

Report of the Directors

The directors of the Company herein present their report and the audited financial statements of the Company and the Group for the year ended 30 June 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 22 to the financial statements.

During the year, pursuant to the Company's objective of business diversification into the ecological forestry business, the Company entered into an agreement for the acquisition of the entire beneficial interest in Strong Lead Investments Limited, a company incorporated in the British Virgin Islands, whose sole asset is 70% equity interest in Beijing Wan Fu Chun Forest Resources Development Company Limited, a Sino-foreign joint venture company, which is principally engaged in the business of tree planting and management, manufacture and distribution of forest products as timber and bark materials. Details of the acquisition and the underlying ecological forestry business are set out in the Company's circular to its shareholders of 18 April 2006. Other than the foregoing, there were no significant changes in the nature of the Group's principal activities during the year.

PROPOSED CHANGE OF COMPANY NAME

On 29 September 2006, the Board announced the proposal to change the name of the Company from "Good Fellow Group Limited" to "China Grand Forestry Resources Group Limited". It is also proposed that subject to the new English name of the Company becoming effective, the Company will adopt "中國林大資源集團有限公司" as its new Chinese name for identification purposes only. The proposed change of name is subject to, among other things, the Company shareholders' approval at the special general meeting convened to be held on 16 November 2006 for this purpose.

The proposed change of Company name is to signify the Group's focus on the newly diversified ecological forestry business and will take effect from the date on which the new name is entered on the register by the Registrar of Companies in Bermuda in place of the existing name.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 22 November 2006 to 28 November 2006, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the attendance at the annual general meeting of the Company to be held on 28 November 2006, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 21 November 2006.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and results by principal activity and geographical location of markets for the year ended 30 June 2006 is set out in note 8 to the financial statements.

RESULTS AND APPROPRIATION

The Group's results for the year ended 30 June 2006 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 35 to 110.

The directors of the Company do not recommend the payment of a dividend in respect of the year.

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SUMMARY OF FINANCIAL INFORMATION

A summary of the consolidated results and of the assets, liabilities and minority interests of the Group for the last five financial years is set out below. The amounts for the financial year ended 30 June 2006 are those set out in the accompanying financial statements on pages 35 to 37. The amounts for the financial year ended 30 June 2005 and before are extracted from previously published audited financial statements of the Company and restated as appropriate. The restatements made to these prior year amounts are in respect principally of retrospective adoption of accounting standards that came into effect subsequent to the respective former financial years.

RESULTS

	Year ended 30 June				
	2006	2005	2004	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	<u>360,770</u>	<u>138,262</u>	<u>189,026</u>	<u>208,770</u>	<u>248,829</u>
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS	<u>83,208</u>	<u>(150,189)</u>	<u>29,614</u>	<u>40,160</u>	<u>65,177</u>

ASSETS, LIABILITIES AND MINORITY INTERESTS

	At 30 June				
	2006	2005	2004	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
NON-CURRENT ASSETS	<u>955,546</u>	<u>98,935</u>	<u>242,449</u>	<u>181,315</u>	<u>143,857</u>
CURRENT ASSETS	<u>562,395</u>	<u>360,612</u>	<u>273,401</u>	<u>298,277</u>	<u>259,680</u>
TOTAL ASSETS	<u>1,517,941</u>	<u>459,547</u>	<u>515,850</u>	<u>479,592</u>	<u>403,537</u>
CURRENT LIABILITIES	<u>323,000</u>	<u>16,264</u>	<u>16,686</u>	<u>19,516</u>	<u>16,909</u>
NON-CURRENT LIABILITIES	<u>260,004</u>	<u>691</u>	<u>2,942</u>	<u>3,470</u>	<u>4,711</u>
TOTAL LIABILITIES	<u>583,004</u>	<u>16,955</u>	<u>19,628</u>	<u>22,986</u>	<u>21,620</u>
MINORITY INTERESTS	<u>236,818</u>	<u>–</u>	<u>–</u>	<u>20,924</u>	<u>–</u>
NET ASSETS	<u>698,119</u>	<u>442,592</u>	<u>496,222</u>	<u>435,682</u>	<u>381,917</u>

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group are set out in notes 17 and 20 to the financial statements, respectively.

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SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital during the year and subsequent thereto are set out in notes 31 and 49 to the financial statements, respectively.

Details of movements in the Company's share options during the year are set out in note 32 to the financial statements.

PROMISSORY NOTES

Particulars of the Company's promissory notes as at 30 June 2006 are set out in note 34 to the financial statements.

CONVERTIBLE NOTES

Details of movements in the Company's convertible notes during the year and subsequent thereto are set out in notes 35 and 49 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

APPLICATION OF SHARE ISSUE PROCEEDS

On 13 January 2005, the Company raised share issue proceeds, net of related expenses, of approximately HK\$95 million from a top-up placing and subscription arrangement whereby an aggregate of 489,000,000 new ordinary shares in the Company were issued and allotted at a price of HK\$0.20 per share to Golden Prince Group Limited, a company incorporated in the British Virgin Islands. Mr. Ng Leung Ho, chairman and executive director of the Company, owned the entire issued share capital of Golden Prince Group Limited. Both of Mr. Ng Leung Ho and Golden Prince Group Limited are substantial shareholders of the Company. During the year under review, approximately HK\$50 million of the share issue proceeds raised have been utilised in paying up the cash portion of the consideration payable for the acquisition of Strong Lead Investments Limited and related ecological forestry business, as referred in the above section on "Principal Activities". The remaining net share issue proceeds not utilised of approximately HK\$45 million has been retained as general working capital of the Company as at the financial year end date, and has subsequently been utilised in fulfilling partial of the promissory notes issued by the Company as portion of the consideration payable for the Strong Lead acquisition which has fallen due on 1 October 2006.

In addition to the foregoing, during the year under review, by virtue of the exercise of options to subscribe for new ordinary shares in the Company, the Company has issued and allotted 7,200,000 new ordinary shares in the Company at a share issue price of HK\$0.10 and 199,000,000 new ordinary shares in the Company at a share issue price of HK\$0.24. The net price to the Company of each new share issued approximates the respective share issue price. The aggregate net share issue proceeds amounts to approximately HK\$48 million and has substantially been retained as general working capital of the Company as at the financial year end date. It is intended that partial of the share issue proceeds will be utilised in funding the future expansion of the Group's ecological forestry business such as the acquisition of forest land including the leasehold interest in a forest land located in Suining County in Hunan Province acquired by a subsidiary of the Company, details of which are set out in the Company's press announcement of 28 June 2006. The remaining share issue proceeds not utilised has been retained as general working capital of the Company and/or will be utilised for any future possible asset procurement / business acquisition.

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PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the period from 8 July 2005 to 12 July 2005, by virtue of exercise of the rights granted by the Company's shareholders to the directors under general mandate, the Company repurchased on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in aggregate 2,880,000 of its ordinary shares of HK\$0.10 each at a total consideration before expenses of approximately HK\$307,000. The subject shares were cancelled after repurchases and the issued share capital of the Company was reduced by the nominal value thereof.

Other than the foregoing and as disclosed under the above section "Application of Share Issue Proceeds", neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements and the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 30 June 2006, the Company has no reserves available for cash distribution and/or distribution in specie as computed in accordance with the Companies Act 1981 of Bermuda. In addition, under the laws of Bermuda, the Company's share premium account, with a balance of approximately HK\$ 116,077,000 as at 30 June 2006, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the sales to the Group's five largest customers accounted for approximately 64.4 per cent. of the total sales for the year and the sales to the largest customer included therein amounted to 25.6 per cent.

Purchases from the Group's five largest suppliers accounted for approximately 57.5 per cent. of the total purchases for the year and the purchase from the largest supplier included therein amounted to 15.1 per cent. In arriving at the above percentage, purchases made in pre-acquisition period in respect of the Group's newly diversified ecological forestry business has been excluded.

None of the directors of the Company, any of their associates or any shareholders (which, to the best knowledge of the directors of the Company, own more than 5 per cent of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

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DIRECTORS

The directors of the Company during the year and up to the date of this report are as follows:

Executive directors

Mr. Ng Leung Ho

Ms. Lee Ming Hin

Mr. Wang Weining

Mr. Hu Xiaoming

Mr. Ge Wen Hong

(appointed on 18 May 2006)

Non-executive director

Mr. Ng Leung Tung

Independent non-executive directors

Mr. Lo Cheung Kin

Mr. Zou Zi Ping

Mr. Zhu Jian Hong

In accordance with the bye-laws 111(A) and 111(B) of the Company, Mr. Wang Weining, Mr. Ng Leung Tung and Mr. Lo Cheung Kin shall retire from office by rotation at the forthcoming annual general meeting. Mr. Lo Cheung Kin, being eligible, offers himself for re-election at the forthcoming annual general meeting.

In accordance with the bye-laws 115 of the Company, Mr. Ge Wen Hong, being director newly appointed during the year, shall retire from office at the forthcoming annual general meeting and, being eligible, offers himself for re-election at the forthcoming annual general meeting.

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BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP

Executive directors

Mr. Ng Leung Ho, aged 58, is the Chairman and the founder of the Group. Mr. Ng held directorship in various subsidiaries of the Company. He is also the chairman of Zhongke Nanotech Engineering Center Co., Ltd., the jointly controlled entity of the Company engaged in the business of Nano technology applications. Mr. Ng has more than 35 years of experience in the design, manufacture, and trading of men's suits in Hong Kong and the People's Republic of China (the "PRC"). Mr. Ng is currently a member of the Chinese People's Political Consultative Conference and is a visiting professor at the Fujian Teachers University. Mr. Ng is responsible for the corporate strategic planning and formulation of corporate policies for the Group. In addition, Mr. Ng oversee the Group's product development and industrialization efforts in various areas of Nano technology, made possible through the application of research results obtained by of Zhongke Nanotech Engineering Center Co., Ltd.

Ms. Lee Ming Hin, aged 51, is an executive director and the Chief Executive Officer. Ms. Lee has served the Group for more than 15 years and is the director of various subsidiaries of the Company. Prior to joining the Group, Ms. Lee had more than 15 years of experience in raw material procurement, sales and marketing in the apparel industry. Ms. Lee currently oversees the general administration, finance, personnel functions and raw material procurement of the Group.

Mr. Wang Weining, aged 33, is an executive director and joined the Group in 2004. He is responsible for overseeing the business and market development of the Group's Hi-Tech business interests in Nano-technology and software compression products. Mr. Wang held a Doctorate degree in condensed matter physics from Institute of Physics, Chinese Academy of Science, and also a Master degree in Engineering. Before joining the Group, Mr. Wang has undertaken post doctorate research in the field of Nano-technology in the Chinese Academy of Science, and has also worked as a patent attorney in Beijing.

Mr. Hu Xiaoming, aged 41, is an executive director and joined the Group in 2004. He is responsible for overseeing the industrialization of research results obtained from the Group's interest in Nano-technology research. Mr. Hu obtained his Doctorate degree in Polymer Chemistry and Physics from the Department of Organic Silane, Institute of Chemistry, Chinese Academy of Science and further his post-doctoral studies in Chemistry in Tsing Hua University. Mr. Hu is an associate researcher of the Institute of Chemistry, Chinese Academy of Science, and the deputy general manager in Zhongke Engineering Center Co., Ltd., a joint venture company established by a subsidiary of the Company and the Chinese Academy of Science.

Mr. Ge Wen Hong, aged 39, is an executive director of the Company. He joined the Group in 2006 and is responsible for overseeing the business development and operations of the Company's ecological forestry business. Mr. Ge is also a director of Strong Lead Investments Limited, the Company's investment holding company with its ecological forestry business. Mr. Ge obtained his Master of Business Administration degree from the Michigan State University and a Master in quantitative finance degree from the Illinois Institute of Technology in the USA. Prior to joining the Company, Mr. Ge has more than 15 years of experience in the field of financial investment and has worked as a senior quantitative investment analyst of the Chicago-based hedge fund Option Insight Trading Group and a senior credit analyst of the Bank of China.

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Non-executive director

Mr. Ng Leung Tung, aged 39, is the non-executive director. Mr. Ng has served the Group since its founding and was previously an executive director and deputy chairman of the Company prior to his re-designation in January 2005. Mr. Ng has extensive experience with the garment industry and prior to his re-designation, he is responsible for overseeing the sales and marketing of the Group's products in the PRC market. Mr. Ng Leung Tung is the younger brother of Mr. Ng Leung Ho.

Independent non-executive directors

Mr. Lo Cheung Kin, aged 58, graduated from the Fujian Teachers University in 1975. Mr. Lo is a director of the companies under the Victorfield Group in Hong Kong, a private investment group engaged in property development, management and investment, construction, trading and securities business in Hong Kong and the PRC. Mr. Lo has more than 25 years of experience in corporate management, the tourism and hospitality industry, and property investment, development and management in the PRC. Mr. Lo is also an executive director of Buildmore International Limited, a company listed on the Stock Exchange of Hong Kong Ltd.

Mr. Zou Zi Ping, aged 51, has extensive experience in the hotel industry in the PRC. He is currently the general manager of the Fuzhou Lakeside Hotel and the managing director of the Fuzhou Lakeside Hotel Management Company. Mr. Zou is also a visiting assistant professor of the Fujian Teachers University and Fujian Minjiang University.

Mr. Zhu Jian Hong, aged 40, is a member of the Chinese Institute of Certified Public Accountants. Mr. Zhu graduated from the Accountancy Department of the Shanghai University of Finance and Economics and has obtained over 16 years of experience in accountancy and financial management, including working as lecturer of accountancy in Jimei Finance & Economics College in Xiamen Special Economics Zone and statutory audit of companies' financial statements. Mr. Zhu was also a member of Financial Bureau of Xianyou Province, Fujian, the PRC, where he held the responsibility of provincial administration of accountancy and finance.

Senior management

Mr. Lam J Fung Edward, aged 39, is the financial controller and the company secretary of the Company. Mr. Lam obtained a bachelor degree in Social Science from the University of Hong Kong and is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, Mr. Lam has over 12 years of experience in auditing, accounting and finance.

Mr. Zhong Ming Cheng, aged 53, is a director of Digital 910 Limited and also the general manager of Zhongke Nanotech Engineering Center Co., Ltd., the Group's joint venture company engaged in the business of Nano technology applications. Mr. Zhong graduated from the School of Business Administration of Management Executive Officer College, Jiangzu province in 1984 and the School of Business Administration of the Chinese Communist Party School, Jiangzu province with a bachelor's degree in 1994, and obtained a post-graduate qualification from the School of Finance and Economics of Suzhou University in 1997. Mr. Zhong joined the Group in 2001. He is a senior economist and has more than 23 years of experience in general management and administration in various industries. Mr. Zhong currently takes up his principal duties as oversee of the general management and business development of the Suzhou operation of Zhongke Nanotech.

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Ms. Cao Chuan, aged 48, is the general manager of Beijing Wan Fu Chun Forest Resources Development Company Limited (“Beijing WFC”), being subsidiary of the Company engaged in the business in tree plantation and management, manufacture and distribution of forestry products. Ms. Cao held a Master degree from the China University of Political Science and Law. Ms. Cao is an accomplished scientist and has accumulated more than 20 years of working experience in the field of scientific research. Ms. Cao was formerly the chairman of a major PRC State supported scientific entity located in the Beijing Zhongguancun scientific industrialization plant and engaged in the field of genetic transcription for plants, and has extensive experience in the induction of new plant specie; massive scale plant fostering; and forestry business operational management. Her working experience also includes the scientific cultural exchange between China and the United State of America.

Mr. Shen Shihua, aged 44, is the chief consultant scientist of Beijing WFC and chief researcher of Institute of Botany, the Chinese Academy of Sciences. Mr. Shen graduated from South-western University of Agriculture with a bachelor’s degree in Biology and obtain his Ph.D degree in Botany from the Institute of Botany, Chinese Academy of Sciences. During the period from 1996 to 1998, Mr. Shen did post-doctor research in Gene Experiment Center, University of Tsukuba, Japan. Mr. Shen is an internationally-recognized researcher in cloning of the genes encoding dehydration-responsive element binding protein (DREB) and their transformations in main crops, and application of bio-techniques in common paper mulberry (*Broussonetia papyrifera*) and physic nut (*Jatropha curcas*) studies. Mr. Shen has registered twenty genes, held three Chinese patents and published over thirty professional papers in Chinese and foreign professional periodicals.

Ms. Tang Mingjuan, aged 34, is the chief consultant engineer of Beijing WFC and assistant researcher of Institute of Botany, the Chinese Academy of Sciences. Ms. Tang graduated from Department of Forestry protection, Southwest Forestry College with a bachelor’s degree in 1996 and Institute of medicinal plant development, Chinese Academy of Medical Sciences with Ph.D in 2003. As a recognized researcher in cloning and transformation of stress related genes in main crops, Ms. Tang has registered eight genes, held two Chinese patents and published eight professional papers.

Mr. Hui Kin Chung, aged 39, is the factory manager of Good Fellow Garment (Fujian) Co., Ltd. and oversees the Group’s production process and quality control. Mr. Hui joined the Group in 1989 and has over 20 years of experience in the apparel manufacturing industry.

DIRECTORS’ SERVICE CONTRACTS

Each of Mr. Wang Weining and Mr. Hu Xiaoming, being executive directors, has entered into service contract with the Company for a term of three years commencing 19 July 2004 and terminable by not less than three months’ notice in writing served by either party on another.

Each of Ms. Lee Ming Hin, being executive directors, and Mr. Lo Cheung Kin, Mr. Zou Zi Ping and Mr. Zhu Jian Hong, being independent non-executive directors, has entered into service contract with the Company for a term of three years commencing 25 October 2004 and terminable by not less than three months’ notice in writing served by either party on another.

Each of Mr. Ng Leung Ho and Mr. Ge Wen Hong, being executive directors, and Mr. Ng Leung Tung, being non-executive director, has entered into service contract with the Company for a term of three years commencing 18 May 2006 and terminable by not less than three months’ notice in writing served by either party on another.

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In addition, apart from Mr. Ng Leung Ho, being the Chairman of the Company who as provided in the bye-laws of the Company is not subject to retirement by rotation, all directors of the Company shall be subject to retirement by rotation in accordance with the bye-laws of the Company. The term of office of each executive director may also be terminated with three months' notice served by either party on the other.

The contractual remuneration and discretionary bonus entitled by the executive directors and non-executive director (subject to certain conditions) may be increased by an annual increment of no more than 5 per cent after each year of completed service. The emoluments of the independent non-executive directors will be determined by the Board (as to be authorized by the shareholders of the Company at the forthcoming annual general meeting) in its discretion with reference to their duties and responsibilities.

Saved as disclosed above, none of the directors proposed for re-election at the forthcoming annual general meeting has entered into a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director of the Company had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES OR SHORT POSITION IN SHARES AND UNDERLYING SHARES

At 30 June 2006, the interests or short positions of directors or chief executives of the Company or their respective associates in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO were as follows:

	Personal interests	Family interests	Corporate interests (Note)	Total interests	Total interests as percentage of Company's issued share capital
Mr. Ng Leung Ho	90,236,000	–	960,000,000	1,050,236,000	27.07 %
Ms. Lee Ming Hin	20,000,000	–	–	20,000,000	0.52 %
Mr. Wang Weining	20,000,000	–	–	20,000,000	0.52 %
Mr. Hu Xiaoming	20,000,000	–	–	20,000,000	0.52 %
Mr. Ng Leung Tung	20,000,000	–	–	20,000,000	0.52 %

Note: the corporate interests attributed to Mr. Ng Leung Ho of 960,000,000 shares are held by Golden Prince Group Limited, a company incorporated in the British Virgin Islands. The entire issued share capital of Golden Prince Group Limited is directly wholly owned by Mr. Ng Leung Ho.

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Save as disclosed above, none of the directors and chief executive of the Company or their associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be maintained under section 352 of the SFO or as otherwise notified to the Company or the Stock Exchange pursuant to the Model Code for Securities transaction by Directors of Listed Companies.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Share Option Scheme" below, at no time during the year was the Company, its subsidiaries or any of its associated corporations (within the meaning of Part XV of the SFO) a party to any arrangement to enable the directors of the Company or their associates (as defined in the Listing Rules) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEME

At the annual general meeting of the Company held on 23 November 2001, the shareholders of the Company approved the adoption of a new share option scheme (the "New Scheme") and the termination of the share option scheme adopted by the Company on 25 October 1998 (the "Old Scheme")

The Old Scheme

As the Old Scheme was terminated on 23 November 2001, no further options will be offered under the Old Scheme. However, all options previously granted under the Old Scheme prior to termination remained valid and exercisable until upon expiry. Particulars of options granted under the Old Scheme and their movement during the year are as follows:

Director	Number of shares under options			Subscription price per share	Date of grant of share options	Vesting and exercisable period
	Beginning of year	Exercised during the year	End of year			
Mr. Ng Leung Ho	7,200,000	(7,200,000)	–	HK\$0.10	1 February 1999	1 May 1999 to 24 October 2008

The New Scheme

The documented purpose of the New Scheme is to recognise the contribution of the executives and employees to the Group by granting share options to them as incentives or rewards. The major terms of the Old Scheme are summarised as follows:

1. Eligible participants of the New Scheme include executive, employee, executive director and/or non-executive director (including independent non-executive director) of the Company and its subsidiaries who is in employment at the time when the option is granted to such person.

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2. The total number of shares available for issue upon exercise of all options to be granted under the New Scheme and other share option schemes of the Company must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the New Scheme and such limit may be refreshed by the shareholders of the Company in general meeting. The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company must not exceed 30% of the shares of the Company from time to time.
3. The total number of shares and to be issued upon exercise of the options granted and to be granted to each eligible person (including both exercised and outstanding options) in any 12-month period up to and including the date of grant is limited to 1% of the shares of the Company in issue. Any further grant of options in excess of this limit is subject to separate shareholders' approval in a general meeting of the Company.
4. Any grant of share options to a director, chief executive or substantial shareholders of the Company or any of their associates are subject to approval in advance by the independent non-executive directors of the Company.
5. Any grant of share options to a substantial shareholder or an independent non-executive director of the Company, or any of their associates, which would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person within the 12-month period up to the date of grant of options representing in aggregate in excess of 0.1% of the shares of the Company in issue and having an aggregate value (based on closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, is subject to prior approval by shareholders in a general meeting.
6. Unless otherwise determined by the board of directors in its absolute discretion, there is no general requirement in respect of the minimum period for which an option must be held before it can be exercised.
7. The exercise period of the share options granted is determinable by the directors of the Company, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant of the share options or the expiry date of the New Scheme, if earlier.
8. The offer of a grant of option, if accepted, may be accepted within the date specified in the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee.
9. The exercise price of the share options is determinable by the directors of the Company, but may not be less than the higher of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company's shares.
10. The New SO Scheme will, unless otherwise cancelled or amended, remain in force for 10 years commencing from the date of adoption on 23 November 2001.

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Particulars of options granted under the New Scheme during the year and remained outstanding up to 30 June 2006 are as follows:

	Number of shares under option			End of year	Subscription price per share	Date of grant of share options	Vesting and exercisable period
	Beginning of year	Granted during the year	Exercised during the year				
Directors							
Mr. Ng Leung Ho	20,000,000	-	(20,000,000)	-	HK\$0.24	10 January 2005	10 January 2005 to 23 November 2011
Ms. Lee Ming Hin	20,000,000	-	(20,000,000)	-	HK\$0.24	10 January 2005	10 January 2005 to 23 November 2011
Mr. Wang Weining	20,000,000	-	(20,000,000)	-	HK\$0.24	10 January 2005	10 January 2005 to 23 November 2011
Mr. Hu Xiaoming	20,000,000	-	(20,000,000)	-	HK\$0.24	10 January 2005	10 January 2005 to 23 November 2011
Mr. Ng Leung Tung	20,000,000	-	(20,000,000)	-	HK\$0.24	10 January 2005	10 January 2005 to 23 November 2011
	<u>100,000,000</u>	<u>-</u>	<u>(100,000,000)</u>	<u>-</u>			
Employees	117,000,000	-	(99,000,000)	18,000,000	HK\$0.24	10 January 2005	10 January 2005 to 23 November 2011
Total	<u><u>217,000,000</u></u>	<u><u>-</u></u>	<u><u>(199,000,000)</u></u>	<u><u>18,000,000</u></u>			

RETIREMENT BENEFITS SCHEME

Details of the Group's retirement benefit scheme in operation for the financial year ended 30 June 2006 are set out in note 2(p) to the financial statements.

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SUBSTANTIAL SHAREHOLDERS

At 30 June 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the Company had been notified of the following substantial shareholder's interests or short positions, being 5% or more of the Company's issued share capital:

Name	Capacity	Number of shares	Percentage of holding
Mr. Ng Leung Ho	Beneficial owner	1,050,236,000 (<i>Note 1</i>)	27.07%
Golden Prince Group Limited	Beneficial owner	960,000,000 (<i>Note 2</i>)	24.74%

Notes:

1. The beneficial interests of Mr. Ng Leung Ho in 1,050,236,000 shares comprise corporate interest in 960,000,000 shares, held through Golden Prince Group Limited, and personal interest in 90,236,000 shares.
2. The entire issued share capital in Golden Prince Group Limited is beneficially owned by Mr. Ng Leung Ho, whose interests in shares of the Company are disclosed in the section headed "Directors' and chief executive's interests in shares or short position in shares and underlying shares".

Save as disclosed above, at 30 June 2006, the register of substantial shareholders maintained under Section 336 of the Securities and Futures Ordinance shows that the Company had not been notified of any substantial shareholders' interest and short positions, being 5% or more of the Company's issued share capital.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, no directors of the Company are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, pursuant to the Listing Rules, other than those businesses for which the directors of the Company were appointed as directors to represent the interest of the Company and/or the Group.

CORPORATE GOVERNANCE

Information on the Company's corporate governance practices is set out in the Report of the Corporate Governance accompanying the annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the and within the knowledge of the directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at the latest practicable date prior to the issue of the annual report.

INDEPENDENCE CONFIRMATION

The Company has received, from each independent non-executive director, an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The Company considers all the independent non-executive directors are independent.

Report of the Directors

CHANGE OF FINANCIAL YEAR END

On 4 July 2006, the Company announced the change of the financial year-end date of the Company from 30 June to 31 March. Accordingly, the next financial period will cover the 9-month period from 1 July 2006 to 31 March 2007. The purpose of the change is to align the financial year-end date with the normal agricultural season associated with the principal operations of the Company's newly acquired ecological forestry business.

Following the change, the Company's announcement of the first un-audited interim results and distribution of the interim report for the 6-month period from 1 July 2006 to 31 December 2006 will be made on or before 31 March 2007; and the announcement of the first audited final results and distribution of the annual report for the 9-month period from 1 July 2006 to 31 March 2007 will be made on or before 31 July 2007.

AUDIT COMMITTEE

The Company has established an audit committee for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. It also reviews the effectiveness of the audit process and risk evaluation. The audit committee currently comprises the three independent non-executive directors of the Company, namely, Mr. Lo Cheung Kin, Mr. Zou Zi Ping and Mr. Zhu Jian Hong. The audit committee has reviewed the accompanying financial statements prior to their publication.

POST BALANCE SHEET EVENT

Details of the post balance sheet event of the Group are set out in note 49 to the financial statements.

AUDITORS

The Company's financial statements for the respective three financial years ended 30 June 2003, 2004 and 2005 were audited by RSM Nelson Wheeler. At the Company's annual general meeting held on 2 December 2005, the Company's shareholders had not passed the resolution regarding the re-appointment of RSM Nelson Wheeler as auditors of the Company. In a subsequent special general meeting held on 17 March 2006, a resolution was passed by the Company's shareholders to appoint Johnny Chan & Co. Limited as auditors of the Company to fill the causal vacancy arising. Apart from the foregoing, there were no other changes to the auditors of the Company for the preceding three financial years.

The accompanying financial statements for the financial year ended 30 June 2006 were audited by Johnny Chan & Co. Limited, Certified Public Accountants, who shall retire. A resolution for the appointment of auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Ng Leung Ho
Chairman

Hong Kong, 23 October 2006