

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

For the financial period ended 31 December 2006, the Group recorded turnover of approximately HK\$366.6 million, representing a 4 times increase from the preceding period. The Group's profit attributable to shareholders was approximately HK\$164.8 million (2005: 2.5 million), and earnings per share for the period was HK3.74 cents (2005: HK0.08 cent).

During the period under review, the Group contracted the acquisition of the forest land of approximately 98,721 Chinese Mu and the Group asset's quality was improved. As at 31 December 2006, the forest land of the Group was approximately 479,800 Chinese Mu. In addition, the turnover and profit contribution from the ecological forestry business was consolidated into the Group accounts for the whole period. Both the increase in turnover and profit were mainly attributable from the ecological forestry business. For the period under review, the Group's ecological forestry business and garment business accounted for approximately 80 per cent and 20 per cent, respectively, of the Group's total turnover.

In arriving at the Group's net profit, sharing in losses of joint-venture investment in Nano-technologies in the amount of HK\$3.4 million (2005 profits: HK\$1.5 million) has been included.

Dividend

The Board has resolved not to recommend any dividend for the financial period ended 31 December 2006.

Business and Operational Review

The Ecological Forestry Business

The Group's business operations in the ecological forestry business was carried out by Beijing Wan Fu Chun Forest Resources Development Company Limited ("Beijing WFC"), a Sino-foreign joint venture principally engaged in the business of tree planting and management, manufacture and distribution of forest products such as timber and bark materials. The Company held a 70 per cent effective equity interest in Beijing WFC during the period under review.

During the period, the Group's share in net profit contribution from Beijing WFC attributable to the Company's shareholders amounted to approximately HK\$161.2 million. The profit contribution, which has been consolidated into the Group accounts for the period ended 31 December 2006, arose mainly from the sale of timber and sale of paper mulberry sapling. The turnover from the sale of timber and sale of paper mulberry sapling during the period were approximately HK\$181.7 million and HK\$78.7 million respectively.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business and Operational Review (Continued)

The Ecological Forestry Business (Continued)

During the period under review, the profit margin from the sale of timber was improved because of the increase in the unit selling price by approximately 10% and the effective cost control after the enhancement of the management team. The sale of timber recognised during the period was mainly arising from Miaowan Forest Land in Hunan Province and Shanxi Xiyang Dongfeng Forest Farm in Shanxi Province only.

In addition to the direct sale of paper mulberry saplings, during the period Beijing WFC has planted the modified tree specie *Broussonetia Papyriferalvent*. The plantation works was carried out in a leasehold agricultural premise in the Shandong province and also certain other leased premises in other regions of the PRC. Based on professional survey performed, as at 31 December 2006, Beijing WFC has planted approximately 81.1 million of the modified tree specie *Broussonetia Papyriferalvent*. As the growth of the *Broussonetia Papyriferalvent* was still in continuance and has not reached their optimal stage for harvest, no harvesting of the modified tree specie and sale of the collectible timber has been made during the period. The flocks of living modified free specie *Broussonetia Papyriferalvent* of different maturities grown thereon was assessed to have an aggregated volume of bark and trunk of approximately 3,814 net tons and 33,090 net tons respectively. As at 31 December 2006, the Group has approximately 122.9 million of paper mulberry saplings to be planted in various forest land contracted.

Plantation in agricultural land in Shandong Province

Beijing WFC's first plantation cycle for the modified tree specie *Broussonetia Papyriferalvent* has already commenced in Spring time, around April 2006, as described in the Circular issued on 18 April 2006 ("Circular"). During the period under review, the Directors change the business scale mainly include:

- (1) the entering into various cooperative agreements for the purchase of additional forest lands in various provinces in the PRC to enlarge Beijing WFC's plantation scale. Formal forest land contracts have been incepted for certain of these cooperative agreements. Accordingly, the agricultural land available to Beijing WFC for plantation is no longer restricted to the Shandong Province as described in the Circular; and
- (2) the importance of self plantation has been diminished because the business methodologies of Beijing WFC has extended to (i) direct sale of saplings; (ii) self-plantation; and (iii) subcontracted plantation.

Although the extension of business methodologies means the degree of reliance on self-plantation for revenue generation as discussed in the Circular will be mitigated, the Directors believe that the extension of business methodologies of Beijing WFC is a normal business development in a favorable direction.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**Business and Operational Review (Continued)****The Ecological Forestry Business (Continued)***Plantation in agricultural land in Shandong Province (Continued)*

Because of the inception of various forestry land contracted, the Directors foresee that Beijing WFC's reliance on the premise of Shandong ("Shandong Premise") will be lessened. The Directors believe that utilization of certain of the agricultural premises (forest land) acquired during the period with enhanced soil quality, including forest land in the Hunan Province, Chongqing and Shanxi Province, will serve more advantageous business development of Beijing WFC. Accordingly, the plantation scale alone of the Shandong Premise will be reduced. Nevertheless, the overall plantation scale of Beijing WFC will increase by a considerable extent as a result of the various forestry land contracted.

Acquisition of forest land

During the period, the Group contracted the acquisition of forest land of approximately 98,721 Chinese Mu. As at the date of report, the contracted forest land of the Group was 802,138 Chinese Mu. The following table summarised the details.

Province/City	As at 1.7.2006 (Chinese Mu)	Contracted during the period (Chinese Mu)	Total forest land contracted as at 31.12.2006 (Chinese Mu)	Major forest land contracted from 1.1.2007 to date of report (Chinese Mu)	Forest land to be acquired (Chinese Mu)
Shandong	300,000	–	300,000	–	–
Shanxi	46,994	58,900	105,894	–	641,100
Hunan	34,085	30,797	64,882	196,000	2,373,203
Chongqing	–	6,948	6,948	26,013	773,987
Sichuan	–	2,076	2,076	–	–
Guangxi	–	–	–	100,325	5,899,675
Fujian	–	–	–	–	401,000
Hubei	–	–	–	–	1,000,000
Total	381,079	98,721	479,800	322,338	11,088,965

Note: Forest land to be acquired represents the incomplete acquisitions of forest land in which letters of intent or cooperative agreements had been signed as at the date of report.

The Group is positive about the prospects of its ecological forestry business. Growth in demand of our products, potential acquisition opportunities and extensions of business methodologies provide business development in a favourable direction.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business and Operational Review (Continued)

The Garment Business

The Group's core garment business consisted of the design, manufacture and sale of a range of high-end apparel and uniforms. The PRC market remained the most important market segment, accounting for over 90 per cent of the Group's total garment sales. During the period, the turnover generated from the garment business remains stable and amounted to HK\$72.0 million.

Investment in Nano-technology Business

The Group's share of results of jointly-controlled entities, in the amount of HK\$1.2 million, represents share of operational losses of HK\$3.4 million from high-tech investment in Zhongke Nanotech, the Group's joint venture investment vehicle engaged in the development and sales of nano materials and transfer of related technology and share of gain on disposal of Beijing Zhongke Health Medical Products Co., Ltd. of HK\$2.2 million.

Cost of sales, selling and distribution cost

The increase in cost for the period was mainly the result of the consolidation of full period expenses incurred in respect of the Group's ecological forestry business. These include cost incurred in harvesting timber, related storage and transportation charges.

Other operating expenses

The other operating expenses for the current period of approximately HK\$74.7 million included patent amortisation of approximately HK\$31.3 million.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business and Operational Review (Continued)

Liquidity and financial resources and Capital Structure

As at 31 December 2006, the Group's cash and bank balances, which were principally Renminbi and Hong Kong dollar denominated, amounted to over HK\$222.2 million. The Group was not exposed to any substantial risk in foreign exchange fluctuations. In general, the Group mainly utilizes its Renminbi income receipt for operating expenses in China and does not use any financial instruments for hedging purpose.

As at 31 December 2006, the Group's total borrowings (excluding convertible notes liabilities) amounted to approximately HK\$154.5 million, out of which approximately HK\$97.0 million represents the amortised value of non-interest bearing promissory notes payable and HK\$57.5 million represents current account payable to minority shareholder. The promissory notes have an aggregate nominal value of HK\$100.0 million. The promissory notes are repayable by two instalments each of HK\$50.0 million which shall fall due on 1 April 2007 and 1 July 2007, respectively.

The Group's presently available liquidity resources are sufficient in servicing its promissory notes and other borrowings and meeting its capital commitments. The Group generally finances its operation with internally generated resources. As at 31 December 2006, the Group's net current assets amounted to over HK\$318.3 million. The Group's current ratio, expressed as a percentage of current assets to current liabilities, amounted to 1.7 times.

The Group has obtained available bank credit facilities which are secured by certain of the Group's pledged bank deposits and corporate guarantees given by the Company. During the period, these available bank credit facilities have been utilised in trade credit financing.

As at 31 December 2006, the capital structure of the Company is constituted exclusively of 4,662,807,600 ordinary shares of HK\$0.10 each. Apart from ordinary shares in issue, the capital instruments in issue of the Company include convertible notes.

During the period under review, a total of 18,000,000 new shares have been issued as a result of the exercise of options to subscribe for new shares in the Company.

During the period, conversion has been made of principal denomination of HK\$91.8 million in the convertible notes into 765,000,000 ordinary shares in the Company.

As at 31 December 2006, the Group's gearing ratio, measured on the basis of total borrowings (including convertible notes) as a percentage of total shareholders' fund, was approximately 25%. (30 June 2006: 61%)

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Material acquisitions

During the period, the Group has completed the following material acquisitions:

- a) On 13 December 2006, Beijing WFC, a subsidiary owned as to 70% by the Company at the time, has entered into an agreement ("Ning Yuan County Agreement") with State-run forest of Bai Yun Shan, Ning Yuan County, the PRC for acquiring a leasehold interest in forest land in Bai Yun Shan, Ning Yuan County with total land area of 30,797.5 Chinese Mu at a cash consideration of RMB13,800,000. Pursuant to the Ning Yuan County Agreement, Beijing WFC is entitled to exercise the rights of the leasehold forest land for a term of 30 years.
- b) On 18 December 2006, Beijing WFC, a subsidiary owned as to 70% by the Company at the time, has entered into an agreement ("Ruicheng County Agreement") with State-run forest of Ruicheng County, for acquiring a leasehold interest in forest land in Ruicheng County with total land area of 58,900 Chinese Mu at a cash consideration of RMB22,300,000. Pursuant to the Ruicheng County Agreement, Beijing WFC is entitled to exercise the rights of the leasehold forest land for a term of 50 years.

Charge on the Group's assets

As at 31 December 2006, the Group's available banking facilities were secured by pledged bank deposits of HK\$10,988,000 and corporate guarantees given by the Company.

Contingent liabilities

At 31 December 2006, the Group does not have contingent liabilities of material amounts.

Employees

At 31 December 2006, the Group employed a total of approximately 514 employees of which 19 staff was employed in Hong Kong. In addition to competitive package offered to the employees, other benefits for eligible candidates include contributions to mandatory provident fund, group medical and accident insurance were provided. On-going training sessions were also conducted to enhance the competitiveness of the Group's human assets. The Company also maintains a share option scheme, pursuant to which share options may be granted to Directors, executives and employees of the Company to provide them with incentive interest in the growth of the Group.