



中國綠色食品(控股)有限公司\*  
CHINA GREEN (HOLDINGS) LIMITED  
(Incorporated in Bermuda with limited liability) (Stock Code: 904)

## Interim Report 2007

# Interim Financial Statement

## INTERIM RESULTS

The Board of Directors (the "Board") of China Green (Holdings) Limited (the "Company") is pleased to present the unaudited interim reports of the Company and its subsidiaries (together the "Group") for the six months ended 31 October 2007. The consolidated interim financial statements are unaudited and condensed together with selected explanatory notes, and have been reviewed by the Company's Audit Committee.

## Interim Financial Statement

### UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 October 2007

	Note	Unaudited Six months ended 31 October	
		2007 RMB'000	2006 RMB'000
Turnover	3	<b>533,703</b>	387,179
Cost of sales		<b>(258,273)</b>	(189,723)
Gross profit	3	<b>275,430</b>	197,456
Other revenue		<b>8,318</b>	7,716
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets		<b>34,055</b>	23,148
Selling and distribution expenses		<b>(51,355)</b>	(40,014)
General and administrative expenses		<b>(32,216)</b>	(33,068)
Other operating expenses		<b>(15,777)</b>	(7,286)
Profit from operations		<b>218,455</b>	147,952
Finance cost		<b>(1,127)</b>	(6,430)
Profit before taxation	4	<b>217,328</b>	141,522
Income tax	5	<b>(9,546)</b>	–
Profit attributable to equity shareholders of the Company		<b>207,782</b>	141,522
Dividends	6	<b>55,312</b>	37,781
Earnings per share			
–Basic	7(a)	<b>RMB24 cents</b>	RMB19 cents
–Diluted	7(b)	<b>RMB21 cents</b>	RMB18 cents

The notes on pages 6 to 20 form part of the interim financial report.

# Interim Financial Statement

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 October 2007

	At 31 October 2007 RMB'000 (Unaudited)	At 30 April 2007 RMB'000 (Audited)
<b>Non-current assets</b>		
Property, plant and equipment	8 <b>481,802</b>	475,477
Interests in leasehold land held for own use under operating leases	<b>82,128</b>	82,965
Long-term prepaid rentals	<b>84,356</b>	93,806
	<b>648,286</b>	652,248
<b>Current assets</b>		
Inventories	<b>42,331</b>	14,320
Biological assets	<b>70,592</b>	39,337
Trade receivables	9 <b>17,868</b>	11,393
Prepayments, deposits and other receivables	<b>8,252</b>	39,207
Current portion of long-term prepaid rentals	<b>39,044</b>	33,941
Cash and cash equivalents	10 <b>2,198,294</b>	1,050,537
	<b>2,376,381</b>	1,188,735
<b>Current liabilities</b>		
Due to a director	12 <b>817</b>	819
Trade and other payables	11 <b>20,708</b>	22,427
Tax payable	<b>67,313</b>	67,596
	<b>88,838</b>	90,842
<b>Net current assets</b>	<b>2,287,543</b>	1,097,893
<b>Total assets less current liabilities</b>	<b>2,935,829</b>	1,750,141
<b>Non-current liabilities</b>		
Convertible bonds	13 <b>865,228</b>	64,605
<b>Net assets</b>	<b>2,070,601</b>	1,685,536
<b>Represented by:</b>		
Capital and reserves	<b>2,070,601</b>	1,685,536

The notes on pages 6 to 20 form part of the interim financial report.

# Interim Financial Statement

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 October 2007

	Share capital RMB'000 (Note 14)	Share premium RMB'000	PRC statutory reserves RMB'000	Merger reserve RMB'000	Share based compensation reserve RMB'000	Convertible bonds reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
As at 1 May 2006 (audited)	77,507	300,627	79,985	14,694	5,682	16,430	(2,243)	639,948	1,132,630
Equity settled share-based transactions	-	-	-	-	15,112	-	-	-	15,112
Share issued under conversion of convertible bonds	3,842	97,907	-	-	-	(5,116)	-	-	96,633
Profit for the period	-	-	-	-	-	-	-	141,522	141,522
Dividends paid	-	-	-	-	-	-	-	(46,483)	(46,483)
Exchange realignment	-	-	-	-	-	-	(1,363)	-	(1,363)
As at 31 October 2006 (unaudited)	81,349	398,534	79,985	14,694	20,794	11,314	(3,606)	734,987	1,338,051
As at 1 May 2007 (audited)	88,921	592,241	101,011	14,694	18,866	4,067	(15,480)	881,216	1,685,536
Equity settled share-based transactions	-	-	-	-	16,389	-	-	-	16,389
Share issued under conversion of convertible bonds	2,360	64,964	-	-	-	(4,067)	-	-	63,257
Share issued under exercise of share options	1,064	46,154	-	-	(9,970)	-	-	-	37,248
Recognition of equity components of convertible bonds	-	-	-	-	-	116,788	-	-	116,788
Profit for the period	-	-	-	-	-	-	-	207,782	207,782
Profit appropriation to PRC statutory reserves	-	-	11,255	-	-	-	-	(11,255)	-
Dividends paid	-	-	-	-	-	-	-	(53,027)	(53,027)
Exchange differences on translation into presentation currency	-	-	-	-	-	-	(3,372)	-	(3,372)
As at 31 October 2007 (unaudited)	92,345	703,359	112,266	14,694	25,285	116,788	(18,852)	1,024,716	2,070,601

The notes on pages 6 to 20 form part of the interim financial report.

# Interim Financial Statement

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 October 2007

	Unaudited	
	Six months ended	
	31 October	
	2007	2006
	RMB'000	RMB'000
<b>Net cash inflow from operating activities</b>	<b>203,100</b>	169,927
<b>Net cash used in investing activities</b>	<b>(16,089)</b>	(166,767)
<b>Net cash inflow from/(used in) financing activities</b>	<b>966,468</b>	(49,868)
<b>Effect of foreign exchange rate changes</b>	<b>(5,722)</b>	(7,164)
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>1,147,757</b>	(53,872)
Cash and cash equivalents at 1 May	<b>1,050,537</b>	852,898
<b>Cash and cash equivalents at 31 October</b>	<b>2,198,294</b>	799,026

The notes on pages 6 to 20 form part of the interim financial report.

# Interim Financial Statement

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

*For the six months ended 31 October 2007*

### 1. GENERAL INFORMATION

The Company was incorporated in Bermuda under the Companies Act 1981 of Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "HKSE").

This condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated.

### 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICY

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2006/07 annual financial statements. In the current interim period, the Group has applied, for the first time, certain new standards and amendments issued by the HKICPA, which are effective for accounting periods beginning on or after 1 January 2007. The adoption of these new standards and amendments has no material effect on how the results for the current and/or prior accounting periods are prepared and presented.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

## Interim Financial Statement

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2006/07 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”, which term collectively includes HKASs and Interpretations).

The financial information relating to the financial year ended 30 April 2007 that is included in the interim financial report as being previously reported information does not consider the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 30 April 2007 are available from the Company’s registered office.



# Interim Financial Statement

## 3. SEGMENTAL REPORTING

### a) Business segments

The Group is principally engaged in the growing and sales of agricultural products. An analysis of the Group's turnover and gross profit by product categories for the six months ended 31 October 2007 and 2006 are as follows:

	<b>Unaudited Six months ended 31 October</b>	
	<b>2007</b>	2006
	<b>RMB'000</b>	RMB'000
<b>Turnover</b>		
Fresh produce	<b>140,381</b>	111,933
Processed products	<b>138,018</b>	98,940
Pickled products	<b>70,885</b>	54,185
Beverage products	<b>89,292</b>	53,638
Rice products	<b>34,773</b>	38,172
Rice flour products	<b>32,741</b>	30,311
Instant noodle products	<b>27,613</b>	–
	<b>533,703</b>	387,179
<b>Gross profit</b>		
Fresh produce	<b>67,250</b>	52,943
Processed products	<b>78,841</b>	56,721
Pickled products	<b>37,709</b>	29,818
Beverage products	<b>52,285</b>	31,876
Rice products	<b>9,786</b>	10,272
Rice flour products	<b>17,217</b>	15,826
Instant noodle products	<b>12,342</b>	–
	<b>275,430</b>	197,456

# Interim Financial Statement

## b) Geographical segments

An analysis of the Group's result of operation by geographical locations for the six months ended 31 October 2007 and 2006 are as follows:

	<b>Unaudited</b>	
	<b>Six months</b>	
	<b>ended 31 October</b>	
	<b>2007</b>	2006
	<b>RMB'000</b>	RMB'000
<b>Turnover</b>		
PRC	<b>293,385</b>	209,834
Japan	<b>172,160</b>	126,572
Other Asian countries	<b>27,968</b>	12,842
Europe	<b>35,765</b>	37,545
Australia	<b>562</b>	386
South America	<b>2,813</b>	–
Africa	<b>1,050</b>	–
	<b>533,703</b>	387,179
<b>Gross profit</b>		
PRC	<b>141,582</b>	95,959
Japan	<b>96,520</b>	71,812
Other Asian countries	<b>15,284</b>	7,478
Europe	<b>19,682</b>	21,989
Australia	<b>270</b>	218
South America	<b>1,519</b>	–
Africa	<b>573</b>	–
	<b>275,430</b>	197,456

No analysis of assets and additions to property, plant and equipment by geographical locations 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").

# Interim Financial Statement

## 4. PROFITS BEFORE TAXATION

Profits before taxation is arrived after crediting and charging the following:

	<b>Unaudited Six months ended 31 October</b>	
	<b>2007</b>	2006
	<b>RMB'000</b>	RMB'000
<b>Crediting</b>		
Interest income	<b>7,639</b>	7,437
Gain arising from changes in fair value		
less estimated point-of-sale costs of biological assets	<b>34,055</b>	23,148
<hr/>		
<b>Charging</b>		
Depreciation of owned property, plant and equipment (net of amount capitalised in inventories)	<b>27,621</b>	15,355
Staff costs (including directors emoluments)	<b>79,492</b>	53,560
Research and development expenses	<b>14,292</b>	9,393
Interest expenses on convertible bonds	<b>1,127</b>	6,430
Amortisation of long-term prepaid rentals included in cost of goods sold (net of amount capitalised in inventories)	<b>19,347</b>	11,370
Loss on disposal of property, plant and equipment	–	106
Net foreign exchange loss	<b>1,310</b>	608
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# Interim Financial Statement

## 5. INCOME TAX

	Unaudited Six months ended 31 October	
	2007 RMB'000	2006 RMB'000
Hong Kong profits tax ( <i>note a</i> )	–	–
PRC enterprise income tax ( <i>note b</i> )	9,546	–
	<b>9,546</b>	–

### a) Hong Kong profits tax

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

### b) PRC Enterprise Income Tax

Zhonglu (Fujian) Agriculture Comprehensive Development Company Limited (“Zhonglu”), the principal wholly-owned subsidiary of the Group is subject to PRC Enterprise Income Tax at a rate of 24%. However, in September 2005, Zhonglu was awarded as “State-Level Industrialized Agricultural Leading Enterprise” of the nation by the central government of the PRC. According to the circular Nong Jing Fa 2005 No. 5, domestic PRC State-Level Industrialized Agricultural Leading Enterprises are entitled to certain tax benefits including full exemption of PRC Enterprise Income Tax. Taxation for other PRC subsidiaries is charged at the appropriate current rates of taxation ruling in the PRC. During the period, certain PRC subsidiaries are subject to tax at 50% of the standard tax rates or fully exempt from PRC Enterprise Income Tax under the relevant tax rules and regulations.

# Interim Financial Statement

## 6. DIVIDENDS

At a Board meeting held on 22 January 2008, the Board has resolved to declare an interim dividend of RMB0.063 (equivalent to HK\$0.068) per share for the six months ended 31 October 2007 (2006: RMB0.048).

## 7. EARNINGS PER SHARE

### a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB207,782,000 (2006: RMB141,522,000) and on the weighted average of 868,518,312 ordinary shares (2006: 736,609,145 ordinary shares) in issue during the period, calculated as follows:

*Weighted average number of ordinary shares*

	2007	2006
Issued ordinary shares at 1 May (audited)	<b>847,028,433</b>	731,266,478
Effect of conversion rights attached to convertible bonds exercised	<b>12,189,879</b>	5,342,667
Effect of issuance of shares under share option scheme	<b>9,300,000</b>	–
Weighted average number of ordinary shares at 31 October (unaudited)	<b>868,518,312</b>	736,609,145

## Interim Financial Statement

### b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB208,909,000 (2006: RMB147,952,000) and the weighted average number of ordinary shares of 980,162,456 shares (2006; 825,699,978 ordinary shares), calculated as follows:

#### i) Profit attributable to ordinary equity shareholders of the Company (diluted)

	<b>Unaudited Six months ended 31 October</b>	
	<b>2007</b>	2006
	<b>RMB'000</b>	RMB'000
Profit attributable to ordinary equity shareholders	<b>207,782</b>	141,522
After tax effect of effective interest on liability component of convertible bonds	<b>1,127</b>	6,430
<b>Profit attributable to ordinary equity shareholders (diluted)</b>	<b>208,909</b>	147,952

#### ii) Weighted average number of ordinary shares (diluted)

	<b>2007</b>	2006
Weighted average number of ordinary shares at 31 October	<b>868,518,312</b>	736,609,145
Effect of conversion of convertible bonds into the Company's new ordinary shares	<b>106,119,343</b>	80,979,284
Effect of deemed issue of shares under the Company's Share Option Scheme	<b>5,524,801</b>	8,111,549
<b>Weighted average number of ordinary shares at 31 October (diluted)</b>	<b>980,162,456</b>	825,699,978

# Interim Financial Statement

## 8. PROPERTY, PLANT AND EQUIPMENT

During the period, approximately RMB35,976,000 (2006: RMB47,252,000) were spent on acquisition of property, plant and equipment.

## 9. TRADE RECEIVABLES

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

An ageing analysis of trade receivables is as follows:

	<b>At</b>	At
	<b>31 October</b>	30 April
	<b>2007</b>	2007
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Within 1 month	<b>12,998</b>	11,393
Over 1 month but within 3 months	<b>4,870</b>	–
	<b>17,868</b>	11,393

## 10. CASH AND CASH EQUIVALENTS

	<b>At</b>	At
	<b>31 October</b>	30 April
	<b>2007</b>	2007
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Cash on hand	<b>577</b>	344
Cash at bank	<b>2,197,717</b>	1,050,193
	<b>2,198,294</b>	1,050,537

# Interim Financial Statement

## 11. TRADE AND OTHER PAYABLES

Trade payables and other payables consist of:

	<b>At</b>	At
	<b>31 October</b>	30 April
	<b>2007</b>	2007
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Payable for the acquisition of property, plant and equipment	<b>2,311</b>	5,109
Accrued salaries and wages	<b>9,214</b>	8,316
Other accruals and payables	<b>5,666</b>	4,715
Value-added tax payable	<b>939</b>	3,051
Trade payables	<b>2,578</b>	1,236
	<b>20,708</b>	22,427

An ageing analysis of trade payables is as follows:

	<b>At</b>	At
	<b>31 October</b>	30 April
	<b>2007</b>	2007
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Within 1 month	<b>1,807</b>	1,144
Over 1 month but within 3 months	<b>771</b>	89
Over 3 months but within 6 months	<b>–</b>	3
	<b>2,578</b>	1,236

## 12. DUE TO A DIRECTOR

The amount due to Mr. Sun Shao Feng, a director of the Company, is unsecured, interest-free and repayable on demand.



## Interim Financial Statement

### 13. CONVERTIBLE BONDS

Pursuant to a bond placement agreement dated 25 January 2006, the Company issued convertible bonds (the "Old Bonds") for an aggregate principal amount of HK\$325,000,000 to independent investors on 26 January 2006. The initial conversion price is HK\$2.6550 per ordinary share (subject to adjustment) at any time during the period from 26 January 2006 to 24 January 2011.

The Old Bonds bear interest at 2.125% per annum payable by the Company semi-annually in arrear and the Old Bonds will mature on 24 January 2011.

On the maturity date, the outstanding Old Bonds will be redeemed by the Company at 123.8% of the outstanding principal amount.

During the period, the Old Bonds with an aggregate principal amount of HK\$65,000,000 (2006: HK\$100,000,000) were converted into the Company's new 24,482,107 (2006: 37,664,782) ordinary shares, and all of the Old Bonds have been converted into the Company's shares before the period end date (ie. 31 October 2007).

Interest expense on the Old Bonds is calculated using the effective interest method by applying the effective interest rate of 7.42% per annum to the liability component.

Pursuant to another bond placement agreement dated 22 October 2007, the Company issued zero coupon convertible bonds (the "New Bonds") for an aggregate principal amount of RMB1,000,000,000 to independent investors on 29 October 2007. The initial conversion price is HK\$11.00 per ordinary share (subject to adjustment) at any time during the period from 9 December 2007 to 22 October 2010.

The New Bonds will mature on 29 October 2010. On the maturity date, the outstanding New Bonds will be redeemed by the Company at 104.6% of the outstanding principal amount.

Interest expense on the New Bonds is calculated using the effective interest method by applying effective interest rate of 5.802% per annum to the liability component.

# Interim Financial Statement

## 14. SHARE CAPITAL

The following is a summary of movements in the authorised and issued share capital of the Company:

	<b>At 31 October 2007 RMB'000 (Unaudited)</b>	At 30 April 2007 RMB'000 (Audited)
Authorised:		
2,000,000,000 ordinary shares of HK\$0.10 each	<b>212,000</b>	212,000
Issued and fully paid:		
882,550,540 (30 April 2007: 847,028,433) ordinary shares of HK\$0.10 each	<b>92,345</b>	88,921

A summary of movements in the issued share capital of the Company during the period is as follows:

	<b>Number of ordinary shares of HK\$0.10 each '000</b>	<b>Nominal value HK\$'000</b>	<b>RMB equivalent RMB'000</b>
Issued and fully paid:			
At 1 May 2007 (audited)	847,028	84,703	88,921
Issue of shares on conversion of convertible bonds	24,482	2,448	2,360
Issue of shares under exercise of options	11,040	1,104	1,064
At 31 October 2007 (unaudited)	882,550	88,255	92,345

# Interim Financial Statement

## 15. COMMITMENTS

### a) Capital commitments

At the balance sheet date, the Group had the following capital commitments:

	<b>At</b>	At
	<b>31 October</b>	30 April
	<b>2007</b>	2007
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Contracted but not provided for – Purchase of property, plant and equipment	<b>12,863</b>	24,979

### 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 lease premium for land and cultivation bases for each of the following periods:

	<b>At</b>	At
	<b>31 October</b>	30 April
	<b>2007</b>	2007
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Within one year	<b>36,367</b>	27,907
After one year but within five years	<b>89,231</b>	79,442
After five years	<b>216,100</b>	220,100
	<b>341,698</b>	327,449

# Interim Financial Statement

## 16. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at the balance sheet date (30 April 2007: Nil).

## 17. MATERIAL RELATED PARTY TRANSACTIONS

### a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and certain of the highest paid employees, is as follows:

	<b>Unaudited Six months ended 31 October</b>	
	<b>2007</b>	2006
	<b>RMB'000</b>	RMB'000
Short-term employee benefits	<b>1,189</b>	950
Post-employment benefits	<b>9</b>	9
Equity compensation benefits	<b>7,284</b>	4,573
	<b>8,482</b>	5,532

Total remuneration is included in "staff costs" (see note 4).

### b) Transaction with other related parties

Except for an amount due to a director as disclosed in note 12, the Group did not enter into any material related party transactions during the period.

# Interim Financial Statement

## 18. COMPARATIVE FIGURES

Certain comparative figures in the interim financial statements have been reclassified to conform to the current period presentation.

## 19. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDING 30 APRIL 2008

Up to the date of issue of this interim financial report, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ending 30 April 2008 and which have not been adopted in this interim financial report.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a material impact on the Group's results of operations and financial position.

## 20. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board on 22 January 2008.

# Report of the Board

## INTERIM DIVIDEND

The Board resolved to declare an interim dividend of RMB0.063 (equivalent to HK\$0.068) per share for the six months ended 31 October 2007 to be payable on Friday, 22 February 2008 to those shareholders whose names appear on the register of members of the Company on Thursday, 14 February 2008.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 13 February 2008 to Thursday, 14 February 2008, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer accompanies by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on Tuesday, 12 February 2008.

Holders of the zero coupon convertible bonds (the "Bonds") of the Company due 2010 should lodge the conversion notice together with the relevant document evidencing the title of the Bonds to the conversion agent of the Bonds not later than Monday, 4 February 2008 in order to qualify for the interim dividend.

## Report of the Board

### BUSINESS REVIEW

During the period under review, the PRC economy maintained its stable and rapid growth. During the first three quarters of 2007, the GDP growth was about 12% and the total sales of social consumer goods increased by 16% to RMB6,382.7 billion compared to those of the first three quarters in 2006. With increasing wealth and health consciousness of Chinese population, the demand for green and healthy food continued to grow.

In recent years, consumers around the world are becoming increasingly health-conscious, and as a result, demand for green food in overseas markets has been increasing. The export of China's agricultural products have a very positive outlook and have maintained a growing trend for five consecutive years. Vegetable, fruit and related processed food, which the Company are exporting, grew at a relatively higher than industry average rate of more than 20% over the last 2 years. The Group has successfully captured opportunities in both domestic and overseas markets and has continued to expand its export and domestic sales business with a view to further implementing its two-pronged strategy of developing both domestic sales and export. During the period under review, the Group achieved satisfactory results, with growth rates of approximately 38% and 47% in its turnover and profit respectively.

During the period under review, our export sales increased 36% to RMB240,318,000, accounting for 45% of the total sales. By region, Japan was still our largest export market, representing approximately 72% of export sales, while the European markets contributed approximately 15%. The major sales markets in Europe were Germany, Belgium, etc. We also made satisfactory progress in developing new markets including South America and Africa. For domestic market, the Group successfully carried out gradual market development strategy by making breakthroughs in various provinces, one at a time. As a result, revenue from domestic sales increased by approximately 40% to RMB293,385,000, accounting for 55% of the total turnover. The strong growth of domestic sales was mainly attributable to the encouraging sales of branded beverage products and instant noodle products.

## Report of the Board

### **Cultivation bases and processing plants**

As at 31 October 2007, the Group had 36 cultivation bases throughout the country. The Group has adopted a national location strategy in an effort to strictly monitor the operation of the whole supply chain and the sources of its green food products, as well as to eliminate risk factors and cost fluctuation. During the period under review, the Group newly leased a total area of approximately 14,000 mu of cultivation bases in Hubei province, Hebei province and Jiangxi province. As at 31 October 2007, the Group's aggregate area of cultivation bases reached 66,100 mu, including 30 vegetable cultivation bases, 5 fruit cultivation bases and 1 organic rice cultivation base, which were able to produce about 273,000 tons of crops annually. The national cultivation bases fully leveraged different climates and conditions of various places in order to ensure a stable supply of agricultural products for the Group. Besides, the Group owned 10 processing plants with an annual processing capacity of around 440,000 tons during the period under review. Such a large production capacity can meet the increasing demand for exports, as well as provide strong support to the Group's branded food and beverage products.

### **Sales performance**

Benefiting from the huge demand of branded food and beverage products in the domestic markets and the consumers' increased recognition of the Group's brand, sales from fresh produce and processed products showed stable development, while sales from branded food and beverage products recorded a rapid growth. For the six months ended 31 October 2007, the sales of fresh produce, processed products, branded food and beverage products accounted for approximately 26%, 39% and 35% of the total sales respectively.

### **Fresh produce**

During the period under review, the overall sales of fresh produce increased approximately 25% and reached approximately RMB140,381,000 over the same period in 2006. Such increase was mainly contributed by sustained robust demand for fresh fruit and vegetables in the domestic and the overseas markets. Among all the fresh produce, soya beans accounted for largest sales and the sales reached approximately RMB21,552,000, accounting for approximately 15% of the total sales of fresh produce.



## Report of the Board

### Processed products

The Group's processed products include water boiled products, quick frozen products, pickled products and canned products. During the period under review, turnover from the sale of processed products totalled approximately RMB208,903,000, representing a growth of approximately 36% over the same period of 2006. There has been stable growth in water boiled products, which accounted for approximately 46% of the total revenue from processed products. Water boiled radish was the leading product in the category, with turnover totalling approximately RMB38,834,000. Quick frozen products and canned products recorded satisfactory growth and were recognized as the growth drivers in processed products. Turnover of quick frozen products and canned products were approximately RMB42,176,000 and RMB36,358,000 respectively, accounting for approximately 20% and 17% of the total revenue from processed products.

### Branded food and beverage products

The Group's branded food and beverage products include beverage products, instant noodle products, rice products and rice flour products. During the period under review, turnover from the sales of branded food and beverage products was approximately RMB184,419,000, representing a significant growth of approximately 51% over the same period of 2006. During the period under review, the Group's turnover from beverage products totalled approximately RMB89,292,000. Within the category, corn milk product series was the leading product, with turnover totalling approximately RMB72,952,000. In addition, the new products, non-fried instant noodles, continued to receive positive market response. Turnover from non-fried instant noodles totalled approximately RMB27,613,000.

# Report of the Board

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial review

The Group recorded a satisfactory growth in turnover and profit attributable to shareholders during the six months ended 31 October 2007. During the first half of this financial year, the Group's turnover grew approximately 38% to approximately RMB533,703,000. Approximately 16% of the growth of the total sales was contributed by the increase of sales from the export market, while approximately 22% of the growth of the total sales was contributed by the increase of sales from the domestic market.

During the period under review, the overall gross profit margin of the Group increased slightly to approximately 52% as compared to approximately 51% of prior period. The gross profit margin of the sales of fresh produce slightly increased to approximately 48% as compared to approximately 47% of prior period while the gross profit margin of processed products decreased slightly to approximately 56% as compared to approximately 57% of prior period. Such decrease was mainly due to the drop in the gross profit margin of the sales of canned products in Europe. On the other hand, the gross profit margin of branded food and beverage products increased to approximately 50% as compared to approximately 47% of prior period. Such increase was mainly due to the significant increase in the sales of beverage products with higher gross profit margin which further enhanced the average gross profit margin.

During the period under review, the net profit margin was approximately 39%, as compared to approximately 37% for the same period last year. It was mainly attributable to the continuous implementation of stringent cost control.

## Report of the Board

### Liquidity and financial resources

As at 31 October 2007, the Group had fixed deposits and cash and cash equivalents of approximately RMB2,198,294,000. The Group deposited funds in various banks in the PRC and licensed banks in Hong Kong.

As at 31 October 2007, the zero coupon convertible bonds of the Company due 2010 issued on 29 October 2007 (the "Bonds") with an aggregate principal amount of RMB1,000,000,000 were still outstanding. The Group's gearing ratio as at 31 October 2007, calculated by dividing net borrowing of approximately RMB865,228,000 by total equity of approximately RMB2,070,601,000 was approximately 42%.

### Capital commitments and contingencies

During the period under review, the Group was committed to the expansion of existing facilities to enhance its production capacity. As at 31 October 2007, the Group has contractual capital commitments of approximately RMB12,863,000. As at 31 October 2007, 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.

### Exposure to fluctuation in exchange rates

For the six months ended 31 October 2007, 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 Board considered that no hedging of such exchange rate risk is required. Nevertheless, the management will continue to monitor the foreign exchange exposure and will take prudent measures as and when 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 period under review, the Group made no significant investments, nor had it made any material acquisition or disposal of subsidiaries and associates.

# Report of the Board

## Charge on assets

As at 31 October 2007, the Group had not pledged any assets to its bankers to secure banking facilities granted to the Group.

## Staff and remuneration policies

As at 31 October 2007, the Group had a total of over 7,000 employees, of which approximately 3,700 were workers at the Group's cultivation bases. The aggregate staff costs and Directors' remuneration for the six months ended 31 October 2007 totalled approximately RMB79,492,000 (same period of year 2006: approximately RMB53,560,000). Employees are paid 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.

## Capital structure

During the period under review, the Company issued 24,482,107 ordinary shares due to the conversion of the 2% bonds of the Company with a total principal amount of HK\$65,000,000 at a conversion price of HK\$2.655 per share, and issued 11,040,000 shares due to the exercise of share options at an exercise price of HK\$3.50 per share granted under the share option scheme of the Company.

## FUTURE PROSPECTS

Looking forward, as global consumers are becoming increasingly health-conscious, market's demand for green food will remain high. The Group will take advantage of emerging opportunities, so as to sustain growth for years to come.

In the year ahead, the Group's development will be underpinned by four major thrusts:

## Report of the Board

### **The paragon of standardized plantation of green food in the PRC**

The Group implemented comprehensive green controls on its cultivation in order to ensure food safety and to continue to supply green food to consumers. The Group introduced advanced cultivation technology within and outside the PRC, and implemented an industrialized management operating model, which includes adopting a “Sales Driven Model” Policy so as to utilize the resources more effectively. China Green’s goal is to become the paragon of standardized plantation of green food.

### **The largest scale of green food production and processing platform in the PRC**

The Group is planning to enhance processing capacity and expand processing categories. With the application of advanced technologies to enhance its processing business, the Group will be able to use residual fruit and vegetables from the fresh produce distribution business and further process them into value-added foods so as to significantly enhance the Group’s profitability.

### **The leading brand for instant green food in the PRC**

In order to expand the market share of the green consumer food market, the Group will explore more varieties of its domestic brands and develop various green food categories. The Group will continue its gradual market development strategy by making breakthroughs in provinces one at a time. This will spread from Jiangxi and Fujian provinces to other regions in southern China and then to the whole country, so as to build the “China Green” brand as the leading brand for instant green food in the PRC.

### **The best fresh green food supply chain in the PRC**

The Group is planning to further develop its downstream businesses in the coming year so as to seize the market emerging opportunities as a result of the rapid growth of the PRC’s consumer market. Apart from starting green food logistics and distribution operations in the trial points like Xiamen, Fuzhou, Quanzhou etc, the green food logistics and distribution centre located in Shanghai will also come into operation, so that the Group can utilize its own plantation and processing platforms more efficiently to achieve its goal of becoming the best fresh green food supply chain in the PRC.

# Report of the Board

## DIRECTORS' INTERESTS IN SHARES

At 31 October 2007, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed issuers ("Model Code"), are set out below:

### Interests and short positions in shares, underlying shares and debentures of the Company

Name of director	Capacity	Long position/ Short position	Number of ordinary shares held	Percentage of the Company's issued share capital
Mr. Sun Shao Feng	Being a beneficial owner	Long position	8,400,000 (Note 1)	0.95%
	Being a beneficial owner	Long position	15,000	Negligible
	Having an interest in a controlled corporation	Long position	405,282,000 (Note 2)	45.92%
		Total:	413,697,000	46.87%

## Report of the Board

*Notes:*

1. These 8,400,000 shares are derived from the interest in 8,400,000 share options granted by the Company, details of which are set out in the section headed "INTERESTS IN SHARE OPTIONS" below; and
2. These 405,282,000 ordinary shares of the Company are held through Capital Mate Limited, a company incorporated in the British Virgin Islands with limited liability which is wholly and beneficially owned by Mr. Sun Shao Feng.

Save as disclosed above, none of the Directors, chief executives or their associates had any interests and short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations as defined in Part XV of SFO as recorded in the register to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

# Report of the Board

## INTERESTS IN SHARE OPTIONS

The Company adopted a share option scheme (the "Scheme") on 12 December 2003, pursuant to which the Board may, at its discretion, invite any eligible participants to take up options to subscribe for shares of the Company in aggregate not exceeding 30% of the shares in issue from time to time.

Details of movement of the share options during the six months ended 31 October 2007 under the Scheme are as follows:

Name or category of participants	Number of share options				Exercise price (HK\$)	Date of Grant	Exercisable period	
	Balance at 1 May 2007	Granted during the period	Exercised during the period	Lapsed during the period				Outstanding at 31 October 2007
<b>Director</b>								
Mr. Sun Shao Feng	-	8,400,000	-	-	8,400,000	7.29	30 May 2007	30 May 2008 to 11 Dec 2013 **
Sub-total	-	8,400,000	-	-	8,400,000			
<b>Employees</b>								
	20,400,000	-	11,040,000	-	9,360,000	3.50	19 April 2006	19 April 2007 to 11 Dec 2013 †
	-	10,500,000	-	-	10,500,000	7.29	30 May 2007	30 May 2008 to 11 Dec 2013 **
Sub-total	20,400,000	10,500,000	11,040,000	-	19,860,000			
Total	20,400,000	18,900,000	11,040,000	-	28,260,000			

† 70% of the share options are exercisable from 19 April 2007 and the remaining 30% are exercisable from 19 April 2008 to 11 December 2013.

\*\* 70% of the share options are exercisable from 30 May 2008 and the remaining 30% are exercisable from 30 May 2009 to 11 December 2013.



## Report of the Board

### SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS IN SECURITIES

As at 31 October 2007, so far as is known to the Directors, the following persons (other than the Directors and chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

#### Interests and short positions in shares and underlying shares of the Company

Name	Capacity	Long position/ short position	Number of ordinary shares	Percentage of issued share capital
Capital Mate Limited ("Capital Mate") (Note)	Beneficial owner	Long position	405,282,000	45.92%

Note: Capital Mate, a company incorporated in the British Virgin Islands with limited liability is wholly and beneficially owned by Mr. Sun Shao Feng. Hence, Mr. Sun is deemed to be interested in these 405,282,000 ordinary shares of the Company owned by Capital Mate.

Save as disclosed above, no other parties were recorded in the register of the Company required to be kept under section 336 of the SFO having interests or short positions in the shares or underlying shares of the Company as at 31 October 2007.

### PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 31 October 2007.

# Report of the Board

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code. All the Directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the period under review.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Listing Rules, which came into effect on 1 January 2005.

During the six months ended 31 October 2007, the Company was in compliance with code provisions set out in the CG Code except that code provision A.2.1 of the CG Code provides that the responsibilities between the chairman ("Chairman") and chief executive officer ("CEO") should be divided. The Company does not have a CEO and Mr. Sun Shao Feng currently performs these two roles. The Board believes that vesting the roles of both Chairman and CEO in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board which comprises experienced and high calibre individuals with sufficient number thereof being independent non-executive directors.

Save as the aforesaid and in the opinion of the Directors, the Company has met the code provisions set out in the CG Code for the six months ended 31 October 2007.

## Report of the Board

### AUDIT COMMITTEE

The Company established an Audit Committee on 12 December 2003 with written terms of reference in compliance with the CG Code, and currently comprising of three independent non-executive Directors, Mr. Hu Ji Rong, Mr. Lin Chuan Bi and Mr. Zheng Baodong. The primary duties of the Audit Committee are to review the financial reporting process and internal control system of the Group. The Audit Committee has reviewed the unaudited interim financial statements for the six months ended 31 October 2007.

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

Hong Kong, 22 January 2008