

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The accounting policies used in preparation of the condensed consolidated interim financial statements are consistent with those adopted in the annual financial statements for the year ended 30 June 2006 with addition of certain new standards and interpretations of Hong Kong Financial Reporting Standards (“HKFRSs”) issued and effective as at the time of preparing this report. These are:

HKAS 21 (Amendment)	The effects of change in foreign exchange rate – net investment in a foreign operation
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 (Amendment)	The fair value option
HKAS 39 & HKFRS 4 (Amendment)	Financial guarantee contracts
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives

The adoption of such standards or interpretations does not result in substantial changes to the Group’s accounting policies and has no significant effect on the results reported for the six months ended 31 December 2006.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The Directors anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 21 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment ²
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Shares Transactions ³

¹ Effective for annual periods beginning on or after 1 January 2007

² Effective for annual periods beginning on or after 1 November 2006

³ Effective for annual periods beginning on or after 1 March 2007

2. TURNOVER

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

3. SEGMENT INFORMATION

(a) Business segments:

For management purpose, the Group's operations are currently organised into the ecological forestry business and the manufacture and sale of garment.

Group

For the six months ended 31 December

	Ecological Forestry Business		Garment Business		Elimination		Consolidated	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000 (restated)
Revenue:								
External sales	294,546	-	72,005	72,422	-	-	366,551	72,422
Inter-segment sales	-	-	-	-	-	-	-	-
Total sales	294,546	-	72,005	72,422	-	-	366,551	72,422
Segment results	230,307	-	(2,846)	2,678			227,461	2,678
Unallocated revenue and other net gain							23,134	379
Unallocated expenses							(5,498)	(1,992)
Profit from operations							245,097	1,065
Finance costs							(10,610)	(75)
Share of results of jointly-controlled entities							(1,199)	1,463
Profit before taxation							233,288	2,453
Taxation							556	-
Profit for the period							233,844	2,453

3. SEGMENT INFORMATION (CONTINUED)

(b) Geographical segments

In determining the Group's geographical segments, revenue and results are attributed to the segment based on the location of the customers.

Group

For the six months ended 31 December

	The PRC (excluding Hong Kong and Macau)		Hong Kong		Elimination		Consolidation	
	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	366,073	65,063	478	7,359	-	-	366,551	72,422
Inter-segment sales	4,212	3,647	-	-	(4,212)	(3,647)	-	-
Total revenue	370,285	68,710	478	7,359	(4,212)	(3,647)	366,551	72,422
Segment results	229,609	15	(2,148)	2,663			227,461	2,678
Unallocated revenue and other net gain							23,134	379
Unallocated expenses							(5,498)	(1,992)
Profit from operations							245,097	1,065
Finance costs							(10,610)	(75)
Share of results of jointly-controlled entities							(1,199)	1,463
Profit before taxation							233,288	2,453
Taxation							556	-
Profit for the period							233,844	2,453

4. PROFIT FROM OPERATIONS

The Group's profit from operations are arrived at after charging/(crediting):

	Six months ended 31 December	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Gain on disposal of property held for disposal	(4,223)	–
Gain from changes in fair value of biological assets	(103,260)	–
Amortisation of prepaid lease payment	203	60
Depreciation of property, plant and equipment	2,641	3,280
Realised loss on disposal of financial assets at fair value through profit or loss	–	450
Interest income	(981)	(1,434)
Unrealised gain on financial assets at fair value through profit or loss	(16,780)	–
Unrealised loss on financial assets at fair value through profit or loss	–	1,081

5. FINANCE COSTS

	Six months ended 31 December	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest on bank loans and overdrafts	80	72
Interest on a finance lease	–	3
Interest on convertible notes	4,092	–
Interest on promissory notes	6,438	–
	10,610	75

6. TAXATION

	Six months ended	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current:		
Hong Kong	-	-
Elsewhere	-	-
Deferred	556	-
Tax credit for the period	556	-

No provision for Hong Kong profits tax was made as the Group had no assessable profit in Hong Kong.

Taxes on profits assessable elsewhere have 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.

7. EARNINGS PER SHARE

The calculation of basic earnings per share for six months ended 31 December 2006 is based on the Group's profit attributable to the equity holders of the Company for the period of approximately HK\$164,752,000 (2005: HK\$2,453,000) and the weighted average number of 4,402,802,165 (2005: 2,938,736,296) ordinary shares in issue during the period.

The calculation of diluted earnings per share for six months ended 31 December 2006 is based on the Group's profit attributable to the equity holders of the Company for the period of approximately HK\$168,844,000 (2005: HK\$2,453,000) and the weighted average number of 5,236,135,498 (2005: 2,940,473,991) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares of the Company's convertible note outstanding during the period.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, additions of property, plant and equipment amounted to approximately HK\$4,137,000 (2005: HK\$55,000).

9. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	31 December 2006 (Unaudited) HK\$'000	30 June 2006 (Audited) HK\$'000
Shares of net assets, unlisted	27,835	28,282

Particulars of the jointly-controlled entity which account principally for the results and net assets shared by the Group are as follow:

Name	Legal entity	Place of establishment and operations	Percentage of ownership interest attributable to the Group	Principal activities
中科納米技術工程中心有限公司 (Zhongke Nanotech Engineering Center Co., Ltd.*)	Sino-foreign equity joint venture	The PRC	55%	Development and sale of nano materials and transfer of related technology
中科納米技術工程(蘇州)有限公司 (Zhongke Nanotech (Suzhou) Co., Ltd.*)	Sino-foreign equity joint venture	The PRC	68.5%	Development and sale of nano materials and transfer of related technology

* For identification only

10. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 30 to 120 days. An aging analysis of the trade receivables as at the balance sheet date, based on the date of recognition of the sales, is as follows:

	31 December 2006 (Unaudited) HK\$'000	30 June 2006 (Audited) HK\$'000
0-30 days	191,588	66,906
31-60 days	6,172	127,426
61-90 days	1,424	5,640
Over 90 days	897	7,372
	200,081	207,344

11. SHARE CAPITAL

	31 December 2006 (Unaudited) HK\$'000	30 June 2006 (Audited) HK\$'000
Authorized:		
6,500,000,000 ordinary shares of HK\$0.10 each	650,000	650,000
Issued and fully paid:		
4,662,807,600 (30 June 2006: 3,879,807,600) ordinary shares of HK\$0.10 each	466,281	387,981

During the period ended 31 December 2006, partial of the convertible notes outstanding with the Company in the principal denomination of HK\$91,800,000 was converted into 765,000,000 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\$72,913,000, was credited to the share capital account of the Company. In addition, a proportional share of the conversion option reserve as realized, after reversal of deferred taxation, in the amount of HK\$18,887,000 was credited to as to HK\$3,587,000 to the share capital account and as to HK\$15,300,000 to the share premium account of the Company.

During the period ended 31 December 2006, options were exercised to subscribe for 18,000,000 shares in the Company. The attributable option exercise price for these shares was HK\$0.24 per share. The total consideration received by the Company of HK\$4,320,000 was credited as to HK\$1,800,000 to the share capital and as to HK\$2,520,000 to the share premium account.

12. RESERVES

	Share premium account HK\$'000	Subscription right reserve HK\$'000	Fixed asset revaluation reserve HK\$'000	Statutory reserve fund HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Convention option reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 July 2006	116,077	24,543	5,699	13,741	3,504	(727)	34,621	112,680	310,138
Currency translation difference	-	-	-	-	-	16,999	-	-	16,999
Arising on exercise of share options	2,520	-	-	-	-	-	-	-	2,520
Arising upon conversion of convertible notes into new shares, net of deferred taxation	15,300	-	-	-	-	-	(15,582)	-	(282)
Profit attributable to equity holders of the Company	-	-	-	-	-	-	-	164,752	164,752
Share in reserve movement of jointly-controlled entities	-	-	79	-	-	-	-	-	79
Reserve appropriation	-	-	-	22,179	-	-	-	(22,179)	-
At 31 December 2006	133,897	24,543	5,778	35,920	3,504	16,272	19,039	255,253	494,206

13. 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 good purchased, is as follows:

	31 December 2006 (Unaudited) HK\$'000	30 June 2006 (Audited) HK\$'000
0-30 days	7,843	1,268
31-60 days	25	325
61-90 days	56	13
Over 90 days	1,218	1,320
	9,142	2,926

14. COMMITMENTS

As at 31 December 2006, the Group had the following commitments contracted but not provided for:

	31 December 2006 (Unaudited) HK\$'000	30 June 2006 (Audited) HK\$'000
Group:		
Contractor costs	–	1,067
Acquisition of leasehold forest land	43,980	19,230
Group's share of capital commitments of jointly-controlled entities	–	158
	43,980	20,455