, the growth was affected by SARS epidemic in the PRC and southeast Asia. With the successful control of SARS epidemic in the PRC, the Directors believe that the Group's performance would pick up the Group's trend in the second half of the financial year.

As mentioned in the Prospectus and to expand the market, the Group plans to expand the range and type of its products to quick frozen fruits and vegetables, fruits and vegetables juice and dehydrated fruits and vegetables. The Group will utilise approximately RMB57 million from the listing proceeds for the production of new products. Different kinds of products would diversify the Group's customers base and the new products will allow fruit and vegetable produce of different quality to be utilised for the production of different types of processed fruits and vegetables so that the wastage during the production process can be minimised.

The Group will also continue to put effort on improving the infrastructure of existing cultivation bases. As part of strategy, the good cultivation facilities and infrastructure of cultivation bases would increase the production volume of the cultivation bases. The Group will also put more capital investments such as construction of greenhouse and irrigation systems with better quality, improving quality of soil on those newly leased long-term cultivation bases in order to improve the production volume and the efficiency of operations.

The Group currently leased approximately 26,800 mu (1,788 hectares) of long-term cultivation bases and fruits farms with most of these are located in Fujian Province. With the proceeds from listing and to reduce the risk of concentration of cultivation bases and facilities in Fujian Province, the Group plans to extend its cultivation bases and production facilities in different provinces such as Shandong Province and Inner Mongolia Autonomous Region. The Directors believe that extension of production bases and facilities will not only reduce the threat from natural disasters but will increase the Group's product offering by type of products and all season round the year.

The management believes that, with the steady growth of the economy, the improving living standard and concentrating on healthy concept, the demand of domestic people for green, hygiene and high quality vegetables and fruits will increase substantially in future. Besides, the PRC government encouraged the domestic agricultural corporations to provide better quality of produces and increased the efficiency of the whole agricultural business. As a result, the domestic sales of the Group for the six months ended 31 October 2003 was very encouraging. This result confirmed the management aspiration on domestic market. As part of the Group's expanding strategy, the Group will put more effort in domestic sales. The Group plans to sell more different kinds of processed products in the PRC market to meet with the demand arising from improving living of standard in the PRC and to expand the market of the Group. The Directors are also in serious investigation of the possibility to cooperate with international customers to develop the PRC market. More advertising and marketing activities will be launched by the Group to solid the Group's brand name in the PRC market.

The Group also plans to collaborate with and fund local universities and research institutions to improve and develop the Group's cultivation and processing technology for the improvement of the efficiency and effectiveness of the production.

As the Group was listed on 13 January 2004, none of the net proceeds raised from listing was used in the future plans as described in the Prospectus of the Company dated 31 December 2003. The Group will utilise the net proceeds in accordance with the plans as described in the future.

STAFF AND REMUNERATION POLICIES

As at 31 October 2003, the Group had a total of over 3,100 employees, of which approximately 2,000 are workers on the Group's cultivation bases. Employees are remunerated at a competitive level taken in the account their performance, experience. Other benefits included mandatory provident fund and year-end bonus based on individual performance.

During the six months ended 31 October 2003, the Company had not adopted any share option scheme and no options were granted, exercised or outstanding. A share option scheme was adopted by the Company on 12 December 2003, pursuant to which the Directors may offer to any eligible employees (including the executive directors) of the Company and any of its subsidiaries options to subscribe for shares in the Company in accordance with the terms of the share option scheme.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 31 October 2003.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

The Company's shares have not been listed on the Stock Exchange until 13 January 2004. Since the listing date, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Group's listed shares during the six months ended 31 October 2003.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As the Company's shares have not been listed on the Stock Exchange until 13 January 2004, no register of Directors' or chief executives' interests in the equity and debt securities of the Company or any of its associated corporations pursuant to Part XV of the Securities and Futures Ordinance (the "SFO") had been maintained by the Company as at 31 October 2003.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

As the Company's shares have not been listed on the Stock Exchange until 13 January 2004, no register of interests in equity and debt securities of the Company pursuant to Part XV of the SFO had been maintained by the Company as at 31 October 2003.

AUDIT COMMITTEE

The Company established its Audit Committee on 12 December 2003 with written terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules. The primary duties of the Audit Committee are to review the financial reporting process of the Group. The Audit Committee consists of the two independent non-executive Directors, namely Mr. Lin Chuan Bi and Mr. Hu Ji Rong. The Audit Committee has reviewed with the Group's management the accounting principles and internal controls and financial reporting. In addition, the Audit Committee has reviewed the unaudited interim accounts for the period of six months ended 31 October 2003.

CODE OF BEST PRACTICE

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not in compliance with the Code of Best Practice as set out in the Appendix 14 of the Listing Rules since the listing date.

By Order of the Board
China Green (Holdings) Limited
Sun Shao Feng
Chairman

29 January 2004