



BUSINESS REVIEW

Having the new processing factories came into operation, the Group could reinforce its corporate goal to become a leading modernized food enterprise to provide a fresh, healthy, diversified and safe choice of food to both international and domestic consumers through its own cultivation, processing, freshness and preservation, sales and distribution network and facilities.

Cultivation bases

During the six months ended 31 October 2005, the Group's aggregate areas of long-leased cultivation bases increased to approximately 45,000 mu and divided into 24 vegetable cultivation bases, 5 fruit cultivation bases and 1 organic rice cultivation base.

Processing factories

As at 31 October 2005, the Group operated a total of 9 processing plants with total annual production capacity of approximately 270,000 tonnes. In December 2005, the new processing plant, located in Zhangpu, Fujian Province, commenced operation which will increase, the total production capacity of the Group to approximately 330,000 tonnes.

Sales performance

For the six months ended 31 October 2005, the sales of fresh produces accounted for 39% of total turnover, while the sales of processed fruit and vegetables, beverage and rice accounted for 33%, 9% and 19% of the total turnover respectively.

Fresh produces

During the period under review, the overall sales of fresh produces was slightly decreased by RMB1,537,000 as compared to the same period in 2004. Such decrease was due to the increase in demand for fresh produces in the international market and the Group shifted the sales of fresh produces from domestic market to international market. The domestic sales of fresh produces was decreased approximately 9% to approximately RMB68,759,000 in compare to the prior period, while the international sales of fresh produces was increased approximately 18% as compared to the prior period reached approximately RMB33,442,000.

Processed products

Processed products became the key business driver during the period under review, accounted for 61% of the Group's total turnover. Processed products included processed fruit and vegetables, beverage and rice.

Fruit and vegetables

During the period under review, the overall sales of processed fruit and vegetables was increased by 24% to RMB86,528,000 as compared to the same period in 2004. Such increment was mainly contributed by the additional capacity from the new cultivation bases and processing plants located in Hubei and Hebei Province.

Beverage

During the period under review, the overall sales of beverage was increased by RMB19,632,000 as compared to the same period in 2004. Such increment was mainly contributed by the reinforced to "Brand Building" campaign of the corn beverage series in the domestic market.



Rice

During the period under review, the sales of new launched product segment “rice” was approximately RMB49,707,000.

FUTURE PROSPECTS

Looking forward, the Group will continue to expand its revenue by developing of value-added fruit and vegetables, mushroom, rice and rice processed products including import the seeds and the cultivation technology as well as using the Group’s unique standardization and implement management system. The Group also further reinforce the research and development of products, marketing and promotion ability as well as expand the distribution channel in order to strengthen the corporate brand as a cultivation, processing, freshness and preservation, sales and distribution supplier.

The Group committed to develop the second stage of processing plant located in Jiangxi and Fujian (Zhangpu). The Jiangxi processing plant will focus on the processing of our crop related products and convenient food while the Fujian (Zhangpu) processing plant will focus on the processing and distribution of fruit and convenient food in Shenzhen, Guangdong and Fujian Province.

Moreover, the Group is planning to construct a processing plant in Shanghai to focus on the distribution of processed fruit and vegetables, mushroom and crop related products in Shanghai, Zhejiang and Jiangsu Province as well as export to Japan. The new plant will perform multiple functions including processing; storage and refrigeration warehousing; and distribution center of processed fruit and vegetables and convenient food.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Financial resources

The Group generally finances its operation with internally generated cash flows. As at 31 October 2005, the Group had bank balance and cash of approximately RMB486,738,000 of which approximately RMB386,264,000 were denominated in Renminbi, approximately RMB63,057,000 were denominated in Hong Kong dollars, approximately RMB37,067,000 denominated in U.S. dollars and approximately RMB350,000 denominated in Thai Baht.

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 2005. 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 2005.

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 2005. The Group also did not have any assets charged as at 31 October 2005.

Commitments

As at 31 October 2005, the Group has outstanding contractual capital commitments of approximately RMB17,302,000 in respect of property, plant and equipment, and operating lease commitments of approximately RMB230,708,000 mainly in respect of land and building including cultivation bases.



Contingent liabilities

As at 31 October 2005, the Group had no significant contingent liabilities.

Significant Investment and Acquisition

During the period under review, the Group made a significant investment nor had it made any material acquisition or disposal of subsidiaries and associated companies.

STAFF AND REMUNERATION POLICIES

As at 31 October 2005, the Group had a total of over 6,600 employees, of which approximately 3,500 are workers on the Group's cultivation bases. Employees are remunerated at a competitive level taken in the account of their performance, experience. Other benefits included mandatory provident fund and year-end bonus based on individual performance.

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 or any of its subsidiaries options to subscribe for shares in the Company in accordance with the terms of the share option scheme. On 15 December 2005, the Company granted an aggregate of 21,600,000 share options at an exercise price of HK\$2.05 per share to the eligible employees of the Company.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31 October 2005, the interests and short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

Long positions in shares of the Company

Name of director	Type of interest	No. of ordinary shares	Percentage of issued share capital
Sun Shao Feng	Corporate	405,000,000	55.67%

Note:

These 405,000,000 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.

Interests in share options

The Company adopted a share option scheme on 12 December 2003 ("Scheme"), 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 exceed 30% of the shares in issue from time to time. During the period under review, no share options were granted under the Scheme.



Save as disclosed above and as at 31 October 2005, 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.

Directors' Rights to Acquire Shares or Debt Securities

Other than as disclosed under the headings "Directors' and Chief Executives' Interests in Securities" above, at no time during the period was the Company or any of its subsidiaries, its holding company, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 October 2005, 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 required to be kept under section 336 of the SFO.

Long positions in shares of the Company

Name	Capacity	Number of Ordinary Shares	Percentage of Issued Share Capital
Capital Mate Limited (Note 1)	Beneficial owner	405,000,000	55.67%
Kent C. McCarthy (Note 2)	Interest of controlled corporation	73,683,500	10.13%
Jayhawk China Fund (Cayman), Ltd. (Note 2)	Investment Manager	73,683,500	10.13%
Cheah Cheng Hye (Note 3)	Interest of controlled corporation	72,201,000	9.92%
Value Partners Limited (Note 3)	Investment Manager	72,201,000	9.92%
Lindsay William Ernest Cooper (Note 4)	Interest of controlled corporation	41,064,000	5.64%
Arisaig Greater China Fund Limited (Note 4)	Beneficial owner	41,064,000	5.64%
Arisaig Partners (Mauritius) Limited (Note 4)	Investment Manager	41,064,000	5.64%

Notes:

- These 405,000,000 ordinary shares of the Company are held by 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, the Chairman and Managing Director of the Company.
- Mr. Kent C. McCarthy is deemed to be interested in these 73,683,500 ordinary shares of the Company which are held by Jayhawk China Fund (Cayman), Ltd., a company incorporated in the Cayman Islands and is controlled by Mr. Kent C. McCarthy.



3. Mr. Cheah Cheng Hye is deemed to be interested in these 72,201,000 ordinary shares of the Company which are held by Value Partners Limited, a company incorporated in the British Virgin Islands and is controlled by Mr. Cheah Cheng Hye.
4. Arisaig Greater China Fund Limited ("AGCFL") is a wholly-owned subsidiary of Arisaig Partners (Mauritius) Limited ("AP(M)"), which in turn is wholly-owned by Arisaig Partners (BVI) Ltd. ("AP(BVI)"), AP(BVI) is a wholly-owned subsidiary of Arisaig Partners (Holdings) Ltd. (APHL") of which 33.33% is held by Madeleine Ltd. ("Madeleine"). Madeleine is wholly-owned by Mr. Lindsay William Ernest Cooper, AP(M), AP(BVI), APHL, Madeleine and Mr. Lindsay William Ernest Cooper are deemed to be interested in 41,064,000 ordinary shares of the Company held by AGCFL.

Save as disclosed above, the Directors are not aware of any other persons who have interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under section 336 of the SFO.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company was in compliance with the code provisions set out in the Code on Corporate Governance Practices ("Code") in Appendix 14 to the Listing Rules effective on 1 January 2005, except for the following:

Deviation from the Code	Relevant Code provisions	Remedial steps to be / has been taken to comply with the Code
1. The responsibilities between the chairman and chief executive officer have not been divided.	A.2.1	The Company does not have a separate chairman and chief executive officer ("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.
2. Two non-executive Directors are not appointed for specified term but are subject to the provision for retirement and rotation of Directors under the Bye-laws of the Company ("Bye-laws").	A.4.1	The Company will negotiate with the two non-executive Directors to determine the tenure of their appointment and to procure any future appointment of non-executive Director with a specific term and subject to retirement.



CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 31 October 2005, the Company complied with the code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities during the six months ended 31 October 2005.

AUDIT COMMITTEE

The Company established an Audit Committee on 12 December 2003 and adopted a new set of written terms of reference on 20 January 2006 in compliance with the Code. The primary duties of the Audit Committee are to review the financial reporting process and internal control principles of the Group. The Audit Committee consists of the three independent non-executive Directors of the Company. The Audit Committee has reviewed the unaudited interim financial statements for the six months ended 31 October 2005.

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

Hong Kong, 20 January 2006