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**CHINA GRAND FORESTRY GREEN RESOURCES GROUP LIMITED**

**中國林大綠色資源集團有限公司**

*(incorporated in Bermuda with limited liability)*

(Stock code: 00910)

**INTERIM RESULTS  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009**

The board of directors (the “Board” or “Directors”) of China Grand Forestry Green 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 2009 (the “Period”), being the interim results of the Group for the financial year ending 31 March 2010 of the Company.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 September	
		2009	2008
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
	Notes		
Revenue	3	5,415	599,234
Other income	3	2,839	13,926
Other net (loss)/gain		(2,338)	31,021
Cost of inventories and forestry products sold		(2,812)	(277,265)
Staff costs		(41,668)	(42,724)
Depreciation of property, plant and equipment		(9,238)	(5,045)
Amortisation of biological assets		(18,263)	(17,835)
Amortisation of patent		(13,380)	(13,333)
Release of prepaid lease payments		(15,970)	(11,141)
Other operating expenses		(23,038)	(69,299)
Finance costs	6	(15,147)	(18,693)
Share of losses of jointly-controlled entities		–	(1,507)
		<hr/>	<hr/>
(Loss)/profit before taxation		(133,600)	187,339
Taxation	7	332	561
		<hr/>	<hr/>
(Loss)/profit for the period	5	(133,268)	187,900
Other comprehensive income for the period:			
Exchange difference on translation of financial statements of overseas entities		23,334	226,066
		<hr/>	<hr/>
Total comprehensive (loss)/income for the period		<u>(109,934)</u>	<u>413,966</u>
<b>(Loss)/ profit attributable to:</b>			
Equity holders of the Company	8	(133,268)	187,900
Minority interests		–	–
		<hr/>	<hr/>
		<u>(133,268)</u>	<u>187,900</u>
<b>Total comprehensive (loss)/income attributable to:</b>			
Equity holders of the Company		(109,934)	413,966
Minority interests		–	–
		<hr/>	<hr/>
		<u>(109,934)</u>	<u>413,966</u>
Dividend	8	–	–
		<hr/>	<hr/>
(Loss)/earnings per share for result attributable to the equity holders of the Company	9		
– basic		<u>HK(2.38) cents</u>	<u>HK3.39 cents</u>
– diluted		<u>HK(2.38) cents</u>	<u>HK3.20 cents</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 September 2009 (Unaudited) <i>HK\$'000</i>	31 March 2009 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Biological assets		6,821,680	6,819,281
Property, plant and equipment	10	83,369	92,338
Construction in progress		66,365	64,888
Prepaid lease payments		1,351,046	1,363,390
Long-term prepayments		109,190	108,901
Intangible assets		628,034	640,221
Interests in jointly-controlled entities	11	–	–
Available-for-sale investments		18,872	18,872
		9,078,556	9,107,891
<b>Current assets</b>			
Inventories		656	294
Trade receivables	12	185,329	302,554
Prepaid lease payments		31,930	31,848
Other receivables, deposits and prepayments		152,065	154,117
Financial assets at fair value through profit or loss		14,122	40,632
Amounts due from jointly-controlled entities	11	–	–
Amounts due from related companies	19	–	72,823
Amounts due from directors	20	–	240
Cash and cash equivalents		456,020	201,116
		840,122	803,624
<b>Total assets</b>		<b>9,918,678</b>	<b>9,911,515</b>

		<b>30 September 2009 (Unaudited) HK\$'000</b>	31 March 2009 (Audited) HK\$'000
	<i>Notes</i>		
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	13	<b>658,172</b>	547,172
Reserves	15	<b>6,121,575</b>	6,033,326
		<b>6,779,747</b>	6,580,498
Minority interests		<b>67</b>	67
<b>Total equity</b>		<b>6,779,814</b>	6,580,565
<b>Non-current liabilities</b>			
Long term payables		<b>465,822</b>	469,091
Purchase consideration payable		<b>2,269,831</b>	2,269,831
Convertible notes	17	<b>96,123</b>	93,196
Deferred taxation		<b>640</b>	1,123
		<b>2,832,416</b>	2,833,241
<b>Current liabilities</b>			
Trade payables	16	<b>18,882</b>	60,958
Other payables and accruals		<b>187,566</b>	247,750
Purchase consideration payable		<b>100,000</b>	100,000
Amounts due to related companies	19	<b>–</b>	89,001
		<b>306,448</b>	497,709
<b>Total liabilities</b>		<b>3,138,864</b>	3,330,950
<b>Total equity and liabilities</b>		<b>9,918,678</b>	9,911,515
<b>Net current assets</b>		<b>533,674</b>	305,915
<b>Total assets less current liabilities</b>		<b>9,612,230</b>	9,413,806
<b>Net assets</b>		<b>6,779,814</b>	6,580,565

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2009</b>	2008
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	<b>27,402</b>	148,744
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<b>(59,640)</b>	(518,837)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	<b>286,696</b>	(137,812)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<b>254,458</b>	(507,905)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<b>201,116</b>	853,686
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<b>446</b>	29,209
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>456,020</b>	374,990
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
CASH AND BANK BALANCES	<b>456,020</b>	374,990
	<b>456,020</b>	374,990

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2009

	Share capital <i>HK\$'000</i> <i>(Note 13)</i>	Treasury stock <i>HK\$'000</i>	Share premium and other reserves <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Attributable to equity holders of the Company <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 April 2009	547,172	-	2,428,672	3,604,654	6,580,498	67	6,580,565
Total comprehensive loss for the period	-	-	23,334	(133,268)	(109,934)	-	(109,934)
Equity settled share-based transactions	-	-	22,487	-	22,487	-	22,487
Issue of shares	111,000	-	175,696	-	286,696	-	286,696
Balance at 30 September 2009	<u>658,172</u>	<u>-</u>	<u>2,650,189</u>	<u>3,471,386</u>	<u>6,779,747</u>	<u>67</u>	<u>6,779,814</u>

For the six months ended 30 September 2008

	Share capital <i>HK\$'000</i>	Treasury stock <i>HK\$'000</i>	Share premium and other reserves <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Attributable to equity holders of the Company <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 April 2008	555,781	(4,420)	2,313,885	4,056,246	6,921,492	-	6,921,492
Total comprehensive income for the period	-	-	226,066	187,900	413,966	-	413,966
Equity settled share-based transactions	-	-	32,583	-	32,583	-	32,583
Repurchase of shares and cancelled Arising on business combination	(4,459)	-	(20,939)	-	(25,398)	-	(25,398)
Share in reserve movement of jointly-controlled entities	-	-	2,407	-	2,407	-	2,407
Treasury share	-	(6,567)	-	-	(6,567)	-	(6,567)
Balance at 30 September 2008	<u>551,322</u>	<u>(10,987)</u>	<u>2,930,621</u>	<u>4,244,146</u>	<u>7,715,102</u>	<u>68</u>	<u>7,715,170</u>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. CORPORATE INFORMATION

China Grand Forestry Green Resources Group Limited (the “Company”) is a company incorporated in Bermuda with limited liability. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

During the period, the Group was involved in the forestry business.

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial information is prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The accounting policies and basis of preparation adopted in the preparation of the interim financial information are the same as those used in the annual financial statements of the Group for the year ended 31 March 2009, except in relation to the following new Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all HKFRSs, HKASs and Interpretations) that affect the Group and are adopted by the Group for the first time for the current period’s financial statements:

HKFRS 1 and HKAS27 (Amendments)	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements – Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 (Amendment)	Amendments to HKFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i>
HKFRS 8	<i>Operating Segments</i>
HKAS 1 (Revised)	<i>Presentation of financial statements</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>
HKAS 32 & 1 (Amendments)	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>
HK(IFRIC)-INT 13	<i>Customer Loyalty Programmes</i>
HK(IFRIC)-INT 15	<i>Agreements for the Construction of Real Estate</i>
HK(IFRIC)-INT 16	<i>Hedges of a Net Investment in a Foreign Operation</i>

HKAS 1 (Revised) has introduced a number of changes in terminology, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure.

HKFRS 8 is a disclosure standard that requires the identification of operation segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 “Segment Reporting” required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group’s primary reporting format was business segments. The application of HKFRS 8 has not resulted in redesignation of the Group’s reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 (see Note 2).

The adoption of the above new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new standards and revised HKFRSs, that have been issued but are not yet effective in the period covered by these interim condensed consolidated financial statements:

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008 <sup>1</sup>
HKFRSs (Amendments)	Improvements to HKFRSs 2009 <sup>2</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>1</sup>
HKAS 32 (Amendments)	Classification of right issues <sup>5</sup>
HKAS 39 (Amendment)	Eligible Hedged Items <sup>1</sup>
HKFRS 1 (Amendments)	Amendments to HKFRS 1 – First time adoption of Hong Kong Financial Reporting Standards – additional exemptions for first-time adopters <sup>3</sup>
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions <sup>3</sup>
HKFRS 3 (Revised)	Business Combinations <sup>1</sup>
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners <sup>1</sup>
HK(IFRIC) – Int 18	Transfers of Assets from Customers <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>2</sup> Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2010

<sup>4</sup> Effective for transfer of assets from customers received on or after 1 July 2009

<sup>5</sup> Effective for annual periods beginning on or after 1 February 2010

The application of HKFRS 3 (Revised) may affect the Group’s accounting for business combinations for which the acquisition dates are on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group’s ownership interest in a subsidiary. The Directors anticipate that the application of other new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.



### 3. REVENUE AND OTHER INCOME

The Group is currently engaged in the forestry business. Revenue and other income recognised during the Period are as follows:

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2009</b>	2008
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Revenue		
Sale of forestry products	<b>5,415</b>	599,234
Other income		
Bank interest income	<b>317</b>	3,914
Imputed interest income	<b>2,512</b>	–
Dividend income from listed investments	<b>10</b>	12
Others	–	10,000
	<b>2,839</b>	13,926
	<b>8,254</b>	613,160

### 4. SEGMENTAL INFORMATION – BUSINESS SEGMENTS

On adoption of HKFRS 8, the Group has identified and prepared segment information based on the regular internal financial information reported to the Group's executive directors for their assessment of performance and resources allocation. Accordingly, the business of ecological forestry operation has been identified as the single reportable operating segment for the Group for the Period and the period ended 30 September 2008.

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

	<b>The PRC (excluding</b>		<b>Hong Kong</b>		<b>Elimination</b>		<b>Consolidated</b>	
	<b>2009</b>	2008	<b>2009</b>	2008	<b>2009</b>	2008	<b>2009</b>	2008
	<b>(Unaudited)</b>	(Unaudited)	<b>(Unaudited)</b>	(Unaudited)	<b>(Unaudited)</b>	(Unaudited)	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Segment revenue:								
External sales	<b>5,415</b>	599,234	–	–	–	–	<b>5,415</b>	599,234
Inter-segment sales	–	–	–	180	–	(180)	–	–
	<b>5,415</b>	599,234	–	180	–	(180)	<b>5,415</b>	599,234

## 5. (LOSS)/PROFIT FOR THE PERIOD

The Group's (loss)/profit for the period is arrived at after charging/(crediting) the following:

	Six months ended 30 September	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Amortisation of patent	13,380	13,333
Amortisation of biological assets	18,263	17,835
Depreciation on property, plant and equipment	9,238	5,045
Release of prepaid lease payments	15,970	11,141
Research and development costs	319	1,020
Staff costs:		
Basic salaries and allowances	19,181	10,141
Share-based payments	22,487	32,583
Unrealised loss on financial assets		
at fair value through profit or loss	6,783	35,249
Gain on disposal of forest farms	–	(65,466)
Realised gain on disposal of financial assets		
at fair value through profit or loss	(4,445)	(411)
	<u>15,147</u>	<u>18,693</u>

## 6. FINANCE COSTS

	Six months ended 30 September	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on long term payables	11,468	2,671
Interest on convertible notes	3,679	16,022
	<u>15,147</u>	<u>18,693</u>

## 7. TAXATION

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2009</b>	2008
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	<b>HK\$'000</b>
PRC income tax		
– current charge	<b>(151)</b>	–
Deferred taxation		
– deferred tax credit	<b>483</b>	561
	<b>332</b>	561

No provision for Hong Kong profit tax has been made as the Group had no taxable profits arising in Hong Kong for the six months ended 30 September 2009 (2008: HK\$ Nil).

The Group's subsidiaries in the PRC are subject to PRC income tax.

One of the subsidiaries, Chongqing Wan Fu Chun Forestry Development Company Limited (“Chongqing WFC”) was engaged as a forestry operation enterprise in the PRC. Pursuant to the approval obtained from the relevant PRC tax authority, Chongqing WFC is entitled to a tax concession period whereby it is fully exempted from the PRC enterprise income tax for the year ending 31 December 2009.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress of the PRC promulgated the Corporate Income Tax Law of the PRC (“the New Tax Law”), which became effective on 1 January 2008. Further, the State Council released the Implementation Rules to the Corporate Income Tax Law on 6 December 2007 (the “Implementation Rules”). Under the Implementation Rules, an entity engaged in the forestry business is entitled to full exemption from the PRC enterprise income tax. Chongqing WFC is currently under the full tax exemption period and the Directors are confident that full exemption will be granted from the PRC tax authority when the application is lodged in the subsequent years. Therefore, no deferred tax has been provided for the period.

Another subsidiary, Wan Fu Chun Forest Resources Group Company Limited (“Beijing WFC”) was recognised as an “Encouraged Hi-Tech Enterprise” and was under full exemption from the PRC enterprise income tax in 2007. Under the New Tax Law, an “Encouraged Hi-Tech Enterprise” would be entitled to a reduced corporate income tax rate after the full exemption period, subject to re-assessment by the relevant PRC tax authorities. Beijing WFC was not recognised as an “Encouraged Hi-Tech Enterprise” in 2008 and its profit was subject to a tax rate of 25%. However, Beijing WFC is operating in the forestry business, the Directors are confident that full exemption will be granted from the PRC tax authority when the application is lodged. Therefore, no deferred tax has been provided for the period.

**8. NET LOSS FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY AND DIVIDEND**

The net loss for the period attributable to equity holders of the Company for the period ended 30 September 2009 dealt with in the financial statements of the Company was approximately HK\$42,970,000 (for the six months ended 30 September 2008: net loss of HK\$60,634,000).

No dividend was paid or proposed during the period ended 30 September 2009 (for the six months ended 30 September 2008: nil), nor has any dividend been proposed since 30 September 2009.

**9. (LOSS)/EARNINGS PER SHARE**

(a) The calculation of basic and diluted (loss)/earnings per share attributable to equity holders of the Company is based on the following data:

(i) *(Loss)/profit attributable to equity holders of the Company*

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2009</b>	2008
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
(Loss)/profit for the period attributable to equity holders of the Company	<b>(133,268)</b>	187,900
Interest expense on convertible notes ( <i>Note 6</i> )	—	16,022
(Loss)/profit for the period attributable to equity holders of the Company used in the diluted (loss)/earnings per share calculation	<b><u>(133,268)</u></b>	<b><u>203,922</u></b>

(ii) *Weighted average number of ordinary shares*

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2009</b>	<b>2008</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>'000</b>	<b>'000</b>
Weighted average number of ordinary shares at 30 September for the purpose of calculation of basic (loss)/earnings per share	<b>5,599,093</b>	5,542,411
Effect of dilutive potential ordinary shares:		
Convertible notes	—	833,333
Weighted average number of ordinary shares at 30 September for the purpose of calculation of diluted (loss)/earnings per share	<b>5,599,093</b>	<b>6,375,744</b>

Because the basic loss per share for the period ended 30 September 2009 is reduced when taking share options and/or convertible notes into account, the share options and convertible notes have an anti-dilutive effect on the basic loss per share for the period. Accordingly, no diluted loss per share is presented for the period ended 30 September 2009.

**10. PROPERTY, PLANT AND EQUIPMENT**

During the Period, additions of property, plant and equipment amounted to approximately HK\$170,000 (for the six months ended 30 September 2008: HK\$30,614,000). No additions of property, plant and equipment arose from the acquisition of new subsidiaries during the Period (for the six months ended 30 September 2008: HK\$4,743,000).

**11. INTERESTS IN JOINTLY-CONTROLLED ENTITIES**

	<b>30 September</b>	<b>31 March</b>
	<b>2009</b>	<b>2009</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Shares of net assets, unlisted	<b>11,043</b>	11,043
Less: impairment loss	<b>(11,043)</b>	(11,043)
	—	—
Amounts due from jointly-controlled entities	<b>13,495</b>	13,495
Less: impairment loss	<b>(13,495)</b>	(13,495)
	—	—

Particulars of the jointly-controlled entity, which account principally for the results and net assets shared by the Group 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)	Corporate	The PRC	55%	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)	Corporate	The PRC	38.5%	Manufacture and sales of nano high-elastic plastic and materials

## 12. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 90 to 120 days. An ageing analysis of the trade receivables as at the balance sheet date, based on the date of recognition of the sales, is as follows:

	<b>30 September 2009 (Unaudited) HK\$'000</b>	31 March 2009 (Audited) HK\$'000
0-30 days	–	11,839
31-60 days	–	–
61-90 days	–	–
Over 90 days	<b>244,453</b>	349,684
	<b>244,453</b>	361,523
Less: Allowance for doubtful debts	<b>(59,124)</b>	(58,969)
	<b>185,329</b>	302,554

### 13. SHARE CAPITAL

	<b>30 September 2009 (Unaudited) HK\$'000</b>	31 March 2009 (Audited) HK\$'000
Authorised:		
20,000,000,000 ordinary shares of HK\$0.10 each	<b>2,000,000</b>	2,000,000
Issued and fully paid:		
6,581,715,600 (31 March 2009: 5,471,715,600) ordinary shares of HK\$0.10 each	<b>658,172</b>	547,172

During the period ended 30 September 2009, the Company raised share issue proceeds, net of related expenses, of approximately HK\$286,696,000 from placing and subscription agreement whereby an aggregate of 1,110,000,000 new ordinary shares of the Company were issued and allotted at a price of HK\$0.265 per share.

### 14. EQUITY SETTLED SHARE-BASED TRANSACTION

In 2001, the Company adopted a share option scheme that entitles key management personnel and employees to subscribe for shares of the Company. The terms and conditions of the share option scheme are disclosed in the consolidated financial statements for the year ended 31 March 2009.

A summary of option movements for the six months ended 30 September 2009 is presented below:

	Six months ended		Year ended	
	30 September 2009 (Unaudited)		31 March 2009 (Audited)	
	Weighted average exercise price HK\$	Number of shares involved in the options	Weighted average exercise price HK\$	Number of shares involved in the options
At beginning of period/year	0.458	595,700,000	1.109	114,100,000
Granted	-	-	0.322	487,600,000
Cancelled	-	-	1.795	(6,000,000)
Outstanding at end of period/year	0.458	595,700,000	0.458	595,700,000
Exercisable of the end of period/year	0.534	390,740,000	0.479	347,610,000

No share option has been exercised during the six months ended 30 September 2009 and 2008.

## 15. RESERVES

	Share premium account HK\$'000	Share-based compensation reserve HK\$'000	Subscription right reserve HK\$'000	Investment revaluation reserve HK\$'000	Statutory reserve fund HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Conversion option reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2009 (Audited)	1,655,454	59,705	24,543	(20,115)	136,981	3,751	549,314	19,039	3,604,654	6,033,326
Currency translation difference	-	-	-	-	-	-	23,334	-	-	23,334
Loss for the period	-	-	-	-	-	-	-	-	(133,268)	(133,268)
Total comprehensive expense for the period	-	-	-	-	-	-	23,334	-	(133,268)	(109,934)
Issue of shares	175,696	-	-	-	-	-	-	-	-	175,696
Equity settled share based transactions	-	22,487	-	-	-	-	-	-	-	22,487
At 30 September 2009 (Unaudited)	<u>1,831,150</u>	<u>82,192</u>	<u>24,543</u>	<u>(20,115)</u>	<u>136,981</u>	<u>3,751</u>	<u>572,648</u>	<u>19,039</u>	<u>3,471,386</u>	<u>6,121,575</u>

## 16. TRADE PAYABLES

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

	<b>30 September 2009 (Unaudited) HK\$'000</b>	31 March 2009 (Audited) HK\$'000
0-30 days	-	5,616
31-60 days	-	-
61-90 days	-	4,340
Over 90 days	<b>18,882</b>	51,002
	<u><b>18,882</b></u>	<u>60,958</u>

## 17. CONVERTIBLE NOTES

	<b>30 September 2009 (Unaudited) HK\$'000</b>	31 March 2009 (Audited) HK\$'000
Convertible notes – issued	<u><b>96,123</b></u>	<u>93,196</u>



The convertible notes were issued as partial settlement of the consideration for the acquisition of Strong Lead Investments Limited and its subsidiary, Beijing WFC. 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 the usual adjustments
Maturity date	4 years from the date of issue

#### 18. CAPITAL COMMITMENTS

As at 30 September 2009, the Group had the following capital commitments contracted but not provided for:

	<b>30 September 2009 (Unaudited) HK\$'000</b>	31 March 2009 (Audited) HK\$'000
Construction cost	<b><u>46,649</u></b>	<u>45,941</u>

#### 19. AMOUNTS DUE FROM/(TO) RELATED COMPANIES

The amounts due were unsecured, non-interest bearing and have no fixed repayment terms.

The maximum amounts due from related companies outstanding during the period ended 30 September 2009 was HK\$72,823,000.

#### 20. AMOUNTS DUE FROM DIRECTORS

There were no amounts due from Directors as at 30 September 2009. As at 31 March 2009, the amounts were due from Ms. Cao Chuan and Mr. Cheng Shouheng. The balances were unsecured, interest free and with no fixed repayment terms. The maximum amount outstanding during the period ended 30 September 2009 was HK\$240,000.

#### 21. COMPARATIVE FIGURES

Sales proceeds from the disposal of standing timber in forest farms of HK\$119,020,000 and the cost of standing timber in forest farms disposed of amounting to HK\$67,857,000, which were previously included in the revenue and cost of inventories and forestry products sold for the period ended 30 September 2008 have been restated under other net gain for the current period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial highlights

For the six months ended 30 September 2009, the Group recorded a turnover of approximately HK\$5.4 million, representing a decrease of 99.1% compared with the six months ended 30 September 2008 (the “Period Ended 30 September 2008”). The Group’s loss attributable to shareholders was approximately HK\$133.3 million, and its basic loss per share for the Period was HK2.38 cents (for the Period Ended 30 September 2008: profit of HK\$187.9 million, representing a basic earnings of HK3.39 cents). The Group’s loss attributable to shareholders excluding depreciation, amortisation, imputed interest and miscellaneous non-cash expenses for the Period was approximately HK\$40 million.

In arriving at the Group’s net loss, sharing in losses of its joint-venture investment in Nano-technologies was HK\$ Nil (for the Period Ended 30 September 2008: loss of HK\$1.5 million).

### Dividend

The Board does not recommend any interim dividend for the period ended 30 September 2009.

### Business review

The ecological forestry business has been identified as the single operating segment for the Group for the period ended 30 September 2009.

#### (i) *Forest land and timber business*

During the Period, there was no significant acquisition or disposal of forest land. As at 30 September 2009, the total area of forest land use right owned by the Group amounted to approximately 7.5 million Chinese Mu. Such forest land is mainly located in Hunan, Chongqing, Yunnan and Guizhou.

The financial turmoil has adversely impacted the global economy, especially the property market and manufacturing industries. The significant drop of timber price and demand for traditional timber products which affected the traditional timber business with severity. The turnover dropped significantly during the Period.

It would be difficult to yield a reasonable return from the production and sales of traditional timber products under the current market conditions where timber price is low and production cost increases. Also, forest resources may be wasted. In order to overcome the current situation, the Group would speed up the development of high valued by-products so as to increase the utilisation of forestry resources and increase the overall saleable value.

(ii) *Biomass energy*

Bio-mass energy is providing a significant business opportunity for the forestry industry in China. Bio-diesel, a type of biomass energy, is a clean burning alternative fuel, produced from renewable and sustainable resources. The Group develops bio-diesel by using *Jatropha Curcas L.* (“*Jatropha*”) which has three major advantages. Firstly, *Jatropha* is a non-edible crop which suits bio-mass energy development strategy in China. Secondly, *Jatropha* is very undemanding to soil quality. Thirdly, the components of *Jatropha* are suitable to mix with normal diesel.

The drop in the price of energy affected the development of bio-mass energy projects during the Period. The Group is also seeking to develop high value-added by-products in respect of bio-diesel projects to deal with situation under the current energy price level.

## **PROSPECTS AND DEVELOPMENT STRATEGIES**

The Group believes that forests are renewable resource which allows sustainable growth, and the healthy development and appropriate utilization of forest resources is our business philosophy.

Between May 2006 and 30 September 2009, the Group acquired forest assets in China accumulating to a total of approximately 7,500,000 Chinese mu, in which 800,000 Chinese mu of this forest land is *Jatropha*'s development bases. *Jatropha* is one of the raw materials in the production of bio-diesel. This plant protects the soil and is a non-edible crop. Further, it meets the standards set by the state. Therefore, the development of bio-diesel is one of the Group's principal businesses.

In addition, with the increasing awareness of alternative energy and ecology protection, the Chinese government is implementing various measures to support the development of such industries as ecological forestry, carbon emission reduction and energy. Such measures include the reduction of emissions in the forest industry, land concession rights reform and subsidies to the plantation of environmentally-friendly species. Of these, land concession rights reform directly presents a golden opportunity for the Group. Such a policy can speed up the circulation of forest ownership transfers, thereby raising the value of the land and forests owned by the Group. Besides, the Group will also put in efforts to develop downstream industries. Other than bio-diesel, wood pellets production is also one of the directions in which we are considering our development. With the Chinese government unveiling economic stimulus packages, the macro-economy in the PRC is expected to recover gradually. Thus, there should be an upside potential of timber price and energy price. Moreover, the Group is exploring overseas development opportunities carefully in order to catch up the growing demand for timber in China, so as to maximise our shareholders' returns.

## Operating results and financial review

### *Revenue*

The sales of forestry products for the Group included processed timber in various log grades, standing timber, paper mulberry products and pulpwood. All the forestry products were sold in China, the global financial turmoil has adversely impacted the economy, especially the property market and manufacturing industries, which caused drop in demand for and prices of timber products, the significant decrease in the sales of forestry products was recorded accordingly.

### *Other net loss*

Other net loss in the current period mainly included net unrealised losses on investments in equity securities listed in Hong Kong-financial assets at fair value amounting to approximately HK\$6.8 million and realised gain on disposal of financial assets amounting to approximately HK\$4.4 million. During the period ended 30 September 2008, there was a gain of disposal of forest farms amounting to HK\$65 million.

### *Cost of inventories and forestry products sold*

The Group's decrease in cost for the Period was mainly a result of the significant drop of production and the decrease in the sales of forestry products.

### *Other operating expenses*

The Group's other operating expenses for the Period in the amount of approximately HK\$23 million mainly included various administrative and selling expenses.

During the period ended 30 September 2008, an amount of HK\$34 million was incurred for debris removal and rebuilding of paths of forest farms within the affected area after the snow-storm disaster in early 2008.

### *Biological assets*

The following table summarises the movement of biological assets during the Period.

	<b>Paper mulberry trees</b>	<b>Jatropha</b>	<b>Other forest assets</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 April 2009	237,497	712,162	5,869,622	6,819,281
Plantation expenditures	369	2,931	1,123	4,423
Amortisation of stumps during the Period	(18,263)	–	–	(18,263)
Direct sales and harvest as agricultural produce	–	–	(1,684)	(1,684)
Exchange differences	628	1,884	15,411	17,923
	<hr/>	<hr/>	<hr/>	<hr/>
As at 30 September 2009	<u>220,231</u>	<u>716,977</u>	<u>5,884,472</u>	<u>6,821,680</u>

#### *Prepaid lease payments*

Prepaid lease payments being the prepayments of land use rights located in the PRC and the decrease in value mainly arising from amortisation during the Period amounted to HK\$16 million.

#### *Intangible assets*

Intangible assets included goodwill of HK\$190 million and patent of HK\$438 million. The decrease mainly due to the amortisation of patent during the Period amounted to HK\$13 million.

#### *Trade receivables*

The net decrease mainly represents the settlement by trade debtors during the Period.

#### *Purchase consideration payable*

The balances represent the purchase consideration payable arising from the acquisition of Shenyu New Energy Group Limited, a bio-mass project in China. Detailed financial information has been disclosed in Note 41 to the financial statements of the annual report dated on 24 July 2009.

Since Shenyu New Energy Group Limited recorded a loss for the year ended 31 March 2009, no additional cash was paid and no convertible note was issued to the vendor during the Period. As at 31 March 2009 and 30 September 2009, HK\$200 million in cash had been paid to the Vendor.

#### *Other payables and accruals and long-term payables*

Other payables and accruals and long-term payables mainly included payables of forest farms, trade deposit received and plantation expenditures payable.

The net decrease mainly represents the repayment in respect of forest farms during the Period.

### **Liquidity, financial resources and capital structure**

As at 30 September 2009, the Group's cash and bank balances, which were principally Renminbi and Hong Kong dollar denominated, amounted to approximately a total of HK\$456 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.

As at 30 September 2009, the Group had no borrowing (excluding convertible notes liabilities). As at 30 September 2009, the Group's gearing ratio, measured on the basis of total borrowings (including convertible notes) as a percentage of total shareholders' funds, was approximately 1.4%.

The Group's currently available liquidity resources are sufficient to meet its capital commitments. As at 30 September 2009, the Group's net current assets amounted to approximately HK\$534 million. The Group's current ratio, being the percentage of its current assets in its current liabilities, amounted to 2.74 times.

As at 30 September 2009, the capital structure of the Company is constituted exclusively of 6,581,715,600 ordinary shares of HK\$0.1 each. Apart from ordinary shares in issue, the capital instruments of the Company in issue include convertible notes.

During the period under review, a total of 1,110,000,000 new shares have been issued by way of placing. The net proceeds from the placing amount to approximately HK\$286.7 million and would be used for general working capital of the Group.

### **Charge on the Group's assets**

The Group did not have any pledged assets as at 30 September 2009.

### **Contingent liabilities**

As at 30 September 2009, the Group did not have any material contingent liabilities.

### **Employees**

As at 30 September 2009, the Group employed a total of approximately 320 employees of which 12 were employed in Hong Kong. In addition to competitive remuneration 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 the Directors, executives and employees of the Company to provide them with incentives in the growth of the Group.

### **Model code for securities transactions by Directors**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") in respect of the securities dealing by the Directors. The Company has made specific enquiry of all Directors in respect of the securities dealing by the Directors and is not aware of any non-compliance with the Model Code during the six months ended 30 September 2009.

### **Purchase, redemption or sale of listed securities by the Company**

During the reporting period, the Company has placed a total of 1,110,000,000 placing shares to not less than six places at the placing price of HK\$0.265 per shares. Except for the above, there was no purchase, redemption or sale of shares of the Company by the Company or its subsidiaries during the six months ended 30 September 2009.

### **Events after the balance sheet date**

On 30 November 2009, the Company announced to raise share issue proceeds, net of related expenses, of approximately HK\$333.5 million from the issue of 1,316,000,000 new shares of the Company under a placing arrangement (“the Placement”). The resulting net proceeds has been retained as general working capital of the Group. Further details are set out in the Company’s announcement of 30 November 2009. As at the date of this announcement, the Placement has not been completed.

### **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 throughout the Period.

### **Audit and remuneration committees**

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. Zhu Jian Hong, Dr. Wong Yun Kuen and Mr. Chan Chi Yuen.

The audit committee has reviewed the unaudited condensed consolidated financial statements and the interim report for the Period, and was of the opinion 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 with reference to the corporate goals and objectives resolved by the Board from time to time.

By order of the Board  
**China Grand Forestry Green Resources Group Limited**  
**Tse On Kin**  
*Chairman*

Hong Kong, 23 December 2009

*As at the date of this announcement, the Board of Directors of the Company comprises of Mr. Tse On Kin and Mr. Pang Chun Kit being the executive Directors and Mr. Zhu Jian Hong, Dr. Wong Yun Kuen and Mr. Chan Chi Yuen being the independent non-executive Directors.*