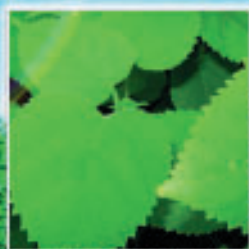




中國林大資源集團有限公司
CHINA GRAND FORESTRY RESOURCES GROUP LIMITED

(FORMERLY KNOWN AS GOOD FELLOW GROUP LIMITED)
(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)
STOCK CODE : 910





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CORPORATE INFORMATION

Executive directors

Mr. Ng Leung Ho (Chairman)
Ms. Cao Chuan (Deputy Chairman)
Ms. Lee Ming Hin
Mr. Hu Xiaoming
Mr. Cheung Wai Tak
(appointed on 2 October 2007)
Mr. Ge Wen Hong
(resigned on 2 October 2007)

Non-executive directors

Mr. John MacMillan Duncanson
(appointed on 2 October 2007)

Independent non-executive directors

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

Registered office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business

Unit 3405
34/F., China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Company secretary

Mr. Lau Che Yue, Stephen, FCCA, AHKICPA

Solicitors

Dibb Lupton Alsop
40th Floor
Bank of China Tower
1 Garden Road
Central
Hong Kong

Auditor

Shu Lun Pan Horwath Hong Kong
CPA Limited
2001 Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Principal bankers

Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

Bank of China
76 Wen Xian Road
Cheng Xiang District
Putian City
Fujian Province, the PRC

Chiyu Banking Corporation Ltd.
42-44 Mut Wah Street
Kwun Tong
Kowloon
Hong Kong

Principal registrars and transfer office

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM 11
Bermuda

Branch registrars and transfer office

Tricor Tengis Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong



The board of directors (the "Board" or "Directors") of China Grand Forestry Resources Group Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2007, being the interim results of the Group for financial year ended 31 March 2008 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).

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended	
	<i>Notes</i>	30 September 2007 (Unaudited) HK\$'000	31 December 2006 (Unaudited) HK\$'000
Turnover	2	691,509	366,551
Cost of sales		(295,652)	(111,775)
Gross profit		395,857	254,776
Other revenue		7,859	2,131
Other net gain		1,034,764	124,263
Selling and distribution expenses		(18,158)	(38,685)
Administrative expenses		(53,279)	(22,648)
Other operating expenses		(32,338)	(74,740)
Profit from operations	4	1,334,705	245,097
Finance costs	5	(4,463)	(10,610)
Share of losses of jointly-controlled entities		(1,457)	(3,457)
Gain on disposal of interest in a jointly-controlled entity		–	2,258
Profit before taxation		1,328,785	233,288
Taxation	6	(59,629)	556
Profit for the period		1,269,156	233,844
Profit attributable to:			
Equity holders of the Company		1,269,156	164,752
Minority interest		–	69,092
		1,269,156	233,844
Earnings per share for profit attributable to equity holders of the Company	7		
Basic		HK24.76 cents	HK3.74 cents
Diluted		HK21.06 cents	HK3.22 cents



CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	74,787	63,790
Construction in progress		–	12,081
Prepaid lease payments		542,954	17,730
Deposits for acquisition of forest farms		–	154,234
Investment properties		3,160	3,160
Intangible assets		559,016	571,657
Interests in jointly-controlled entities	9	26,099	28,755
Biological assets		3,058,530	1,598,133
		4,264,546	2,449,540
Current assets			
Inventories		26,454	31,886
Trade receivables	10	195,422	156,328
Bills receivables		463	–
Prepaid lease payments		12,102	430
Other receivables, deposits and prepayments		141,211	40,333
Financial assets at fair value through profit or loss		78,560	23,578
Pledged bank deposits		11,265	11,265
Bank and cash balances		1,479,870	613,044
		1,945,347	876,864
Total assets		6,209,893	3,326,404
EQUITY AND LIABILITIES			
Capital and reserves attributable to the Company's equity holders			
Share capital	11	567,537	506,281
Reserves	12	4,691,527	2,084,307
Total equity		5,259,064	2,590,588


CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

	<i>Notes</i>	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
Non-current liabilities			
Convertible notes payable		–	82,367
Deferred taxation		182,030	128,567
		182,030	210,934
Current liabilities			
Trade payables	13	6,757	4,414
Other payables and accruals		671,351	415,890
Convertible notes payable		85,040	–
Promissory notes payable		–	98,969
Bank overdrafts		208	–
Provision for taxation		5,443	5,609
		768,799	524,882
Total liabilities		950,829	735,816
Total equity and liabilities		6,209,893	3,326,404
NET CURRENT ASSETS		1,176,548	351,982
TOTAL ASSETS LESS CURRENT LIABILITIES		5,441,094	2,801,522



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30 September	31 December
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH GENERATED FROM OPERATING ACTIVITIES	402,684	37,402
NET CASH USED IN INVESTING ACTIVITIES	(786,742)	(118,672)
NET CASH GENERATED FROM FINANCING ACTIVITIES	1,241,127	5,912
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	857,069	(75,358)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	613,044	273,400
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	9,549	13,217
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,479,662	211,259
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
CASH AND BANK BALANCES	1,479,870	211,259
BANK OVERDRAFTS	(208)	-
	1,479,662	211,259



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended	
	30 September 2007 (Unaudited) HK\$'000	31 December 2006 (Unaudited) HK\$'000
Total shareholders' equity as at 1 April 2007/ 1 July 2006	2,590,588	934,937
Repurchase of shares	(5,952)	–
Profit for the period	1,269,156	233,844
Exchange difference on translation of foreign operations recognized directly in equity	51,071	16,999
Share of reserve movement of jointly-controlled entities	391	79
Exercise of share options	78,400	4,320
Conversion of convertible notes	–	76,218
Placement of new shares	1,268,682	–
Equity settled share-based transactions	6,728	–
Total shareholders' equity as at 30 September 2007/31 December 2006	5,259,064	1,266,397



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

The accounting policies used in preparation of the condensed consolidated interim financial statements are consistent with those adopted in the annual financial statements for the year ended 31 March 2007 with addition of certain new standards and interpretations of Hong Kong Financial Reporting Standards (“HKFRSs”) issued and effective as at the time of preparing this report. These are:

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Shares Transactions

The adoption of such standards or interpretations does not result in substantial changes to the Group’s accounting policies and has no significant effect on the results reported for the six months ended 30 September 2007.

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

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 12	Service Concession Arrangement ²
HK(IFRIC) – Int 13	Customer Loyalty Programmes ³
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction ²

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 January 2008

³ Effective for annual periods beginning on or after 1 July 2008

2. TURNOVER

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



3. SEGMENT INFORMATION

(a) Business segments:

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

Group

	Ecological Forestry Business		Garment Business		Elimination		Consolidated	
	For the six months ended	For the six months ended	For the six months ended	For the six months ended	For the six months ended	For the six months ended	For the six months ended	
	30 September 2007	31 December 2006	30 September 2007	31 December 2006	30 September 2007	31 December 2006	30 September 2007	31 December 2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue:								
External sales	641,157	294,546	50,352	72,005	-	-	691,509	366,551
Inter-segment sales	-	-	-	-	-	-	-	-
Total sales	641,157	294,546	50,352	72,005	-	-	691,509	366,551
Segment results	1,357,784	230,307	(16,482)	(2,846)			1,341,302	227,461
Unallocated revenue and other net gain							6,386	23,134
Unallocated expenses							(12,983)	(5,498)
Profit from operations							1,334,705	245,097
Finance costs							(4,463)	(10,610)
Share of results of jointly-controlled entities							(1,457)	(1,199)
Profit before taxation							1,328,785	233,288
Taxation							(59,629)	556
Profit for the period							1,269,156	233,844



3. SEGMENT INFORMATION (CONTINUED)

(b) Geographical segments

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

Group

	The PRC (excluding Hong Kong and Macau)		Hong Kong		Elimination		Consolidation	
	For the six months ended 30 September 2007 HK\$'000	For the six months ended 31 December 2006 HK\$'000	For the six months ended 30 September 2007 HK\$'000	For the six months ended 31 December 2006 HK\$'000	For the six months ended 30 September 2007 HK\$'000	For the six months ended 31 December 2006 HK\$'000	For the six months ended 30 September 2007 HK\$'000	For the six months ended 31 December 2006 HK\$'000
Segment revenue:								
External sales	690,439	366,073	1,070	478	-	-	691,509	366,551
Inter-segment sales	1,815	4,212	360	-	(2,175)	(4,212)	-	-
Total revenue	692,254	370,285	1,430	478	(2,175)	(4,212)	691,509	366,551



4. PROFIT FROM OPERATIONS

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

	Six months ended	
	30 September 2007 (Unaudited) HK\$'000	31 December 2006 (Unaudited) HK\$'000
Gain on disposal of property held for disposal	–	(4,223)
Gain from changes in fair value of biological assets	(1,036,170)	(103,260)
Unrealised gain on financial assets at fair value through profit or loss	(4,303)	(16,780)
Realised loss on disposal of financial assets at fair value through profit or loss	5,482	–
Amortisation of prepaid lease payment	5,102	203
Depreciation of property, plant and equipment	4,349	2,641
Provision for doubtful debt	8,000	–
Provision for slow moving inventories	4,000	–
Interest income	(6,752)	(981)

5. FINANCE COSTS

	Six months ended	
	30 September 2007 (Unaudited) HK\$'000	31 December 2006 (Unaudited) HK\$'000
Interest on bank loans and overdrafts	3	80
Interest on convertible notes	3,429	4,092
Interest on promissory notes	1,031	6,438
	4,463	10,610



6. TAXATION

	Six months ended	31 December
	30 September	2006
	2007	(Unaudited)
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current:		
Hong Kong	1	–
Deferred	(59,630)	556
Tax (debit)/credit for the period	(59,629)	556

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

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

7. EARNINGS PER SHARE

The calculation of basic earnings per share for six months ended 30 September 2007 is based on the Group's profit attributable to the equity holders of the Company for the period of approximately HK\$1,269,156,000 (for the six months ended 31 December 2006: HK\$164,752,000) and the weighted average number of 5,126,721,480 (for the six months ended 31 December 2006: 4,402,802,165) ordinary shares in issue during the period.

The calculation of diluted earnings per share for six months ended 30 September 2007 is based on the Group's profit attributable to the equity holders of the Company for the period of approximately HK\$1,272,585,000 (for the six months ended 31 December 2006: HK\$168,844,000) and the weighted average number of 6,042,017,983 (for the six months ended 31 December 2006: 5,236,135,498) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares of the Company's convertible note outstanding during the period.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, additions of property, plant and equipment amounted to approximately HK\$15,420,000 (for the six months ended 31 December 2006: HK\$4,137,000).



9. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
Shares of net assets, unlisted	26,099	28,755

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

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

* For identification only

10. TRADE RECEIVABLES

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

	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
0-30 days	172,829	81,561
31-60 days	6,902	60,543
61-90 days	6,232	7,966
Over 90 days	9,459	6,258
	195,422	156,328



11. SHARE CAPITAL

	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
Authorized:		
20,000,000,000 (31 March 2007: 6,500,000,000) ordinary shares of HK\$0.10 each	2,000,000	650,000
Issued and fully paid:		
5,675,367,600 (31 March 2007: 5,062,807,600) ordinary shares of HK\$0.10 each	567,537	506,281

During the period ended 30 September 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\$0.1 each at a total consideration before expenses of approximately HK\$5,930,000.

Share options

The Company operates a share option scheme for eligible participants, including directors and employees of the Company and its subsidiaries, for the subscription of new shares in the Company. A summary of the terms of the Company's share option scheme was included in the Company's 2006/07 annual report. The Company has not granted any share option under its existing share option scheme during the period ended 30 September 2007.

During the period ended 30 September 2007, options were exercised to subscribe for 80,000,000 shares in the Company. The attributable option exercise price for these shares was HK\$0.98 per share. The total consideration received by the Company of HK\$78,400,000 was credited as to HK\$8,000,000 to the share capital and as to HK\$94,008,000 to the share premium account and was debited as to HK\$23,608,000 to the share-based compensation reserve.

During the period ended 30 September 2007, the Company raised share issue proceeds, net of related expenses, of approximately HK\$1,268,000,000 from a top-up placing and subscription arrangement whereby an aggregate of 539,560,000 new ordinary shares in the Company were issued and allotted at price of HK\$2.4 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.

12. RESERVES

	Share premium account HK\$'000	Share-based compensation reserve HK\$'000	Subscription right reserve HK\$'000	Fixed asset revaluation reserve HK\$'000	Statutory reserve fund HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Convention option reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2007	540,696	21,850	24,543	5,592	36,236	4,243	22,613	19,039	1,409,495	2,084,307
Currency translation difference	-	-	-	-	-	-	51,071	-	-	51,071
Equity settled share-issued transactions	-	6,728	-	-	-	-	-	-	-	6,728
Arising on exercise of share options	94,008	(23,608)	-	-	-	-	-	-	-	70,400
Repurchase of shares	(5,252)	-	-	-	-	-	-	-	-	(5,252)
Placement of new share	1,214,726	-	-	-	-	-	-	-	-	1,214,726
Profit attributable to equity holders of the Company	-	-	-	-	-	-	-	-	1,269,156	1,269,156
Share in reserve movement of jointly-controlled entities	-	-	-	(185)	-	576	-	-	-	391
At 30 September 2007	1,844,178	4,970	24,543	5,407	36,236	4,819	73,684	19,039	2,678,651	4,691,527

13. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 120 days from its suppliers. An aging analysis of the trade payables as at the balance sheet date, based on the receipt of good purchased, is as follows:

	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
0-30 days	2,229	1,358
31-60 days	943	201
61-90 days	923	-
Over 90 days	2,662	2,855
	6,757	4,414

**14. COMMITMENTS**

As at 30 September 2007, the Group had the following commitments contracted but not provided for:

	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
Research and development expenditure	15,450	–
Acquisition of leasehold forest land	560,056	144,548
	575,506	144,548



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

For the six months ended 30 September 2007 (the "Period Ended 30 September 2007"), the Group recorded a turnover of approximately HK\$692 million, representing an increase of 88.6% compared with the six months ended 31 December 2006 (the "Period Ended 31 December 2006"). The Group's gross profit and profit attributable to shareholders were approximately HK\$396 million and HK\$1,269 million respectively, and its earnings per share for the Period Ended 30 September 2007 was HK24.76 cents, representing an increase of 55.4%, 670.3% and 562.0% respectively compared with the Period Ended 31 December 2006. The Group's profit attributable to shareholders excluding the net revaluation gain of biological assets was approximately HK\$293 million (the Period Ended 31 December 2006: HK\$92 million) representing an increase of 218.5%.

During the period, the Group actively pursued the opportunities of acquiring forest lands, and the lands so acquired, coupled with forest lands previously acquired was over 3 million Chinese Mu as at 30 September 2007. The increase in turnover and profit of the Group was mainly attributable to its ecological forestry business. For the period, the Group's ecological forestry business and garment business accounted for approximately 92.7% and 7.3%, 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\$1.5 million (in the Period Ended 31 December 2006, the Group recorded a loss in the amount of HK\$3.4 million for this investment) has been included.

DIVIDEND

The Board has resolved not to recommend any dividend for the Period Ended 30 September 2007.

BUSINESS REVIEW

(I) The ecological forestry business

During the period, the turnover and segment result before taxation of the ecological forestry business were approximately HK\$641 million and HK\$1,358 million respectively. The result before taxation excluding the revaluation gain of biological assets was approximately HK\$322 million (the Period Ended 31 December 2006: HK\$127 million) and its operating margin was 50.2% (the Period Ended 31 December 2006: 43.1%). The turnovers from the sale of standard timber and sale of pulpwood during the period were approximately HK\$562 million and HK\$79 million respectively. The average selling price of standard timber and pulpwood were approximately HK\$4,179.6 per cubic meter and HK\$927.1 per tonne respectively.



(i) *Forest land resources*

During the period, the Group actively pursued the opportunity of acquiring forest lands in China. As at 30 September 2007, the long lease-term forest lands so acquired, coupled with the forest lands previously acquired by the Group was over 3 million Chinese Mu. Approximately 70 per cent of the forest land of the Group is located in Yunnan, Hunan and Guizhou. The Group owns thirty two forest farms, of which, fifteen forest farms have been put into operation. Approximately 40% of trees is mixed hard wood trees and the remaining 60% is other trees. The principal species of mixed hard wood tree are birch, pterocarya stenoptera, beech, padauk. The principal species of other wood trees are pine, fir and poplar.

The lease periods of the forest lands of the Group 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 approximately 1.5 million Chinese Mu of the lands as at 30 September 2007. Application for the forest ownership certificates in respect of the remaining forest lands has been made.

The Group estimates the capital expenditure for acquisition of forest land in second half of financial year ending 31 March 2008 would be approximately HK\$800 million.

(ii) *Plantation of genetically modified paper mulberry and pulp business*

The domestic woodpulp supply has not closely supported the demand development resulting from the paper production boom, mainly due to the pulpwood deficit in China. The Group believes one of the solutions of the imbalance between low domestic production of woodpulp and high imports will require a strong emphasis on forest plantation.

During the period, the Group planted the genetically modified paper mulberry ("GMPM") in various saplings centre and forest lands with an area of approximately 46,000 Chinese Mu and accumulated plantation area of approximately 96,000 Chinese Mu.

On 16 October 2007, the Company entering into a strategic cooperation agreement regarding the supply of paper-making raw materials with Lee & Man Paper Manufacturing Limited, pursuant to which both parties can capitalize on respective advantages edges.

In the second half of the financial year ending 31 March 2008, the mature genetically modified paper mulberry will be sold together with pulpwood to customer.



(iii) *Carbon mitigation*

In China, Clean Development Mechanism (CDM) can be used to get certified emission reductions (CER). CERs can be sold to potential purchasers.

The Group has started carbon credit trading project through co-operation with China CDM Exchange Centre Limited. The Group is applying for approval for a carbon credit trading trial project with a forest area of approximately 300,000 Mu. The project is located in Shanxi Province.

(iv) *Biomass energy*

Bio-energy is presenting a significant opportunity for forestation industry in China. Biodiesel is a clean burning alternative fuel, produced from renewable resources. Biodiesel can be blended at any level with petroleum diesel to create a biodiesel blend. It can be used in normal diesel engines with few or no modifications. The Group considers that Jatropha is one of the most promising non-edible crops for biofuel production. It is very undemanding with regard to soil quality. On 5 and 23 November 2007, the Company entered into an Acquisition Agreement and a Supplemental Acquisition Agreement to acquire Shenyu New Energy Group and the principal business of its group is research and development of Jatropha Curcas L based biological energy sources, such as bio-diesel. As some of the existing forest land of the Group is suitable for plantation of Jatropha and forest land owned by Shenyu New Energy Group is suitable for plantation of GMPM, the Group believes this acquisition has synergy effect of its ecological forestry business and will assist the Group to achieve sustainable growth.

(v) *Value of biological assets*

Biological assets of the Group include paper mulberry trees, mixed hard wood trees and other trees and their total value amounted to approximately HK\$3,059 million as at 30 September 2007. The increase in the fair value of biological assets for the period was approximately HK\$1,036 million.

(II) The Garment business

The Group's core garment business was 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 period, the turnover of the Group generated from its garment business amounted to HK\$50 million. The Group will restructure its garment business.



PROSPECT

The Group is optimistic about the prospect of its ecological forestry business. The production volume of standard timbers and pulpwood would be increased along with the forest land resources and timber resources. The Group's business strategies include increasing its resources through acquisition and self-plantation. The expansion of the carbon development mechanism business and bio-mass energy project of the Group can broaden the income base, increase the overall efficiency of resources of the Group and assist the Group to achieve a sustainable growth. Furthermore, with the implementation of various major projects by the PRC government, the Group's ecological forestry business will enjoy more business development opportunities accordingly.

OPERATING RESULTS REVIEW

Turnover

During the Period Ended 30 September 2007, the Group captured various business opportunities and recorded a turnover of HK\$692 million, representing an increase of 88.6% over the Period Ended 31 December 2006.

The table below sets out the sales of products by the Group for the Period Ended 30 September 2007:

Product	Unit Price <i>(HK\$)</i>	Volume <i>(cubic meter/ tonne)</i>	Amount <i>(HK\$'000)</i>
Ecological forestry business			
Sales of standard timber			
Mixed hard wood	6,166.52	62,641 cubic meters	386,277
Other wood	2,448.75	71,906 cubic meters	176,080
		134,547 cubic meters	562,357
Sales of pulpwood	927.06	85,000 tonnes	78,800
			641,157
Garment business			50,352
Total			691,509

The timber and pulpwood sold during the period came from fifteen forest farms, and the sales volume was increased accordingly. Since all the saplings were used in self-plantation, no saplings were sold during the period.



Cost of sales

Cost of sales mainly included cost incurred in logging timber, raw materials consumption, direct labour costs, transportation, road repairs and maintenance and miscellaneous direct charges. The Group's increase in cost for the period was mainly resulted from the expanded scale of production and increase in the sales of products. In addition, unit cost of timber consumption was increased as a result of the increase in the purchase price of timber during the acquisition of forest land and adjustment to change in the fair value of timber which was recognised in previous years.

Selling and distribution cost

During the Period Ended 30 September 2007, the Group's selling and distribution costs decreased by 53.1% to HK\$18,158,000. The main reasons behind such decrease were that most of the products sold by the Group were delivered by customers at their own transportation cost, resulting in a significant decrease in the transportation cost, despite the fact that there was an increase in the sales volume of timber.

Administration expenses

The Group's administration expenses for the period amounted to HK\$53,279,000, representing an increase of 135.2% compared with the Period Ended 31 December 2006. Such increase was due to an increase in research and development cost.

Other operating expenses

The Group's other operating expenses for the period in the amount of approximately HK\$32,338,000 included patent amortisation, amortisation of paper mulberry saplings and expenses of share option scheme of approximately HK\$12,576,000, HK\$13,034,000 and HK\$6,728,000 respectively.



Analysis of gross profit margin and net profit margin

	Six months ended	
	30 September 2007	31 December 2006
Turnover	HK\$692 million	HK\$367 million
Gross profit	HK\$396 million	HK\$255 million
Gross profit margin	57.2%	69.5%
Gross profit margin before adjustment to change in fair value of timber cost	64.5%	69.5%
Net profit adjusts for net revaluation gain of biological assets	HK\$293 million	HK\$130 million
Pro forma net profit margin	42.3%	35.4%
Profit attributable to shareholders adjusts for net revaluation gain of biological assets	HK\$293 million	HK\$92 million

The decrease in gross profit margin was mainly attributed to the following reasons:

- (i) increase in the unit cost of timber which was described in the paragraph headed "Cost of sales";
- (ii) no sapling was sold during the period, whilst in the Period Ended 31 December 2006, sales of saplings had a 78.9% gross profit margin;
- (iii) decrease in the sales of garment products as well as significant decrease in its gross margin.

Net profit adjustments for the period for the net revaluation gain of biological asset was HK\$293 million and pro forma net profit margin is 42.3%. During the period, most of the timber products were delivered by customers and charges were paid by customers, resulting in a substantial decrease in transportation cost. In addition, the average selling price of timber products was increased during the period and net profit margin increased accordingly.



LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 September 2007, the Group's cash and bank balances, which were principally Renminbi and Hong Kong dollar denominated, totally amounted to approximately HK\$1,491 million. 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 of the Group for the Period Ended 30 September 2007:

	<i>HK\$'000</i>
Net cash inflow from operating activities	402,684
Net cash (outflow) from investing activities	(786,742)
Net cash inflow from financing activities	1,241,127
Net increase in cash and cash equivalents	857,069
Cash and cash equivalents at beginning of year	613,044
Effect of foreign exchange rate changes	9,549
Cash and cash equivalents at the end of the period	1,479,662

The Group's currently available liquidity resources are sufficient to meet its capital commitments. As at 30 September 2007, the Group's net current assets amounted to approximately HK\$1,177 million. The Group's current ratio, being the percentage of its current assets in its current liabilities, amounted to 2.53 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 period, these bank credit facilities were utilised in trade credit financing.

As at 30 September 2007, the capital structure of the Company is constituted exclusively of 5,675,367,600 ordinary shares of HK\$0.10 each. Apart from ordinary shares in issue, the capital instruments in issue of the Company include convertible notes.

During the period under review, a total of 80,000,000 new shares have been issued as a result of the exercise of options to subscribe for new shares in the Company, and a total of 539,560,000 new shares have been issued by way of placing.



Charge on the Group's assets

As at 30 September 2007, the Group's available banking facilities were secured by pledged bank deposits of HK\$11,265,000 and corporate guarantees given by the Company.

Contingent liabilities

As at 30 September 2007, the Group does not have contingent liabilities of material amounts.

Employees

As at 30 September 2007, the Group employed a total of approximately 575 employees of which 19 staff was employed in Hong Kong. In addition to competitive package offered to the employees, other benefits included 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 incentives in the growth of the Group.

DISCLOSURE OF ADDITIONAL INFORMATION

Directors' and chief executive's interests in shares or short positions in shares and underlying shares

As at 30 September 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	4,000,000	-	960,000,000	964,000,000	16.99%	6,000,000	17.09%	1, 2
Ms. Cao Chuan	-	-	-	-	0%	10,000,000	0.20%	3
Ms. Lee Ming Hin	4,000,000	-	-	4,000,000	0.07%	6,000,000	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	1,500,000	-	-	1,500,000	0.03%	-	0.03%	3
Mr. Lo Cheung Kin	300,000	-	-	300,000	0.01%	900,000	0.02%	3
Mr. Zhu Jian Hong	1,500,000	-	-	1,500,000	0.03%	-	0.03%	3

Notes:

- The interests in 960,000,000 shares attributable to Mr. Ng Leung Ho was held by Golden Prince Group Limited, a company incorporated in the British Virgin Islands. The entire issued share capital of Golden Prince Group Limited is directly wholly-owned by Mr. Ng Leung Ho.
- The interests in underlying shares attributable to Mr. Ng Leung Ho includes share options to subscribe for 6,000,000 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.
- The interests in underlying shares attributable 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 executive of the Company or their associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be maintained under section 352 of the SFO or as otherwise notified to the Company or the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Directors' rights to acquire shares or debentures

Apart from those disclosed in note 11 to the condensed consolidated interim financial statements, at no time during the period 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 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.

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 ("Model Code") in respect of securities dealing by Directors. The Company has made specific enquiry to all Directors in respect of securities dealing by the Directors and is not aware of any non-compliance with the Model Code during the six months ended 30 September 2007.

Substantial shareholders

As at 30 September 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 shareholders' 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	964,000,000 (Note 1)	16.99%
Golden Prince Group Limited	Beneficial owner	960,000,000 (Note 2)	16.92%
Altantic Investment Management Ltd	Investment manager	321,000,000	5.66%



Substantial shareholders (Continued)

Notes:

1. The beneficial interests of Mr. Ng Leung Ho in 964,000,000 shares comprise corporate interest in 960,000,000 shares, held through Golden Prince Group Limited, and personal interest in 4,000,000 shares.
2. The entire issued share capital of Golden Prince Group Limited is beneficially owned by Mr. Ng Leung Ho, whose interests in the shares of the Company are disclosed in the section headed "Directors' and chief executive's interests in shares or short positions in shares and underlying shares".

Save as disclosed above, as at 30 September 2007, the register of substantial shareholders maintained under Section 336 of the SFO showed 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.

Purchase, sale or redemption of the company's listed securities

On 30 April and 2 May 2007, by virtue of the exercise of the rights granted by the Company's shareholders to the Directors under the general mandate, the Company repurchased on the Stock Exchange of Hong Kong Limited in aggregate 7,000,000 of its ordinary shares of HK\$0.1 each at a total consideration before expenses of approximately HK\$5,930,000.

Apart from the foregoing, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

Events after the balance sheet date

Subsequent to 30 September 2007, the following post balance sheet events took place:

- a) On 17 October 2007, the Company's wholly owned subsidiary, Beijing Wan Fu Chun Forest Resources Development Company Limited, entered into agreements to acquire certain leasehold forest lands in the PRC. Further details are set out in the Company's press announcements of 17 October 2007.
- b) On 5 and 23 November 2007, the Company entered into an Acquisition Agreement and a Supplemental Acquisition Agreement respectively with Forcemade Investments Limited for the acquisition of the entire issued share capital of Shenyu New Energy Group Limited, ("Shenyu New Energy") at a total consideration of HK\$4,000 million. Upon completion of the acquisition, the Company will wholly own Shenyu New Energy, which owns the entire equity interest in Beijing Shenhao New Energy Technology Company Limited ("Beijing Shenhao"). Beijing Shenhao owns the entire equity interest in Yunnan Shenyu New Energy Company Limited ("Yunnan Shenyu New Energy"). Yunnan Shenyu New Energy is principally engaged in the research and development of Jatropha Curcas L based biological energy sources, such as bio-diesel. Further details about the acquisition are set out in the Company's announcements of 16 and 26 November 2007 published on the website of the Hong Kong Stock Exchange (www.hkex.com.hk).



Corporate governance

In the opinion of the Directors, the Company complied with the provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (“CG Code”) throughout the Period Ended 30 September 2007.

Audit and remuneration committee

The Company has established an audit committee for the purposes of reviewing and providing supervision over the Company’s financial reporting process and internal controls. It also reviews the effectiveness of the audit process and risk evaluation. The audit committee of the Company presently comprises the three independent non-executive Directors, namely, Mr. Lo Cheung Kin, Mr. Zou Zi Ping and Mr. Zhu Jian Hong.

The audit committee has reviewed the unaudited condensed consolidated financial statements and the interim report for the Period Ended 30 September 2007, and was content that the accounting policies of the Group are in accordance with the current best practice in Hong Kong.

The remuneration committee also comprises the three independent non-executive Directors. The principal responsibilities of the remuneration committee include making recommendations to the Board on the Company’s policy and structure of remuneration of Directors and senior management of the Company and on the establishment of a formal and transparent procedure for developing such policy, and reviewing the 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.

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 per cent of the Company’s issued shares at the latest practicable date prior to the issue of this interim report.

On behalf of the Board
Ng Leung Ho
Chairman

3 December 2007