



Management Discussion and Analysis



	Cultivation Bases (mu)	Cultivation Capacity (tons)	Production Capacity (Approx. tons)
Fujian (Huian) (including Zhejiang)	31,000	153,300	133,000
Hubei	3,000	9,300	11,100
Hebei	3,000	8,000	20,600
Jiangxi - Rice	3,000	1,200	49,500
- Processed products	N/A	N/A	60,000
Fujian (Zhangpu)	5,000	16,500	59,400
Fujian (Quanzhou)	N/A	N/A	25,000
Shanghai	N/A	N/A	50,000 #

Commence after 30 April 2006



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CORPORATE PROFILE

The Group has been engaged in the cultivation and export of various fruits and vegetables since 1998, and has now expanded its business scope to freshness preservation, processing and sales of various green food, with businesses in more than 10 countries including China, Japan, Korea, Germany, Italy and Australia. The Group's customers include importers, wholesalers, processors, re-processors and retailers.

The shares of the Company were listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in January 2004. Its PRC headquarter is located at Xiamen, Fujian Province. Its subsidiaries are widespread from Huian and Zhangpu of Fujian Province, to Changyang and Wanquan of Hebei Province and Fengxin of Jiangxi Province. "Zhonglu (Fujian) Agriculture Comprehensive Development Company Limited", located in Huian, Fujian Province was recognized as "State-Level Agricultural Leading Enterprises" and "全國食品工業優秀龍頭企業" by the state government.

CORPORATE OBJECTIVES

The Company aims to be a fully-integrated global green food supplier, engaged in cultivation, freshness preservation, processing and sales of a great variety of green food through its logistics and distribution networks in order to satisfy the demand of customers around the world who are increasingly conscious of health and food safety.

BUSINESS REVIEW

Consumers around the world are becoming more and more health-conscious, this is particularly true among the increasingly affluent Chinese consumers, and is the major factor for the sustained rise in the demand of green food worldwide. Under the leadership of the Group's experienced management team and leveraging on the backing of its base management and all-altitude base coverage with international standards, the Group can enjoy superior edges to seize the opportunities from rising demand in the market, bringing stable growth to the business. The rapid upgrading of the consumption structure of the PRC, together with the continuous urbanization have helped to increase the demand of green food in the PRC. As such, the Group has been actively adjusting its strategies, including the exploration of consumer green food and planning of the construction of logistics centers, so as to strengthen its downstream businesses.

From its upstream business, the Group successfully become the role model of standardized green food plantator and the major green food processor to downstream business, meanwhile the Group will focus on brand management, logistics and distribution networks aggressively, upon successful integration, the Group's supply chain management business will generate significant synergetic effects and economies of scale, which will allow the Group to enter new markets and explore into newly developed business frontiers.



Management Discussion and Analysis

BUSINESS REVIEW (Continued)

The Group has cultivation bases covering widened altitudes, allowing it to control the operation of the overall green food supply chain, including cultivation, freshness preservation, processing and distribution of various kinds of green food. As the Group's processing plants in Wanquan, Hebei Province, Fengxin, Jiangxi Province and Zhangpu, Fujian Province commence production, the Group's processing capacity will increase to approximately 360,000 tons. During the year under review, the Company recorded very encouraging growth both in terms of business scale and scope within the industry.

BUSINESS SEGMENTS

Fresh agricultural produces

Turnover from the sales of fresh produces in 2006 amounted to RMB298 million, accounting for approximately 43% of the Group's revenue. Amongst the fresh agricultural products, the highest sales was recorded from naganegi, broccoli and onions, which in total reached approximately RMB98 million, representing approximately 33% of turnover of fresh produces.

Processed products

During the year, turnover of the Group's processed products was RMB389 million, which was accounted for 57% of the Group's total revenue. The products included in this category were the water boiled product, quick frozen product, pickled product and canned product, beverage product, rice product and rice flour product.

Water boiled product was another growth item, accounted for about 15% of total turnover. Among those, water boiled radish were the leading products, with turnover amounting to RMB38 million. Quick frozen product was another growth driver, with turnover of RMB17.9 million.

Turnover for the Group's pickled product and canned product amounted to RMB83 million, representing approximately 12.1% of the Group's income. Among the Group's pickled product and canned product, pickled plum and pickled mushroom were the leading products, with turnover at RMB26.97 million and RMB34.62 million respectively.

In 2006, the Group's turnover for beverage product amounted to RMB70 million, representing a significant growth of RMB63.6 million over the previous year, while its contribution to the Group's income increased from last years' 1.3% to about 10%. This resulted from the Group's brand emphasised sales strategies, with concentrated sales of beverage product in specific locations. Among the Group's beverage product, corn milk achieved the best sales volume in the period under review, standing at RMB55.7 million.



Management Discussion and Analysis

BUSINESS SEGMENTS (Continued)

Processed products (Continued)

Turnover from the sales of rice product in 2006 amounted to RMB81 million, accounting for approximately 12% of the Group's revenue.

Turnover from the sales of rice flour product in 2006 amounted to RMB30 million, accounting for approximately 4.4% of the Group's revenue.

Gross profit and gross profit margin

During the year under review, the Group achieved an overall gross profit margin of 51.6%. Gross profit margin for the sales of fresh produces was 54.0%. Such decrease was due to increased investment in improving the nutrient of the cultivation bases. Gross profit margin for the sales of water boiled product and quick frozen product was 56.8%, which is similar with previous year. Gross profit margin for the sales of pickled products and canned product was 54.6%, the reason for the decrease was due to the increased cost for the improvement of processing technology. Gross profit margin for the sales of beverages was 56.6%, which is similar with previous year.

Gross profit margin for the sales of rice products was 27.3%, which is similar with previous year. Gross profit margin for the sales of rice flour products was 52.6%.

Cultivation bases and processing plants

The Group has cultivation bases covering all altitudes of 44,000mu. Therefore, it is able to control the operation of the overall green food supply chain. Moreover, as the Group's processing plants in Wanquan, Hebei Province, Fengxin, Jiangxi Province and Zhangpu, Fujian Province commence production in the year, the Group's processing capacity will increase to approximately 360,000 tons. During the year under review, the Group recorded very encouraging growth both in terms of cultivation and scope within the industry.



Management Discussion and Analysis

BUSINESS SEGMENTS (Continued)

Product Variety

The Group will continue to improve its product lines, and apart from the above products, it will also enhance the development capabilities of its research and development team to commence in the development of new products. Upon the completion of the installation works on two quick-frozen production lines for each of Hebei and Zhangpu (Fujian) companies, it is anticipated that exports of the Group's quick-frozen products will reach record high in the coming financial year. In addition, through market analysis, China Green Jiangxi under the Group concluded its development strategies for non-fry products. For beverage products, besides the existing corn milk, China Green Quanzhou under the Group also developed new products such as purple sago and coconut drinks (紫米露) and oatmeal milk to cater for the increasing demands for cereal drinks in the market.

Development of new products

In light of market diversification, the Group established a research and development team, realizing the Group's commitment to research and development. In order to accelerate the research of new products, the Group entered into a comprehensive collaboration letter of intent with 集美大學生物工程學院, for the comprehensive collaborations on all aspects such as the engagement on development projects, purchase of patents and training of professionals and promoting talents. At the same time, the Group also maintained close relationships with the research laboratory of Fujian Agriculture and Forestry University. Our subsidiaries have also been exploring collaborations with relevant research institutions or colleges according to local resources, with an aim to develop more new products and diversify product variety.

Brand management

During the year, China Green commenced in the integration of existing brands, with China Green trademark as its core, and 中綠粗糧王, 玉米莊園, 碧雲牌, 中綠莊園, 田園生活 brands as members of the China Green family. In the meantime, the Group also put significant efforts in brand promotion, and conducted a series of promotional activities in Xiamen and Jiangxi, through various channels such as buses, billboards and televisions, to enhance marketing in the Fujian and Jiangxi regions. Moreover, the Group captured the opportunities from the Fourth 廈門食博會 and 商品交易會 of Fujian Province, to display the Group's capabilities and attracted much attention and reports from various media.

Furthermore, the Group engaged international and domestic professional strategic companies to formulate strategies for the promotion of the Group's sales and its overall image. As a result, the overall image of the Group and positions of some of its products were significantly reinforced.



Management Discussion and Analysis

BUSINESS SEGMENTS (Continued)

Quality maintenance

In 2005, Zhonglu Huian maintained its status as the “State Level Leading Agricultural Enterprise”. The Group was also awarded the Safety food, Green food, ISO 90001:2000 and the HACCP certifications. Meanwhile, the Group’s newly established subsidiaries have begun their applications for various quality certificates. Among them, Zhonglu Hubei has been awarded the HACCP certificate, and Zhonglu Quanzhou have also met the requirements for the QS certification for the beverage products. Going forward, China Green will continue to implement international standards of food hygiene and quality control for its products.

Corporate Governance

The Group acknowledges its responsibilities to shareholders and investors, and has strictly complied with the requirements of relevant laws, regulations and rules of relevant securities regulatory authorities since the listing of the Company’s shares in January 2004. The Group is committed to enhance the transparency of its corporate governance and disclosures. The Board adheres to corporate governance principles, and continues to improve on corporate management, and enhance its standard of corporate governance, so as to safeguard and enhance shareholders’ values.

TREASURY POLICY

As at 30 April 2006, the Group had cash and cash equivalents of approximately RMB853 million. The Group deposited funds in banks in the PRC and licensed banks in Hong Kong.

CAPITAL COMMITMENTS AND CONTINGENCIES

During the year, the Group was committed to the expansion of the Group’s existing facilities to enhance its production capacity. As at year end, the Group has outstanding contractual capital commitments of approximately RMB17 million. As at 30 April 2006, the Group has not provided any form of guarantee for any company outside the Group and has not been involved in any material legal proceedings for which provision for contingent liabilities was required.



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EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

For the year ended 30 April 2006, the Group conducted its business transactions principally in US dollars and Renminbi. The Group has not experienced any material difficulties or negative impacts on its operations as a result of fluctuations in currency exchange rates. The Directors consider no hedging of exchange risk is required. Nevertheless, the management will continue to monitor the foreign exchange exposure and will take prudent measures as and when it is appropriate. After reasonable and cautious assessment, the Directors consider the appreciation of Renminbi in the year has had insignificant impact on the Group's export business.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the year under review, the Group made no significant investment nor had it made any material acquisition or disposal of subsidiaries and associates.

CHARGE ON ASSETS

As at 30 April 2006, the Group had not pledged any asset to its bankers to secure banking facilities granted to the Group.

STAFF AND REMUNERATION POLICIES

As at 30 April 2006, the Group had a total of over 6,600 employees, amongst which approximately 3,500 are workers in the Group's cultivation bases. The aggregate staff costs and Directors' remuneration for the year ended 30 April 2006 amounted to approximately RMB73 million (2005: approximately RMB59 million). Employees are remunerated at a competitive level, taking into account individual performance and experience. Other benefits include mandatory provident funds and year-end bonus based on individual performance.

FUTURE DEVELOPMENT STRATEGIES

As consumers are becoming increasingly health-conscious, and the trend towards healthy balanced diet, global demand for "Green Food" will remain high. Therefore, the Group is highly confident towards the general market and its business development.

In light of the Group's efforts in establishing brand management this year and the development for logistics delivery business for the coming year, the Company will be able to fully capitalize from the overall supply chain of the green food business, from cultivation and purchasing to freshness preservation and processing, as well as the sequence of delivering and distributing of green food towards the world. The Company will continue to leverage on its edges to capture any emerging business opportunity, so as to achieve sustained growth in the coming few years.



Management Discussion and Analysis

FUTURE DEVELOPMENT STRATEGIES (Continued)

The Most Standardized Green Agricultural Plantation Model in the PRC

The Group took the lead to introduce advanced cultivation technology within and outside the PRC, and implemented agricultural and production industrialized management operating model, set the standard for modern agriculture, such implementations include strategically established operating policies to set production according to sales; adopted a different plantation supply model for Northern and Southern China; ensured stable product supply; as well as formulated the Group standardized plantation product manual. In addition, the Group implements comprehensive green controls on its plantation, from seed selection, soil testing, establishment of irrigation facilities, training of plantation management team and application of pesticides, to efficiently ensure food safety and to continue to supply green food to consumers.

The Largest Production and Processing Platform for Green Food

To cater for the sustained rise in demand from around the world, the Group is set to enhance processing capacity and expand processing categories as its another major strategy. The Group is currently planning to construct a second phase of processing facilities in Zhangpu of Fujian Province and Fengxin of Jiangxi Province. The new facilities will be equipped with various processing production chains, so as to increase the annual processing volume of the Group. The plant expansion will not only enhance the Group's processing capacity and economies of scale, but will also allow the Group to efficiently utilize its all-altitude plantation base. Apart from application of advanced technologies to enhance its processing business, the Group will further use any surplus fruits and vegetables from the fresh produce delivery business and process into value-added food. In the long run, the new complex is expected to enhance the Group's profitability significantly.

China Green's No.1 Fast Consumer Foods

As the upgrading of the consumer structure of the PRC continues to accelerate, GDP and urbanization continue to grow, further pushing demand for China Green's food. In order to expand the market share of the green consumer food market, the Group will further explore more varieties of its domestic brands and develop various series of green food, aimed at achieving brand awareness and popularity of the Group's green food amongst the PRC consumers on an extensive basis, and solidify consumers' confidence in the Group's products.



Management Discussion and Analysis

FUTURE DEVELOPMENT STRATEGIES (Continued)

The PRC's Most Comprehensive Green Food Supply Chain

In light of the rapid changes in the spending patterns of the PRC, the Group will further develop its downstream businesses in the coming year. To this front, the Group is planning to establish a green food logistics and delivery centre in Shanghai, to focus on the purchasing and distribution of green food within and outside the PRC. The construction of a logistics and delivery centre will not only enhance the Group's distribution capacity, but will also strengthen its upstream businesses, and allow the Group to efficiently utilize its own cultivation and processing platforms, to achieve its goal of becoming a global vertically-integrated supply chain supplier.

