中 國 林 大 資 源 集 團 有 限 公 司

CHINA GRAND FORESTRY RESOURCES GROUP LIMITED

(Formerly known as Good Fellow Group Limited)

(Incorporated in Bermuda with limited liability)

Stock code : 910

2006/07

ANNUAL REPORT

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Ng Leung Ho (Chairman)
Ms. Cao Chuan (Deputy Chairman)
Ms. Lee Ming Hin
Mr. Hu Xiaoming
Mr. Ge Wen Hong

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lo Cheung Kin
Mr. Zou Zi Ping
Mr. Zhu Jian Hong

REGISTERED OFFICE

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COMPANY SECRETARY

Mr. Lau Che Yue, Stephen, FCCA, AHKICPA

SOLICITORS

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AUDITOR

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PRINCIPAL BANKERS

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PRINCIPAL REGISTRARS AND TRANSFER OFFICE

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Hamilton HM 11
Bermuda

BRANCH REGISTRARS AND TRANSFER OFFICE

Tengis Limited
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28 Queen's Road East
Wanchai
Hong Kong

Dear Shareholders,

On behalf of China Grand Forestry Resources Group Limited (formerly known as Good Fellow Group Limited) (the "Company"), I would like to express our heartfelt gratitude for your support and confidence in the Company. I am pleased to announce the results of the Company and its subsidiaries (collectively, the "Group") for the period from 1 July 2006 to 31 March 2007, being the financial year 2006 of the Company by virtue of its change of financial year end date from 30 June to 31 March (please refer to an announcement of the Company published on the website of the Hong Kong Stock Exchange (www.hkex.com.hk) on 5 July 2006 for details of such change) (the "Year Ended 31 March 2007") with comparative figures for the period from 1 July 2005 to 30 June 2006 (the "Year Ended 30 June 2006").

For the Year Ended 31 March 2007, against the backdrop of a booming economy in the People's Republic of China (the "PRC") and buoyant market demand for wood products, a favorable business environment was created for the Group, which added strong impetus to our business development. Furthermore, with forestry industry in the PRC undergoing further integration, the Group seized various tremendous opportunities to acquire premier forest resources, resulting in the forest areas under its management being further expanded and its forest resources reserves being increased.

Sustainable development and utilisation of forest resources lies at the core of our business philosophy. Our operation chain involves seedlings growing, construction of fast-growing and high-yield plantation and low-yield plantation improvement. With its business expanding, the Group will also take proactive steps to examine the opportunities existed in the pulp production industry chain and commence its research and development programme on biomass energy. Besides, through large-scale forestation, the Group will also make contribution to environmental protection undertakings such as carbon mitigation. The Group will strive to strengthen its core competitiveness continuously so as to bring added-value to our shareholders.

REMARKABLE PERFORMANCE LEADING TO IMPRESSIVE RESULTS

For the Year Ended 31 March 2007, the Group recorded net profit attributable to shareholders of HK$1,319 million, equivalent to earnings per share of HK28.82 cents. Excluding the gains from an increase in the fair value of biological assets, net profit attributable to shareholders amounted to HK$298 million.

The growth of profit from core operating activities was mainly attributed to an increase in the sales volume and the sustained high unit selling price of timber. During the year, as the macro-economic environment was healthy and the demand for timber was robust, the imbalances arising from scant supply of and excess demand for timber remained, leading to the soar of timber prices, which enabled the Group to achieve good financial results.

As the Group is experiencing rapid growth and is proactively exploring suitable opportunities to acquire forest resources, the Board has recommended not to pay dividends for the year.

PRINCIPAL BUSINESSES AND INCOME STREAMS OF THE GROUP

Through accelerating the acquisition of forest resources, saplings growing, construction of fast-growing and high-yield plantation and low-yield plantation improvement, the Group achieved the objectives of enhancing integrated benefits of forest resources and maintaining sustainable development and utilisation of forest resources.

(i) Accelerating the acquisition of forest resources

The Group strived to increase its forest resources and forest lands in the PRC through acquisitions. As at 30 June 2006, the Group possessed forest lands and forests with a total area of approximately 380,000 Chinese Mu only. Significant development has been achieved by the Group since then. As at 31 March 2007, the Group possessed forest lands and forests of over 1,000,000 Chinese Mu. The Group also entered into letters of intent and cooperative agreements with third parties in respect of the lands the total area of which was over 10,000,000 Chinese Mu. Those lands are located in Shanxi, Hunan, Chongqing, Sichuan, Guangxi, Fujian and Hubei. As at 30 June 2007, the Group possessed forest lands and forest resources, the total area of which was over 1,700,000 Chinese Mu. According to the Group's acquisition plans as well as the letters of intent and cooperative agreements signed by it with third parties, it is expected that forest resources and forest lands in the PRC under the Group's possession will be increased significantly in the coming year (i.e. the year ending 31 March 2008).

During the Year Ended 31 March 2007, the Group completed several overseas field trips to identify appropriate acquisition or cooperation opportunities. It is expected that major breakthroughs could be achieved within the coming year, and the Group's forest resources and forest lands reserves would then be expanded considerably and the value of its biological assets would also be enhanced.

(ii) Saplings growing

The Group placed great importance on saplings growing. During the year, the Group established forest nursery centers in Beijing, Shanxi, Hebei, Hubei, Hunan and Chongqing for the cultivation of saplings of modified tree specie Broussonetia Papyriferalvent developed by the Group. As at 31 March 2007, the Group had planted over 100 million of the saplings of modified tree specie Broussonetia Papyriferalvent and transported those saplings to the Group's forest lands for progressive plantation. Forest nursery centers were used as our employee training centers, through which our employees acquired knowledge in the area of the biological characteristics and cultivation method of modified tree specie Broussonetia Papyriferalvent, thus providing the Group with talents for its continuous development in future.

(iii) Pulp business

China is one of the world's largest importers of pulp. Its pulp market shows enormous potential. In order to meet market demand, the Group is actively perusing the distribution chain of the pulp industry (i.e. the production and processing of pulp) and the use of brush to produce raw pulp. The prospects of the pulp business are brightening and it is expected to be one of the Group's principal businesses and income streams in three years.

(iv) Construction of fast-growing and high-yield plantation and low-yield plantation improvement

The development of forestry industry should contribute to the eco-construction and supply of timber products. The modified tree specie Broussonetia Papyriferalvent, which was developed by the Group, possesses strong sprouting ability. An one-time plantation of Broussonetia Papyriferalvent can offer consecutive annual loggings for 8 to 10 years. This tree specie is fast-growing, possesses robust production ability and is environmentally-friendly. All these attributes helped promote the Group's construction of fast-growing and high-yield plantation and improved its low-yield plantation. The plantation of modified tree specie Broussonetia Papyriferalvent not only boosted the Group's forest resources effectively, but also provided high-end raw materials for the Group's pulp production, thus enabling the Group to achieve the integration of its forestry and pulp production businesses. As at 31 March 2007, the Group had planted over 91 million of the modified tree specie Broussonetia Papyriferalvent in Shandong, Hebei, Beijing, Hunan, Chongqing, Sichuan and Shanxi. The development of seedlings growing was satisfactory, with plantable area expanding considerably. These achievements, in turn, offer promising prospects for the Broussonetia Papyriferalvent plantation project of the Group. Fast-growing and high-yield plantation can fully utilise land resources and maximise economic benefits. The operation related to the Company's flagship tree specie Broussonetia Papyriferalvent will become one of the Group's principal businesses and income streams.

(v) Logging

Timber supply in the PRC always fails to satisfy the country's huge demand. After the Group's construction of fast-growing and high-yield plantations and its implementation of the low-yield plantation improvement plans in respect of its forest farms, the Group conducted its logging operation according to the PRC laws and regulations and increased its timber supply to cope with market demand. Logging will still be one of the Group's principal businesses and income streams.

(vi) Carbon mitigation

Climatic deterioration is a burning issue for the global village in the 21st century. Facing the intensifying greenhouse effect, the Group will step up its forestation efforts resolutely and improve our environment, thus generating income from its carbon mitigation project.

(vii) Biomass energy

In the coming year, the Group will start the research and development of biomass energy project. It is expected that this new project will become a driver to our revenue growth. Apart from that, the project could convert forest resources into biomass energy and achieve biodiversity in forest land plantations. Meanwhile, the promotion of renewable biomass energy not only supports carbon mitigation, it could also counter rock-desertification by bringing in pioneer tree species. This new initiative is expected to be an innovative principal business of and provide continuous positive growth momentum to the Group.

OUTLOOK

To promote the quality pulp from our fast-growing plantation for industrial use and as our major brand, the plantation and marketing of tree specie Broussonetia Papyriferalvent will become one of the Group's principal businesses and income streams.

As a supplier of raw materials for wood products and pulp, we will capture the opportunities arising from the imbalance between the scant supply of and strong demand for the products to deliver stellar performance.

The Group will restructure resources and focus on the development of forests and forest lands resources. The Group will also speed up its development of renewable, substainable and energy saving carbon mitigation projects for the pursuit of an environmentally friendly and pleasant ecological environment, so as to increase shareholders' return.

APPRECIATION

On behalf of the board, I would like to express our gratitude to the shareholders, customers, suppliers and professional advisors for their support over the past year, and to sincerely thank our management and staff for their dedication and diligence.

Ng Leung Ho
Chairman

Hong Kong, 10 July 2007

HIGHLIGHTS

For the Year Ended 31 March 2007, the Group recorded a turnover of approximately HK$829 million, representing an increase of 130% compared with the Year Ended 30 June 2006. The Group's gross profit and profit attributable to shareholders were approximately HK$530 million and HK$1,319 million respectively, and its earnings per share for the year was HK28.82 cents, representing an increase of 173%, 1,486% and 960% respectively compared with the Year Ended 30 June 2006. The Group's profit attributable to shareholders excluding the revaluation gain of biological assets was approximately HK$298 million.

During the year, the Group actively pursued the opportunities of acquiring forest lands, and the lands so acquired, coupled with forest lands previously acquired was over 1,000,000 Chinese Mu as at 31 March 2007. In addition, the turnover and profit derived from the ecological forestry business was consolidated into the Group accounts for the whole year. The increase in turnover and profit of the Group was mainly attributable to its ecological forestry business. For the year, the Group's ecological forestry business and garment business accounted for approximately 88% and 12%, respectively, of the Group's total turnover.

In arriving at the Group's net profit, sharing in losses of its joint-venture investment in Nano-technologies in the amount of HK$3.7 million (in the Year Ended 30 June 2006, the Group recorded a profit in the amount of HK$1.6 million for this investment) has been included.

DIVIDEND

The Board has resolved not to recommend any dividend for the Year Ended 31 March 2007.

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"). During the year, the Group's share in the net profit of Beijing WFC which was attributable to the Company's shareholders amounted to approximately HK$1,351,416,000. The turnovers from the sale of timber and sale of paper mulberry saplings during the year were approximately HK$587,947,000 and HK$145,179,000 respectively.

Sales of timber

During the year, the profit margin from the sale of timber was improved owing to an increase in the average selling price of the timber and the effective cost control by the Group as a result of the improvement in its management. The timber sold during the year mainly came from Miaowan Forest Farm, Baiyunshan Forest Farm, Shizhu Forest Farm, Leimaping Forest Farm, Ruicheng Forest Farm and Shanxi Xiyang County Dongfeng Forest Farm.

Plantation of modified tree specie Broussonetia Papyriferalvent

During the year, Beijing WFC planted the modified tree specie Broussonetia Papyriferalvent in various saplings centre and forest lands. Based on a survey performed by a professional institution, as at 31 March 2007, Beijing WFC had planted over 91 million of the modified tree specie Broussonetia Papyriferalvent. As the growth of the Broussonetia Papyriferalvent continued and has not reached their golden stage for harvest, no felling of this modified tree specie nor sale of the collectible timber was made during the year. It was estimated that the aggregate volume of bark and trunk of the living modified tree specie Broussonetia Papyriferalvent of different maturities planted by Beijing WFC were approximately 10,497 net tons and 85,384 net tons respectively.

Forest land resources

During the year, the Group actively pursued the opportunity of acquiring forest lands. As at 31 March 2007, the long lease-term forest lands so acquired, coupled with the forest lands previously acquired by the Group was over 1,000,000 Chinese Mu.

The lease periods of the forest lands range from 20 years to 70 years. The Group had received the forest ownership certificates or other title documents in respect of an area of 273,191 Chinese Mu of the lands as at 31 March 2007. Application for the forest ownership certificates in respect of the remaining forest lands has been made.

Value of biological assets

Biological assets of the Group include paper mulberry saplings, paper mulberry trees and other trees. The values of such assets amounted to approximately HK$21,781,000, HK$279,860,000 and HK$1,296,492,000 respectively as at 31 March 2007. The increase in the fair value of biological assets for the year was approximately HK$1,117,515,000.

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 of the Group. During the year, the turnover of the Group generated from its garment business amounted to HK$95,792,000.

Investment in nano-technology business

The Group's share of losses of jointly-controlled entities amounted to HK$1,358,000, representing its share of operational losses in the amount of HK$3,684,000 suffered from its 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, together with its share of gain derived from the disposal of Beijing Zhongke Health Medical Products Co., Ltd. in the amount of HK$2,326,000.

OPERATING RESULTS REVIEW

Turnover

During the Year Ended 31 March 2007, the Group captured various business opportunities and recorded a turnover of HK$828,918,000, representing an increase of 130% over the Year Ended 30 June 2006.

The table below sets out the sales of products by the Group for the Year Ended 31 March 2007:

Product	Unit Price *(HK$)*	Volume *(cubic meters)*	Amount *(HK$'000)*
Ecological forestry business			
Sales of timber			
Mixed hard wood	8,193.64	33,768	276,683
Other wood	2,261.68	137,625	311,264
			587,947
Sales of Saplings			145,179
			733,126
Garment business			95,792
Total			**828,918**

An analysis of gross profit and gross profit margin

Cost of sales mainly included cost incurred in logging timber, raw materials consumption, direct labour costs, road repairs and maintenance and miscellaneous direct charges. The Group's increase in cost for the year was mainly a result of the consolidation of the expenses incurred in respect of the Group's ecological forestry business for the full period.

The table below sets out details of the gross profit and gross profit margin for the Year Ended 31 March 2007:

	Gross Profit	Gross Profit Margin
	HK$'000	*%*
Ecological forestry business		
Sales of timber	410,065	69.7
Sales of Saplings	114,501	78.9
	524,566	71.6
Garment business	5,769	6.0
Total	530,335	64.0

The Group's aggregate gross profit margin increased from 53.8% to 64.0% in the Year Ended 31 March 2007, which was mainly attributed to an increase in the gross profit and gross profit margin of the ecological forestry business of the Group.

Selling and distribution cost

During the Year Ended 31 March 2007, the Group's selling and distribution costs increased by 243% to HK$88,666,000, which was mainly resulted from an increase in transportation costs due to an increase in the sales volume of timber.

Administration expenses

The Group's administration expenses in the year amounted to HK$52,908,000, representing an increase of 231% compared with the Year Ended 30 June 2006. Such increase was brought by the expansion of ecological forestry business which caused a substantial increase in management expenses.

Other operating expenses

The Group's other operating expenses for the year in the amount of approximately HK$62,861,000 included patent amortisation, amortisation of paper mulberry saplings and expenses of share option scheme of approximately HK$18,865,000, HK$22,146,000 and HK$21,850,000 respectively.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 March 2007, the Group's cash and bank balances, which were principally Renminbi and Hong Kong dollar denominated, totally amounted to approximately HK$624,309,000. The Group was not exposed to any substantial risk in foreign exchange fluctuations. In general, the Group mainly used its Renminbi income receipt for operating expenses in China and did not use any financial instruments for hedging purpose.

The table below summarises the cash flow information for the Year Ended 31 March 2007:

	HK$'000
Net cash inflow from operating activities	516,783
Net cash (outflow) from investing activities	(509,899)
Net cash inflow from financing activities	321,102
Net increase in cash and cash equivalents	327,986
Cash and cash equivalents at beginning of year	273,400
Effect of foreign exchange rate changes	11,658
Cash and cash equivalents at end of year	613,044

As at 31 March 2007, the Group's total borrowings (excluding convertible notes liabilities) amounted to approximately HK$98,969,000, which represented the amortised value of non-interest bearing promissory notes payable. The promissory notes had an aggregate nominal value of HK$100,000,000. The promissory notes were repayable by two instalments each of HK$50,000,000 which fell due on 1 April 2007 and 1 July 2007 respectively.

The Group's currently available liquidity resources are sufficient to repay its promissory notes and to meet its capital commitments. The Group generally finances its operation using internally generated resources. As at 31 March 2007, the Group's net current assets amounted to approximately HK$351,982,000. The Group's current ratio, being the percentage of its current assets in its current liabilities, amounted to 1.67 times.

The Group has obtained bank credit facilities which are secured by certain pledged bank deposits of the Group and corporate guarantees provided by the Company. During the year, these bank credit facilities were utilised in trade credit financing.

As at 31 March 2007, the share capital of the Company was consisted of 5,062,807,600 ordinary shares of HK$0.10 each. Apart from the ordinary shares in issue, the Company issued convertible notes as alternative financing instruments.

During the year, a total of 18,000,000 new shares were issued as a result of the exercise of options to subscribe for new shares in the Company.

During the year, a total of 400,000,000 new shares were issued under a top-up placing and subscription arrangement.

During the year, the Company's convertible notes with principal denominated value of HK$91,800,000 were converted into 765,000,000 ordinary shares in the Company.

As at 31 March 2007, the Group's gearing ratio, measured on the basis of total borrowings (including convertible notes) as a percentage of total shareholders' fund, was approximately 7%. (30 June 2006: 61%)

MATERIAL ACQUISITION

Pursuant to a resolution passed by the Company's shareholders on 17 January 2007 approving an agreement for the acquisition of an additional 30% equity interest in Beijing WFC, Beijing WFC became a wholly owned subsidiary of the Company.

EVENTS AFTER THE BALANCE SHEET DATE

On 25 May 2007, Ms. Cao Chuan was appointed as an executive director, chief executive officer and deputy chairman of the Company.

On 30 April 2007 and 2 May 2007, by virtue of exercise of the rights granted by the Company's shareholders to the directors under general mandate, the Company repurchased on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in aggregate 7,000,000 of its ordinary shares of HK$0.10 each at a total consideration before expenses of approximately HK$5,930,000. The subject shares were cancelled after repurchases and the issued share capital of the Company was reduced by the nominal value thereof.

Pursuant to a resolution passed by the Company's shareholders on 7 May 2007, the Company increased its authorised share capital from HK$650,000,000 divided into 6,500,000,000 shares of HK$0.10 each to HK$2,000,000,000 divided into 20,000,000,000 shares of HK$0.10 each by the creation of an additional 13,500,000,000 unissued shares of HK$0.10 each.

On 5 June 2007, 11 June 2007 and 12 June 2007, the Company's wholly owned subsidiary, Beijing WFC, entered into agreements to acquire certain leasehold forest lands in the PRC. Further details are set out in the Company's press announcements of 5 June 2007, 11 June 2007 and 12 June 2007.

CHARGE ON THE GROUP'S ASSETS

As at 31 March 2007, the Group's available banking facilities were secured by pledged bank deposits of the Group in the amount of HK$11,265,000 and corporate guarantees provided by the Company.

CONTINGENT LIABILITIES

As at 31 March 2007, the Group did not have contingent liabilities of material amounts.

CAPITAL COMMITMENTS

As at 31 March 2007, the capital commitment in respect of acquisition of leasehold forest lands which had been made but which had not been provided for by the Group was approximately HK$144,548,000.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATE

The majority of the Group's transactions and borrowings are denominated in Hong Kong dollars and Renminbi. Therefore, the Group's exposure to exchange rate fluctuation is relatively insignificant. In general, the Group mainly uses its Renminbi income receipt for operating expenditures in China and does not use any financial instruments for hedging purpose.

EMPLOYEES

As at 31 March 2007, the Group employed a total of approximately 645 employees of which 19 staff was employed in Hong Kong. In addition to the competitive package offered to the employees, other benefits provided to eligible candidates include contributions to mandatory provident fund as well as group medical and accident insurance. 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.

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which became effective for the Group commencing financial year 2005 (being the period from 1 July 2005 to 30 June 2006).

In the opinion of the directors, the Company substantially complied with the provisions of the Code throughout the Year Ended 31 March 2007. The principal corporate governance principles and practices of the Company are summarised as follows:

RESPONSIBILITIES OF THE BOARD

The Board's primary responsibilities include the formulation of long-term corporate strategy, policy decisions and overseeing the management of the Group's operations. In addition, the Board evaluates the performance of the Group and assesses the achievement of targets periodically set by the Board. In carrying out its duties and projects, the Board delegates certain specific considerations to designated board committees and management task forces. The daily management, administration and operations of the Company are delegated to the Chief Executive Officer, Executive Directors and senior management with divisional heads responsible for different aspects of the business. The delegated functions and work tasks are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

All directors have full and timely access to all relevant information in discharging their duties, and in appropriate circumstances are normally granted right to seek independent professional advice at the Company's expense.

COMPOSITION OF THE BOARD

The composition of the Board reflects the necessary balance of skills and experience necessary for effective leadership and independence in decision making. As at the date of this report, the Board comprises eight directors, whose biographical details are set out in the "Biographical Details of the Directors of the Company and Senior Management of the Group." on page 25 to 27 of the Report of the Directors. Five of the directors are executive, namely, Mr. Ng Leung Ho, Ms. Cao Chuan, Ms. Lee Ming Hin, Mr. Hu Xiaoming and Mr. Ge Wen Hong and three directors are independent non-executive directors, Mr. Zou Zi Ping, Mr. Lo Cheung Kin and Mr. Zhu Jian Hong.

The Company has complied with Rules 3.10(1) and 3.12(2) of the Listing Rules relating to the appointment of a sufficient number of independent non-executive directors and at least one of the independent non-executive directors have appropriate professional qualifications or accounting or related financial management expertise throughout the Year Ended 31 March 2007.

The Company has received confirmations from all independent non-executive directors that they did not have any business or financial interest with the Group and were independent as at 31 March 2007 in accordance with Rule 3.13 of the Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officer are segregated and not exercised by the same individual. The Board appointed Mr. Ng Leung Ho as Chairman of the Company and Ms. Lee Ming Hin as Chief Executive Officer of the Company during the Year Ended 31 March 2007 (Ms. Lee Ming Hin's role as the Chief Executive Officer of the Company was assumed by Ms. Cao Chuan after the end of the Year Ended 31 March 2007, who was appointed as the Chief Executive Officer on 25 May 2007). The Chairman is responsible for the corporate strategic planning and formulation of corporate policies for the Group, while the Chief Executive Officer is responsible for overseeing day-to-day management of the Group's business. The Board is of the opinion that the segregation of the two roles enhances the balance of power within the Company's corporate governance structure.

APPOINTMENT AND SUCCESSION PLANNING OF DIRECTORS

The Board as a whole is responsible for reviewing its composition, developing and formulating the relevant procedures for the nomination and appointment of Directors; and monitoring their succession. The Board's established policies include procedures for the appointment of directors nominated by the Company's shareholders. The existing Bye-laws of the Company empower the Board to appoint any person as Director either as an additional member or to fill a casual vacancy.

The term of office for each of the Executive Director is governed by service contract provisions. The Company's independent non-executive directors were not appointed for specific terms as required by code provision A.4.1 but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Bye-laws of the Company. Commencing on 25 October 2005, to comply with the Code provisions, revisions have been made to appoint the independent non-executive directors on the basis of specific terms of three years.

The existing Bye-laws of the Company provide that at each annual general meeting one-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. A retiring Director shall be eligible for re-election. The Company at the general meeting at which a Director retire may fill the vacated office. In addition, all directors appointed to fill a casual vacancy or as an additional director shall retire in the next annual general meeting but eligible for re-election.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 of the Listing Rules in respect of securities dealing by directors. The Company has made specific enquiry to all directors of the Company in respect of securities dealing by the Directors that they have fully complied with the required standard set out in the Model Code throughout the Year Ended 31 March 2007.

REMUNERATION OF DIRECTORS

On 15 April 2005, the Company established a Remuneration Committee with terms of reference in accordance with the Code. The Remuneration Committee comprises the three independent non-executive directors of the Company. The principal responsibilities of the remuneration committee include making recommendation on the policy and structure for the remuneration of directors and senior management of the Company, the establishment of a formal and transparent procedure for developing such policy, and the review of specific remuneration packages of all executive directors and senior management of the Company by reference to corporate goals and objective resolved by the Board from time to time.

The principal elements of the executive directors' remuneration package include basic salary, benefit in kind, discretionary bonus, retirement benefits and participation in the share option scheme adopted by the shareholders of the Company in November 2001. The remuneration packages of the executive directors will be proposed by Chairman of the Group annually for the review and approval of the remuneration committee based on the following factors:

a) the executive director's responsibilities and contribution;

b) the executive director's individual performance;

c) performance of the business unit(s) headed by the executive director; and

d) performance of the Group as a whole.

The non-executive director and independent non-executive directors' remuneration includes directors fee and participation in the share option scheme, and subject to annual assessment and recommendation by the remuneration committee. The Board's authority to fix directors' remuneration was granted by the Company's shareholders at the Annual General Meeting.

The Remuneration Committee met once during the Year Ended 31 March 2007 and reviewed the existing remuneration policy and structure of the Company and remuneration packages of the Directors and senior management. Attendance of each member at the remuneration committee meeting is set out in the table under section "Meeting Attendance" of this report.

AUDIT COMMITTEE

The Company has established an Audit Committee, the terms of which are consistent with the provisions set out in the relevant section of the Code. The Audit Committee of the Company presently comprises the three independent non-executive directors, one of whom processes the appropriate professional qualification or accounting or related financial management expertise. None of the members of the audit committee is a former partner of the Company's existing external auditors. The primary responsibilities of the Audit Committee include the followings:

a) To review the Company's financial information including annual report and half-yearly report and the appropriateness of any significant financial reporting judgments contained therein;

b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors; and

c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Company's results for the Year Ended 31 March 2007 and interim results for the six months ended 31 December 2006 have been reviewed by the Audit Committee.

At the Company' annual general meeting held on 2 December 2005, the Company's shareholders had not passed the resolution regarding the re-appointment of RSM Nelson Wheeler as auditors of the Company. In subsequent special general meeting held at 17 March 2006, a resolution was passed to appoint Johnny Chan & Co. Limited as auditors of the Company to fill the causal vacancy arising. On 31 October 2006, the Company received a letter of resignation from Johnny Chan & Co. Limited on ground of cessation of business. A resolution was passed by the Company's shareholders in the special general meeting held on 26 January 2007 to appoint Horwath Hong Kong CPA Limited as auditors of the Company to fill the casual vacancy arising. The Audit Committee has not taken a different view from the Board regarding the selection, appointment, resignation or dismissal of external auditors.

During the Year Ended 31 March 2007, two meetings have been held by the Audit Committee. Attendance of each member at the Audit Committee meeting is set out in the table under section "Meeting Attendance" of this report.

MEETING ATTENDANCE

During the Year Ended 31 March 2007, fourteen board meeting had been held for reviewing business performance, and considering and approving the overall strategies and policies of the Company. Attendance of each member, on a named basis, during the Year Ended 31 March 2007 is set out in the table below.

	Board Meetings	Remuneration Committee Meetings	Audit Committee Meetings
Mr. Ng Leung Ho	13/14	N/A	N/A
Ms. Cao Chuan	0/14*	N/A	N/A
Ms. Lee Ming Hin	14/14	N/A	N/A
Mr. Hu Xiaoming	3/14	N/A	N/A
Mr. Ge Wen Hong	4/14	N/A	N/A
Mr. Lo Cheung Kin	3/14	1/1	2/2
Mr. Zou Zi Ping	3/14	1/1	2/2
Mr. Zhu Jian Hong	2/14	1/1	1/2

* Ms. Cao Chuan was appointed a director on 25 May 2007 and therefore no meeting was attended by her during the Year Ended 31 March 2007.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORTING

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other financial disclosures required under the Listing Rules and other regulatory requirements.

The Directors acknowledged that they are responsible for the preparation of the financial statements of the Group. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

The Statement of the external auditors of the Company about their responsibilities on the financial statements is set out in the Independent Auditor's Report on page 35.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

AUDITOR'S REMUNERATION

The remuneration in respect of audit and non-audit services provided by the external auditors for the Year Ended 31 March 2007 are HK$820,000 and HK$250,000 respectively.

INTERNAL CONTROL

The Board acknowledged that they are responsible for maintaining effective internal control system of the Group. Notwithstanding the Audit Committee reviews financial results and the overall internal control environment periodically, the directors design well defined management structure with limit of authority and segregation of duties, and ensure the whole operation system is in compliance with the relevant regulation and legislation. The directors regularly review the management and financial reports, and ensure that the Company maintains a healthy financial position all the time.

During the Year Ended 31 March 2007, the Board conducted a review on the effectiveness of the Group's material internal controls, covering financial, operational, compliance and risk management functions. Based on the review undertaken, the Board is of the view that present internal control system of the Group is considered adequate. However, the Board shall remain open to suggestion for further improvement, including recommendation from the external auditors of any potential areas for improvement noted during the audit process.

COMMUNICATION WITH SHAREHOLDERS

The Company recognises the importance of the communication with shareholders. In order to maintain and further enhance the investors' relationship with the Company's shareholders, the Company established various channels of communication with its shareholders:–

1) The annual general meeting provides a platform for shareholders to exchange views with the Board. The members of the Board and external auditors will attend the meeting. The Group encourages all shareholders to attend and raise any comment on performance of the Group. The Board is welcome to exchange views with the shareholders at the meeting.

2) The Company has regularly met with financial analysts, fund managers and potential investors during Year Ended 31 March 2007, in order to enhance the understanding the Group's operations and developments.

3) Information relating to the Company's financial information is provided through publication of annual reports, announcements, circulars and press release.

4) The Company will soon establish a corporate website which provides regularly updated Company financial information and other corporate information.

Separate resolutions are proposed at shareholders' meeting on each substantial issue, including the election of individual director. The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-laws. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and are explained at the beginning of the proceedings of meeting. Poll results will be published on the business day following the shareholders' meeting and posted on the websites of the Stock Exchange and at www.capitalfp.com.hk/eng/index.jsp?co=910.

The directors of the Company herein present their report and the audited financial statements of the Company and the Group for the Year Ended 31 March 2007.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at a special general meeting held on 16 November 2006 and the approval by the Registrar of Companies in Bermuda, the name of the Company has been changed from "Good Fellow Group Limited" to "China Grand Forestry Resources Group Limited" with effect from 16 November 2006.

The Company has also adopted the new Chinese name "中國林大資源集團有限公司" in place of the previous Chinese name "金威集團控股有限公司" for identification purpose only.

CHANGE OF FINANCIAL YEAR END

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 21 to the financial statements.

During the year, there were no significant changes in the nature of the Group's principal activities.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 4 September 2007 to 7 September 2007, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the attendance at the annual general meeting of the Company to be held on 7 September 2007, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00p.m. on 3 September 2007.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and results by principal activity and geographical location of markets for the Year Ended 31 March 2007 is set out in note 7 to the financial statements.

RESULTS AND APPROPRIATION

The results of the Group for the Year Ended 31 March 2007 are set out in the consolidated income statement on page 37.

The Board has resolved not to recommend any dividend for the Year Ended 31 March 2007.

SUMMARY OF FINANCIAL INFORMATION

A summary of the consolidated results and of the assets, liabilities and minority interests of the Group for the last five financial years is set out below. The amounts for the Year Ended 31 March 2007 are those set out in the accompanying financial statements on pages 37 to 39. The amounts for the Year Ended 30 June 2006 and before are extracted from previously published audited financial statements of the Company as appropriate.

RESULTS

	Year Ended 31 March		Year ended 30 June		
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER	**828,918**	360,770	138,262	189,026	208,770
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS	**1,319,310**	83,208	(150,189)	29,614	40,160

ASSETS, LIABILITIES AND MINORITY INTERESTS

	At 31 March		At 30 June		
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS	**2,449,540**	955,546	98,935	242,449	181,315
CURRENT ASSETS	**876,864**	562,395	360,612	273,401	298,277
TOTAL ASSETS	**3,326,404**	1,517,941	459,547	515,850	479,592
CURRENT LIABILITIES	**524,882**	323,000	16,264	16,686	19,516
NON-CURRENT LIABILITIES	**210,934**	260,004	691	2,942	3,470
TOTAL LIABILITIES	**735,816**	583,004	16,955	19,628	22,986
MINORITY INTERESTS	**–**	236,818	–	–	20,924
NET ASSETS	**2,590,588**	698,119	442,592	496,222	435,682

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group are set out in notes 16 and 19 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital during the Year Ended 31 March 2007 and subsequent thereto are set out in notes 30 and 44 to the financial statements, respectively.

Details of movements in the Company's share options during the Year Ended 31 March 2007 are set out in note 31 to the financial statements.

PROMISSORY NOTES

Particulars of the Company's promissory notes as at 31 March 2007 are set out in note 33 to the financial statements.

CONVERTIBLE NOTES

Details of movements in the Company's convertible notes during the Year Ended 31 March 2007 are set out in note 34 to the financial statements.

PRE-EMPTIVE RIGHTS

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

APPLICATION OF SHARE ISSUE PROCEEDS

During the Year Ended 31 March 2007 under review, by virtue of the exercise of options to subscribe for new ordinary shares in the Company, the Company has issued and allotted 18,000,000 new ordinary shares in the Company at a share issue price of HK$0.24. The net price to the Company of each new share issued approximates the respective share issue price. The aggregate net share issue proceeds amounts to approximately HK$4,320,000 and has substantially been retained as general working capital of the Company as at 31 March 2007.

On 30 January 2007, the Company raised share issue proceeds, net of related expenses, of approximately HK$448,000,000 from a top-up placing and subscription arrangement whereby an aggregate of 400,000,000 new ordinary shares in the Company were issued and allotted at a price of HK$1.15 per share to Golden Prince Group Limited, a company incorporated in the British Virgin Islands. Mr. Ng Leung Ho, chairman and executive director of the Company, owned the entire issued share capital of Golden Prince Group Limited. Both of Mr. Ng Leung Ho and Golden Prince Group Limited are substantial shareholders of the Company. Up to Year Ended 31 March 2007, HK$30,000,000 of the share issue proceeds raised have been used to pay for partial consideration of 30% acquisition in Beijing WFC. The remaining net share issue proceeds not utilised of approximately HK$418,000,000 has been retained as general working capital of the Company and will be used in further expansion of the its forestry business thereby improving its production facilities when suitable investment opportunities arise.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

On 30 April 2007 and 2 May 2007, by virtue of exercise of the rights granted by the Company's shareholders to the directors under general mandate, the Company repurchased on The Stock Exchange of Hong Kong Limited in aggregate 7,000,000 of its ordinary shares of HK$0.10 each at a total consideration before expenses of approximately HK$5,930,000. The subject shares were cancelled after repurchases and the issued share capital of the Company was reduced by the nominal value thereof.

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements and the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 March 2007, the Company has no reserves available for cash distribution and/or distribution in specie as computed in accordance with the Companies Act 1981 of Bermuda. In addition, under the laws of Bermuda, the Company's share premium account, with a balance of approximately HK$540,696,000 as at 31 March 2007, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the sales to the Group's five largest customers accounted for approximately 81.4% of the total sales for the year and the sales to the largest customer included therein amounted to 32.7%.

Purchases from the Group's five largest suppliers accounted for approximately 37.7% of the total purchases for the year and the purchase from the largest supplier included therein amounted to 9.6%.

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

DIRECTORS

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

Executive directors

Mr. Ng Leung Ho	
Ms. Cao Chuan	(appointed on 25 May 2007)
Ms. Lee Ming Hin	
Mr. Wang Weining	(resigned on 28 November 2006)
Mr. Hu Xiaoming	
Mr. Ge Wen Hong	

Non-executive directors

Mr. Ng Leung Tung	(resigned on 28 November 2006)

Independent non-executive directors

Mr. Lo Cheung Kin
Mr. Zou Zi Ping
Mr. Zhu Jian Hong

In accordance with the Bye-laws 111(A) and 111(B) of the Company, Mr. Ng Leung Ho, Ms. Lee Ming Hin and Mr. Zhu Jian Hong shall retire from office by rotation at the forthcoming annual general meeting. Among the retiring directors, Mr. Ng Leung Ho and Ms. Lee Ming Hin, being eligible, offer themselves for re-election at the forthcoming annual general meeting. Pursuant to Bye-law 115 of the Company, Ms. Cao Chuan, being a newly appointed director, shall retire from office at the forthcoming annual general meeting and being eligible, offers herself for re-election at the annual general meeting.

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

Executive directors

Mr. Ng Leung Ho, aged 59, is the Chairman and the founder of the Group. Mr. Ng held directorship in various subsidiaries of the Company. He is also the chairman of Zhongke Nanotech Engineering Center Co., Ltd., the jointly controlled entity of the Company engaged in the business of Nano technology applications. Mr. Ng has more than 35 years of experience in the design, manufacture, and trading of men's suits in Hong Kong and the People's Republic of China (the "PRC"). Mr. Ng is currently a JP and a member of the Chinese People's Political Consultative Conference and is a visiting professor at the Fujian Teachers University. Mr. Ng is responsible for the corporate strategic planning and formulation of corporate policies for the Group. In addition, Mr. Ng oversee the Group's product development and industrialisation efforts in various areas of Nano technology, made possible through the application of research results obtained by of Zhongke Nanotech Engineering Center Co., Ltd.

Ms. Cao Chuan, aged 49, BEng, Doctoral Degree in Biology, deputy editor. She is an executive director of the Company. She also serves as the deputy chairman and the chief executive officer of the Company. She is currently a postgraduate instructor for the biology-botany joint research project of Chinese Science Academy. She has accumulated more than 20 years of working experience in the field of scientific research, and was a freelance copywriter and a chief editor of a scientific journal. Various patents have been granted for her invention. She has been involved in the Sino-US scientific cultural exchange in the United State of America. She was also the chairperson of Beijing Senwang Technology Company Limited, a major supported entity located in the Beijing Zhongguancun scientific industrialisation plant and engaged in the field of genetic transcription for plants. She is well-acquainted with the operation, market development and financial management of Chinese forestry enterprise. She has comprehensive knowledge in plant fostering and the coordination and management of scientific experimental project, and also has an agile sense on the induction of new specie and purification. Ms. Cao is the general manager of Beijing WFC, a subsidiary of the Company engaged in the business in tree plantation and management, manufacture and distribution of forestry products. On 25 May 2007 Ms. Cao was appointed the chief executive officer and deputy chairman of the Company.

Ms. Lee Ming Hin, aged 52, is an executive director of the Company. Ms. Lee has served the Group for more than 16 years and is the director of various subsidiaries of the Company. Prior to joining the Group, Ms. Lee had more than 14 years of experience in raw material procurement, sales and marketing in the apparel industry. Ms. Lee currently oversees the general administration, finance, personnel functions and raw material procurement of the Group.

Mr. Hu Xiaoming, aged 42, is an executive director and joined the Group in 2004. He is responsible for overseeing the industrialisation of research results obtained from the Group's interest in Nano-technology research. Mr. Hu obtained his Doctorate degree in Polymer Chemistry and Physics from the Department of Organic Silane, Institute of Chemistry, Chinese Academy of Science and further his post-doctoral studies in Chemistry in Tsing Hua University. Mr. Hu is an associate researcher of the Institute of Chemistry, Chinese Academy of Science, and the deputy general manager in Zhongke Engineering Center Co., Ltd., a joint venture company established by a subsidiary of the Company and the Chinese Academy of Science.

Mr. Ge Wen Hong, aged 40, is an executive director of the Company. Mr. Ge obtained his Master of Business Administration degree from the Michigan State University and a Master in quantitative finance degree from the Illinois Institute of Technology in the USA. Mr. Ge also held directorship with certain investment companies of the Group and also Beijing WFC, being subsidiary of the Company engaged in the Group's newly diversified business in tree plantation and management, manufacture and distribution of forestry products. Prior to joining the Company, Mr. Ge has more than 15 years of experience in the field of financial investment and has worked as a senior quantitative investment analyst of the Chicago-based hedge fund Option Insight Trading Group and a senior credit analyst of the Bank of China.

Independent non-executive directors

Mr. Lo Cheung Kin, aged 59, graduated from the Fujian Teachers University in 1975. Mr. Lo is a director of the companies under the Victorfield Group in Hong Kong, a private investment group engaged in property development, management and investment, construction, trading and securities business in Hong Kong and the PRC. Mr. Lo has more than 26 years of experience in corporate management, the tourism and hospitality industry, and property investment, development and management in the PRC. Mr. Lo is also an executive director of Buildmore International Limited, a company listed on the Stock Exchange of Hong Kong Ltd.

Mr. Zou Zi Ping, aged 52, has extensive experience in the hotel industry in the PRC. He is currently the general manager of the Fuzhou Lakeside Hotel and the managing director of the Fuzhou Lakeside Hotel Management Company. Mr. Zou is also a visiting assistant professor of the Fujian Teachers University and Fujian Minjiang University.

Mr. Zhu Jian Hong, aged 41, is a member of the Chinese Institute of Certified Public Accountants. Mr. Zhu graduated from the Accountancy Department of the Shanghai University of Finance and Economics and has obtained over 17 years of experience in accountancy and financial management, including working as a lecturer of accountancy in Jimei Finance & Economics College in Xiamen Special Economics Zone and statutory auditor of the financial statements of a number of companies. Mr Zhu was also a member of the Finance Bureau of Xianyou County, Fujian Province, the People's Republic of China, where he held the responsibility of administering the accountancy and finance affairs at provisional levels.

Senior management

Mr. Pang Chun Kit, aged 34, chief financial officer of the Company, is responsible for financial management and investor relation affairs of the Company. Mr. Pang graduated from the Hong Kong Polytechnic University with a Bachelor degree in Accounting. He is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, having about ten year's experience in various kinds of auditing, financial and accounting work. Mr. Pang was the former chief financial officer of a Hong Kong listed company and the former manager of an international accounting firm.

Mr. Lau Che Yue, Stephen, aged 42, is the financial controller and the company secretary of the Company. Mr. Lau obtained his Master of Business (Information Technology) from RMIT University, Australia and Master of Business Administration from Heriot-Watt University, United Kingdom. He is a fellow of the Association of Chartered Certified Accountants and an associate of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, Mr. Lau has over 20 years of experience in auditing, accounting and finance.

Mr. Shen Shihua, aged 45, is the chief consultant scientist of Beijing WFC and chief researcher of Institute of Botany, the Chinese Academy of Sciences. Mr. Shen graduated from South-western University of Agriculture with a Bachelor's degree in Biology and obtained his Ph.D degree in Botany from the Institute of Botany, Chinese Academy of Sciences. During the period from 1996 to 1998, Mr. Shen did post-doctor research in Gene Experiment Center, University of Tsukuba, Japan. Mr. Shen is an internationally-recognised researcher in cloning of the genes encoding dehydration-responsive element binding protein (DREB) and their transformations in main crops, and application of bio-techniques in common paper mulberry (Broussonetia papyrifera) and physic nut (Jatropha curcas) studies. Mr. Shen has registered twenty genes, held three Chinese patents and published over thirty professional papers in Chinese and foreign professional periodicals.

Ms. Tang Mingjuan, aged 35, is the chief consultant engineer of Beijing WFC and assistant researcher of Institute of Botany, the Chinese Academy of Sciences. Ms. Tang graduated from Department of Forestry Protection, Southwest Forestry College with a Bachelor's degree in 1996 and Institute of Medicinal Plant Development, Chinese Academy of Medical Sciences with Ph.D in 2003. As a recognised researcher in cloning and transformation of stress related genes in main crops, Ms. Tang has registered eight genes, held two Chinese patents and published eight professional papers.

Mr. Hui Kin Chung, aged 40, is the factory manager of Good Fellow Garment (Fuijian) Co., Ltd. and oversees the Group's production process and quality control. Mr. Hui joined the Group in 1989 and has over 21 years of experience in the apparel manufacturing industry.

DIRECTORS' SERVICE CONTRACTS

Ms. Cao Chuan, being an executive director, has entered into service contract with the Company for a term of three years commencing on 25 May 2007 and terminable by not less than three months' notice in writing served by either party on the other.

Mr. Hu Xiaoming, being an executive director, has entered into service contract with the Company for a term of three years commencing on 19 July 2004 and terminable by not less than three months' notice in writing served by either party on the other.

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

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

In addition, all directors of the Company shall be subject to retirement by rotation in accordance with the Bye-laws of the Company. The term of office of each executive director may also be terminated with three months' notice served by either party on the other.

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

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

DIRECTORS' INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES OR SHORT POSITION IN SHARES AND UNDERLYING SHARES

At 31 March 2007, the interests or short positions of directors or chief executives of the Company or their respective associates in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO were as follows:

	Personal interests	Family interests	Corporate interests	Total interests	Total interests as % of the issued share capital	Interests in underlying shares (share options)	Total interests (including underlying shares) as % of issued share capital	*Note*
Mr. Ng Leung Ho	63,036,000	–	960,000,000	1,023,036,000	20.21%	10,000,000	20.40%	*1, 2*
Ms. Cao Chuan	–	–	–	–	0%	10,000,000	0.20%	*3*
Ms. Lee Ming Hin	–	–	–	–	0%	10,000,000	0.20%	*3*
Mr. Ge Wen Hong	–	–	–	–	0%	10,000,000	0.20%	*3*
Mr. Hu Xiaoming	–	–	–	–	0%	3,000,000	0.06%	*3*
Mr. Zou Zi Ping	–	–	–	–	0%	1,500,000	0.03%	*3*
Mr. Lo Cheung Kin	–	–	–	–	0%	1,500,000	0.03%	*3*
Mr. Zhu Jian Hong	–	–	–	–	0%	1,500,000	0.03%	*3*

Notes:

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

2. The interests in underlying shares attributed to Mr. Ng Leung Ho includes share options to subscribe for 10,000,000 new shares in the Company, exercisable at a price of HK$0.98 per share and granted pursuant to the Company's existing share option scheme, as adopted by the Company's shareholders in the Company's annual general meeting held on 23 November 2001.

3. The interests in underlying shares attributed to these directors represented share options to subscribe for new shares in the Company, exercisable at a price of HK$0.98 per share and granted pursuant to the Company's existing share option scheme, as adopted by the Company's shareholders in the Company's annual general meeting held on 23 November 2001.

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

At the annual general meeting of the Company held on 23 November 2001, the shareholders of the Company approved the adoption of a new share option scheme (the "New Scheme").

The New Scheme

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

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

2. The total number of shares available for issue upon exercise of all options to be granted under the New Scheme and other share option schemes of the Company must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the New Scheme and such limit may be refreshed by the shareholders of the Company in general meeting. The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company must not exceed 30% of the shares of the Company from time to time.

3. The total number of shares to be issued upon exercise of the options granted and to be granted to each eligible person (including both exercised and outstanding options) in any 12-month period up to and including the date of grant is limited to 1% of the shares of the Company in issue. Any further grant of options in excess of this limit is subject to separate shareholders' approval in a general meeting of the Company.

4. Any grant of share options to a director, chief executive or substantial shareholders of the Company or any of their associates are subject to approval in advance by the independent non-executive directors of the Company.

5. Any grant of share options to a substantial shareholder or an independent non-executive director of the Company, or any of their associates, which would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person within the 12-month period up to the date of grant of options representing in aggregate in excess of 0.1% of the shares of the Company in issue and having an aggregate value (based on closing price of the Company's shares at the date of the grant) in excess of HK$5 million, is subject to prior approval by shareholders in a general meeting.

6. Unless otherwise determined by the board of directors in its absolute discretion, there is no general requirement in respect of the minimum period for which an option must be held before it can be exercised.

7. The exercise period of the share options granted is determinable by the directors of the Company, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant of the share options or the expiry date of the New Scheme, if earlier.

8. The offer of a grant of option, if accepted, may be accepted within the date specified in the offer, upon payment of a nominal consideration of HK$1 in total by the grantee.

9. The exercise price of the share options is determinable by the directors of the Company, but may not be less than the higher of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company's shares.

10. The New Scheme will, unless otherwise cancelled or amended, remain in force for 10 years commencing from the date of adoption on 23 November 2001.

Particulars of options granted under the New Scheme during the Year Ended 31 March 2007 and remained outstanding up to 31 March 2007 are as follows:

	Number of shares under options						
	Beginning of year	Granted during the year	Exercised during the year	End of year	Subscription price per share	Date of grant of share options	Exercisable period
Directors							
Mr. Ng Leung Ho	–	10,000,000	–	10,000,000	HK$0.98	27 March 2007	1 April 2007 to 31 March 2017
Ms. Lee Ming Hin	–	10,000,000	–	10,000,000	HK$0.98	27 March 2007	1 April 2007 to 31 March 2017
Mr. Ge Wen Hong	–	10,000,000	–	10,000,000	HK$0.98	27 March 2007	1 April 2007 to 31 March 2017
Mr. Hu Xiaoming	–	3,000,000	–	3,000,000	HK$0.98	27 March 2007	1 April 2007 to 31 March 2017
Mr. Zou Zi Ping	–	1,500,000	–	1,500,000	HK$0.98	27 March 2007	1 April 2007 to 31 March 2017
Mr. Lo Cheung Kin	–	1,500,000	–	1,500,000	HK$0.98	27 March 2007	1 April 2007 to 31 March 2017
Mr. Zhu Jian Hong	–	1,500,000	–	1,500,000	HK$0.98	27 March 2007	1 April 2007 to 31 March 2017
	–	37,500,000	–	37,500,000			
Employees	18,000,000	–	(18,000,000)	–	HK$0.24	10 January 2005	10 January 2005 to 23 November 2011
	–	147,600,000	–	147,600,000	HK$0.98	27 March 2007	1 April 2007 to 31 March 2017
Total	18,000,000	185,100,000	(18,000,000)	185,100,000			

RETIREMENT BENEFITS SCHEME

Details of the Group's retirement benefit scheme in operation for the Year Ended 31 March 2007 are set out in note 3(t) to the financial statements.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the Company had been notified of the following substantial shareholder's interests or short positions, being 5% or more of the Company's issued share capital:

Name	Capacity	Number of shares	Percentage of holding
Mr. Ng Leung Ho	Beneficial owner	1,033,036,000 *(Note 1)*	20.40%
Golden Prince Group Limited	Beneficial owner	960,000,000 *(Note 2)*	18.96%
Atlantis Investment Management Ltd	Investment manager	285,500,000	5.64%
GE Asset Management Incorporate	Investment manager	253,694,000	5.01%

Notes:

1. The beneficial interests of Mr. Ng Leung Ho in 1,033,036,000 shares comprise corporate interest in 960,000,000 shares, held through Golden Prince Group Limited, and personal interest in 73,036,000 shares, comprising 63,036,000 shares and 10,000,000 underlying shares in respect of shares options granted by the Company to him.

2. The entire issued share capital in Golden Prince Group Limited is beneficially owned by Mr. Ng Leung Ho, whose interests in shares of the Company are disclosed in the section headed "Directors' and chief executive's interests in shares or short position in shares and underlying shares".

Save as disclosed above, at 31 March 2007, the register of substantial shareholders maintained under Section 336 of the Securities and Futures Ordinance shows that the Company had not been notified of any substantial shareholders' interest and short positions, being 5% or more of the Company's issued share capital.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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

CORPORATE GOVERNANCE

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

SUFFICIENCY OF PUBLIC FLOAT

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

INDEPENDENCE CONFIRMATION

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

AUDIT COMMITTEE

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

POST BALANCE SHEET EVENT

Details of the post balance sheet event of the Group are set out in note 44 to the financial statements.

AUDITOR

The Company's financial statements for the respective three financial years ended 30 June 2003, 2004 and 2005 were audited by RSM Nelson Wheeler. At the Company's annual general meeting held on 2 December 2005, the Company's shareholders had not passed the resolution regarding the re-appointment of RSM Nelson Wheeler as auditors of the Company. In a subsequent special general meeting held on 17 March 2006, a resolution was passed by the Company's shareholders to appoint Johnny Chan & Co. Limited as auditors of the Company to fill the causal vacancy arising. On 31 October 2006, the Company received a letter of resignation from Johnny Chan & Co. Limited on ground of cessation of business. A resolution was passed by the Company's shareholders in the special general meeting held on 26 January 2007 to appoint Horwath Hong Kong CPA Limited as auditor of the Company to fill the casual vacancy arising. Apart from the foregoing, there were no other changes to the auditors of the Company for the preceding three financial years.

The accompanying financial statements for the Year Ended 31 March 2007 were audited by Horwath Hong Kong CPA Limited, who shall retire. A resolution for the appointment of auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Ng Leung Ho
Chairman

Hong Kong, 10 July 2007

Horwath

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
CHINA GRAND FORESTRY RESOURCES GROUP LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Grand Forestry Resources Group Limited set out on pages 37 to 104, which comprise the consolidated and Company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and consolidated cash flow statement for the period from 1 July 2006 to 31 March 2007, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 March 2007 and of the profit and cash flows of the Group for the period from 1 July 2006 to 31 March 2007 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HORWATH HONG KONG CPA LIMITED
Certified Public Accountants

Hong Kong, 10 July 2007
Chan Kam Wing, Clement
Practising Certificate number P02038

	Note	Year Ended 31 March 2007 HK$'000	Year Ended 30 June 2006 HK$'000
Turnover	6	828,918	360,770
Cost of sales		(298,583)	(166,852)
Gross profit		530,335	193,918
Other revenue	6	5,159	4,435
Other net gain	8	1,141,730	8,752
Selling and distribution expenses		(88,666)	(25,839)
Administrative expenses		(52,908)	(15,992)
Other operating expenses		(62,861)	(40,714)
Profit from operating activities	9	1,472,789	124,560
Finance costs	12	(14,155)	(3,295)
Share of (losses)/profits of jointly-controlled entities		(3,684)	1,640
Gain on disposal of interest in a jointly-controlled entity		2,326	–
Profit before taxation		1,457,276	122,905
Taxation	13	(68,874)	534
Profit for the year		1,388,402	123,439
Attributable to:			
Equity holders of the Company		1,319,310	83,208
Minority interest		69,092	40,231
		1,388,402	123,439
Earnings per share for result attributable to the equity holders of the Company during the year			
– basic	15	HK 28.82 cents	HK 2.72 cents
– diluted	15	HK 24.49 cents	HK 2.56 cents

The accompanying notes form part of these financial statements.

Consolidated Balance Sheet

at 31 March 2007

	Note	At 31 March 2007 HK$'000	At 30 June 2006 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	**63,790**	64,232
Construction in progress	17	**12,081**	11,240
Prepaid lease payments	18	**17,730**	13,122
Deposits for acquisition of forest farms	24	**154,234**	–
Investment properties	19	**3,160**	2,500
Intangible assets	20	**571,657**	594,479
Interests in jointly-controlled entities	22	**28,755**	28,282
Biological assets	23	**1,598,133**	241,691
		2,449,540	955,546
Current assets			
Inventories	25	**31,886**	38,264
Trade receivables	26	**156,328**	207,344
Prepaid lease payments	18	**430**	301
Other receivables, deposits and prepayments	27	**40,333**	24,350
Financial assets at fair value through profit or loss	28	**23,578**	4,992
Non-current asset held for sale		**–**	2,735
Pledged bank deposits	38	**11,265**	10,988
Bank and cash balances	29	**613,044**	273,421
		876,864	562,395
Total assets		**3,326,404**	1,517,941
EQUITY AND LIABILITIES			
Capital and reserves attributable to the Company's equity holders			
Share capital	30	**506,281**	387,981
Reserves		**2,084,307**	310,138
		2,590,588	698,119
Minority interests		**–**	236,818
Total equity		**2,590,588**	934,937

	Note	At 31 March 2007 *HK$'000*	At 30 June 2006 *HK$'000*
Non-current liabilities			
Promissory notes payable	33	–	46,146
Convertible notes payable	34	**82,367**	150,858
Deferred taxation	35	**128,567**	63,000
		210,934	260,004
Current liabilities			
Trade payables	36	**4,414**	2,926
Other payables and accruals		**415,890**	25,829
Promissory notes payable	33	**98,969**	174,452
Amount due to minority interests		–	56,005
Interest-bearing bank borrowings	37	–	21
Provision for taxation		**5,609**	5,235
Deferred revenue	39	–	58,532
		524,882	323,000
Total liabilities		**735,816**	583,004
Total equity and liabilities		**3,326,404**	1,517,941

The financial statements on pages 37 to 104 were approved and authorised for issue by the Board of Directors on 10 July 2007 and are signed on its behalf by Mr. Ng Leung Ho and Ms. Cao Chuan.

Director *Director*

The accompanying notes form part of these financial statements.

Balance Sheet

at 31 March 2007

	Note	At 31 March 2007 HK$'000	At 30 June 2006 HK$'000
ASSETS			
Non-current assets			
Interests in subsidiaries	21	1,129,344	930,052
Current assets			
Other receivables, deposits and prepayments		431	484
Bank and cash balances		121,555	8,706
		121,986	9,190
Total assets		1,251,330	939,242
EQUITY AND LIABILITIES			
Capital and reserves attributable to the Company's equity holders			
Share capital	30	506,281	387,981
Reserves	32	558,140	170,653
Total equity		1,064,421	558,634
Non-current liabilities			
Promissory notes payable	33	–	46,146
Convertible notes payable	34	82,367	150,858
Deferred taxation	35	3,086	7,165
		85,453	204,169
Current liabilities			
Other payables and accruals		2,487	1,987
Promissory notes payable	33	98,969	174,452
		101,456	176,439
Total liabilities		186,909	380,608
Total equity and liabilities		1,251,330	939,242

The financial statements on pages 37 to 104 were approved and authorised for issue by the Board of Directors on 10 July 2007 and are signed on its behalf by Mr. Ng Leung Ho and Ms. Cao Chuan.

Director *Director*

The accompanying notes form part of these financial statements.

	Share capital HK$'000	Share premium account HK$'000	Share-based compensation reserve HK$'000	Subscription right reserve HK$'000 (note i)	Fixed asset revaluation reserve HK$'000	Statutory reserve fund HK$'000 (note ii)	Capital reserve HK$'000	Exchange fluctuation reserve HK$'000	Conversion option reserve HK$'000 (note iii)	Retained profits HK$'000	Minority interest HK$'000	Total HK$'000
At 1 July 2005	294,149	73,538	–	24,543	5,316	1,859	3,504	(1,598)	–	41,281	–	442,592
Currency translation difference	–	–	–	–	–	–	–	495	–	–	–	495
Arising on exercise of share options	20,620	27,860	–	–	–	–	–	–	–	–	–	48,480
Arising on business combination	58,000	11,600	–	–	–	–	–	–	–	–	196,587	266,187
Arising from issuance of convertible notes	–	–	–	–	–	–	–	–	37,949	–	–	37,949
Arising upon conversion of convertible notes into new shares, net of deferred taxation	15,500	3,100	–	–	–	–	–	–	(3,328)	–	–	15,272
Repurchase of shares	(288)	(21)	–	–	–	–	–	–	–	–	–	(309)
Surplus on revaluation, net of deferred taxation	–	–	–	–	1,636	–	–	–	–	–	–	1,636
Transfer upon asset reclassification as held for sale	–	–	–	–	(73)	–	–	–	–	73	–	–
Net profit for the year	–	–	–	–	–	–	–	–	–	83,208	40,231	123,439
Share in reserve movement of jointly-controlled entities	–	–	–	–	(1,180)	–	–	376	–	–	–	(804)
Reserve appropriation	–	–	–	–	–	11,882	–	–	–	(11,882)	–	–
As 30 June 2006	387,981	116,077	–	24,543	5,699	13,741	3,504	(727)	34,621	112,680	236,818	934,937
Currency translation difference	–	–	–	–	–	–	–	21,750	–	–	–	21,750
Arising on exercise of share options	1,800	2,520	–	–	–	–	–	–	–	–	–	4,320
Placement of new shares	40,000	406,799	–	–	–	–	–	–	–	–	–	446,799
Arising upon conversion of convertible notes into new shares, net of deferred taxation	76,500	15,300	–	–	–	–	–	–	(15,582)	–	–	76,218
Equity settled share-based transactions	–	–	21,850	–	–	–	–	–	–	–	–	21,850
Net profit for the year	–	–	–	–	–	–	–	–	–	1,319,310	69,092	1,388,402
Share in reserve movement of jointly-controlled entities	–	–	–	–	(107)	–	739	1,590	–	–	–	2,222
Reserve appropriation	–	–	–	–	–	22,495	–	–	–	(22,495)	–	–
Arising from increase in equity interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	(305,910)	(305,910)
At 31 March 2007	506,281	540,696	21,850	24,543	5,592	36,236	4,243	22,613	19,039	1,409,495	–	2,590,588

Notes:

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

(ii) In accordance with the relevant People's Republic of China ("PRC") regulations, the subsidiaries of the Group established in the PRC are required to transfer a certain percentage of the profit after taxation, if any, to a statutory reserve fund. The statutory reserve fund can be converted into share capital of the subsidiaries, and subject to certain restrictions as set out in the relevant PRC regulations, the statutory reserve fund may be used to offset the accumulated losses, if any, of the subsidiaries.

(iii) 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 convertible notes are redeemed.

The accompanying notes form part of these financial statements.

	Year Ended 31 March 2007 HK$'000	Year Ended 30 June 2006 HK$'000
Operating activities		
Profit before taxation	1,457,276	122,905
Interest income	(3,713)	(3,644)
Dividend income from listed and unlisted investment	–	(148)
Share-based compensation expenses	21,850	–
Finance costs	14,155	3,295
Amortisation of intangible assets	67	–
Amortisation of patent	18,865	9,064
Amortisation of paper mulberry saplings	22,146	17,833
Depreciation on property, plant and equipment	6,721	6,810
Net realised loss on disposal of financial assets at fair value through profit or loss	140	450
Net (profit)/loss on re-measurement of financial assets at fair value through profit or loss	(20,421)	3,611
Surplus on revaluation of leasehold properties, net	–	(43)
Surplus on revaluation of investment properties, net	(660)	(850)
Release of prepaid lease payments	179	154
Share of losses/(profits) of jointly-controlled entities	3,684	(1,640)
Gain on changes in fair value less estimated point-of sale costs of biological assets	(1,117,515)	(11,920)
Gain on disposal of property, plant and equipment	(4,235)	–
Gain on disposal of a jointly-controlled entity	(2,326)	–
Provision for obsolete inventories	1,431	–
Effect of foreign exchange differences	8,314	–
Operating profit before working capital changes	405,958	145,877
Increase due to plantation	(98,040)	(17,860)
Decrease due to harvest	133,817	44,525
Decrease/(increase) in inventories	4,947	(5,243)
Decrease/(increase) in trade receivables	51,016	(166,804)
(Increase)/decrease in other receivables, deposits and prepayments	(15,983)	17,175
Increase in trade payables	1,488	57
Increase in other payables and accruals	92,112	14,841
(Decrease)/increase in deferred revenue	(58,532)	9,616
Cash generated from operations	516,783	42,184
Hong Kong profits tax refunded	–	79
Net cash inflow from operating activities	516,783	42,263

Consolidated Cash Flow Statement
for the Year Ended 31 March 2007

	Year Ended 31 March 2007 HK$'000	Year Ended 30 June 2006 HK$'000
Investing activities		
Interest received	3,713	3,644
Dividend received from listed and unlisted investments	–	148
Acquisition of biological assets	(296,850)	–
Deposits for acquisition of forest farms	(154,234)	–
Acquisition of financial assets at fair value through profit or loss	(1,255)	–
Acquisition of intangible assets	(2,020)	–
Capital contribution to jointly-controlled entities	–	(7,936)
Purchases of property, plant and equipment	(4,318)	(1,000)
Addition of prepaid lease payment	(13,849)	–
Increase in construction in progress	(274)	(11,240)
Net cash outflow on business combination	(60,000)	(47,092)
Proceeds from disposal of investment properties	7,000	9,259
Proceeds from disposal of financial assets at fair value through profit or loss	2,950	5,087
Proceeds from disposal of prepaid lease payments	9,515	–
(Increase)/decrease in pledged bank deposits	(277)	3,772
Net cash outflow from investing activities	(509,899)	(45,358)
Financing activities		
Interest paid	(17)	(77)
Advance from minority interests	–	32,365
Repayment to minority interests	–	(21,138)
Capital element of finance lease rental payments	–	(120)
Proceeds from issue of shares	460,000	–
Proceeds from exercise of share options and warrants	4,320	48,480
Repurchase of shares	–	(309)
Expenses on issue of shares	(13,201)	–
Repayment of promissory notes	(130,000)	–
Net cash inflow from financing activities	321,102	59,201

	Year Ended 31 March 2007 HK$'000	Year Ended 30 June 2006 HK$'000
Net increase in cash and cash equivalents	**327,986**	56,106
Cash and cash equivalents at beginning of year	**273,400**	217,294
Effect of foreign exchange rate changes	**11,658**	–
Cash and cash equivalents at end of year	**613,044**	273,400
Analysis of balances of cash and cash equivalents at end of year		
Bank and cash balance	**613,044**	273,421
Interest-bearing bank borrowings	**–**	(21)
	613,044	273,400

The accompanying notes form part of these financial statements.

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 board of directors of the Company considered the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the period from 1 July 2006 to 31 March 2007, being the financial year 2006 of the Company by virtue of its change of financial year end date from 30 June to 31 March.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 21 to the financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current reporting year, the Group has applied, for the first time, a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are effective for accounting periods beginning on or after 1 December 2005 and 1 January 2006. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods have been prepared and presented.

The HKICPA has issued the following new standards and interpretations that are not yet effective. The Group has already commenced an assessment of these new standards and interpretations but is not yet in a position to state whether these new standards and interpretations would have a significant impact on its result of operations and financial position.

		Notes
HKAS 1 (Amendment)	Capital Disclosures	1
HKFRS 7	Financial Instruments: Disclosures	1
HKFRS 8	Operating Segments	5
HK (IFRIC) – Int 8	Scope of HKFRS 2	6
HK (IFRIC) – Int 10	Interim Financial Reporting and Impairment	2
HK (IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions	3
HK (IFRIC) – Int 12	Service Concession Arrangements	4

Notes:

1. Effective for the financial years beginning on or after 1 January 2007.
2. Effective for the financial years beginning on or after 1 November 2006.
3. Effective for the financial years beginning on or after 1 March 2007.
4. Effective for the financial years beginning on or after 1 January 2008.
5. Effective for the financial years beginning on or after 1 January 2009.
6. Effective for the financial years beginning on or after 1 May 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of preparation of financial statements

The consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of leasehold properties, investment properties, certain financial instruments and certain biological assets which are carried at fair value. These financial statements are presented in Hong Kong dollar and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

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.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March 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 combination 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities assumed in a business combination are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the profit and loss account.

(e) Subsidiaries

A subsidiary is an enterprise in which the Group has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another enterprise.

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.

(f) Jointly-controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

Where a group company undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant company and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of jointly venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Jointly-controlled entities (continued)

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less impairment in the value of individual investments. Losses of a jointly controlled entities in excess of the Group's interest in that jointly controlled entity are not recognised. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a subsidiary.

Where a group enterprise transacts with a jointly controlled entity of the Group, unrealised gains and losses are eliminated to the extent of the Group's interest in the joint venture, except where unrealised losses provide evidence of an impairment of the assets transferred.

(g) Intangible assets

Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary, associate or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill on acquisitions of subsidiaries is presented separately. Goodwill on acquisitions of associates or jointly controlled entities is included in investments in associates or jointly controlled entities.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Gain or loss on the disposal of a subsidiary, associate or jointly controlled entity include the carrying amount of goodwill relating to the subsidiary, associate or jointly controlled entity sold.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Intangible assets (continued)

Patent

Patent 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 is charged to the profit and loss account on a straight line basis over its estimated useful life unless such life is indefinite. The patent is amortised from the date they are available for use and its estimated useful life is 20 years. Both the period and method of amortisation and any conclusion drawn about the useful life of the patent are reviewed annually.

Technical know-how

Technical know-how acquired by the Group during the course of business is capitalised on the basis of the cost incurred to acquire and bring to use the specific technical know-how. The cost is amortised on the straight line basis over its estimated useful life of 10 years.

(h) Property, plant and equipment

Buildings held for use in production or supply of goods, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date. Other property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Any revaluation increase arising on the revaluation of such buildings is credited to the fixed asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in the profit and loss account, in which case the increase is credited to the profit and loss account to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings is charged to the profit and loss account to the extent that it exceeds the balance, if any held in the fixed asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to the profit and loss account. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the fixed asset revaluation reserve is transferred directly to retained profits.

Historical cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the asset or a separate asset.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Property, plant and equipment (continued)

Depreciation is charged so as to write off the cost or valuation of assets, other than properties under construction, over their estimated useful lives, using the straight-line method. The useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The principal annual rates are as follows:

Leasehold properties	The shorter of 50 years and the lease term
Plant and machinery	5 to 10 years
Furniture, office equipment and motor vehicles	5 to10 years

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account.

(i) 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.

(j) Prepaid lease payment

Prepaid lease payments represent upfront premium paid for use of land. Prepaid lease payments are released to the profit and loss account over the lease term on a straight-line basis.

(k) 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 profit and loss account 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) 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 profit and loss account 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 transferred to the carrying value of stumps upon commencement of plantation.

Plantation expenditure on paper mulberry trees and the purchase cost of saplings for plantation are capitalised as costs for cultivation of stumps. Stumps are stated at cost less accumulated amortisation and impairment. Stumps are amortised on the straight line basis over their estimated useful lives of 8 years.

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.

(m) Impairment of assets excluding goodwill

Assets that have an indefinite useful life are not subject to amortisation and tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Impairment of assets excluding goodwill (continued)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss account, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the profit and loss account, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(n) Financial instruments

Financial assets and financial liabilities 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 liabilities at fair value through profit or loss are recognised immediately in the profit and loss account.

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 initial 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 the profit and loss account 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Financial instruments (continued)

(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 the profit and loss account in the period in which they arise.

(iii) Financial liabilities and equity instruments

Financial liabilities 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.

(iv) 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 the profit and loss account 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 date.

(v) Convertible notes

Convertible notes are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible notes and fair value assigned to the liability component, representing the embedded option for the holder to convert the note into equity of the Group, is included in equity (capital reserves).

Issue costs are apportioned between the liability and equity components of the convertible notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate of similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible notes.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Financial instruments (continued)

(vi) Other financial liabilities

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

(vii) Equity instruments

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

(viii) 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 the profit and loss account 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 the profit and loss account in the period during which the derecognition arises.

(o) 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.

(p) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) 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.

(r) 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

– 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 profit and loss account 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 profit and loss account in equal instalments over the period of the leases. Lease incentives received are recognised to the profit and loss account as an integral part of the aggregate lease payments made. Contingent rentals are charged to the profit and loss account when incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) 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 the profit and loss account 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 recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are recognised in the profit and loss account for the period.

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 profit and loss account in the period in which the foreign operation is disposed of.

(t) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Employee benefits (continued)

(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 profit and loss account 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.

(iii) Share based payments

The Group issues equity-settled share-based payments to certain directors and employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period with a corresponding increase in a capital reserve within equity, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained earnings).

Fair value is measured using the Black-Scholes Option Pricing Model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Research and development costs

Research costs are charged to the profit and loss account 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.

(v) 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 capitalisation.

All other borrowings costs are recognised in the profit and loss account in the period in which they are incurred.

(w) 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.

(x) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Taxation (continued)

Deferred tax liabilities are provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and 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. However, such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associated companies and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(y) 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 intragroup 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) 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.

(aa) 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.

(bb) Related parties

Two 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 (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(cc) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within other payables and accruals. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in the profit and loss account on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in the profit and loss account over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 3(w) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in other payables and accruals in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

4. 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 3(g). 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

Management assesses periodically whether the patent has suffered any impairment due to change of technologies. As at the financial statements date, management has not identified any indications that the patent 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 current market prices less estimated point-of-sale costs of biological assets of paper mulberry trees and other 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 the stumps of paper mulberry trees

Management estimates the expected live-hood for the stumps of paper mulberry trees 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 stumps of paper mulberry trees, 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.

4. 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.

5. 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.

(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.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(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.

6. TURNOVER AND REVENUE

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

	Group	
	Year Ended 31 March 2007 *HK$'000*	Year Ended 30 June 2006 *HK$'000*
Turnover		
Sale of garment products	**95,792**	141,540
Sale of forestry products	**587,947**	92,307
Sale of paper mulberry saplings	**145,179**	126,923
	828,918	360,770
Other revenue		
Dividend income from listed investments	**–**	148
Interest income	**3,713**	3,644
Others	**1,446**	643
	5,159	4,435
Total revenue	**834,077**	365,205

7. 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 31 March 2007 and for the Year Ended 30 June 2006 and certain assets and liabilities information regarding business segments at 31 March 2007 and 30 June 2006:

(a) Primary Reporting Format – Business segments

Revenue and profit/(loss) information

	Ecological Forestry Business		Garment Business		Elimination		Consolidated	
	Year Ended		Year Ended		Year Ended		Year Ended	
	31 March 2007	30 June 2006	31 March 2007	30 June 2006	31 March 2007	30 June 2006	31 March 2007	30 June 2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue:								
External sales	733,126	219,230	95,792	141,540	–	–	828,918	360,770
Inter-segment sales	–	–	–	–	–	–	–	–
Total sales	733,126	219,230	95,792	141,540	–	–	828,918	360,770
Segment results	1,490,840	133,602	15,736	(2,705)	–	–	1,506,576	130,897
Unallocated revenue and net gain							2,460	1,276
Unallocated expenses							(36,247)	(7,613)
Profit from operating activities							1,472,789	124,560
Finance costs							(14,155)	(3,295)
Share of (losses)/profits of jointly-controlled entities							(3,684)	1,640
Gain on disposal of interest in a jointly-controlled entity							2,326	–
Profit before taxation							1,457,276	122,905
Taxation							(68,874)	534
Profit for the year							1,388,402	123,439

7. SEGMENTAL INFORMATION (continued)

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

Assets and liabilities information

	Ecological Forestry Business		Garment Business		Unallocated		Consolidated	
	31 March 2007 *HK$'000*	30 June 2006 *HK$'000*	31 March 2007 *HK$'000*	30 June 2006 *HK$'000*	31 March 2007 *HK$'000*	30 June 2006 *HK$'000*	31 March 2007 *HK$'000*	30 June 2006 *HK$'000*
Segment assets	2,807,252	1,088,593	368,411	364,375	150,741	64,973	3,326,404	1,517,941
Segment liabilities	472,065	171,980	76,842	26,673	186,909	384,351	735,816	583,004
Other information								
Capital Expenditure	5,224	29	340	12,211	–	–	5,564	12,240
Depreciation and amortisation	42,526	26,951	5,206	6,757	–	–	47,732	33,708
Provision for doubtful debts	–	–	–	–	–	–	–	–
Provision for obsolete inventories	–	–	1,431	–	–	–	1,431	–
Impairment losses	–	–	–	–	–	–	–	–

7. 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	
	Year Ended		Year Ended		Year Ended		Year Ended	
	31 March 2007 HK$'000	30 June 2006 HK$'000	31 March 2007 HK$'000	30 June 2006 HK$'000	31 March 2007 HK$'000	30 June 2006 HK$'000	31 March 2007 HK$'000	30 June 2006 HK$'000
Segment revenue:								
External sales	828,411	352,903	507	7,867	–	–	828,918	360,770
Inter-segment sales	3,771	8,106	–	–	(3,771)	(8,106)	–	–
	832,182	361,009	507	7,867	(3,771)	(8,106)	828,918	360,770

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

	The PRC (excluding Hong Kong and Macau)		Hong Kong		Macau		Unallocated		Consolidated	
	Year Ended		Year Ended		Year Ended		Year Ended		Year Ended	
	31 March 2007 HK$'000	30 June 2006 HK$'000	31 March 2007 HK$'000	30 June 2006 HK$'000	31 March 2007 HK$'000	30 June 2006 HK$'000	31 March 2007 HK$'000	30 June 2006 HK$'000	31 March 2007 HK$'000	30 June 2006 HK$'000
Segment assets	2,458,870	756,350	189,309	73,898	106,568	93,214	–	–	2,754,747	923,462
Intangible assets	–	–	–	–	–	–	1,953	–	1,953	–
Goodwill	–	–	–	–	–	–	85,511	91,421	85,511	91,421
Patent	–	–	–	–	–	–	484,193	503,058	484,193	503,058
	2,458,870	756,350	189,309	73,898	106,568	93,214	571,657	594,479	3,326,404	1,517,941

7. SEGMENTAL INFORMATION (continued)

(b) Secondary Reporting Format – geographical segments (continued)

	The PRC (excluding Hong Kong and Macau)		Hong Kong		Macau		Unallocated		Consolidated	
	Year Ended		Year Ended		Year Ended		Year Ended		Year Ended	
	31 March 2007 *HK$'000*	30 June 2006 *HK$'000*	31 March 2007 *HK$'000*	30 June 2006 *HK$'000*	31 March 2007 *HK$'000*	30 June 2006 *HK$'000*	31 March 2007 *HK$'000*	30 June 2006 *HK$'000*	31 March 2007 *HK$'000*	30 June 2006 *HK$'000*
Capital expenditure	5,315	11,471	249	769	–	–	–	–	5,564	12,240

8. OTHER NET GAIN

	Group	
	Year Ended 31 March 2007 ***HK$'000***	Year Ended 30 June 2006 *HK$'000*
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	**1,117,515**	11,920
Net unrealised gain/(loss) on financial assets at fair value through profit or loss	**20,421**	(3,611)
Net realised gain on disposal of non-current asset held for sale	**4,223**	–
Surplus on revaluation of investment properties, net	**660**	850
Surplus on revaluation of leasehold properties, net	**–**	43
Loss on disposal of property, plant and equipment	**(985)**	–
Net realised loss on disposal of financial assets at fair value through profit or loss	**(140)**	(450)
Others	**36**	–
	1,141,730	8,752

9. PROFIT FROM OPERATING ACTIVITIES

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

	Group	
	Year Ended 31 March 2007	Year Ended 30 June 2006
	HK$'000	*HK$'000*
Amortisation of patent	**18,865**	9,064
Amortisation of paper mulberry saplings and trees	**22,146**	17,833
Auditor's remuneration	**820**	800
Cost of goods and forestry products sold	**267,905**	140,019
Cost of saplings sold	**30,678**	26,833
Depreciation on property, plant & equipment	**6,721**	6,810
Minimum lease payments under operating leases on leasehold properties	**11,778**	1,664
Release of prepaid lease payments	**179**	154
Research and development cost	**20,739**	10,577
Provision for doubtful debts	**–**	1,923
Provision for obsolete inventories	**1,431**	–
Directors' emoluments	**6,589**	2,578
Staff costs (excluding directors' emoluments)		
Wages and salaries	**26,148**	11,353
Retirement benefits scheme contributions	**277**	295
Exchange gain	**(748)**	(64)

10. DIRECTORS' EMOLUMENTS

Emoluments paid and payable to the Company's directors for the Year Ended 31 March 2007 and Year Ended 30 June 2006 were as follows:

	Year Ended 31 March 2007					Year Ended 30 June 2006
	Fees	Basic salaries allowances and bonuses	Retirement benefit schemes contributions	Share-based payments	Total emoluments	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive Directors:–						
Ng Leung Ho	–	1,000	9	1,181	2,190	842
Lee Ming Hin	–	500	9	1,180	1,689	637
Hu Xiaoming	–	108	–	354	462	144
Wang Weining*	–	–	–	–	–	240
Ge Wen Hong	–	465	–	1,180	1,645	50
Non-Executive Directors:–						
Ng Leung Tung*	–	–	–	–	–	572
Independent Non-Executive Directors:–						
Lo Cheung Kin	27	–	–	177	204	48
Zou Zi Ping	27	–	–	177	204	33
Zhu Jian Hong	18	–	–	177	195	12
	72	2,073	18	4,426	6,589	2,578

* *Resigned on 28 November 2006.*

11. 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.

(b) Five highest paid individuals

The emoluments of the five individuals with highest emoluments in the Group for the year included one (2006: three) directors, details of whose emoluments have been disclosed above.

Details of the emoluments of the remaining four (2006: two) non-director, highest paid individuals for the year are as follows:

	Year Ended 31 March 2007 ***HK$'000***	Year Ended 30 June 2006 *HK$'000*
Salaries, allowances and benefits in kinds	7,943	1,141
Retirement benefits scheme contributions	9	24
	7,952	1,165

The emoluments fell within the following bands:

Emolument bands

	Number of individuals	
	Year Ended 31 March 2007	Year Ended 30 June 2006
HK$		
0-1,000,000	–	2
1,000,001 – 1,500,000	–	–
1,500,001 – 2,000,000	3	–
2,000,001 – 2,500,000	1	–

One of the non-director, highest paid individuals for the year was a director of the Company up to 28 November 2006.

12. FINANCE COSTS

	Group	
	Year Ended 31 March 2007 *HK$'000*	Year Ended 30 June 2006 *HK$'000*
Interest on bank loans and overdrafts	17	74
Interest on a finance lease	–	3
Interest on convertible notes	5,767	1,340
Interest on promissory notes	8,371	1,878
Total finance costs	14,155	3,295

13. TAXATION

	Group	
	Year Ended 31 March 2007 *HK$'000*	Year Ended 30 June 2006 *HK$'000*
Hong Kong profits tax		
– current	(2)	–
– deferred tax credit	774	42
Overseas tax		
– deferred tax (charge)/credit	(69,646)	492
	(68,874)	534

Hong Kong profits tax had been provided at 17.5% 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% 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 tax provision has been made in respect of the operating results derived by Beijing WFC during the year.

13. TAXATION (continued)

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

	Group	
	Year Ended 31 March 2007 *HK$'000*	Year Ended 30 June 2006 *HK$'000*
Profit before taxation	**1,457,276**	122,905
Tax at Hong Kong profits tax rate of 17.5%	**255,023**	21,508
Tax effect of income that is not taxable in determining taxable profit	**(414)**	(3,249)
Tax effect of expense that are not deductible in determining taxable profit	**4,075**	8,514
Tax effect of temporary difference not recognised	**(849)**	(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	**(2,056)**	(8)
Tax effect of unused tax loss not recognised	**6,938**	1,121
Tax effect of equity portion of convertible notes	**(774)**	(179)
Effect of tax concessionary treatment	**(178,482)**	(15,512)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(14,587)**	(1,708)
Effect of revision of applicable tax rate	**–**	1,438
Taxation charge/(credit)	**68,874**	(534)

14. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders for the Year Ended 31 March 2007 dealt with in the financial statements of the Company was approximately HK$43,400,000 (2006: HK$7,472,000 loss).

15. EARNINGS PER SHARE

(a) Basic earnings 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:

	Year Ended 31 March 2007 *HK$'000*	Year Ended 30 June 2006 *HK$'000*
Profit attributable to equity holders of the Company	**1,319,310**	83,208
Weighted average number of ordinary shares in issue (thousands)	**4,577,257**	3,055,886

(b) Diluted earnings per share

Diluted earnings per share is calculated by 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:

15. EARNINGS PER SHARE (continued)

(b) Diluted earnings per share (continued)

	Year Ended 31 March 2007 HK$'000	Year Ended 30 June 2006 HK$'000
Earnings:		
Profit for the year and earning for the purposes of basic earnings per share	1,319,310	83,208
Effect of dilutive potential ordinary shares in respect of convertible notes	5,767	1,340
Earnings for the purpose of diluted earnings per share	1,325,077	84,548
Number of shares	*'000*	*'000*
Weighted average number of ordinary shares for the purposes of basic earnings per share	4,577,257	3,055,886
Effect of dilutive potential ordinary shares in respect of:		
Share options	21	3,103
Convertible notes	833,333	248,781
Weighted average number of ordinary shares for the purpose of diluted earnings per share	5,410,611	3,307,770

16. 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 30 June 2005	45,340	45,438	11,345	102,123
Exchange difference	–	1,728	252	1,980
Additions	–	76	924	1,000
Arising on business combination	–	3,000	2,960	5,960
Reclassification as non-current assets held for sale	(2,480)	–	–	(2,480)
Surplus on revaluation	720	–	–	720
At 30 June 2006	43,580	50,242	15,481	109,303
Exchange difference	–	2,417	551	2,968
Additions	–	2,459	2,831	5,290
Disposals	–	–	(189)	(189)
At 31 March 2007	43,580	55,118	18,674	117,372
Accumulated depreciation				
30 June 2005	–	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	–	–	285	285
Written back on revaluation	(1,557)	–	–	(1,557)
30 June 2006	–	38,150	6,921	45,071
Exchange difference	–	1,742	207	1,949
Provided during the year	1,081	3,530	2,110	6,721
Written back on disposal	–	–	(159)	(159)
At 31 March 2007	1,081	43,422	9,079	53,582
Net book value				
At 31 March 2007	42,499	11,696	9,595	63,790
At 30 June 2006	43,580	12,092	8,560	64,232

16. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold properties HK$'000	Plant and machinery HK$'000	Furniture, office equipment and motor vehicles HK$'000	Total HK$'000
Analysis of cost or valuation of the above assets is as follows:				
At end of year				
At cost	–	55,118	18,674	73,792
At valuation	43,580	–	–	43,580
	43,580	55,118	18,674	117,372
At beginning of year				
At cost	–	50,242	15,481	65,723
At valuation	43,580	–	–	43,580
	43,580	50,242	15,481	109,303

The Group's properties included above at net book value are held under the following lease terms:

	Group	
	Year Ended 31 March 2007 HK$'000	Year Ended 30 June 2006 HK$'000
Leasehold properties at valuation:		
Medium term lease in Hong Kong	**3,385**	3,450
Medium term lease outside Hong Kong	**39,114**	40,130
	42,499	43,580

The Group's leasehold properties were revalued at 30 June 2006. Valuations were made on the basis of depreciated replacement cost carried out by LCH (Asia-Pacific) Surveyors Limited ("LCH"), a firm of independent chartered surveyors which have appropriate qualifications and 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.

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$3,156,000 (2006: HK$3,275,000).

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$34,524,000 (2006: HK$35,494,000).

16. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group has reviewed the residual values used for the purposes of depreciation calculations in the light of the 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. These residual values will be reviewed and updated annually in the future.

17. CONSTRUCTION IN PROGRESS

	Group	
	Year Ended 31 March 2007	Year Ended 30 June 2006
	HK$'000	*HK$'000*
At beginning of year	**11,240**	–
Exchange difference	**567**	–
Additions	**274**	11,240
At end of year	**12,081**	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 7), 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)".

18. PREPAID LEASE PAYMENTS

	Year Ended 31 March 2007	Year Ended 30 June 2006
	HK$'000	*HK$'000*
The Group's prepaid lease payment comprise:		
Medium leasehold term land in Hong Kong	**1,655**	1,690
Medium leasehold term land outside Hong Kong	**16,505**	11,733
	18,160	13,423
Analysed for reporting purpose as:		
Non-current assets	**17,730**	13,122
Current assets	**430**	301
	18,160	13,423

18. PREPAID LEASE PAYMENTS (continued)

Movements in prepaid lease payments are as follows:

	Year Ended 31 March 2007 HK$'000	Year Ended 30 June 2006 HK$'000
At beginning of year	13,423	4,745
Exchange difference	582	–
Additions	13,849	–
Arising on business combination	–	9,087
Disposal	(9,515)	–
Amount released to the profit and loss account	(179)	(154)
Reclassification as non-current asset held for sale	–	(255)
At end of year	18,160	13,423

19. INVESTMENT PROPERTIES

	Year Ended 31 March 2007 HK$'000	Year Ended 30 June 2006 HK$'000
At beginning of the year	2,500	10,909
Surplus arising on revaluation – note 8	660	850
Disposal	–	(9,259)
At end of year	3,160	2,500

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 31 March 2007, the Group's investment properties in Hong Kong were appraised on the basis of market value at approximately HK$3,160,000 by LCH.

The Group did not earn any property rental income from its investment property during the year (2006: HK$93,000).

20. INTANGIBLE ASSETS

	Group			
	Goodwill	Patent	Technical Know-how	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost:				
At 1 July 2005	–	–	–	–
Arising on business combination	91,421	512,122	–	603,543
At 30 June 2006	91,421	512,122	–	603,543
Additions	–	–	2,020	2,020
Arising on business combination *(Note)*	(5,910)	–	–	(5,910)
At 31 March 2007	85,511	512,122	2,020	599,653
Accumulated amortisation:				
At 1 July 2005	–	–	–	–
Charge for the year	–	9,064	–	9,064
At 30 June 2006	–	9,064	–	9,064
Charge for the year	–	18,865	67	18,932
At 31 March 2007	–	27,929	67	27,996
Net book value:				
At 31 March 2007	85,511	484,193	1,953	571,657
At 30 June 2006	91,421	503,058	–	594,479

Note: The Group acquired the remaining 30% equity interest in Beijing WFC in January 2007. The above amount represents the excess of the 30% share in the fair value of Beijing WFC's identifiable assets, liabilities and contingent liabilities over cost of acquisition. The excess was not recognised immediately as income as the directors consider the acquisition a business combination achieved in stages. Accordingly, the amount was used to offset the goodwill arose in the acquisition of the 70% equity interest in Bejing WFC in prior year.

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 31 March 2007 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 3(g) to the financial statements.

20. INTANGIBLE ASSETS (continued)

Goodwill (continued)

The recoverable amount of the cash generating unit is determined from value in use calculations. The Group prepares cash flow forecast 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 5%.

– 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 15%.

– 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.

Patent

The Group's patent 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 Papyrifera to stress conditions such as drought, low temperature and high salt, and was assessed as having a finite useful live of 10 years in prior year. Upon the receipt of the patent certificate issued by the State Intellectual Property Office of the PRC, the patent was amortised over a finite useful live of 20 years according to the patent certificate.

Patent amortisation are provided on a straight-line basis over the estimated useful live of 20 years. The patent amortisation charge for the year of HK$18,865,000 (2006: HK$9,064,000) is included in the consolidated income statement within the line item of "other operating expenses".

In testing for any impairment on the Group's patent, 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.

20. INTANGIBLE ASSETS (continued)

Patent (continued)

By using this method, the patent 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 2011. 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%
– long term growth rate of 6%
– discount rate of 15%.

21. INTERESTS IN SUBSIDIARIES

	Company	
	Year Ended 31 March 2007	Year Ended 30 June 2006
	HK$'000	*HK$'000*
Unlisted shares, at cost	**614,646**	614,646
Due from subsidiaries	**514,698**	315,406
	1,129,344	930,052

At 31 March 2007, the amounts due from subsidiaries principally represent advances 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.

21. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries as at 31 March 2007 are as follows:

Name	Place of incorporation/ establishment and operation	Type of legal entity	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Directly held					
Holt Hire Holdings Limited	British Virgin Island ("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 ("Beijing WFC")	The PRC	wholly foreign-owned enterprise	Registered RMB50,000,000	100%	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	wholly foreign-owned enterprise	Registered RMB10,000,000	100%	Trading of garment
Fujian Yingfu-Kerun Software Co., Ltd	The PRC	wholly foreign-owned enterprise	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

21. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment and operation	Type of legal entity	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)					
Good Fellow Garment (Fujian) Co.,Ltd	The PRC	wholly-foreign owned enterprise	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	wholly-foreign owned enterprise	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.

22. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	Year Ended 31 March 2007 ***HK$'000***	Year Ended 30 June 2006 *HK$'000*
Share of net assets, unlisted	**28,755**	28,282

22. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Particulars of the principal jointly-controlled entities as at 31 March 2007 are as follows:

Name	Form of business structure	Place of establishment and operation	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)	Corporated	The PRC	55%	Development and sales of nano materials and transfer of related technology
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 related 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)	Corporated	The PRC	44%	Dormant
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

23. BIOLOGICAL ASSETS

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

	Group			
	Paper mulberry saplings	**Paper mulberry trees**	**Other trees**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Increase due to business combination	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
Purchase during the year	37,174	–	259,676	296,850
Amortisation during the year	–	(22,146)	–	(22,146)
Transfer upon plantation	(88,130)	88,130	–	–
Plantation expenditure incurred	67,686	–	30,354	98,040
Harvest as agricultural produce	–	–	(24,688)	(24,688)
Direct sales	(30,678)	–	(78,451)	(109,129)
Gain arising from changes in fair value less estimated point-of-sale cost of biological assets	–	112,914	1,004,601	1,117,515
At 31 March 2007	21,781	279,860	1,296,492	1,598,133

23. BIOLOGICAL ASSETS (continued)

The paper mulberry saplings are stated at cost, less accumulated amortisation. An analysis of the carrying amount of these biological assets as at 31 March 2007 is as follows:

	Year Ended 31 March 2007 *HK$'000*	Year Ended 30 June 2006 *HK$'000*
Biological assets carried at cost less accumulated amortisation:		
Historical cost of procurement	**43,213**	57,161
Less: accumulated amortisation	**(21,432)**	(21,432)
Net carrying amount	**21,781**	35,729

Biological assets of paper mulberry trees and other trees are stated at their current market prices less estimated point-of-sale costs. In accordance with the valuation report by LCH, the current market prices 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 normal rate of recovery, cost of harvesting, debarking and handling cost.

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

Paper mulberry saplings

As at 31 March 2007, the Group maintained consumable 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 Papyriferalvent which is a Moraceae plant under the category of Deciduous Trees. As at 31 March 2007, the Group had planted over 100 million of the saplings of modified tree specie Broussonetia Papyriferalvent. Paper mulberry saplings were carried at cost.

23. BIOLOGICAL ASSETS (continued)

Paper mulberry trees

The Group's paper mulberry trees represent the modified tree specie Broussonetia Papyriferalvent which is a Moraceae plant under the category of Deciduous Trees. The plantation was carried out in various leasehold lands in the PRC. An one-time plantation of Broussonetia Papyriferalvent can offer consecutive annual loggings for 8 to 10 years. Based on a survey performed by a professional institution, as at 31 March 2007, the Group had planted over 91 million of the modified tree specie Broussonetia Papyriferalvent in Shandong, Hebei, Beijing, Hunan, Chongqing, Sichuan and Shanxi.

Plantation expenditure on paper mulberry trees and the purchase cost of paper mulberry saplings transferred for plantation are capitalised as costs for cultivation of stumps. Stumps are stated at cost less accumulated amortisation and impairment. Stumps are amortised on the straight line basis over their estimated useful lives of 8 years.

Other trees

Other trees are standing trees in the natural, man-made and mixed forest farms located in various locations in Hunan Province, Chongqing City, Sichuan Province, Shanxi Province and Guangxi Province of the PRC. As at 31 March 2007, the Group maintained consumable biological assets of standing forests of standing trees of various maturities of approximately 2,250,000 cubic meters by volume in aggregate. Other trees are stated at cost.

24. DEPOSITS FOR ACQUISITION OF FOREST FARMS

Deposits for acquisitions of forest farms are deposits paid for acquisition of certain forest farms in the PRC by a subsidiary, Beijing WFC, and obtaining the operation rights for forestry during the year. The remaining consideration of approximately HK$144,548,000 was disclosed in note 42.

25. INVENTORIES

	Group	
	Year Ended 31 March 2007 *HK$'000*	Year Ended 30 June 2006 *HK$'000*
Raw materials	**13,329**	13,411
Work in progress	**946**	869
Finished goods	**17,611**	23,984
	31,886	38,264

At 31 March 2007, the carrying amount of inventories that are carried at net realisable value is approximately HK$20,689,000 (2006: HK$8,654,000).

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 minimise credit risk, with overdue balances regularly reviewed by senior management. Trade receivables are generally non-interest bearing and their carrying amounts 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	
	Year Ended 31 March 2007	Year Ended 30 June 2006
	HK$'000	*HK$'000*
0-30 days	**81,561**	66,906
31-60 days	**60,543**	127,426
61-90 days	**7,966**	5,640
Over 90 days	**6,258**	7,372
	156,328	207,344

The directors consider that the carrying amounts of the Group's trade receivables at 31 March 2007 approximate to their fair values.

27. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The directors consider that the fair values of the Group's other receivables, deposits and prepayments at 31 March 2007 approximate to their carrying amounts.

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	Year Ended 31 March 2007	Year Ended 30 June 2006
	HK$'000	*HK$'000*
Securities listed in Hong Kong, at market value	**23,578**	4,992

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 (note 8).

At 31 March 2007, no securities have been pledged to a bank for the Group's banking facilities (2006: HK$1,126,892).

29. BANK AND CASH BALANCES

At 31 March 2007, the bank and cash balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$477 million (2006: HK$241 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.

30. SHARE CAPITAL

	Number of shares		Ordinary share capital	
	Year Ended 31 March 2007	Year Ended 30 June 2006	**Year Ended 31 March 2007**	Year Ended 30 June 2006
	'000	*'000*	***HK$'000***	*HK$'000*
Ordinary shares of HK$0.10 each				
Authorised:	**6,500,000**	6,500,000	**650,000**	650,000
Issued and fully paid:				
At beginning of year	**3,879,807**	2,941,487	**387,981**	294,149
Arising on business combination	**–**	580,000	**–**	58,000
Arising upon conversion of convertible notes into new shares *(note i)*	**765,000**	155,000	**76,500**	15,500
Placement of new shares *(note ii)*	**400,000**	–	**40,000**	–
Shares issued on exercise of share options *(note iii)*	**18,000**	206,200	**1,800**	20,620
Repurchase of shares	**–**	(2,880)	**–**	(288)
At end of year	**5,062,807**	3,879,807	**506,281**	387,981

(i) During the Year Ended 31 March 2007, part 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 the 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, the portion of the conversion option reserve realised, after reversal of deferred taxation of HK$3,305,000, in the total 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.

30. SHARE CAPITAL (continued)

(ii) On 30 January 2007, the Company raised share issue proceeds, net of related expenses, of approximately HK$448,000,000 from a top-up placing and subscription arrangement whereby an aggregate of 400,000,000 new ordinary shares in the Company were issued and allotted at price of HK$1.15 per share to Golden Prince Group Limited, a company incorporated in the British Virgin Islands. Mr. Ng Leung Ho, chairman and executive director of the Company, owned the entire issued share capital of Golden Prince Group Limited. Both of Mr. Ng Leung Ho and Golden Prince Group Limited are substantial shareholders of the Company. Up to Year Ended 31 March 2007, HK$30,000,000 of the share issue proceeds raised have been used to pay for partial consideration of 30% acquisition in Beijing WFC. The remaining net share issue proceeds not utilised of approximately HK$418,000,000 has been retained as general working capital of the Company and will be used in further expansion of the its forestry business thereby improving its production facilities when suitable investment opportunities arise.

(iii) During the Year Ended 31 March 2007, options were exercised to subscribe for 18,000,000 shares in the Company. The option exercise price 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.

31. 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.

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.

31. SHARE BASED COMPENSATIONS (continued)

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 option shall be exercisable in the following manner:

Starting from	1 April 2007 to 31 March 2008	Not more than 40%
	1 April 2008 to 31 March 2009	Not more than 70%
	1 April 2009 to 31 March 2010	Not more than 100%

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.

Movements in share options during the year are as follows:

	Year Ended 31 March 2007 *Number*	Year Ended 30 June 2006 *Number*
At beginning of year	**18,000,000**	217,000,000
Granted	**185,100,000**	–
Exercised *(note i)*	**(18,000,000)**	(199,000,000)
At end of year	**185,100,000**	18,000,000
Options vested and unexercised at 31 March/30 June *(note ii)*	**185,100,000**	18,000,000

31. SHARE BASED COMPENSATIONS (continued)

Notes:

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

Name of category of participant	Exercise date	Exercise price per share *HK$*	2007 Number
Employees	12 Oct 2006	0.24	18,000,000

(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$*	2007 Number	2006 Number
Director	27 Mar 2007	27 Mar 2007 to 26 Mar 2017	0.98	**37,500,000**	–
Employees	27 Mar 2007	27 Mar 2007 to 26 Mar 2017	0.98	**147,600,000**	–
	10 Jan 2005	10 Jan 2005 to 23 Nov 2011	0.24	–	18,000,000
Total				**185,100,000**	18,000,000

32. RESERVES

Company

	Share premium account HK$'000	Subscription right reserve HK$'000 (note i)	Conversion option reserve HK$'000 (note ii)	Share-based compensation reserve HK$'000 (note iii)	Retained profits/ (accumulated loss) HK$'000	Total HK$'000
At 30 June 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
Arising on exercise of share options	2,520	–	–	–	–	2,520
Equity settled share-based transaction	–	–	–	21,850	–	21,850
Arising upon conversion of convertible notes into new shares, net of deferred taxation	15,300	–	(15,582)	–	–	(282)
Issue of shares	406,799	–	–	–	–	406,799
Net loss for the year	–	–	–	–	(43,400)	(43,400)
At 31 March 2007	540,696	24,543	19,039	21,850	(47,988)	558,140

32. RESERVES (continued)

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.

(iii) Share-based compensation reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share based payments.

33. PROMISSORY NOTES PAYABLE

	Year Ended 31 March 2007 *HK$'000*	Year Ended 30 June 2006 *HK$'000*
Financial liabilities of promissory notes, at amortised cost	**98,969**	220,598
Less: Portion repayable in 12 months' time included in current liabilities	**(98,969)**	(174,452)
Long term portion	**–**	46,146

The Company's promissory notes are non-interest bearing and have an aggregate principal amount of HK$100 million, which is repayable in the following manner:

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

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

During the year, the Company repaid promissory notes in the principal amount of HK$130 million. The amortised cost of the financial liabilities of promissory notes as at 31 March 2007 of approximately HK$99 million (30 June 2006: 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%, which is considered by the directors to be the incremental borrowing rate applicable to the Company's borrowings.

34. CONVERTIBLE NOTES PAYABLE

The movement on the liability component of the convertible notes as follows:

	Year Ended 31 March 2007 *HK$'000*	Year Ended 30 June 2006 *HK$'000*
Liability at beginning of year	**150,858**	–
Issue of convertible notes	**–**	163,378
Interest expenses	**5,767**	1,340
Interest paid	**(1,345)**	(317)
Redemption	**(72,913)**	(13,543)
Liability at end of year	**82,367**	150,858

During the Year Ended 30 June 2006, pursuant to the business combination of Strong Lead and its subsidiary, Beijing WFC, the Company issued convertible notes (the "Convertible Notes") as partial settlement 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

(a) 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 to 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.

(b) Restricted Convertible Note

Part 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).

34. CONVERTIBLE NOTES PAYABLE (continued)

(c) **Profit Guarantee**

The vendors of the Strong Lead shares has undertaken to the Company that the total 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 deduction of the Restricted Convertible Notes.

During the year, the conversion rights vested with Convertible Notes in the denominated value of HK$91.8 million have been exercised and resulted in the issue and allotment of 765,000,000 ordinary shares of the Company, credited as fully paid. The fair value of the 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, the portion of the conversion option reserve realised, after reversal of deferred taxation of HK$3,305,000, in the total 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.

At 31 March 2007, the aggregate outstanding principal amount of the Convertible Notes is HK$100 million. The amortised cost of the Convertible Notes as at 31 March 2007 of approximately HK$82.4 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%, which is considered by the directors to be the incremental borrowing rate applicable to the Company's borrowings.

35. DEFERRED TAXATION

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

	Group				
	Revaluation of properties *HK$'000*	Fair value of biological assets over historical procurement cost *HK$'000*	Amortised fair value of patent over transfer consideration *HK$'000*	Principal denomination over fair value of convertible notes *HK$'000*	Total *HK$'000*
At 30 June 2005	691	–	–	–	691
Arising on business combination	–	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 profit and loss account	137	390	(882)	(179)	(534)
At 30 June 2006	1,426	5,357	49,052	7,165	63,000
Amount realised through conversion of convertible notes into shares	–	–	–	(3,305)	(3,305)
Deferred tax charged/(credited) to profit and loss account	(686)	64,816	5,516	(774)	68,872
At 31 March 2007	740	70,173	54,568	3,086	128,567

35. DEFERRED TAXATION (continued)

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

	Company				
	Revaluation of properties	Fair value of biological assets over historical procurement cost	Amortised fair value of patent over transfer consideration	Principal denomination over fair value of convertible notes	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 30 June 2005					
Arising on issuance of convertible notes	–	–	–	8,050	8,050
Amount realised through conversation of convertible notes into shares	–	–	–	(706)	(706)
Deferred tax credited to profit and loss account	–	–	–	(179)	(179)
At 30 June 2006	–	–	–	7,165	7,165
Amount realised through conversation of convertible notes into shares	–	–	–	(3,305)	(3,305)
Deferred tax credited to profit and loss account	–	–	–	(774)	(774)
At 31 March 2007	–	–	–	3,086	3,086

(b) At the balance sheet date, the Group has unused tax losses of approximately HK$47,424,000 (2006: HK$30,659,000) 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 no unrecognised deferred tax asset (2006: approximately HK$1,069,000) 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.

36. 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	
	Year Ended 31 March 2007 ***HK$'000***	Year Ended 30 June 2006 *HK$'000*
0-30 days	**1,358**	1,268
31-60 days	**201**	325
61-90 days	**–**	13
Over 90 days	**2,855**	1,320
	4,414	2,926

The directors consider that the carrying amounts of the Group's trade payables at 31 March 2007 approximate to their fair values.

37. INTEREST-BEARING BANK BORROWINGS

	Group	
	Year Ended 31 March 2007 ***HK$'000***	Year Ended 30 June 2006 *HK$'000*
Bank overdrafts, secured	**–**	21

38. BANKING FACILITIES

At 31 March 2007, the Group's banking facilities were secured by the following:

(i) bank deposits of approximately HK$11,265,000 (2006: HK$10,988,000);

(ii) corporate guarantees given by the Company to the extent of HK$13,500,000 (2006: HK$13,500,000).

39. DEFERRED REVENUE

	Group	
	Year Ended 31 March 2007	Year Ended 30 June 2006
	HK$'000	*HK$'000*
Deposits/proceeds received in respect of:		
Pre-harvest wholesome living pine trees	–	48,917
Paper mulberry sapling	–	9,615
	–	58,532

40. CONTINGENT LIABILITIES

The Company has given guarantees in favour of certain banks to the extent of HK$13,500,000 (2006: HK$13,500,000) in respect of banking facilities granted to certain subsidiaries of the Company. At 31 March 2007, the banking facilities utilised by these subsidiaries amounted to approximately HK$3,000 (2006: HK$21,000).

The Company has not recognised any deferred income in respect of the corporate guarantees as its fair value cannot be reliably measured and their transaction price was HK$Nil.

41. OPERATING LEASE ARRANGEMENTS

At 31 March 2007, the Group had total future minimum lease payments under noncancellable operating leases falling due as follows:

	Group		Company	
	Year Ended 31 March 2007	Year Ended 30 June 2006	**Year Ended 31 March 2007**	Year Ended 30 June 2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**6,048**	5,708	**1,363**	1,289
In the second or fifth years, inclusive	**12,363**	11,707	**114**	1,136
More than five years	**92,159**	83,888	**–**	–
	110,570	101,303	**1,477**	2,425

42. COMMITMENTS

At 31 March 2007, the Group had commitments, so far as not provided for in the consolidated financial statements, as follows:

	Group	
	Year Ended 31 March 2007	Year Ended 30 June 2006
	HK$'000	*HK$'000*
Capital commitments contracted but not provided for:		
Construction cost	**–**	1,067
Acquisition of leasehold forest land	**144,548**	19,230
	144,548	20,297
Group's share of capital commitments of jointly-controlled entities	**–**	158
	144,548	20,455

43. RELATED PARTY TRANSACTIONS

(a) **Key management compensation**

The remuneration of directors as disclosed in note 10 and other members of key management during the year was as follows:

	Group	
	Year Ended 31 March 2007	Year Ended 30 June 2006
	HK$'000	*HK$'000*
Salaries and other short-term employee benefits	**2,676**	3,833
Post-employment benefits	**29**	72
Share options	**13,516**	–
	16,221	3,905

(b) **Amount due to minority interests**

The amount due was unsecured, non-interest bearing and had no fixed repayment terms. The amount was transferred to other payables and accruals when the Group acquired the remaining equity interest of Beijing WFC in January 2007.

44. EVENTS AFTER THE BALANCE SHEET DATE

i) On 30 April 2007 and 2 May 2007, by virtue of the exercise of the rights granted by the Company's shareholders to the directors under general mandate, the Company repurchased on The Stock Exchange of Hong Kong Limited in aggregate 7,000,000 of its ordinary shares of HK$0.10 each at a total consideration before expenses of approximately HK$5,930,000. The subject shares were cancelled upon repurchase and the issued share capital of the Company was reduced by the nominal value thereof.

ii) Pursuant to a resolution passed by the Company's shareholders on 7 May 2007, the Company increased its authorised share capital from HK$650,000,000 divided into 6,500,000,000 shares of HK$0.10 each to HK$2,000,000,000 divided into 20,000,000,000 shares of HK$0.10 each by the creation of an additional 13,500,000,000 unissued shares of HK$0.10 each.

iii) On 5 June 2007, 11 June 2007 and 12 June 2007, the Company's wholly owned subsidiary, Beijing WFC, entered into agreements to acquire certain leasehold forest lands in the PRC. Further details are set out in the Company's press announcements of 5 June 2007, 11 June 2007 and 12 June 2007.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 10 July 2007.