



CHINA GREEN (HOLDINGS) LIMITED

中國綠色食品（控股）有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 904)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 OCTOBER 2004

INTERIM RESULTS

The board of directors (the “Board”) of China Green (Holdings) Limited (the “Company”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (together the “Group”) for the six months ended 31 October 2004. The condensed consolidated interim financial statements (the “Interim Financial Statements”) have not been audited, but have been reviewed by the Company’s audit committee (the “Audit Committee”).

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 31 October 2004

		Six months ended 31 October	
		2004	2003
	Note	RMB'000	RMB'000 (Restated)
Turnover	2	177,898	135,606
Cost of sales		(88,748)	(68,552)
Gross profit	2	89,150	67,054
Other revenues		782	212
Gain on change in fair value of plantation		13,940	13,341
Income from negative goodwill		226	226
Selling and distribution expenses		(12,644)	(9,054)
General and administrative expenses		(6,871)	(2,135)
Net other operating expenses		(1,981)	(1,162)
Operating profits	3	82,602	68,482
Taxation	4	(20,544)	(9,006)
Profit attributable to shareholders		62,058	59,476

		Six months ended 31 October	
	<i>Note</i>	2004	2003
		RMB'000	RMB'000 (Restated)
Dividends	5	21,592	–
Earnings per Share – Basic	6	RMB10 cents	RMB13 cents

Notes:

1. Basis of preparation and accounting policies

The Interim Financial Statements have been prepared in accordance with the disclosure requirements of Appendix 16 to the Rules (the “Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “HKSE”) issued by the HKSE and with Hong Kong Statement of Standard Accounting Practice (the “SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and basis of preparation used in the preparation of the Interim Financial Statements are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 30 April 2004 except the first time adoption of the following SSAP.

SSAP 36 “Agriculture”

The principal effect of adoption of SSAP 36 “Agriculture” is in relation to the agricultural activity. SSAP 36 requires the measurement of biological assets at their fair value less point-of-sales costs and introduces certain new disclosure requirements for biological assets and agricultural produce. The adoption of SSAP 36 has resulted in changing the Group’s accounting policy and applied retrospectively. As a result, comparative figures have been restated.

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 2004 and 2003 are as follows:

	Six months ended 31 October	
	2004	2003
	RMB'000	RMB'000
Turnover		
Fresh produces	103,738	73,636
Processed products	48,814	36,219
Pickled products	20,939	25,751
Beverage	4,407	–
	177,898	135,606

	Six months ended 31 October	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Gross profit		
Fresh produces	48,108	32,853
Processed products	29,482	20,425
Pickled products	9,364	13,776
Beverage	2,196	–
	<u>89,150</u>	<u>67,054</u>

(b) Geographical segment

An analysis of the Group's result of operation by geographical location for the six months ended 31 October 2004 and 2003 are as follows:

	Six months ended 31 October	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover		
Japan	88,539	79,207
Mainland China	83,902	55,344
Philippines	899	1,055
Malaysia	1,353	–
Taiwan	3,205	–
	<u>177,898</u>	<u>135,606</u>
Gross profit		
Japan	50,787	44,891
Mainland China	35,001	21,624
Philippines	417	539
Malaysia	570	–
Taiwan	2,375	–
	<u>89,150</u>	<u>67,054</u>

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	
	2004	2003
	RMB'000	RMB'000
Crediting		
Amortisation of negative goodwill	226	226
Interest income	682	195
Rental income	17	17
Exchange gain	83	–
Gain on change in fair value of plantation	<u>13,940</u>	<u>13,341</u>
Charging		
Auditors' remuneration	–	–
Depreciation of owned property, plant and equipment	4,628	2,974
Operating lease expenses		
– land and building	509	691
– other plant and machinery	80	–
Staff costs (including directors emoluments)	24,368	21,660
Research and development expenses	1,480	1,162
Amortisation of long-term prepaid rental included in cost of goods sold (net of amount capitalised in inventory)	8,234	6,226
Exchange loss	–	5
	<u>–</u>	<u>5</u>

4. Taxation

	Six months ended 31 October	
	2004	2003
	RMB'000	RMB'000
Hong Kong profits tax	–	–
PRC enterprise income tax	20,197	7,525
	<u>20,197</u>	<u>7,525</u>
Deferred taxation	347	1,481
	<u>20,544</u>	<u>9,006</u>

(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 (Fujian) Agriculture Comprehensive Development Company Limited (“Zhonglu Fujian”), a wholly owned subsidiary of the Company is subject to PRC enterprise income tax at a rate of 24%. However, in September 2004, Zhonglu Fujian was awarded as “State-Level Agricultural Leading Enterprise” of the nation by the central government of the PRC. According to the circular Nong Jing Fa 2004

No.5, domestic PRC Stated-Level Agricultural Leading Enterprises are entitled to certain tax benefits including full exemption of PRC enterprise income tax. Other PRC subsidiaries incorporated during 2004 would enjoy exemption 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.

5. Dividends

At a board meeting held on 19 January 2005, the Board has resolved to declare an interim dividend of RMB0.0297 (equivalent to HK\$0.028) per share for the six months ended 31 October 2004 (2003: Nil).

6. Earnings per share

The calculation of the basic earnings per share is based on the Group's profits for the period of RMB62,058,000 and the number of shares of 622,500,000 in issue during the period.

The calculation of the basic earnings per share for the six months ended 31 October 2003 is based on the profit attributable to shareholders during that period and assuming 450,000,000 shares in issue, comprising 4,900,000 shares in issue as at the date of the Company's prospectus dated 31 December 2003 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 Company's prospectus.

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

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board resolved to declare an interim dividend of RMB0.0297 (equivalent to HK\$0.028) per share for the six months ended 31 October 2004 to be payable on 7 February 2005 to those shareholders whose names appear on the register of members of the Company on 4 February 2005.

The register of members of the Company will be closed from 3 February 2005 to 4 February 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied 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, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 2 February 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Financial performance

The Group's turnover was increased by 31% during the six months ended 31 October 2004 over the same period in 2003. One-third of the increase in turnover was contributed from international market while two-third of the increase in turnover was contributed from domestic market. Actually, the international turnover was increased by approximately 17% during the six months ended 31 October 2004 over the same period in 2003. With the increasing in the vegetable price in the domestic market, the directors find it is worth to put more effort in domestic market during the six

months ended 31 October 2004. The domestic turnover was increased by approximately 52% from approximately RMB55,344,000 during the six months ended 31 October 2003 to approximately RMB83,902,000 during the six months ended 31 October 2004.

During the period under review, the gross profit of the Group increased by approximately 33% from approximately RMB67,054,000 in prior period to approximately RMB89,150,000. On the other hand, the overall gross profit margin was increased by approximately 1% from 49% to 50%.

The profit attributable to shareholders during the period was increased by approximately 4% from approximately RMB59,476,000 in prior period to approximately RMB62,058,000 which was not in line with the increase in gross profit as a result of the increase in general and administration expenses in Hong Kong, Jiangxi and Thailand and the increase in taxation which was a result of expiration of the tax relief of Zhonglu Fujian on 31 December 2003.

Production bases

During the six months ended 31 October 2004, the Group has signed new long-leased cultivation bases and the Group's aggregate areas of long-leased cultivation bases increased from approximately 26,800 mu as at 31 October 2003 to approximately 34,500 mu as at 31 October 2004, representing an increase of approximately 29% of cultivation area. As at 31 October 2004, the Group operated a total of 22 vegetable cultivation bases and 5 fruit cultivation bases, all of which are located either in Fujian Province, Zhejiang Province and Hubei Province, the PRC and Thailand. On the other hand, the Group had paid approximately RMB27,359,000 for the improvement of the production facilities and infrastructure of different existing cultivation bases and factories so as to enhance the production and operation efficiency.

Operation review

The Group is one of the leading modernized food enterprises with production of agricultural products by well-organised method and management. From cultivation, processing, freshness preservation and sales, the Group runs an integrated operation of fruit and vegetables. The Group utilized advanced cultivation technologies from Japan and built the safety production standardized system with reference to overseas experiences, implemented effective safety control measures throughout the procedure related to products from introduction of seeds, cultivation, processing and sales, and utilized the quality and safety procedures with ISO9001, ISO9002 certifications, the food safety procedures with HACCP certification and Green Food certification to ensure that the quality of food is coherent with the international quality; therefore, the products of the Group can meet the international standards. Since the Group has never failed the residual test on agricultural chemicals, the Group was one of the two Chinese enterprises given preferential treatment by Ministry of Health of Japan in 2004 as a preferentially export vegetables enterprises to Japan.

Besides Zhonglu Fujian, during the period, the Group established two new subsidiaries for production, namely China Green (Thailand) Co., Ltd. and Zhonglu (Jiangxi) Food Technology Ltd., to capitalize resource advantages across various regions, convenient transportations, labour resource and preferential policies, complementing demands and requirements of clients, thereby making continuously complementary supply of products.

FUTURE PROSPECTS

Looking forward, the Group will start with the integration of cultivation, processing and sale of green products, and continue to uphold the management principles of “modesty and pragmatism, continuous advancement and innovation, crisis management and joint development”. It is the Group’s operation policy to insist on “integrity and faith”, to be market-oriented and customer-based, to create higher value for the customers with high quality and efficient services, and to achieve self-enhancement. With modern management principles, well-established operation mechanism and extraordinary core strength, the ability to continuously create and leverage its competitive edges in the course of intense market competition, the Group is to enhance its international profile and take up a leading position in the domestic food products industry, hence becoming a “green” international conglomerate!

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Finance resources

The Group generally finances its operation with internally generated cash flows. As at 31 October 2004, the Group had bank balance and cash of approximately RMB380,752,000 of which approximately RMB208,842,000 were denominated in Renminbi and approximately RMB124,493,000 were denominated in Hong Kong dollars.

Most of the income and expenses of the Group are denominated in Renminbi, U.S. dollars and Hong Kong 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 2004. 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 2004.

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 2004. The Group also did not have any assets charged as at 31 October 2004.

Commitments

As at 31 October 2004, the Group has outstanding contractual capital commitments of approximately RMB26,261,000 in respect of property, plant and equipment, and operating lease commitments of approximately RMB245,296,000 mainly in respect of land and building including cultivation bases.

Contingent liabilities

As at 31 October 2004, the Group had no significant contingent liabilities.

STAFF AND REMUNERATION POLICIES

As at 31 October 2004, the Group had a total of over 4,300 employees, of which approximately 2,500 are workers on the Group's cultivation bases. Employees are remunerated at a competitive level taken into account of their performance and experience. Other benefits included mandatory provident fund and year-end bonus are based on individual performance.

A share option scheme was adopted by the Company on 12 December 2003, pursuant to which the Board may offer to any eligible employees (including the executive Directors) of the Company or any of its subsidiaries options to subscribe for shares in the Company in accordance with the terms of the share option scheme.

AUDIT COMMITTEE

The Company established an 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 of the Listing Rules. The primary duties of the Audit Committee are to review the financial reporting process of the Group. The Audit Committee consists of three independent non-executive directors, namely Mr. Lin Chuan Bi, Mr. Hu Ji Rong and Ms. Hu Bao Zheng. The Audit Committee has reviewed the unaudited Interim Financial Statements for the six months ended 31 October 2004.

PUBLICATION OF INTERIM RESULTS ON THE HKSE'S WEBSITE

All the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules in force prior to 31 March 2004 will be published on the website of the HKSE as soon as practicable.

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

Hong Kong, 19 January 2005

As at the date of this announcement, the Board comprises Mr. Sun Shao Feng, Mr. Huang Hua, Mr. Leung Kwok Fai Ben Rich and Mr. Kung Sze Wai as executive Directors, and Mr. Lin Chuan Bi, Mr. Hu Ji Rong and Ms. Hu Bao Zheng as independent non-executive Directors.

* *for identification only*

Please also refer to the published version of this announcement in The Standard.