



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 to promote the 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 in Fujian Province, Zhejiang Province and Hubei Province of 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. ("China Green Thailand") and Zhonglu (Jiangxi) Food Technology Ltd. ("Zhonglu Jiangxi"). After this period, the Group has further established a subsidiary, namely Zhonglu (Hebei) Food Development Ltd. ("Zhonglu Hebei"). Those subsidiaries would be going 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.

Zhonglu Fujian

Development of product types

On top of existing products, such as fresh vegetables, processed vegetables and pickled vegetables, Zhonglu Fujian introduced new types of products, such as quick frozen vegetables and fruit and vegetables juices diversifying the products of fruit and vegetables. Hence the Group could fully utilize raw materials of products, minimize wastage of resources and enhancing added values of products.



Expansion of production bases and enhancement of existing scale

Cultivation bases rented by Zhonglu Fujian with long-term leases were located in Fujian Province, Zhejiang Province and Hubei Province of the PRC in order to lower and minimize the impact from regional risks and natural disasters. According to its plan, Zhonglu Fujian has upgraded existing production facilities and acquired new equipment, expanded the new processing factory in Changyang County, Hubei (湖北長陽縣), as well as leased a processing factory in Hui An County, Fujian (福建惠安縣), to increase the capacity of existing refrigerators, in order to satisfy the demands for processing factories as a result of raising production volume, implemented land improvement in cultivation bases for organic food and green food, built the new irrigation system, stimulated the growth of the produce, thereby enhancing the capacity of cultivation bases and operation efficiency of the Group.

Research and Development

Apart from the "Agriculture Scientific Research Institute" and "Food Scientific Research Institute" within the Group, the Group also closely cooperated with "Food Research Institute of Fujian Agriculture And Forestry University" (福建農林大學食品研究所), ensuring continuous domination of the agricultural industry in the PRC in terms of adopting technologies. The Group has launched various green foods revealing high tech in domestic and overseas markets; generating high sales volume in Japan and countries and regions across Southeast Asia, Europe and America, with products renowned in international markets and favored by consumers.

Development of international and domestic markets

The Group expanded its existing corporate scale, developed new products and tapped into new markets, determined corporate cultivation standards and product standards, as well as processing procedures with overseas experience and technologies. The Group increased establishments for overseas trading, and established a Zhonglu office in Japan for the consolidation of its position in the Japanese market; as well as put great efforts in the market development of European Union, Southeast Asia, Middle East and regions in Europe, stimulated the development of the domestic market, built the sales networks and brand name awareness; enhanced product quality and expanded existing client base and raised market share in favorable State policies and market conditions; continuously introduced, adopted and created new products and new technologies in the international markets, promoting green consumption as trend, thereby being committed to the implementation of quality policy on "safety, trust and health" in order to meet demands from consumers and establishment and maintenance of close trading relations with domestic and overseas clients.

China Green Thailand

Thailand is a country which has advantage of its natural and unique climate, and has zero tariff agreements with some countries for produce, providing wider room for profit to fruit and vegetables importers and exporters. Since 2004, the Group launched its cultivation and processing activities for vegetables in Thailand, introducing asparagus breed from Japan and fully leveraged the climate advantage in Thailand, the production volume in Thailand is two times of such products in comparing with the production volume in the PRC (harvesting period up to 240 days or more per year). In addition, the Group took advantage of fruit resource in Thailand, jointly researched and developed fruit market with clients such as ST Agri-Products Corporation. By way of freshness preservation and processing of fruit and vegetables in Thailand, the Group will be able to use its demonstration farmland to attract professional companies into the group consortium, establish stable processing factories, making products in Thailand sellable to Japan, China and countries in Southeast Asia.

Zhonglu Jiangxi

In order to widen the client base and create wider range of different types of products, during the period, the Group decided to establish cultivation bases and processing factory for auxiliary foods in Fengxin County, Jiangxi (江西奉新縣) which has been renowned with "Production land for tribute rice (貢米產地)" and "Homeland of rice (稻米之鄉)" long time ago, after a long term and in-depth geographical surveys and resources analysis. The Group took advantages of natural resources in Jiangxi to greatly develop product series (other than fruit and vegetables), such as edible mushrooms, bamboo shoots, rice and various auxiliary foods, assisting market development in regions in European Union, Southeast Asia and Middle East. Moreover, in order to further establish its domestic distribution channels, the Group had obtained the right to use a famous local brand of rice company, namely "碧雲" branded rice. By way of brand management, the Group consolidated the production bases of organic rice ranked "AA" by the State, introduced and integrated the advanced management and technology development strength of Zhonglu, to help the Group to build up a more well-established sale network of green food products in the PRC.

Zhonglu Hebei

The Group can only supply various vegetables in Fujian Province during autumn, winter and spring and encountered difficulties to supply during summer. In order to meet the objective, which is to provide stable supply of products with consistent quality at stable prices, besides Hubei Province, in December 2004, the Group also selected to establish the processing factory in Zhangjiakou City, Hebei Province (河北張家口). Zhangjiakou City shares the borders with Inner Mongolia at the altitude of 400 – 1500 meters above the sea level and there is longer light-shedding period per day, wider temperature differentiation and fertile land, being one of the best cultivation and processing bases for various vegetables during summer.