Notes to the Financial Statements

for the year ended 30 June 2006

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. The address of registered office and principal place of business of the Company are disclosed in corporate information to the annual report.

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

On 8 May 2006, the Company completed the acquisition of 100% shareholding interests in Strong Lead Investment Limited ("Strong Lead"), a company incorporated in the British Virgin Islands, whose sole asset is a 70% equity interest in Beijing Wan Fu Chun Forest Resources Development Company Limited ("Beijing WFC"), a sino-foreign joint venture company, which is principally engaged in the business of tree planting and management, manufacture and distribution of forest products of timber and bark materials in the PRC. Other than the foregoing, there has been no substantial change from prior years in respect of the Group's business undertakings. Further details of the acquisition are included in note 43 below.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In current year, the Group has applied, for the first time, a number of Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The application of new HKFRSs has resulted in changes in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. These changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease in generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (Note 3).

Notes to the Financial Statements

for the year ended 30 June 2006

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair values of investment properties to be recognised directly in profit or loss for the year in which they arise. In previous years, investment properties under the predecessor accounting standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the consolidated income statement. Where a decrease had previously been charged to the consolidated income statement and a revaluation surplus subsequently arose, that increase was credited to the consolidated income statement to the extent of the decrease previously charged. As a result of the adoption of the new accounting standard, the amount recorded in investment properties revaluation reserve at 1 July 2005 has been transferred to the Group's retained profits (Note 3).

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". The adoption of these new HKASs has resulted in a change in accounting policy for the recognition, measurement, de-recognition and disclosure of financial instruments. Upon the adoption of HKASs 32 and 39, the financial assets of the Group have been classified into the respective categories of financial assets at fair value through profit and loss; available-for-sale financial assets; loans and receivables; and held-to-maturity financial assets. The classification depends on the purpose for which the assets are held.

– Held-to-maturity investments comprised of non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. The investments are carried at amortised cost using the effective interest method less provision for impairment.

– Financial assets at fair value through profit or loss, including those held for trading, are designated at inception and measured at fair value. Changes in fair value are recognised in the income statement in the period in which they arise. The fair value is based on the quoted market price without any deduction for estimated future selling costs and provisions. Derivatives are also categorised as held for trading unless they are designated as hedges.

– Loans and receivables are non-derivate financial assets with fixed or determinable payments that are not quoted in an active market and are carried at amortised cost using effective interest method, less provision for impairment, if any which is accounted for in the consolidated income statement.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

Financial instruments (continued)

– Available-for-sale financial assets are non-derivative financial assets so designated and not classified under any of the above categories. These financial assets are carried at fair value and changes in fair value are recognised directly in the equity until the relevant financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity shall be recognised in the consolidated income statement.

At 30 June 2005, the Group owned short term securities investment that are stated at their fair values on the basis of quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in fair values of the securities were credited or charged to the consolidated income statement in the period in which they arise. Commencing the current financial year, as a result of the adoption of the new HKASs, the Group has reclassified these securities investment as "financial assets at fair value through profit or loss". The reclassification has no material effect on the results of the Group for the current and prior year.

Convertible notes

Previously, convertible notes were classified as liabilities and carried at proceeds received. In accordance with HKAS 32 and HKAS 39, convertible notes are regarded as compound instruments, consisting of a liability component and an equity component, unless in certain circumstances when the issuer is required to recognise the instrument as a whole as financial liability with embedded derivatives. Derivatives embedded in a financial instrument are treated as separate components when their economic risks and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss. Upon first time adoption of HKAS 32 and HKAS 39, convertible notes issued by the Company are split into their liability and equity components at initial recognition. The liability component is subsequently carried at amortised cost. The equity component is recognised as conversion option reserve, a separate component of equity, until the convertible notes are either converted (in which case it is transferred to share premium account) or redeemed (in which case it is released directly to retained profits).

Share-based payments

In the current year, the Group has applied HKFRS 2 "Share-based Payments" which requires an expense to be recognised where the Group buys goods or obtain services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). Prior to the application of HKFRS 2, the Group did not recognise the financial effect of share options until they are exercised. As a result of the adoption of this new HKFRS, the Group's accounting policy has been revised for the recognition of the fair value of share options granted as an expense. In respect of share options outstanding as at 30 June 2005, the Group was not required to account for these outstanding share options in accordance with the relevant transitional provisions of this new HKFRS, as they were either granted on or before 7 November 2002 or granted after 7 November 2002 and fully vested before 1 July 2005. The impact of HKFRS 2 on the results of the Group for current or prior accounting periods has been evaluated and determined to be not material.

Notes to the Financial Statements
for the year ended 30 June 2006

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

The Group has not early applied the following new standards, amendments and interpretation that have been issued but are not yet effective. The group is in the process of making an assessment of the potential impact of these standards, amendments and interpretations. These may result in changes in the future as to how the results and financial position are prepared and presented.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 21 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical end electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies[4]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2006.
[3] Effective for annual periods beginning on or after 1 December 2005.
[4] Effective for annual periods beginning on or after 1 March 2006.

Notes to the Financial Statements

for the year ended 30 June 2006

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

(i) The effects of the changes in the accounting policies described in Note 2 on the Group's results for the current and prior year are as follows:

	Year ended 30 June 2006 ***HK$'000***	Year ended 30 June 2005 *HK$'000*
Increase/(decrease) in result		
Increase in surplus/decrease in deficit arising on revaluation of investment properties	**850**	172
Increase/(decrease) in revaluation surplus of leasehold properties	**(93)**	37
Increase in release of prepaid lease payments	**(154)**	(125)
Increase in convertible note interest	**(1,023)**	–
Increase in promissory note interest	**(1,878)**	–
Increase in deferred tax charges	**–**	(142)
Decrease in depreciation charges	**103**	33
	(2,195)	(25)

(ii) The cumulative effects of the application of the new HKFRSs on the consolidated income statement for the year ended 30 June 2005 are summarised below:

	Year ended 30 June 2005 (originally stated) *HK$'000*	Adjustments on adoption of HKAS 17 *HK$'000*	Adjustments on adoption of HKAS 40 *HK$'000*	Adjustments on adoption of HKAS 32 & 39 *HK$'000*	Year ended 30 June 2005 (restated) *HK$'000*
Income statement items					
Increase/(decrease) in result					
Depreciation	(6,550)	33	–	–	(6,517)
Release of prepaid lease payments	–	(125)	–	–	(125)
Surplus on revaluation of leasehold properties	215	37	–	–	252
Deficit on revaluation of investment properties	(4,053)	–	172	–	(3,881)
Deferred tax charges	–	(53)	(89)	–	(142)
Net unrealised loss on short term investments	(4,951)	–	–	4,951	–
Net loss on re-measurement of financial assets at fair value through profit or loss	–	–	–	(4,951)	(4,951)

Notes to the Financial Statements
for the year ended 30 June 2006

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (continued)

(ii) (continued)

The cumulative effects of the application of the new HKFRSs on the consolidated balance sheet as at 30 June 2005 and 1 July 2005 are summarised below:

	At 30 June 2005 (originally stated)	Adjustments on adoption of HKAS 17	adoption of HKAS 40	adoption of HKAS 32 & 39	At 30 June 2005 and 1 July 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance sheet items					
Increase/(decrease) in assets					
Property, plant and equipment	79,887	(15,990)	–	–	63,897
Prepaid lease payments (non-current portion)	–	4,620	–	–	4,620
Prepaid lease payments (current portion)	–	125	–	–	125
Short term investment	14,140	–	–	(14,140)	–
Financial assets at fair value through profit or loss	–	–	–	14,140	14,140
Increase/(decrease) in liabilities					
Deferred taxation	2,954	(2,263)	–	–	691
Increase/(decrease) in equity					
Retained profits	41,655	(582)	208	–	41,281
Investment property revaluation reserve	208	–	(208)	–	–
Fixed asset revaluation reserve	13,716	(8,400)	–	–	5,316

4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic re-measurement of leasehold properties, investment properties, financial assets at fair value through profit or loss, as well as certain biological assets as further explained below. These financial statements are presented in Hong Kong dollar and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

The presentation of financial information in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts to assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Effects of different accounting policies of subsidiaries are adjusted for where necessary to ensure consistency with the policies adopted by the Company.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combinations (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

A summary of the significant accounting policies adopted by the Group is set out below.

(a) Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding or equity holding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Notes to the Financial Statements

for the year ended 30 June 2006

4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Subsidiaries (continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over fair value of the acquiror's interest in the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

In the Company's balance sheet interests in subsidiaries are stated at cost together with advances from the Company which are neither planned nor likely to be settled in the foreseeable future, less provision for any impairment losses. The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable.

(b) Jointly-controlled entities

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest. A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Intangible assets

Goodwill

Goodwill arising on acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Patent in application

Patent in application is stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and impairment losses. Amortisation of patent in application is charged to consolidated income statement on a straight line basis over its estimated useful life unless such life is indefinite. The patent in application is amortised from the date they are available for use and its estimated useful life is 10 years. Both the period and method of amortisation and any conclusion drawn about the useful life of the patent in application are reviewed annually.

(d) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at historical cost less subsequent accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the period in which they are incurred.

Depreciation is provided to write off the cost of the property, plant and equipment, less their estimated residual values, using the straight line method over their estimated useful lives as follows:

Leasehold properties	–	The shorter of 50 years and the lease term
Plant and machinery	–	10 years
Furniture, office equipment and motor vehicles	–	10 years

Notes to the Financial Statements
for the year ended 30 June 2006

4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment (continued)

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have been discounted in determining the recoverable amount. An asset's carrying amount is written down immediately to its recoverable amount if the assets's carrying amount is greater than its estimated recoverable amount.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated income statement. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(e) Construction in progress

Construction in progress represents property, plant and equipment under construction and pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings, the cost of plant and machinery and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing, if any. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and are available for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in the preceding paragraphs.

(f) Prepaid lease payment

Prepaid lease payments represent upfront premium paid for use of land. Prepaid lease payments are released to the consolidated income statement over the lease term on a straight-line basis.

(g) Investment properties

Investment properties are land and/or buildings which are held to earn rental income or for capital appreciation. These include land held for a currently undetermined future use.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are recognised in the consolidated income statement for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the period in which the item is derecognised.

4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Biological assets

Biological assets are living plants involved in the agricultural activities of the transformation of biological assets into agricultural produce for sale or into additional biological assets. Biological assets and agricultural produce, other than paper mulberry saplings, are measured at fair value less estimated point-of-sale costs at initial recognition and at each balance sheet date. The fair value less estimated point-of-sale costs at the time of harvest is deemed as the cost of agricultural produce for further processing, if applicable.

If an active market exists for a biological asset or agricultural produce with reference to comparable specie, growing condition and expected yield of the crops, the quoted price in that market is adopted for determining the fair value of that asset. If an active market does not exist, the Group uses the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the transaction date and the balance sheet date, or the market prices for similar assets adjusted to reflect differences to determine fair values. The gain or loss arising on initial recognition and subsequent changes in fair values less estimated point-of-sale costs of biological assets is recognised in the consolidated income statement in the period in which it arise. Upon the sale of the agricultural produce as forestry products, the carrying amount is transferred to cost of sales in the consolidated income statement.

Paper mulberry saplings in the absence of an active open market in which they are traded are stated at their initial cost of acquisition and amortised on a straight-line basis over the estimated life hood of two years under appropriate rearing and maintenance conditions. The amortised cost of paper mulberry saplings is transferred to the carrying value of growing paper mulberry trees upon commencement of plantation.

Deposits/proceeds received from the sale of pre-harvest biological assets are accrued as liability of deferred revenue and are recognised as revenue in the consolidated income statement upon the transfer to the customers of the risks and rewards associated with ownership when the harvest and delivery of the forestry products have been made.

(i) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amounts by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes to the Financial Statements

for the year ended 30 June 2006

4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments

Financial assets and financial liabilliteis are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liablilties at fair value through profit or loss are recognised immediately in profit or loss.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

(i) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initital recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(ii) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss has two sub-categories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

Financial liabilites and equity

Financial liabilites and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

(iii) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss of the Group are those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The Group does not have financial liabilities at fair value through profit or loss as at the balance sheet.

(iv) Other financial liabilities

Other financial liabilities (including trade and other payables, bank borrowings, promissory notes and financial liability portion of convertible notes) are subsequently measured at amortised cost, using the effective interest method.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss in the period during which the derecognition arises.

For financial liabilities, they are removed from the Group's balance sheet, i.e., derecognised, when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss in the period during which the derecognition arises.

Notes to the Financial Statements

for the year ended 30 June 2006

4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Inventories

Inventories are stated at the lower of cost and net realisable value after allowance for obsolete or slow-moving items. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads based on a normal level of operating activities. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

(l) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

(m) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) from the sale of goods and forestry products, on the transfer of risks and rewards of ownership, which generally coincides with the time the goods and forestry products are delivered to customers and title has passed;

(ii) rental income, on a time proportion basis over the lease terms;

(iii) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and

(iv) dividend income, when the shareholders' right to receive payment has been established.

(n) Leases

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property in HKAS 40 is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and

4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Leases (continued)

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the company, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

Finance leases are capitalised at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental liabilities, net of finance charges, are recorded as obligations under finance leases. Finance charges are charged to the consolidated income statement over the period of the leases so as to produce a constant periodic rate of charge on the finance balance outstanding.

Payments made under operating leases are charged to the consolidated income statement in equal instalments over the period of the leases. Lease incentives received are recognised to the consolidated income statement as an integral part of the aggregate lease payments made. Contingent rentals are charged to the consolidated income statement when incurred.

(o) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of the group entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the group entity operates) at the rates of exchanges prevailing on the dates of the transactions, At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are re-cognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are recognised in the consolidated income statement for the period.

Notes to the Financial Statements
for the year ended 30 June 2006

4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Foreign currencies (continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong Dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the currency translation reserve). Such exchange differences are recognised in the consolidated income statement in the period in which the foreign operation is disposed of.

(p) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance for all those employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the Scheme. The contributions are recognised as employee benefit expense when they are due and not reduced by contributions forfeited by those employees who leave the Scheme prior to vesting fully in the contributions.

The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme. The Group has no legal or constructive obligations to make further payments once the required contributions have been paid, even if the Scheme does not hold sufficient assets to discharge all employee benefits relating to employee service in the current and prior periods.

Notes to the Financial Statements

for the year ended 30 June 2006

4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Employee benefits (continued)

(iii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(q) Research and development costs

Research costs are charged to the consolidated income statement in the period in which they are incurred. Development costs are expensed as incurred, except where a specific project is undertaken, the technical feasibility of the product under development has been demonstrated, costs are identifiable and a market exists for the product such that the development costs are expected to be recoverable from related future economic benefit. Such development costs are recognised as deferred development costs in the balance sheet and amortised on a straight-line basis over period over which the deferred development costs is expected to confer economic benefits, commencing from the date the product is available for sale. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(r) Borrowing cost

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowings costs are recognized in profit or loss in the period in which they are incurred.

Notes to the Financial Statements
for the year ended 30 June 2006

4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(t) Deferred taxation

Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and jointly-controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

(u) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, results, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Notes to the Financial Statements

for the year ended 30 June 2006

4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Segment reporting (continued)

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

(v) Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's bye-laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

(w) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash at banks and on hand, demand deposits and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

(x) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Notes to the Financial Statements

for the year ended 30 June 2006

5. KEY SOURCE OF ESTIMATION OF UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years, are discussed below.

(a) Estimated impairment of goodwill

Management tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 4(c). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Management has not identified any indications that the goodwill has or would have suffered any impairment in term of its value to the Group.

(b) Estimated impairment of patent in application

Management assesses periodically whether the patent in application has suffered any impairment due to change of technologies. As at the financial statements date, management has not identified any indications that the patent in application has or would has suffered any impairment in term of its value to the Group.

(c) Fair values of biological assets

Management estimates the balance sheet date fair values less estimated point-of-sale costs of biological assets of paper mulberry trees and pine trees with reference to market prices and professional valuations. Management considers that there are presently an absence of effective financial instruments for hedging against the pricing risks with the underlying agricultural produce. Un-anticipated volatile changes in market prices of the underlying agricultural produce could significantly affect the fair values of these biological assets and result in fair value re-measurement losses in future accounting periods.

The Group's forestry business is subject to the usual agricultural hazards from fire, wind and insects. Forces of nature such as temperature and rainfall may also affect harvest efficiency. Management considers adequate preventive measures are in place and the relevant legislation under forestry laws in the PRC will assist in minimizing exposure. Nevertheless, to the extent that un-anticipated factors affecting harvestable agricultural produce may result in re-measurement or harvest losses in future accounting periods.

(d) Accounting policy and estimated useful lives of paper mulberry saplings

Management estimates the expected live-hood for its biological assets of paper mulberry saplings and determines the related amortisation policy. Management concluded that the estimate would not be significantly affected in the foreseeable future under conditions of maintenance with appropriate rearing faculties.

In ascertaining the accounting policy suited for the biological assets of paper mulberry saplings, management have taken into consideration the currently absence of an active open market in which these biological assets are traded and decided that the adoption of an amortisation policy will be appropriate.

5. KEY SOURCE OF ESTIMATION OF UNCERTAINTY (continued)

(e) Useful lives of property, plant and equipment

Management estimates the expected useful lives for its property, plant and equipment and determines the related depreciation policy. The estimated useful life of the property, plant and equipment and the residual value reflects management's estimates of the number of years that the Group intends to derive future economic benefits from the use of property, plant and equipment. It could change significantly as a result of technological innovations in response to industry cycles. The depreciation expenses in future accounting periods may be adjusted if there are significant changes in those estimates.

(f) Recoverability of trade receivables

Recoverability of the trade receivable are reviewed by management based on the receivables' aging characteristics, management evaluation of the current creditworthiness and past collection history of each customer. Judgement is required in assessing the ultimate realisation of these receivables, and the financial conditions of the debtors may undergo adverse changes since the last management evaluation. If the financial conditions of the customers were to deteriorate, resulting in an impairment of their ability to make payments, additional provision may be required in future accounting periods.

(g) Net realisable value of inventories

Management reviews the conditions of garment inventories at each balance sheet date, and make allowances for obsolete and slow-moving inventory items identified that are no longer suitable for use in production and/or sales in the market. These estimates are based on current market conditions and the historical experience of selling goods of similar nature. It could change significantly as a result of change in market condition. Management will reassess the estimations at each balance sheet date.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables, financial assets at fair value through profit or loss, bank deposits, bank and cash balances, trade payables, promissory notes and convertible notes. Details of these financial instruments are disclosed in the respective notes. The Group's activities expose certain of these financial instruments to a variety of financial risks which are discussed below.

(a) Foreign exchange risk

The Group mainly operates in the People's Republic of China (the "PRC") with most of the transactions denominated and settled in Renminbi (the "RMB") which is not freely convertible into other foreign currencies. Conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. The PRC subsidiaries of the Company transact in their functional currency and therefore no currency risk is expected to arise in respect of these subsidiaries. The Company's financial statements are presented in Hong Kong dollar ("HKD") and fluctuations of RMB against HKD will result in adjustment to financial amounts. The Group currently does not utilise any forward contracts, currency borrowings or other means to hedge against its foreign currency exposure.

Notes to the Financial Statements

for the year ended 30 June 2006

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Credit risk

The carrying amounts of cash and cash equivalents, trade and other receivables except for prepayments, present the Group with credit risk regarding its financial assets. The maximum exposure is the carrying amounts of the respective financial assets at the balance sheet date. The Group has a concentration of credit risk in relation to certain of its major customers.

The Group has a credit policy in place and the exposure to credit risk is managed through the application of credit approvals, credit limits and monitoring procedures. In addition, the Group reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for balances with recoverability problem.

(c) Interest rate risk

The Group's financial instruments issued at fixed interest rate terms include principally convertible notes and promissory notes. These financial instruments expose the Group to fair value interest rate risk. The Group currently does not have a policy to hedge against the interest rate risk, as management considers that the changes in interest rate will not have a significant impact on the carrying amounts of these financial instruments having regard to their maturity profile and share conversion option.

The financial instruments which expose the Group to cash flow interest rate risk principally include variable-rate bank borrowings, mainly utilised for short term trade financing. The cash flow interest rate risk exposure of the Group is minimal as the Group principally finances its operations by internally generated funds with only limited use of external financing.

(d) Market price risk

The Group invested its surplus fund in listed securities in Hong Kong which are classified in the balance sheet as financial assets at fair value through profit or loss and subject to the usual equity security price risk. The Group is not exposed to any commodity price risk.

(e) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

Notes to the Financial Statements
for the year ended 30 June 2006

7. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods, forestry products and paper mulberry saplings sold, after allowances for returns and trade discounts.

	Group	
	2006	2005
	HK$'000	*HK$'000*
Turnover		
Sale of goods and forestry products	**233,847**	138,262
Sale of paper mulberry saplings	**126,923**	–
	360,770	138,262
Other revenue		
Dividend income from listed investments	**148**	67
Interest income	**3,644**	1,517
Rental income	**93**	259
Others	**550**	879
	4,435	2,722
Total revenue	**365,205**	140,984

Notes to the Financial Statements
for the year ended 30 June 2006

8. SEGMENTAL INFORMATION

Segmental information is presented by way of two segment formats: (a) on a primary segment reporting basis, by business segment; and (b) on a secondary segment reporting basis, by geographical segment.

For management purpose, the Group's operations are currently organised into the ecological forestry business and the manufacture and sale of garment. The following tables represent revenue and profit/(loss) information on each of the above business segments for the year ended 30 June 2006 and certain assets and liabilities information regarding business segments at 30 June 2006:

(a) Primary Reporting Format – Business segments

Revenue and profit/(loss) information

	Ecological forestry Business		Garment Business		Elimination		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK'000* (restated)
Revenue:								
External sales	**219,230**	–	**141,540**	138,262	**–**	–	**360,770**	138,262
Inter-segment sales	**–**	–	**–**	–	**–**	–	**–**	–
Total sales	**219,230**	–	**141,540**	138,262	**–**	–	**360,770**	138,262
Segment results	**133,602**	–	**(2,705)**	(28,990)	**–**	–	**130,897**	(28,990)
Unallocated revenue and net gain/(loss)							**1,276**	(5,858)
Unallocated expenses							**(7,613)**	(83,930)
Profit/(loss) from operating activities							**124,560**	(118,778)
Finance costs							**(3,295)**	(152)
Share of profits/(losses) of jointly controlled entities							**1,640**	(30,838)
							122,905	(149,768)
Taxation							**534**	(421)
Profit/(loss) for the year							**123,439**	(150,189)

Notes to the Financial Statements
for the year ended 30 June 2006

8. SEGMENTAL INFORMATION (continued)

(a) Primary Reporting Format – Business segments (continued)

Assets and liabilities information

	Ecological forestry Business		Garment Business		Unallocated		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (restated)	*HK$'000*	*HK$'000* (restated)	*HK$'000*	*HK'000* (restated)
Segment assets	1,088,593	–	364,375	336,275	64,973	123,272	1,517,941	459,547
Segment liabilities	171,980	–	26,673	10,582	384,351	6,373	583,004	16,955
Other information								
Capital Expenditure	29	–	12,211	761	–	–	12,240	761
Depreciation and amortisation	26,951	–	6,757	6,642	–	10,694	33,708	17,336
Provision for doubtful debts	–	–	–	3,522	–	–	–	3,522
Provision for obsolete inventories	–	–	–	13,421	–	–	–	13,421
Impairment losses	–	–	–	–	–	68,609	–	68,609

Note:

The Group's ecological forestry business was acquired during the year ended 30 June 2006. In ascertaining the capital expenditure attributable to the Group's ecological forestry business, the effect of business combination had been excluded. These effects are summarised in note 43 to the financial statements.

Notes to the Financial Statements

for the year ended 30 June 2006

8. SEGMENTAL INFORMATION (continued)

(b) Secondary Reporting Format – geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographic location of customers, whereas segment assets and capital expenditure are based on the geographical location of the assets.

The following is the analysis of the Group's turnover by geographic markets based on geographic location of customers:

	The PRC (excluding Hong Kong)		Hong Kong		Elimination		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK'000*
Segment revenue:								
External sales	**352,903**	115,522	**7,867**	22,740	**–**	–	**360,770**	138,262
Inter-segment sales	**8,106**	19,025	**–**	1,271	**(8,106)**	(20,296)	**–**	–
	361,009	134,547	**7,867**	24,011	**(8,106)**	(20,296)	**360,770**	138,262

Additional information in respect of segment assets and cost for capital expenditure, based on the geographic location of assets, is as follows:

	The PRC (excluding Hong Kong and Macau)		Hong Kong		Macau		Unallocated		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	*HK$'000* (restated)	*HK$'000*	*HK$'000* (restated)	*HK$'000*	*HK$'000* (restated)	*HK$'000*	*HK$'000* (restated)	*HK$'000*	*HK$'000* (restated)
Segment assets	756,350	255,724	73,898	119,456	93,214	84,367	–	–	923,462	459,547
Goodwill	–	–	–	–	–	–	91,421	–	91,421	–
Patent in application	–	–	–	–	–	–	503,058	–	503,058	–
	756,350	255,724	73,898	119,456	93,214	84,367	594,479	–	1,517,941	459,547

	The PRC (excluding Hong Kong and Macau)		Hong Kong		Macau		Unallocated		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Capital expenditure	11,471	734	769	24	–	3	–	–	12,240	761

Notes to the Financial Statements
for the year ended 30 June 2006

9. OTHER NET GAIN/(LOSS)

	Group 2006 HK$'000	2005 HK$'000 (restated)
Surplus on revaluation of leasehold properties, net	43	252
Surplus/(deficit) on revaluation of investment properties, net	850	(3,881)
Net realised loss on disposal of financial assets at fair value through profit or loss	(450)	–
Net unrealised loss on financial assets at fair value through profit or loss	(3,611)	(4,951)
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	11,920	–
	8,752	(8,580)

10. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting) the following:

	Group 2006 HK$'000	2005 HK$'000 (restated)
Amortisation of goodwill	–	10,694
Amortisation of patent in application	9,064	–
Amortisation of paper mulberry saplings	17,833	–
Auditors' remuneration	800	735
Cost of goods and forestry products sold	140,019	126,776
Cost of saplings sold	26,833	–
Depreciation on property, plant & equipment		
– owned assets	6,810	6,407
– leased assets	–	110
Exchange loss/(gain)	(64)	6
Gross rental income	(93)	(259)
Less: Outgoings	2	8
Net rental income	(91)	(251)
Impairment loss on goodwill (included in other operating expenses)	–	61,942
Impairment loss on long term investment (included in other operating expenses)	–	6,667
Minimum lease payments under operating leases	1,664	544
Release of prepaid lease payments	154	125
Research and development cost	10,577	–
Provision for doubtful debts	1,923	3,522
Provision for obsolete inventories	–	13,421
Staff costs (excluding directors' emoluments)		
Wages and salaries	11,353	9,472
Retirement benefits scheme contributions	295	338

Notes to the Financial Statements
for the year ended 30 June 2006

11. DIRECTORS' EMOLUMENTS

Emoluments paid and payable to the Company's directors for the years ended 30 June 2006 and 2005 were as follows:

	2006				
	Fees *HK$'000*	Basic salaries, allowances and bonuses *HK$'000*	Retirement benefic scheme contributions *HK$'000*	Total emoluments *HK$'000*	2005 Total emoluments *HK$'000*
Executive Directors					
Ng Leung Ho	–	830	12	842	837
Lee Ming Hin	–	625	12	637	687
Hu Xiaoming	–	144	–	144	144
Wang Weining	–	240	–	240	240
Ge Wen Hong	–	50	–	50	–
Non-Executive Directors					
Ng Leung Tung	–	560	12	572	687
Independent Non-executive Directors					
Lo Cheung Kin	48	–	–	48	33
Zou Zi Ping	33	–	–	33	33
Zhu Jian Hong	12	–	–	12	3
	93	2,449	36	2,578	2,664

12. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments

There was no arrangement under which a director of the Company waived or agreed to waive any remuneration during the year.

During the year, no emoluments were paid by the Group to the directors of the Company as an inducement to join, or upon joining the Group, or as compensation for loss of office.

12. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (continued)

(b) Five highest paid individuals

The emoluments of the five individuals with highest emoluments in the Group for the year included three (2005: three) directors, details of whose emoluments have been disclosed above.

Details of the emoluments of the remaining two (2005: two) non-director, highest paid individuals for the year are as follows:

	2006 *HK\$'000*	2005 *HK\$'000*
Salaries, allowances and benefits in kind	**1,141**	1,175
Discretionary bonuses	**–**	–
Retirement benefits scheme contributions	**24**	24
	1,165	1,199

The emoluments of each of the remaining two (2005: two) non-director, highest paid employees fell within the band of HK\$Nil – HK\$1,000,000.

13. FINANCE COSTS

	Group	
	2006 *HK\$'000*	2005 *HK\$'000*
Interest on bank loans and overdrafts	74	135
Interest on a finance lease	3	17
Interest on convertible notes	1,340	–
Interest on promissory notes	1,878	–
Total finance costs	3,295	152

Notes to the Financial Statements
for the year ended 30 June 2006

14. TAXATION

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(restated)
Hong Kong profits tax		
– current	–	(6)
– over provision in previous year	–	–
– deferred tax credit/(charge)	42	(142)
Overseas tax		
– current	–	–
– under provision in previous year	–	(273)
– deferred tax credit	492	–
	534	(421)

Hong Kong profits tax had been provided at 17.5 per cent based on the estimated assessable profit for the year. Taxes on profits assessable elsewhere had been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

In accordance with the relevant applicable tax regulations of the PRC, Beijing WFC, the Company's principal operating subsidiary engaged in the forestry business, is entitled to full exemption from PRC enterprise income tax for the first three years and 50 per cent reduction in enterprise income tax for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years. Local income tax is exempted during the tax concession years. Currently, Beijing WFC is under the full tax exemption period and accordingly no PRC tax provision has been made in respect of the operating results derived by Beijing WFC during the post-acquisition period.

Notes to the Financial Statements
for the year ended 30 June 2006

14. TAXATION (continued)

The taxation on the Group's profit/(loss) before taxation differs from the theoretical amount that would arise using the Hong Kong profits tax rate is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(restated)
Profit/(loss) before taxation	**122,905**	(149,768)
Tax at Hong Kong profits tax rate of 17.5%	**21,508**	(26,209)
Tax effect of income that is not taxable in determining taxable profit	**(3,249)**	(273)
Tax effect of expenses that are not deductible in determining taxable profit	**8,514**	25,664
Tax effect of temporary difference not recognised	**(10,365)**	–
Tax effect of temporary difference realised through harvest of biological assets	**(2,094)**	–
Tax effect of utilisation of tax losses not previously recognised	**(8)**	–
Tax effect of unused tax loss not recognised	**1,121**	1,725
Tax effect of equity portion of convertible notes	**(179)**	–
Under-provision of tax in previous year	**–**	273
Effect of tax concessionary treatment	**(15,512)**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,708)**	(759)
Effect of revision of applicable tax rate	**1,438**	–
Taxation charge/(credit)	**(534)**	421

15. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders for the year ended 30 June 2006 dealt with in the financial statements of the Company was approximately HK$7,472,000 (2005: loss of HK$1,403,000).

16. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. The calculation of the basic earnings per share is based on the following data:

	2006	2005
	HK$'000	*HK$'000*
		(restated)
Profit/(loss) attributable to equity holders of the Company	**83,208**	(150,189)
Weighted average number of ordinary shares in issue (thousands)	**3,055,886**	2,677,388

Notes to the Financial Statements
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16. EARNINGS/(LOSS) PER SHARE (continued)

(b) Diluted earnings/(loss) per share

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible notes and share options. The convertible notes is assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the related interest expense less tax effect. For the share options a calculation is made to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. Reconciliation of the earnings and number of shares used in the calculation of diluted earnings for shares is as follows:

	2006 *HK$'000*
Earnings:	
Profit for the year and earnings for the purposes of basic earnings per share	83,208
Effect of dilutive potential ordinary shares in respect of convertible notes	1,340
Earnings for the purpose of diluted earnings per share	84,548
Number of shares	
Weighted average number of ordinary shares for the purposes of basic earnings per share	3,055,886
Effect of dilutive potential ordinary shares in respect of:	
Share options	3,103
Convertible notes	248,781
Weighted average number of ordinary shares for the purpose of diluted earnings per share	3,307,770

No diluted loss per share had been presented for the year ended 30 June 2005 since the assumed exercise of the Company's outstanding share options would have no dilutive effect on loss per share and there were no convertible notes outstanding as at 30 June 2005.

16. EARNINGS/(LOSS) PER SHARE (continued)

(c) Impact of changes in accounting policies

The following table summarises the impact on both basic and diluted earnings per share as a result of the changes in accounting policies (note 3):

	Year ended 30 June 2006	
	Impact on basic earnings per share	Impact on diluted earnings per share
	cents	*cents*
Figures before adoption	2.79	2.60
Effect of changes in accounting policies	(0.07)	(0.04)
Reported figures	2.72	2.56

Notes to the Financial Statements
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17. PROPERTY, PLANT AND EQUIPMENT

	Group			
	Leasehold properties *HK$'000*	Plant and machinery *HK$'000*	Furniture office equipment and motor vehicles *HK$'000*	Total *HK$'000*
Cost or valuation				
At beginning of year				
As originally stated	61,330	45,438	11,345	118,113
Effect of changes in accounting policies	(15,990)	–	–	(15,990)
As restated	45,340	45,438	11,345	102,123
Exchange difference	–	1,728	252	1,980
Additions	–	76	924	1,000
Arising on business combination – note 43	–	3,000	2,960	5,960
Reclassification as non-current asset held for sale – note 29	(2,480)	–	–	(2,480)
Surplus on revaluation	720	–	–	720
At end of year	43,580	50,242	15,481	109,303
Accumulated depreciation				
At beginning of year	–	32,788	5,438	38,226
Exchange difference	–	1,194	113	1,307
Provided during the year	1,557	4,168	1,085	6,810
Arising on business combination – note 43	–	–	285	285
Written back on revaluation	(1,557)	–	–	(1,557)
At end of year	–	38,150	6,921	45,071
Net book value				
At 30 June 2006	43,580	12,092	8,560	64,232
At 30 June 2005, as restated	45,340	12,650	5,907	63,897

Analysis of cost or valuation of the above assets is as follows:

	Leasehold properties	Plant and machinery	Furniture office equipment and motor vehicles	Total
At end of year				
At cost	–	50,242	15,481	65,723
At 30 June 2006 valuation	43,580	–	–	43,580
	43,580	50,242	15,481	109,303
At beginning of year				
At cost	–	45,438	11,345	56,783
At 30 June 2005 valuation, as restated	45,340	–	–	45,340
	45,340	45,438	11,345	102,123

17. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's properties included above are held under the following lease terms:

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(restated)
Leasehold properties at valuation:		
Medium term lease in Hong Kong	**3,450**	5,810
Medium term lease outside Hong Kong	**40,130**	39,530
	43,580	45,340

At 30 June 2006, the Group's leasehold properties in Hong Kong were revalued on the basis of depreciated replacement cost at HK$3,450,000 by LCH (Asia-Pacific) Surveyors Limited ("LCH"), a firm of independent chartered surveyors.

At 30 June 2006, the Group's leasehold properties outside Hong Kong were revalued on the basis of depreciated replacement cost basis at HK$40,130,000 by LCH.

The surplus arising from revaluation of the Group's leasehold properties were credited as to HK$43,000 as other net gain/(loss) (note 9) in the consolidated income statement and as to HK$1,636,000 (after deferred tax effect) to fixed asset revaluation reserve (page 38, consolidated statement of changes in equity).

Had the Group's leasehold properties held in Hong Kong been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK$3,275,000 (2005: HK$5,853,000).

Had the Group's leasehold properties held outside Hong Kong been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK$35,494,000 (2005: HK$36,788,000).

As at 30 June 2006, the Group did not hold any property, plant and equipment under finance lease. (2005: HK$682,000, under the category of furniture, office equipment and motor vehicle).

Upon the adoption of HKAS 16 Property, Plant and Equipment, which is effective for the current accounting period, the Group has reviewed the residual values used for the purposes of depreciation calculations in the light of the amended definition of residual value in the accounting standard. The review did not highlight any requirement for an adjustment to the residual values used in the current or prior periods. In line with the new requirements, these residual values will be reviewed and updated annually in the future.

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18. CONSTRUCTION IN PROGRESS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Additions during the year	**11,240**	–

The Group's construction in progress are in respect of the Group's garment business and includes headquarter building, product development center and showroom under construction.

In presenting the segmental information (note 8), the Group's construction in progress has been included within the primary reporting format of business segment under the category of "Garment Business"; and in the secondary reporting format of geographical segment under the location of "The PRC (excluding Hong Kong)".

19. PREPAID LEASE PAYMENTS

	2006	2005
	HK$'000	*HK$'000*
		(restated)
The Group's prepaid lease payments comprise:		
Medium leasehold term land in Hong Kong	**1,690**	2,005
Medium leasehold term land outside Hong Kong	**11,733**	2,740
	13,423	4,745
Analysed for reporting purpose as:		
Non-current assets	**13,122**	4,620
Current assets	**301**	125
	13,423	4,745

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19. PREPAID LEASE PAYMENTS (continued)

Movements in prepaid lease payments are as follows:

	Year ended 30 June 2006 HK$'000	Year ended 30 June 2005 HK$'000 (restated)
At beginning of year	4,745	4,870
Arising on business combination – note 43	9,087	–
Amount released to consolidated income statement – note 10	(154)	(125)
Reclassification as non-current asset held for sale – note 29	(255)	–
At end of year	13,423	4,745

The portion of prepaid lease payments re-classified as non-current asset held for sale represents the prepaid land lease premium underlying a leasehold property of which prior to 30 June 2006 the Group has entered into a sale and purchase agreement for its disposal.

20. INVESTMENT PROPERTIES

	2006 HK$'000	2005 HK$'000
At beginning of the year	10,909	14,790
Surplus/(deficit) arising on revaluation – note 9	850	(3,881)
Disposal	(9,259)	–
At end of year	2,500	10,909

The Group's investment properties were held on medium term lease in Hong Kong.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties. At 30 June 2006, the Group's investment properties in Hong Kong were appraised on the basis of market value at approximately HK$2,500,000 by LCH (Asia-Pacific) Surveyors Limited, a firm of independent chartered surveyors, which have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounted to HK$93,000 (2005: HK$259,000). Direct operating expenses arising on the investment property in the year are insignificant.

During the year, the Group disposal of an investment property held under medium term lease outside Hong Kong at a consideration of HK$9,259,000. There was no net gain or loss of material amount arisen from the disposal of investment property.

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21. INTANGIBLE ASSETS

		Group	
	Goodwill	Patent in application	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 July 2004			
Cost	121,912	–	121,912
Accumulated amortisation and impairment	(20,026)	–	(20,026)
Net carrying value	101,886	–	101,886
Year ended 30 June 2005			
Opening net carrying value	101,886	–	101,886
Adjustment of consideration payable for business acquisition	(29,250)	–	(29,250)
Amortisation for the year	(10,694)	–	(10,694)
Impairment loss for the year	(61,942)	–	(61,942)
Closing net book amount	–	–	–
At 30 June 2005			
Cost	92,662	–	92,662
Accumulation amortisation and impairment	(92,662)	–	(92,662)
Net carrying value	–	–	–
Year ended 30 June 2006			
Opening net carrying value	–	–	–
Arising on business combination – note 43	91,421	512,122	603,543
Amortisation for the year	–	(9,064)	(9,064)
Closing net book amount	91,421	503,058	594,479
At 30 June 2006			
Cost	91,421	512,122	603,543
Accumulated amortisation and impairment	–	(9,064)	(9,064)
Net carrying value	91,421	503,058	594,479

In prior years, goodwill arising on business combination was amortised on the straight-line basis over its estimated useful life not exceeding 20 years. Commencing from the financial year ended 30 June 2006, as a result of the adoption of HKAS 38 "Intangible assets", goodwill is no longer amortised but is stated at their cost less accumulated impairment, if any. The Group has applied the transitional provision of HKAS 38 and has not restated the carrying amount of goodwill and related amortisation charges in prior years on a retrospective basis.

21. INTANGIBLE ASSETS (continued)

Goodwill

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units that are expected to benefit from that business combination. The Group's carrying goodwill as at 30 June 2006 are in relation to the operation in the plantation of the modified tree specie Broussonetia Papyriferalvent within the reportable segment of ecological forestry business and represents the fair value of considerations paid over the net assets acquired of the underlying business. The directors consider it impractical to estimate the useful live of business goodwill, which are regarded as having an indefinite useful live but subject to test for impairment on the basis as set out in note 4(c) to the financial statements.

The recoverable amount of the cash generating unit is determined from value in use calculations. The Group prepares cash flow forests derived from the most recent available financial budget and extrapolates over the following five years. In preparing the forcasts, management made reference to the land reserve presently available for plantation, the anticipated increase in available land reserve as contracted for, and the modified tree species's growth data per unit of plantation area complied by research institutes . The key assumptions for the value in use calculations are those regarding discount rates, long term growth rates and anticipated changes to future selling prices, as follows:

– For the estimation of long term growth rate, besides growth through the increase in cultivatable land reserve, management has made reference to factors including the historical growth rate of forestry industry and the economy in the PRC, and adopted a long term growth rate of 6 per cent.

– Management use discount rate which is derived as the Company's cost of capital, representing the expected return on all of a company's capital, and assigned a discount rate of 14.7 per cent.

– Future selling prices are estimated with reference to existing and past quoted commodity prices with the forestry industry. In view of the general soar of timber prices over the past few years, management assume the existing price level will prevail in the future and did not concede with an anticipated price drop with the calculation.

Goodwill impairment for the year ended 30 June 2005

The goodwill impairment for the year ended 30 June 2005 represents the considerations paid over the net assets of two previously acquired subsidiaries of the Group, namely, Hi-Tech Market Limited ("Hi-Tech Market") and Charming World Investments Limited ("Charming World").

(a) Hi-Tech Market holds 36 per cent indirect equity interest in Global Network Corporation, which is principally engaged in computer software and network system development. During the annual review conducted for the year ended 30 June 2005, a patented computer algorithm of Global Network Corporation used in compression of digital data, that once had demonstrated a promising market, cannot successfully convinced the directors as to its future profitability. Accordingly, the carrying value of goodwill related with acquisition of Hi-Tech Market amounted to HK$30,475,000 at year end was fully impaired.

Notes to the Financial Statements
for the year ended 30 June 2006

21. INTANGIBLE ASSETS (continued)

Goodwill impairment for the year ended 30 June 2005 (continued)

(b) Charming World holds an effective 22 per cent indirect equity interest in a jointly-controlled entity, namely Zhongke Nanotech Engineering Center Co., Ltd. ("Zhongke Nanotech"), which were principally engaged in the development and sales of nano materials and transfer of related technology. During the year ended 30 June 2005, it was confirmed that Zhongke Nanotech group cannot meet the guaranteed profit underlying the Group's business acquisition of Charming World. In addition, the performance of Zhongke Nanotech Group during the year ended 30 June 2005 showed that the turnover and profitability were not as stable as originally expected. Based on the directors' assessment, the carrying amount of the related goodwill of HK$31,467,000 was fully impaired.

The impairment loss on goodwill for the year ended 30 June 2005 of HK$61,942,000 is included in the 2005 consolidated income statement within the line item of "other operating expenses".

Patent in application

The Group's patent in application is in relation to the technology in the coding protein and application of a Broussonetia Papyrifera Dehydration-Responsive Element Binding transcription factor gene to regulate and enhance the tolerance of Broussonetia Payrifera to stress conditions such as drought, low temperature and high salt, and was assessed as having a finite useful live of 10 years.

Patent amortisation are provided on a straight-line basis over the estimated useful live of 10 years. The patent amortisation charge for the current year of HK$9,064,000 is included in the consolidated income statement within the line item of "other operating expenses".

On 6 September 2006, the Group received a formal notice from the State Intellectual Property Office of the PRC for the formal approval of grant of the patent. The relevant patent certificate will be issued by the State Intellectual Property Office of the PRC upon completion of the usual registration procedure.

In testing for any impairment on the Group's patent in application, management has adopted the income approach – royalty income stream analysis to identify the indication value of the pending patent by discounting the future economic benefits of the pending patent throughout its economic life to its present value.

Notes to the Financial Statements
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21. INTANGIBLE ASSETS (continued)

By using this method, the patent in application is assessed by reference to the estimated amount of royalty income it can generate if it was licensed as at the date of assessment, in an arm's length transaction, to a third party. The benchmark royalty rate determined with reference to industry standards is multiplied by the revenues expected by the management to be generated from the underlying business. The product is an estimate of the royalty income that could be generated hypothetically by licensing the pending patent in the expected life of the pending patent. The estimated royalty income so derived is thereby discounted as an annuity over the expected life of the pending patent, at an appropriate discount rate. The projection period covers 5 years up to September 2010. The key assumptions for the calculations are those regarding royalty rates, long term growth rates and discount rates, as follows:

– royalty rate of 3.5 per cent

– long term growth rate of 6 per cent.

– discount rate of 14.7 per cent.

22. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**614,646**	64,522
Due from subsidiaries	**315,406**	286,316
	930,052	350,838

At 30 June 2006, the amount due from subsidiaries principally represents advance which are unsecured and interest-free. These advances are considered as quasi-equity loans to the subsidiaries of which the repayment/settlement is neither planned nor likely to happen in the foreseeable future.

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22. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries as at 30 June 2006 are as follows:

Name	Place of incorporation/ establishment and operation	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Directly held				
Holt Hire Holdings Limited	British Virgin Islands ("BVI")	Ordinary US$3	100%	Investment holding
Indirectly held				
Able Business Developments Limited	BVI	Ordinary US$10	100%	Investment holding
Beijing Wan Fu Chun Forest Resources Development Company Limited	The PRC	Registered RMB 50,000,000	70%	Tree plantation and management, manufacture and distribution of forestry products
Cannon Ape Company Limited	Hong Kong	Ordinary HK$10,000	100%	Property holding
Digital 910 Limited	Hong Kong	Ordinary HK$10,000	100%	Investment holding
Fujian Good Fellow Fashion Co., Ltd.	The PRC	Registered RMB10,000,000	100%	Trading of garments
Fujian Yingfu-Kerun Software Co., Ltd.	The PRC	Registered HK$15,000,000	100%	Investment holding
Good Country Investment Limited	Hong Kong	Ordinary HK$2 Non-voting deferred HK$10,000	100%	Property holding and trading of securities
Good Fellow (Macau) Commercial Offshore Limited	Macau	MOP100,000	100%	Trading of garment
Good Fellow Fashion (Group) Limited	Hong Kong	Ordinary HK$10,000	100%	Distribution of garment

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22. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment and operation	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Good Fellow Garment (Fujian) Co., Ltd.	The PRC	Registered US$5,000,000	100%	Manufacture and sale of garment
Hi-Tech Market Limited	BVI	Ordinary US$100	100%	Investment holding
Putian Keneng High Technology Co., Ltd.	The PRC	Registered RMB55,600,000	100%	Investment holding

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

23. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Share of net assets, unlisted	**28,282**	19,509

Particulars of the principal jointly-controlled entities as at 30 June 2006 are as follows:

Name	Form of business	Place of establishment structure	Percentage of ownership interest attributable and operation activities	Principal to the Group
中科納米技術工程中心有限公司 (Zhongke Nanotech Engineering Center Co., Ltd.*)	Corporated	The PRC	55%	Development and sales of nano materials and transfer of related technology

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23. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Name	Form of business	Place of establishment structure	Percentage of ownership interest attributable and operation activities	Principal to the Group
中科納米技術工程（蘇州）有限公司 (Zhongke Nanotech Engineering (Suzhou) Co., Ltd.*)	Corporated	The PRC	68.5%	Development and sales of nano materials and transfer of eated Technology
北京中科納米高彈材料有限公司 (Beijing Zhongke Nanotech High-elastic Material Co., Ltd.*)	Corporated	The PRC	38.5%	Manufacture and sales of nano high-elastic plastic and materials
北京時代科能科技開發有限公司 (Beijing Shidai Keneng Technology Development Co., Ltd.*) (formerly known as 北京時代科能化工材料有限公司 (Beijing Shidai Keneng Chemical Co., Ltd.*))	Corporated	The PRC	44%	Dormant
中科安康醫療用品有限公司 (Beijing Zhongke Health Medical Products Co., Ltd.*)	Corporated	The PRC	35.4%	Sales of nano medical products
蘇州中科納米高彈材料有限公司 (Suzhou Zhongke Nanotech High-elastic Material Co., Ltd.*)	Corporated	The PRC	34.9%	Development and sales of nano high elastic plastic

* *For identification only*

Notes to the Financial Statements

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24. BIOLOGICAL ASSETS

The Group

Reconciliation of movement in carrying value of the Group's biological assets during the year is as follows:

	Paper mulberry saplings *HK$'000*	Paper mulberry trees *HK$'000*	Pine trees *HK$'000*	Total *HK$'000*
Increase due to business combination (note 43)	151,577	–	122,692	274,269
Amortisation during the year	(17,833)	–	–	(17,833)
Transfer upon plantation	(71,182)	71,182	–	–
Plantation expenditure incurred	–	17,860	–	17,860
Harvest as agricultural produce	–	–	(17,692)	(17,692)
Direct sales	(26,833)	–	–	(26,833)
Gain arising from changes in fair value less estimated point-of-sale cost of biological assets	–	11,920	–	11,920
At 30 June 2006	35,729	100,962	105,000	241,691

The paper mulberry saplings are stated at cost, less accumulated amortisation. An analysis of the carrying amount of these biological assets as at 30 June 2006 is as follows:

Biological assets carried at cost less accumulated amortisation	*HK$'000*
Historical cost of procurement	57,161
Less: accumulated amortisation	(21,432)
Net carrying amount	35,729

Biological assets of paper mulberry trees and pine trees are stated at their fair value less estimated point-of-sale costs. In accordance with the valuation report by LCH (Asia-Pacific) Surveyors Limited, a firm of independent chartered surveyors, the fair value less estimated point-of-sale costs of the biological assets is determined under the following basis:

(i) Paper mulberry trees: market-determined prices after accounting for bulk sale discount due to substantially high number of trees, normal rate of recovery, potential losses and harvesting costs.

(ii) Pine trees: market-determined prices after accounting for normal rate of harvest recovery, cost of harvesting, transportation cost and other associated cost.

Notes to the Financial Statements
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24. BIOLOGICAL ASSETS (continued)

Biological assets of paper mulberry saplings

As at 30 June 2006, the Group maintained approximately 26.9 million of consumable biological assets of paper mulberry saplings of various stages of propagation. The majority of these paper mulberry saplings are maintained in the group's various saplings rearing facilities held under leases in the PRC and are being fostered for further growth and diversification.

The Group's paper mulberry saplings are available for future field plantation for rearing the genetically modified tree specie Broussonetia Payriferalvent which is a Moraceae plant under the category of Deciduous Trees. During the year, approximately 81.1 milllion paper mulberry saplings in estimation have been utilised in direct field plantation. In addition, sales of approximately 33.0 million of paper mulberry saplings have been made during the year for total sale proceeds of approximately HK$126.9 million. The sales of saplings have given rise to a gain on disposal of approximately HK$100.1 million which form part of the Group's gross profit for the year.

As at 30 June 2006, the Group has vested interest in contracts for the sales of approximately 9.0 million of paper mulberry saplings of approximately of HK$34.6 million by sales value, the delivery of which has not been fulfilled as at 30 June 2006. The related sales proceeds received of approximately HK$9,616,000 was recognised as liabilities of deferred revenue.

The Group's biological assets of paper mulberry saplings were carried at amortised cost in view of their specialised nature and the absence of an active open market in which market comparable prices would be available. Amortisation is provided on the straight-line basis over the estimated live hood of two years under appropriate rearing and maintenance conditions.

Biological assets of paper mulberry trees

The Group's paper mulberry trees are in respect of the modified tree specie Broussonetia Papyriferalvent which is a Moraceae plant under the category of Deciduous Trees. The plantation works was newly commenced around the end of April 2006 and the plantation was carried out in a leasehold agricultural premise in the Shandong province and other leased premises in other regions of the PRC; mainly in the vicinity of the Beijing border. Based on professional survey performed, as at 30 June 2006, the harvestable volume of Broussonetia Papyriferalvent being grown, before normal harvesting and processing wastage, was assessed as approximately 805 tons of bark and 5,926 tons of tree trunk. During the current year, profit contribution in the amount of HK$11,920,000 (note 9) was recorded for the post-acquisition period in respect of the fair value re-measurement gains assessed in terms of harvestable timber which can be obtained by Beijing WFC from its plantation activities rendered during the period. At this newly commenced stage of plantation, the growth of the Broussonetia Papyriferalvent continues to progress and has not reached the optimal stage for harvest. Therefore, no harvesting of the modified tree specie and sales of the collectible timber has been made during the year.

24. BIOLOGICAL ASSETS (continued)

Biological assets of man-made standing forests of Chinese Pine Trees

As at 30 June 2006, the Group maintained consumable biological assets of standing forests of Chinese pine trees of various maturities of approximately 332,000 cubic meters by volume in aggregate. The two State-owned forest fields on which the standing pine trees erected are located in the Shanxi provenance in the PRC, and are held by the Group under lease term of 50 years. Approximately 79,000 cubic meters (23.8 per cent) and 223,000 cubic meters (67.2 per cent) by volume, respectively, of the flocks of standing pine trees, have reached the stage of full maturity and near maturity and are ready for harvest.

During the year, harvest has been made of the Group's pine wood in the volume of approximately 51,000 cubic meters. The bulk of pine wood as harvested and processed has all been sold as timber during the current year. In addition, the Group has vested interest in contracts for the sale of portion of the pre-harvest wholesome living pine trees of approximately of HK$48,916,000 by sales value, the delivery of which has not been fulfilled as at 30 June 2006 and the related sale proceeds was recognised as liabilities of deferred revenue.

25. INVENTORIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**13,411**	15,933
Work in progress	**869**	645
Finished goods	**23,984**	16,443
	38,264	33,021

At 30 June 2006, the carrying amount of inventories that are carried at net realisable value is approximately HK$8,654,000 (2005: HK$9,040,000).

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26. TRADE RECEIVABLE

The Group normally allows credit terms to established customers ranging from 30 to 120 days. The Group seeks to maintain strict control over its outstanding receivables to minimize credit risk, with overdue balances regularly reviewed by senior management. Trade receivables are generally non-interest bearing and their carrying amount approximate to their fair values.

The aging analysis of the trade receivables as at the balance sheet date, based on the date of recognition of the sales, is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
0 – 30 days	**66,906**	18,189
31 – 60 days	**127,426**	5,731
61 – 90 days	**5,640**	5,422
Over 90 days	**7,372**	11,377
	207,344	40,719

The directors consider that the carrying amounts of the Group's trade receivables at 30 June 2006 approximate to their fair values.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The directors consider that the fair values of the Group's deposits, prepayments and other receivables at 30 June 2006 approximate to their carrying amounts.

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(restated)
Securities listed in Hong Kong, at market value	**4,992**	14,140

Changes in fair values of financial assets at fair value through profit or loss are recorded in the consolidated income statement as part of other net gain/(loss) (note 9).

At 30 June 2006, securities with market value of approximately HK$1,126,892 (2005: HK$7,847,000) have been pledged to a bank for the Group's banking facilities (Note 40).

29. NON-CURRENT ASSET HELD FOR SALE

	Group	
	2006	2005
	HK$'000	*HK$'000*
Property held for disposal, at fair value	**2,735**	–

The Group's non-current asset held for sale are in respect of property held under medium term lease in Hong Kong, previously classified as leasehold properties under "property, plant and equipment", and related land lease premium. During the year, the Group entered into a sale and purchase agreement for the disposal of the entire subject property at a consideration of HK$7,000,000 and the carrying amount of the subject leasehold property was thereby reclassified as non-current asst held for sale. The property disposal was completed subsequent to the balance sheet date in August 2006.

Prior to the reclassification, a revaluation surplus of HK$101,000 has arisen of the subject property and has been included in the consolidated income statement as partial of "other net gain/(loss) (note 9) – surplus on revaluation of leasehold properties".

There was no gain or loss arising form the reclassification of the subject property as non-current asset held for sale. Upon the reclassification, balance outstanding in the fixed asset revaluation reserve in respect of the subject property, in the amount of HK$73,000, was considered realised and transferred to retained profits.

In presenting the segmental information (note 8), the property held for sale has been included within the primary reporting format of business segment under the category of "Garment Business"; and in the secondary reporting format of geographical segment under the location of "Hong Kong".

30. BANK AND CASH BALANCES

At 30 June 2006, the bank and cash balances of the Group denominated in Renminbi ("RMB") amounted to approximately million (2005: HK$86 million). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

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31. SHARE CAPITAL

	Number of shares		Ordinary share capital	
	2006	2005	2006	2005
	'000	'000	HK$'000	HK$'000
Ordinary shares of HK$0.10 each				
Authorised:	**6,500,000**	5,000,000	**650,000**	500,000

On 8 May 2006, by virtue of a special resolution passed by the Company's shareholders, the authorised share capital of the Company was increased from HK$500 million (consisting of 500,000,000 ordinary shares of HK$0.10 each) to HK$650 million (consisting of 650,000,000 ordinary shares of HK$0.10 each) by the creation of an additional 1,500,000,000 un-issued shares of HK$0.10 each in the Company. The purpose of the increase in authorised share capital is to accommodate the future expansion and growth of the Group and to facilitate the business acquisition of the ecological forestry business (note 43).

	2006	2005	2006	2005
	'000	'000	HK$'000	HK$'000
Issued and fully paid:				
At beginning of year	**2,941,487**	2,459,575	**294,149**	245,958
Arising on business combination *(note i)*	**580,000**	–	**58,000**	–
Arising upon conversion of convertible notes into new shares *(note ii)*	**155,000**	–	**15,500**	–
Placement of new shares	**–**	489,000	**–**	48,900
Shares issued on exercise of share options *(note iii)*	**206,200**	27,800	**20,620**	2,780
Repurchase of shares *(note iv)*	**(2,880)**	(34,888)	**(288)**	(3,489)
At end of year	**3,879,807**	2,941,487	**387,981**	294,149

31. SHARE CAPITAL (continued)

Notes:

(i) During the year ended 30 June 2006, the Company completed the acquisition of Strong Lead Investments Limited and issued 580,000,000 consideration shares, credited fully paid at HK$0.12 per share, as part of the total consideration payable for the acquisition. Further details of the business combination are set out in note 43 to the financial statements.

(ii) During the year ended 30 June 2006, partial of the convertible notes outstanding with the Company in the principal denomination of HK$18,600,000 was converted into 155,000,000 new shares at a conversion price of HK$0.12 per share. The fair value of portion of the convertible notes as converted, in the amount of HK$14,566,000, was credited to the share capital account of the Company. In addition, a proportional share of the conversion option reserve as realised, after reversal of deferred taxation, in the amount of HK$4,034,000, was credited to as to HK$934,000 to the share capital account and as to HK$3,100,000 to the share premium account of the Company.

(iii) During the year ended 30 June 2006, options were exercised to subscribe for 206,200,000 shares in the Company. Out of all these options exercised, the attributable option exercise price for 199,000,000 shares was HK$0.24 per share, while the attributable option exercise price for the remaining 7,200,000 shares was HK$0.10 per share. The total consideration received by the Company of HK$48,480,000 was credited as to HK$20,620,000 to the share capital and as to HK$27,860,000 to the share premium account.

(iv) During the year ended 30 June 2006, the Company repurchased 2,880,000 ordinary shares from the open market through The Stock Exchange of Hong Kong Limited. All these repurchased shares were cancelled during the year.

Details of these repurchases are as follows:

	Number of shares repurchased	Price per share Highest	Price per share Lowest	Aggregate price paid
		HK$	*HK$*	*$'000*
July 2005	2,000,000	0.107	0.107	214
July 2005	880,000	0.106	0.106	95
	2,880,000			309

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32. SHARE BASED COMPENSATIONS

The Company operates an equity-settled, share-based compensation plan for the purpose of providing incentives and rewards to eligible participants for their contribution to the success of the Group's operations. Pursuant to this objective, on 25 October 1998, the Company adopted a share option scheme (the "Old SO Scheme") whose eligible participants include directors and employees of the Company and its subsidiaries as determined by the directors of the Company.

In compliance with the amendments to the Listing Rules, the directors of the Company consider that it is in the interest of the Company to terminate the Old SO Scheme and to adopt a new share option scheme (the "New SO Scheme"). An ordinary resolution was passed at the annual general meeting of the Company held on 23 November 2001 for the approval of the said adoption of the New SO Scheme and termination of the Old SO Scheme. Pursuant to the amendments to the Listing Rules, no further options may be granted under the Old SO Scheme thereunder but in other respects, the provisions of the Old SO Scheme remain in force and all outstanding options granted continue to be valid and exercisable in accordance therewith.

(a) Old SO Scheme

As mentioned above, the Old SO Scheme was terminated on 23 November 2001 and no further options may be offered thereunder. The following are particulars and movement during the year in respect of share options outstanding under the Old SO Scheme:

	Number of share option						Price of the Company's shares *(note (ii))*	
Name or category of participant	At 1 July 2005	Exercise of share options	At 30 June 2006	Date of grant of share options *(note (i))*	Exercise period of share options	Exercise price of share options *HK$*	At grant date of options *HK$*	At exercise date of options *HK$*
Director								
Mr. Ng Leung Ho	7,200,000	(7,200,000)	–	1 February 1999	1 May 1999 – 24 October 2008	0.1	0.330	N/A

Notes:

(i) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

(ii) The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options.

(iii) The above disclosed exercise price of share options of HK$0.10 has been adjusted for the effect of sub-division of shares accomplished subsequent to the grant of the subject share options.

32. SHARE BASED COMPENSATIONS (continued)

(b) New SO Scheme

Eligible participants of the New SO Scheme include directors and employees of the Company and its subsidiaries. The New SO Scheme will, unless otherwise cancelled or amended, remain in force for 10 years from 23 November 2001.

The maximum number of unexercised share options currently permitted to be granted under the New SO Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the New SO Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within the date specified in the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. 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 SO Scheme, if earlier.

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.

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32. SHARE BASED COMPENSATIONS (continued)

(b) New SO Scheme (continued)

Movements in share options during the year are as follows:

	2006 Number	2005 Number
At beginning of year	**217,000,000**	–
Granted	**–**	244,800,000
Exercised *(note i)*	**(199,000,000)**	(27,800,000)
At end of year	**18,000,000**	217,000,000
Options vested and unexercised at 30 June *(note ii)*	**18,000,000**	217,000,000

Notes:

(i) Details of share options exercised during the year:

Name or category of participant	Exercise date	Exercise price per share *HK$*	2006 Number
Mr. Ng Leung Ho	29 May 2006	0.24	**20,000,000**
Mr. Ng Leung Tung	29 May 2006	0.24	**20,000,000**
Ms. Lee Ming Hin	29 May 2006	0.24	**20,000,000**
Mr. Hu Xiaoming	29 May 2006	0.24	**20,000,000**
Mr. Wang Weining	29 May 2006	0.24	**20,000,000**
			100,000,000
Empolyees	9 May 2006	0.24	**34,000,000**
	11 May 2006	0.24	**32,500,000**
	15 May 2006	0.24	**32,500,000**
			99,000,000
Total			**199,000,000**

(ii) Terms of unexpired and unexercised share options under New SO Scheme at balance sheet date are as follows:

Name or category of participant	Date of grant	Exercise period	Exercise price per share *HK$*	2006 number	2005 number
Director	10 Jan 2005	10 Jan 2005 – 23 Nov 2011	0.24	**–**	100,000,000
Employees	10 Jan 2005	10 Jan 2005 – 23 Nov 2011	0.24	**18,000,000**	117,000,000
Total				**18,000,000**	217,000,000

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33. RESERVES

Company

	Share premium account HK$'000	Subscription right reserve HK$'000 (note i)	Conversion option reserve HK$'000 (note ii)	Retained profits/ (accumulated loss) HK$'000	Total HK$'000
At 1 July 2004	26,239	24,543	–	4,287	55,069
Arising on exercise of share options	3,892	–	–	–	3,892
Issue of shares	48,900	–	–	–	48,900
Expenses incurred in connection with issue of shares	(2,850)	–	–	–	(2,850)
Repurchase of shares	(2,643)	–	–	–	(2,643)
Net loss for the year	–	–	–	(1,403)	(1,403)
At 30 June 2005 and 1 July 2005	73,538	24,543	–	2,884	100,965
Arising on exercise of share options	27,860	–	–	–	27,860
Issue of consideration shares for business combination	11,600	–	–	–	11,600
Arising upon issuance of convertible notes	–	–	37,949	–	37,949
Arising upon conversion of convertible notes into new shares, net of deferred taxation	3,100	–	(3,328)	–	(228)
Repurchase of shares	(21)	–	–	–	(21)
Net loss for the year	–	–	–	(7,472)	(7,472)
At 30 June 2006	116,077	24,543	34,621	(4,588)	170,653

Note:

(i) Subscription right reserve represents net proceeds received from issue of warrants.

(ii) Conversion option reserve represents equity portion of convertible notes issued by the Company and are transferred to the share premium account upon exercise of the conversion rights vested with the convertible note instruments ; or directly released to retained profits when the notes are redeemed.

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34. PROMISSORY NOTES PAYABLE

	2006 *HK$'000*	2005 *HK$'000*
Financial liabilities of promissory notes, at amortised cost	220,598	–
Less: portion repayable in 12 months' time included in current liabilities	(174,452)	–
Long term portion	46,146	–

The Company's promissory notes are non-interest bearing and have an aggregate principal amount of HK$230 million, which is repayable in the following manner:

(a) as to HK$130 million, repayable on demand by any time starting from 1 October 2006;

(b) as to HK$50 million, repayable on demand by any time starting from 1 April 2007; and

(c) as to HK$50 million, repayable on demand by any time starting from 1 July 2007.

The amortised cost of the financial liabilities of promissory notes as at 30 June 2006 of approximately HK$220.6 million was ascertained with reference to professional appraisal and upon discounting the face value of the promissory notes by a discount rate of 8 per cent, which is considered by the directors to be the incremental borrowing rate applicable to the Company's borrowings.

35. CONVERTIBLE NOTES PAYABLE

	2006 *HK$'000*	2005 *HK$'000*
Financial liability portion of convertible notes, at amortised cost	150,858	–

During the year, pursuant to the business combination of Strong Lead and its subsidiary, Beijing WFC, as described in note 43 "Business Combination" to the financial statements, the Company issued convertible notes (the "Convertible Notes") as settlement of partial of the acquisition consideration. The principal terms of the Convertible Notes are as follows:

Date of issue	8 May 2006
Aggregate principal amount	HK$210.4 million
Denomination	In multiple of HK$100,000
Interest rate per annum	1.5%, payable semi-annually in arrears
Conversion price applicable	HK$0.12, subject to adjustments
Maturity date	4 years from the date of issue

35. CONVERTIBLE NOTES PAYABLE (continued)

Conversion period

Apart from the portion of Restricted Convertible Notes (as described below), the holders of the Convertible Notes shall have the rights at any time and from time, following the date of issue of the Convertible Notes, to convert the whole or any part of the outstanding principal amount into new ordinary shares in the Company. The shares to be issued and allotted upon conversion shall rank pari passu in all respects among themselves and with all other ordinary shares in issue by the Company on the date of such allotment and issue.

Restricted Convertible Note

Partial of the Convertible Notes in principal amount of HK$100 million (the "Restricted Convertible Notes") has been put under security to the Company for performance by the vendors of the Strong Lead shares of the Profit Guarantee (as described below). The vendors of the Strong Lead shares have undertaken not to exercise the rights attaching the portion of denomination in the balance of HK$100 million on the Convertible Notes up to end of the period of the Profit Guarantee (as described below).

Profit Guarantee

The vendors of the Strong Lead shares has undertaked to the Company that the audited consolidated net profit after tax of Beijing WFC prepared in accordance with Hong Kong GAAP for the two financial years ending 31 December 2006 and 31 December 2007 shall not be less than HK$200 million (the "Profit Guarantee"), and shall compensate the Company in cash for any shortfall between the Profit Guarantee and the audited consolidated net profit after tax of Beijing WFC prepared in accordance with Hong Kong GAAP. The compensation amount will be calculated on the basis of the shortfall percentage of the total consideration of HK$560 million payable for the Strong Lead acquisition. In the event that the Restricted Convertible Notes is not sufficient to cover the compensation amount due to the shortfall from the Profit Guarantee, the vendors of the Strong Lead shares will be liable to pay the Company in cash for any outstanding compensation amount after deducted from the Restricted Convertible Notes.

On 5 June 2006, the conversion rights vested with Convertible Notes in the principal amount of HK$18.6 million have been exercised and resulted in the issue and allotment of 155,000,000 ordinary shares of the Company, credited as fully paid.

At 30 June 2006, the aggregate outstanding principal amount of the Convertible Notes is HK$191.8 million. The amortised cost of the Convertible Notes as at 30 June 2006 of approximately HK$150.8 million was ascertained with reference to professional appraisal and upon discounting the face value of the outstanding Convertible Notes by a discount rate of 8 per cent, which is considered by the directors to be the incremental borrowing rate applicable to the Company's borrowings.

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36. DEFERRED TAXATION

(a) The following are the deferred tax liabilities recognised by the Group and movement thereon during the current and prior periods:

Group

	Revaluation of properties HK$'000	Fair value of Biological assets over historical procurement cost HK$'000	Amortised fair value of patent in application over transfer consideration HK$'000	Principal denomination over fair value of convertible notes HK$'000	Total HK$'000
At 30 June 2004					
As original stated	2,156	–	–	–	2,156
Effect of changes in accounting policies	(1,131)	–	–	–	(1,131)
As restated	1,025	–	–	–	1,025
Deferred tax charged to consolidated income statement	142	–	–	–	142
Deferred tax debt accounted for as revaluation reverse movement	(476)	–	–	–	(476)
At 30 June 2005					
As originally stated	2,954	–	–	–	2,954
Effect of changes in accounting policies	(2,263)	–	–	–	(2,263)
As restated	691	–	–	–	691
Arising on business combination – note 43	–	4,967	49,934	–	54,901
Arising on issuance of convertible notes	–	–	–	8,050	8,050
Amount realised through conversion of convertible notes into shares	–	–	–	(706)	(706)
Deferred tax debit accounted for as revaluation reserve movement	598	–	–	–	598
Deferred tax charged/(credited) to consolidated income statement	137	390	(882)	(179)	(534)
At 30 June 2006	1,426	5,357	49,052	7,165	63,000

Company

	Revaluation of properties HK$'000	Fair value of Biological assets over historical procurement cost HK$'000	Amortised fair value of patent in application over transfer consideration HK$'000	Principal denomination over fair value of convertible notes HK$'000	Total HK$'000
Arising on issuance of convertible notes	–	–	–	8,050	8,050
Amount realised through conversion of convertible notes into shares	–	–	–	(706)	(706)
Deferred tax charged/(credited) to consolidated income statement	–	–	–	(179)	(179)
At 30 June 2006	–	–	–	7,165	7,165

36. DEFERRED TAXATION (continued)

(b) At the balance sheet date, the Group has unused tax losses of approximately HK$30,659,000 (2005: HK$$20,109,000) available for offset against future profits. No deferred tax asset in relation to tax losses has been recognised due to the unpredictability of future taxable profit streams. These tax losses may be carried forward indefinitely.

(c) As the balance sheet date, the Group has unrecognised deferred tax asset of approximately HK$1,069,000 (2005: nil) in respect of the excess of the carrying value of biological assets of paper mulberry saplings over historical procurement cost. These deferred tax assets have not been recognised due to the unpredictability of attributable future taxable profit streams.

37. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 120 days from its suppliers.

An aging analysis of the trade payables as at the balance sheet date, based on the receipt of goods purchased, is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
0 – 30 days	**1,268**	1,950
31 – 60 days	**325**	39
61 – 90 days	**13**	34
Over 90 days	**1,320**	846
	2,926	2,869

The directors consider that the carrying amounts of the Group's trade payables at 30 June 2006 approximate to their fair values.

38. AMOUNT DUE TO MINORITY INTERESTS

The amount is unsecured and interest-free. The minority interest creditor is Fei Fei Senwang Resources Development Co., Limited, which held a 30 per cent equity interest in Beijing WFC. The minority interest creditor has confirmed its intention of not demanding repayment until Beijing WFC has the financial and liquidity capacity to proceed with settlement of the indebtedness. The directors consider that the carrying amount due to minority interests approximated its fair value as at 30 June 2006.

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39. INTEREST-BEARING BANK BORROWINGS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Bank overdrafts, secured	21	88

40. BANKING FACILITIES

At 30 June 2006, the Group's banking facilities were secured by the following:

(i) the Group's bank deposits of approximately HK$10,988,000 (2005: HK$14,760,000);

(ii) the Group's short term investments of approximately HK$1,126,892 (2005: HK$7,847,000); and

(iii) corporate guarantees given by the Company to the extent of HK$13,500,000 (2005: HK$13,500,000).

41. FINANCE LEASE PAYABLE

Group

	Minimum lease payments 2006 *HK'000*	Present value of minimum lease payments 2006 *HK'000*	Minimum lease payments 2005 *HK'000*	Present value of minimum lease payments 2005 *HK'000*
Amount payable:				
Within one year	–	–	123	120
In the second year	–	–	–	–
Total minimum finance lease payments	–	–	123	120
Future finance charges	–		(3)	
Total net finance lease payable	–		120	
Portion classified as a current liability	–		(120)	
Non-current portion	–		–	

At 30 June 2006, the Group did not hold any property, plant and equipment under finance lease. (2005: The Group lease a motor vehicle for general business purposes.)

42. DEFERRED REVENUE

	2006 *HK$'000*	2005 *HK$'000*
Deposits/proceeds received in respect of:		
Pre-harvest wholesome living pine trees – *note (i)*	48,917	–
Paper mulberry saplings – *note (ii)*	9,615	–
	58,532	–

Notes:

(i) As at 30 June 2006, the harvest of the wholesome living tress underlying the relevant sales contracts and their subsequent processing into forestry products has not been commenced.

(ii) As at 30 June 2006, customer acceptance of the paper mulberry saplings delivery has not been completed.

The deposits/proceeds received are wholly deferred until the harvest and delivery of the forestry products has been made/completed when the amounts involved will be recognised as revenue in the consolidated income statement.

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43. BUSINESS COMBINATION

(a) Financial effect of business combination

On 8 May 2006, the Company completed the acquisition of the entire shareholdings of Strong Lead, a company incorporated in the British Virgin Island and held as its principal assets a 70 per cent equity interests in Beijing WFC. The financial effect of the acquisition is analysed as follow:

	Acquiree's Carrying amount	Fair value
	HK$'000	*HK$'000*
Goodwill	–	91,421
Property, plant and equipment	5,960	5,960
Accumulated depreciation of property, plant and machinery	(285)	(285)
Biological assets	274,269	274,269
Patent in application	512,122	512,122
Prepaid lease payments	9,212	9,212
Accumulated amortisation of prepaid lease payments	(125)	(125)
Bank and cash balances	4,312	4,312
Prepayments, deposits and other receivables	1,060	1,060
Other payables and accruals	(2,640)	(2,640)
Deferred revenue	(48,916)	(48,916)
Amount due to minority interests	(44,778)	(44,778)
Deferred tax liabilities	(54,901)	(54,901)
Net assets acquired	655,290	746,711

	HK$'000
Represented by:	
Fair value of purchase consideration	550,124
Minority interests in net assets acquired	196,587
	746,711

43. BUSINESS COMBINATION (continued)

(a) Financial effect of business combination (continued)

The date of business combination was determined by the directors of the Company as being 8 May 2006 and the consolidation of assets, liabilities and post-acquisition results of Strong Lead and Beijing WFC into the accompanying financial statements commenced from 9 May 2006 onwards.

Post-acquisition contribution to turnover of Strong Lead and Beijing WFC as included in the Group's consolidated income statement for the year ended 30 June 2006 amounts to HK$219,230,000. Post-acquisition contribution to net results of Strong Lead and Beijing WFC as included in the Group's consolidated income statement amounts to a profit for the year of approximately HK$134,103,000, of which approximately HK$93,872,000 is attributable to the Company's shareholders and approximately HK$40,231,000 is attributable to minority interests.

Had the acquisition been completed at the beginning of the year, the profit for the year of Strong Lead and Beijing WFC included in the Group's consolidated income statement would be reduced by pre-acquisition losses of approximately HK$92,402,000, of which the reduced profit of approximately HK$59,993,000 would be attributable to the Company's shareholders and approximately HK$32,409,000 would be attributable to minority interests.

(b) Analysis of the components of purchase consideration

	HK$'000
The purchase consideration comprised of the following components:	
Cash deposit	50,000
Consideration shares *(note i)*	69,600
Fair value of convertible notes *(note ii)*	210,400
Fair value of promissory notes *(note iii)*	218,720
Acquisition expenditure capitalised	1,404
	550,124

Notes:

(i) The consideration shares (the "Consideration Shares") comprise of 580,000,000 ordinary shares in the Company credited fully paid at a share issue price of HK$0.12. The share issue price was determined on the basis of arm's length negotiation and with reference to recent share price performance prior to the inception of the underlying acquisition contract. The share issue price represents a 21.57 per cent discount to the quoted share price of HK$0.153 on the close of the last trading date prior to the inception of the underlying acquisition contract.

(ii) Further details of the convertible notes, and the basis of ascertainment of the fair value thereof, are set out in note 35 to the financial statements.

(iii) Further details of the promissory notes, and the basis of ascertainment of the fair value thereof, are set out in note 34 to the financial statements.

The convertible notes are convertible at a conversion price of HK$0.12 into 1,753,333,333 ordinary shares (the "Conversion Shares") in the Company, credited as fully paid. The aggregate amount of difference between the value ascribed to the equity instruments of Consideration Shares and Conversion Shares, based on the share issue/conversion price of HK$0.12 versus the above quoted share price of HK$0.153, amounted to approximately HK$77 million. The quoted share price has not been adopted for the reasons stated above.

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43. BUSINESS COMBINATION (continued)

(c) **Analysis of the net outflow of cash and cash equivalent as a result of the acquisition is as follows:**

	HK$'000
Cash portion of purchase consideration paid	50,000
Acquisition expenditure capitalised	1,404
Bank and cash balance acquired	(4,312)
	47,092

44. CONTINGENT LIABILITIES

The Company has given guarantees in favour of certain banks to the extent of HK$13,500,000 (2005: HK$13,500,000) in respect of banking facilities granted to certain subsidiaries of the Company. At 30 June 2006, the banking facilities utilised by these subsidiaries amounted to approximately HK$21,000 (2005: HK$88,000).

45. OPERATING LEASE ARRANGEMENTS

(a) **As lessor**

At 30 June 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	7	–
In the second to fifth years, inclusive	7	–
	14	–

(b) **As lessee**

At 30 June 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**5,708**	426	**1,289**	–
In the second to fifth years, inclusive	**11,707**	1,870	**1,136**	–
More than five years	**83,888**	–	**–**	–
	101,303	2,296	**2,425**	–

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46. MAJOR NON-CASH TRANSACTIONS

The major non-cash transactions during the year ended 30 June 2006 mainly include the following:

(i) Partial of the total consideration payable in aggregate of HK$498,720,000 in respect of the business combination of Strong Lead and Beijing WFC involves the issuance by the Company of non-cash specie of consideration shares, convertible notes and promissory notes as settlement thereof. Further details are set out in note 43 "Business Combination" to the financial statements.

(ii) The issuance of 155,000,000 new shares in the Company as a result of the exercise of conversion rights vested with convertible notes outstanding with the Company in the principal denomination of HK$18,600,000. The applicable conversion price of HK$0.12 per share was credited fully paid without cash payment from the convertible notes holder.

47. COMMITMENTS

At 30 June 2006, the Group had commitments, so far as not provided for in the consolidated financial statements, as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Capital commitments contracted but not provided for:		
Construction cost	**1,067**	–
Acquisition of leasehold forest land	**19,230**	–
Capital contribution to jointly-controlled entities	**–**	7,600
	20,297	7,600
Group's share of capital commitments of jointly-controlled entities	**158**	13,935
	20,455	21,535

Notes to the Financial Statements
for the year ended 30 June 2006

48. RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

Name	Relationship
Fei Fei Senwang Resources Development Co., Ltd. ("Fei Fei")	Minority equity holder of Beijing WFC, a principal subsidiary (that is, minority interests)

(b) Balances with related parties

	2006 HK$'000	2005 HK$'000
Fei Fei	56,005	–

(c) Key management compensation

	2006 HK$'000	2005 HK$'000
Salaries and other short-term employee benefits	3,833	3,897
Post-employment benefits	72	72
Share options	–	–
	3,905	3,969

Directors' remuneration has been included in these key management compensation.

(d) Movement in balances with related parties

	2006 HK$'000	2005 HK$'000
Non-trade balance due to:		
Minority interests		
Arising from business combination	44,778	–
Settlement of expenses by minority interests	32,365	–
Repayments	(21,138)	–
End of the year	56,005	–

49. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to 30 June 2006, the following post balance sheet date events took place:

(a) During the period from 3 July 2006 to 10 October 2006, an aggregate of 765,000,000 new ordinary shares in the Company was issued and allotted fully paid by virtue of the exercise at a conversion price of HK$0.12 per share of convertible notes in the denomination of HK$91,800,000 then outstanding with the Company. These new shares rank pari passu in all respects with the other shares in issue as at the balance sheet date;

(b) On 14 September 2006, Beijing WFC, a subsidiary owned as to 70% by the Company, entered into a letter of intent (the "Letter of Intent") with the People's Government of the Xiaoyou county (the "Xiaoyou Government") , Fuijian province of the PRC, whereby the Xiaoyou Government will grant to Beijing WFC forest land of no less than 400,000 Chinese Mu by area and Beijing WFC will provide the genetically modified tree specie Broussonetia payriferalvent and technical support for plantation of the tree specie in the Xianyou county, Fuijian province, the PRC. The proposed cooperation is subject to, amongst other things, the satisfaction of a due diligence review to be conducted on the financial condition, legal and other affairs of the counter contracting party and any legally binding agreement to be entered in due course pursuant to the framework set out in the Letter of Intent. Further details of the Letter of Intent are set out in the Company's press announcement of 14 September 2006;

(c) On 23 September 2006, Beijing WFC entered into an agreement (the "He Zhou Agreement") with the Forestry Bureau (the "He Zhou City Forestry Bureau") of the He Zhou City of the Guangxi Zhuang Autonomous Region, the PRC, whereby the He Zhou City Forestry Bureau will grant to Beijing WFC forest land of no less than 3,000,000 Chinese Mu by area and sufficient harvesting quota and replanting benchmark in order to avail sufficient land resources to Beijing WFC; and Beijing WFC will provide the genetically modified tree specie Broussonetia payriferalvent and technical support for plantation of the tree specie in the Guangxi province, the PRC. The proposed cooperation is subject to any legally binding agreement to be entered in due course in relation to the transfer of forest land and other contractual arrangements. Further details of the He Zhou Agreement are set out in the Company's press announcement of 23 September 2006;

(d) On 29 September 2006, the Company announced the proposed change of name of the Company to "China Grand Forestry Resources Group Limited". The proposed change of Company name is subject to the passing of a special resolution by the Company's shareholders at the special general meeting to be convened for this purpose and the Registrar of Companies in Bermuda approving the proposed change of company name. Further details are set out in the Company's press announcement of 29 September 2006;

(e) On 1 October 2006, portions of the promissory notes outstanding with the Company in the principal denomination of HK$130,000,000 has fallen due and became payable. The Company is in the process of settling these promissory note liabilities as and when settlement is being called for by the promissory notes holders.

Notes to the Financial Statements
for the year ended 30 June 2006

49. EVENTS AFTER THE BALANCE SHEET DATE (continued)

(f) On 9 October 2006, Beijing WFC entered into an agreement (the "XiangFan Agreement") with the Peoples' Government of the XiangFan City (the "XiangFan City Government") of the HuBei Province, the PRC whereby the XiangFan City Government will provide assistance and favorable policy incentives to Beijing WFC in the procurement of forest land of no less than 1,000,000 Chinese Mu by area for the purpose of field plantation and the establishment of a processing base for timber and wood pulp accompanying sapling fostering facilities; and Beijing WFC will provide the genetically modified tree specie Broussonetia payriferalvent and technical support for plantation of the tree specie in the HuBei Province; the PRC. The proposed cooperation is subject to any legally binding agreement to be entered in due course in relation to the procurement of forest land by Beijing WFC and other contractual arrangements. Further details of the XiangFan Agreement are set out in the Company's press announcement of 9 October 2006;

(g) On 12 October 2006, Beijing WFC entered into an agreement (the "PengShui Agreement") with the Forestry Bureau (the "PengShui County Forestry Bureau") of the PengShui Miao and Tujia Autonomous County of the ChongQing City; the PRC (the "PengShui County") whereby the PengShui County Forestry Bureau will transfer to Beijing WFC forest land of no less than 300,000 Chinese Mu by area for the purpose of field plantation and the establishment of a paper mulberry trees processing plant accompanying sapling fostering facilities; and Beijing WFC will provide the genetically modified tree specie Broussonetia payriferalvent and technical support for plantation of the tree specie in the PengShui County. The proposed cooperation is subject to any legally binding agreement to be entered in due course in relation to the procurement of forest land by Beijing WFC and other contractual arrangements. Further details of the PengShui Agreement are set out in the Company's press announcement of 12 October 2006; and

(h) On 13 October 2006, options were exercised for the subscription of 18,000,000 shares in the Company at a total consideration of HK$4,320,000. These new shares rank pari passu in all respects with the other shares in issue as at the balance sheet date.

(i) On 16 October 2006, Strong Lead entered into a conditional sale and purchase agreement (the "Acquisition Agreement') for the acquisition of an additional 30 per cent equity interest in Beijing WFC for a cash consideration of HK$300 million. Prior to the proposed acquisition, Strong Lead Investments Limited already held a 70 per cent equity interest in Beijing WFC. Upon completion of the proposed acquisition, the Company will beneficially own in the entire interest of Beijing WFC. The proposed acquisition is subject to, amongst other things, the passing of the relevant resolution by the Company's shareholders in a special general meeting to be convened for the purpose of approving the Acquisition Agreement and the transactions contemplated therein.

47. COMPARATIVE FIGURES

Certain comparative figures have been adjusted or reclassified as a result of the changes in accounting policies.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 October 2006.