

INTERIM REPORT
2010/11



China Grand Forestry Green Resources Group Limited

(Incorporated in Bermuda with limited liability)

Stock code : 910

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Tse On Kin (*Chairman*)
Mr. Pang Chun Kit
Mr. Lau Man Tak
(appointed on 7 April 2010)
Mr. Chi Chi Hung Kenneth
(appointed on 19 May 2010)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Wong Yun Kuen
Mr. Chan Chi Yuen
Ms. Xu Lei

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 3309-11
33/F., West Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

COMPANY SECRETARY

Ms. Lai Yeung Fun
(resigned on 20 September 2010)
Mr. Pang Chun Kit
(appointed on 20 September 2010)

AUDITOR

BDO Limited
25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

PRINCIPAL BANKERS

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

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

Standard Chartered Bank (Hong Kong)
Limited
13/F, Standard Chartered Bank Building
4-4A Des Voeux Road Central
Hong Kong

PRINCIPAL REGISTRARS AND TRANSFER OFFICE

HSBC Securities Services (Bermuda) Limited
(formerly The Bank of Bermuda Limited)
Bank of Bermuda Building
6 Front Street
Hamilton HM11
Bermuda

BRANCH REGISTRARS AND TRANSFER OFFICE

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Six months ended 30 September	
		2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Revenue	3	2,268	5,415
Loss arising from changes in fair values less costs to sell of biological assets		(818,478)	–
Other income	3	7,320	2,839
Other net gain/(loss)		5,008	(2,338)
Cost of inventories and forestry products sold		(1,088)	(2,812)
Staff costs		(9,474)	(41,668)
Depreciation of property, plant and equipment		(9,799)	(9,238)
Amortisation of biological assets		–	(18,263)
Amortisation of patent		(456)	(13,380)
Release of prepaid lease payments		(16,215)	(15,970)
Other operating expenses		(14,691)	(23,038)
Finance costs	6	(6,886)	(15,147)
Impairment loss on available-for-sale investment		(3,403)	–
Loss before income tax credit		(865,894)	(133,600)
Income tax credit	7	213,668	332
Loss for the Period	5	(652,226)	(133,268)
Other comprehensive income for the Period: Exchange difference on translating foreign operations		73,217	23,334
Total comprehensive income for the Period		(579,009)	(109,934)

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(CONTINUED)**

		Six months ended 30 September	
	<i>Notes</i>	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Loss attributable to:			
Owners of the Company	8	(652,226)	(133,268)
Non-controlling interests		–	–
		(652,226)	(133,268)
Total comprehensive income attributable to:			
Owners of the Company		(579,009)	(109,934)
Non-controlling interests		–	–
		(579,009)	(109,934)
Loss per share	9		
– basic		HK(7.52) cents	HK(2.38) cents
– diluted		HK(7.52) cents	HK(2.38) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	30 September 2010 (Unaudited) HK\$'000	31 March 2010 (Audited) HK\$'000
ASSETS			
Non-current assets			
Biological assets		2,604,859	3,372,253
Property, plant and equipment	10	81,330	88,036
Construction in progress		37,463	30,566
Prepaid lease payments		1,255,314	1,248,472
Long-term prepayments		96,337	93,398
Intangible assets		13,889	14,083
Available-for-sale investments		10,439	13,842
		4,099,631	4,860,650
Current assets			
Inventories		394	384
Trade receivables	11	1,331	1,306
Prepaid lease payments		31,845	31,366
Other receivables, deposits and prepayments		182,944	90,840
Financial assets at fair value through profit or loss		119,068	114,770
Cash and cash equivalents		688,265	605,952
		1,023,847	844,618
Total assets		5,123,478	5,705,268

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Notes	30 September 2010 (Unaudited) HK\$'000	31 March 2010 (Audited) HK\$'000
Current liabilities			
Trade payables	15	17,567	17,239
Other payables and accruals		211,997	211,519
Convertible notes payable	16	–	99,125
Tax payable		78,566	77,191
		308,130	405,074
Net current assets		715,717	439,544
Total assets less current liabilities		4,815,348	5,300,194
Non-current liabilities			
Long term payables		180,515	179,691
Deferred taxation	17	86,702	297,772
		267,217	477,463
Total net assets		4,548,131	4,822,731
Capital and reserves attributable to the Company's owners			
Share capital	12	974,105	790,772
Reserves	14	3,573,959	4,031,892
		4,548,064	4,822,664
Non-controlling interests		67	67
Total equity		4,548,131	4,822,731

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 September	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	(8,302)	27,402
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(115,497)	(59,640)
NET CASH INFLOW FROM FINANCING ACTIVITIES	204,650	286,696
NET INCREASE IN CASH AND CASH EQUIVALENTS	80,851	254,458
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	605,952	201,116
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	1,462	446
CASH AND CASH EQUIVALENTS AT END OF PERIOD	688,265	456,020
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
CASH AND BANK BALANCES	688,265	456,020

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	For the six months ended 30 September 2010					Total HK\$'000
	Share capital HK\$'000	Share premium and other reserves HK\$'000	Retained profits HK\$'000	Attributable to owners of the Company HK\$'000	Non- controlling interests HK\$'000	
Balance at 1 April 2010 (Audited)	790,772	2,880,665	1,151,227	4,822,664	67	4,822,731
Total comprehensive income for the Period	-	73,217	(652,226)	(579,009)	-	(579,009)
Placement	100,000	104,650	-	204,650	-	204,650
Issue of shares upon conversion of convertible notes	83,333	16,426	-	99,759	-	99,759
Balance at 30 September 2010 (Unaudited)	974,105	3,074,958	499,001	4,548,064	67	4,548,131

	For the six months ended 30 September 2009					Total HK\$'000
	Share capital HK\$'000	Share premium and other reserves HK\$'000	Retained profits HK\$'000	Attributable to owners of the Company HK\$'000	Non- controlling interests HK\$'000	
Balance at 1 April 2009 (Audited)	547,172	2,428,672	3,604,654	6,580,498	67	6,580,565
Total comprehensive income for the period	-	23,334	(133,268)	(109,934)	-	(109,934)
Equity settled share-based transactions	-	22,487	-	22,487	-	22,487
Placement	111,000	175,696	-	286,696	-	286,696
Balance at 30 September 2009 (Unaudited)	658,172	2,650,189	3,471,386	6,779,747	67	6,779,814

NOTES TO THE CONDENSED CONSOLIDATED INTERIM 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 located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and Units 3309-11, 33/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong respectively.

The principal activity of the Company is investment holding. The Group is engaged in the ecological forestry business.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 September 2010 (the "Interim Financial Statements") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Interim Financial Statements have been prepared under the historical cost convention, except for certain biological assets, financial assets at fair value through profit or loss and available-for-sale financial assets, which are stated at fair value less cost to sell and fair values.

The accounting policies and methods of computation adopted for preparation of the Interim Financial Statements are consistent with those applied in the preparation of the annual financial statements of the Group for the year ended 31 March 2010 (the "Annual Financial Statements"), except for the adoption of the new and revised Hong Kong Financial Reporting Standards (the "HKFRSs") (which in collective term includes all applicable HKFRSs, Hong Kong Accounting Standards (the "HKASs") and Interpretations) issued by the HKICPA as disclosed in Note 2. The Interim Financial Statements are unaudited, but have been reviewed by the audit committee of the Company.

The Interim Financial Statements should be read in conjunction with the Annual Financial Statements.

In the current Period, the Group has applied all of the new and revised HKFRSs, HKASs and Interpretations issued by the HKICPA that are relevant to its operations and effective for the current accounting Period of the Group and the Company.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

HKFRS 3 (Revised), Business Combinations (“HKFRS 3R”)

HKFRS 3R introduced major changes to the accounting requirements for business combinations. It retains the major features of the purchase method of accounting, now referred to as the acquisition method. The most significant changes in HKFRS 3R are as follows:

- Acquisition-related costs of the combination are recognised as an expense in profit or loss. Previously, these costs would have been accounted for as part of the costs of the acquisition.
- The assets acquired and liabilities assumed are generally measured at their acquisition-date fair values unless HKFRS 3R provides an exception and provides specific measurement rules.
- Any contingent consideration is measured at fair value at the acquisition date. If the contingent consideration arrangement gives rise to a financial liability, any subsequent changes are generally recognised in profit or loss. Previously, contingent consideration was recognised at the acquisition date only if its payment was probable.
- HKFRS 3R has been applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

HKAS 27 (revised), “Consolidated and Separate Financial Statements” (“HKAS 27R”)

HKAS 27R requires the effects of all transactions with non-controlling interest (previously minority interest) to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. When control is lost, any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. Furthermore, losses of non-wholly owned subsidiary are attributed to the owners of the Company and non-controlling interest even if that results in a deficit balances. Losses prior to 1 April 2010 were not re-allocated between owners of the Company and non-controlling interests. These amendments are applied prospectively for annual period beginning on or after 1 July 2009. The revised standard has had no impact on the current Period.

HKAS 17 (Amendment), “Leases”

As a result of the amendment to HKAS 17, Leases, as part of the “Improvements to HKFRSs (2009)”, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group’s judgement, the lease transfers significantly all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the classification of such lease as operating leases continues to be appropriate.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

The Group has not early applied the following new or revised HKFRSs that have been issued but are not yet effective:

New or revised HKFRSs

The following new or revised HKFRSs that are potentially relevant to the Group's operations, have been issued but are not yet effective and have not been early adopted:

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ¹
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments ²
HKAS 24 (Revised)	Related Party Disclosures ³
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets ⁴
HKFRS 9	Financial Instruments ⁵

Effective date

- ¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
- ² Effective for annual periods beginning on or after 1 July 2010
- ³ Effective for annual periods ending on or after 1 January 2011
- ⁴ Effective for annual periods beginning on or after 1 July 2011
- ⁵ Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the potential impact of these new or revised HKFRSs and the directors so far concluded that the application of these new or revised HKFRSs 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:

	Six months ended 30 September	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Revenue		
Sale of forestry products	2,268	5,415
Other income		
Bank interest income	1,612	317
Imputed interest income	868	2,512
Dividend income from listed investments	369	10
Income arising from transfer of research and development project to third parties	3,342	–
Income arising from granting of patent use rights	1,129	–
	7,320	2,839
	9,588	8,254

4. SEGMENTAL INFORMATION

Reportable segment

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 current and prior reporting periods.

5. LOSS FOR THE PERIOD

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

	Six months ended 30 September	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Auditor's remuneration	303	–
Minimum lease payments under operating leases on leasehold properties	2,698	5,034
Research and development costs	645	319
Staff costs:		
Basic salaries and allowances	8,857	18,627
Share-based payments	–	22,487
Retirement benefits scheme contribution	617	554
Unrealised (gain)/loss on financial assets at fair value through profit or loss	(4,299)	6,783
Realised gain on disposal of financial assets at fair value through profit or loss	–	(4,445)
Net exchange gains	(25)	(25)

6. FINANCE COSTS

	Six months ended 30 September	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Interest on long term payables	6,156	11,468
Interest on convertible notes	730	3,679
	6,886	15,147

7. INCOME TAX CREDIT

		Six months ended 30 September	
	Notes	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Overseas tax			
– current charge		–	(151)
– deferred tax credit	17	213,571	–
Hong Kong profit tax			
– deferred tax credit	17	97	483
		213,668	332

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the six months ended 30 September 2010 (2009: HK\$Nil).

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

The State Council released the Implementation Rules to the Corporate Income Tax Law on 6 December 2007 (the "Implementation Rules"). According to the Implementation Rules, an entity engaged in forestry business is entitled to full exemption from the PRC enterprise income tax commencing from 1 January 2008. Chongqing Wan Fu Chun Forestry Development Company Limited ("Chongqing WFC"), a wholly-owned subsidiary of the Group, is engaged in the forestry operation enterprise in the PRC. Chongqing WFC does not apply for tax exemption as it sustained loss for both periods. The directors are confident that full exemption will be granted from the PRC tax authority when the application is lodged. No deferred tax has been provided for both periods.

7. INCOME TAX CREDIT (CONTINUED)

Wan Fu Chun Forest Resources Group Company Limited (“WFC”), a wholly-owned subsidiary of the Group, was certified as a High and New Tech Enterprise for three years from 1 January 2008 to 31 December 2010, which is subject to annual review. According to the preferential regulations specified by State Council, WFC had entitled to a favourable enterprise income tax rate of 15%. Due to the low level of research and development activities took place during both calendar year ending 31 December 2010 and 2009, the management considered WFC does not qualify as a High and New Tech Enterprise after the annual review and thus unable to enjoy the favourable enterprise income tax. Pursuant to the Implementation Rules, WFC should be entitled to full exemption from the PRC enterprise income tax as it is operating in forestry business in the PRC. In previous years, though WFC had not yet applied for the exemption under the Implementation Rules, in the opinion of the directors, full exemption would be granted from the PRC tax authority under the Implementation Rules if application was lodged. As such, no deferred tax had been provided in the previous years. During the year ended 31 March 2010 and the six months ended 30 September 2010, WFC has lodged an application, however, the PRC tax authority has not yet granted the exemption approval to WFC. Due to the unexpected prolonged application process, management is not confident that the exemption will be granted from the tax authority, and so it did not qualify for tax exemption for both calendar year ending 31 December 2010 and 2009. Accordingly, WFC is subject to enterprise income tax rate of 25% and provision for enterprise income tax in respect of prior years and deferred taxation due to change in tax status have been provided for the year ended 31 March 2010. WFC did not subject to enterprise income tax as it sustained loss for the six months ended 30 September 2010.

Yunnan Shenyu New Energy Company Limited (“Yunnan Shenyu”), a wholly owned subsidiary of the Group, is also operating in forestry business in the PRC. Pursuant to the approval obtained from the relevant PRC tax authority, Yunnan Shenyu is entitled to a tax concession period whereby it is fully exempted from PRC enterprise income tax for both calendar year ending 31 December 2010 and 2009. Yunnan Shenyu did not apply for tax exemption as it sustained loss for both periods. The directors are confident that full exemption will be granted from the PRC tax authority when the application is lodged. No deferred tax has been provided for both periods.

The applicable PRC enterprise income tax is 25 % for 2010 and 2009 for other PRC subsidiaries.

8. LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY AND DIVIDEND

The net loss for the Period attributable to owners of the Company for the period ended 30 September 2010 dealt with in the financial statements of the Company was approximately HK\$11,526,000 (for the six months ended 30 September 2009: net loss of HK\$42,970,000).

No dividend was paid or proposed during the period ended 30 September 2010 (for the six months ended 30 September 2009: HK\$nil), nor has any dividend been proposed since 30 September 2010.

9. LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to owners of the Company is based on the following data:

(i) *Loss attributable to owners of the Company*

	Six months ended 30 September	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Loss for the Period attributable to owners of the Company	652,226	133,268
Interest expense on convertible notes	-	-
Loss for the Period attributable to owners of the Company used in the diluted loss per share calculation	652,226	133,268

(ii) *Weighted average number of ordinary shares*

	Six months ended 30 September	
	2010 (Unaudited) '000	2009 (Unaudited) '000
Weighted average number of ordinary shares at 30 September for the purpose of calculation of basic loss per share	8,674,109	5,599,093
Effect of dilutive potential ordinary shares: Share option/Convertible notes	-	-
Weighted average number of ordinary shares at 30 September for the purpose of calculation of diluted loss per share	8,674,109	5,599,093

Because the basic loss per share for the period ended 30 September 2010 and 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 both periods. Accordingly, no diluted loss per share is presented for the period ended 30 September 2010 and 2009.

10. PROPERTY, PLANT AND EQUIPMENT

During the Period, additions of property, plant and equipment amounted to approximately HK\$305,000 (for the six months ended 30 September 2009: HK\$170,000).

11. 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 end of reporting period, based on the date of recognition of the sales, is as follows:

	30 September 2010 (Unaudited) HK\$'000	31 March 2010 (Audited) HK\$'000
0-30 days	-	-
31-60 days	-	-
61-90 days	-	-
Over 90 days	67,873	66,605
	67,873	66,605
Less: Impairment loss	(66,542)	(65,299)
	1,331	1,306

12. SHARE CAPITAL

	30 September 2010 (Unaudited) HK\$'000	31 March 2010 (Audited) HK\$'000
Authorised:		
20,000,000,000 ordinary shares of HK\$0.10 each	2,000,000	2,000,000
Issued and fully paid:		
9,741,048,933 (31 March 2010: 7,907,715,600) ordinary shares of HK\$0.10 each	974,105	790,772

On 30 April and 7 May 2010, 250,000,000 and 583,333,333 new ordinary shares of par value HK\$0.1 each were issued respectively, both at a conversion price of HK\$0.12 each, resulting in release of the liability component and equity component in aggregate, at the date of conversion of HK\$100,000,000. The conversion gave rise to a credit of share capital of HK\$83,333,000 and the remaining balance of HK\$16,426,000 was credited to the share premium account. In addition, an amount of HK\$19,039,000 has been transferred from conversion option reserve to the share premium account.

On 15 September 2010, the Company received proceeds of issues of shares, net of related expenses, of approximately HK\$204,650,000 from placing and subscription agreement whereby an aggregate of 1,000,000,000 new ordinary shares of the Company were issued and allotted at a price of HK\$0.21 per share.

13. 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 2010.

The number and weighted average exercise prices of share options are as follows:

	Six months ended 30 September 2010 (Unaudited)		Year ended 31 March 2010 (Audited)	
	Weighted average exercise price HK\$	Number of options	Weighted average exercise price HK\$	Number of options
Outstanding at beginning of Period/year	0.341	1,029,300,000	0.458	595,700,000
Granted during the Period/year	-	-	0.29	658,100,000
Exercised during the Period/year	-	-	0.295	(10,000,000)
Forfeited during the Period/year	-	-	0.514	(214,500,000)
Outstanding at end of Period/year	0.341	1,029,300,000	0.341	1,029,300,000
Exercisable at end of Period/year	0.341	922,220,000	0.346	922,220,000

No share option has been exercised during the six months ended 30 September 2010.

14. RESERVES

	Share premium account HK\$'000	Share-based compensation reserve HK\$'000	Subscription right 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 2010 (Audited)	2,036,299	98,327	24,543	137,141	4,069	561,247	19,039	1,151,227	4,031,892
Total comprehensive income for the Period	-	-	-	-	-	73,217	-	(652,226)	(579,009)
Placement	104,650	-	-	-	-	-	-	-	104,650
Issue of shares upon conversion of convertible notes	35,465	-	-	-	-	-	(19,039)	-	16,426
At 30 September 2010 (Unaudited)	2,176,414	98,327	24,543	137,141	4,069	634,464	-	499,001	3,573,959

15. 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 end of reporting period, based on the receipt of goods purchased, is as follows:

	30 September 2010 (Unaudited) HK\$'000	31 March 2010 (Audited) HK\$'000
0-30 days	–	–
31-60 days	–	–
61-90 days	–	–
Over 90 days	17,567	17,239
	17,567	17,239

16. CONVERTIBLE NOTES PAYABLE

	30 September 2010 (Unaudited) HK\$'000	31 March 2010 (Audited) HK\$'000
Convertible notes – issued	–	99,125

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

On 30 April and 7 May 2010, holders of Convertible Notes converted the entire Convertible Notes with principal amount of HK\$100,000,000 into 833,333,333 new ordinary shares of the Company.

17. DEFERRED TAXATION

The following are the deferred tax liabilities recognised by the Group and movement thereon during the period ended 30 September 2010:

	Note	Fair value of biological assets over procurement cost HK\$'000	Principal denomination over fair value of convertible notes HK\$'000	Total HK\$'000
At 31 March 2010 (Audited)		297,628	144	297,772
Deferred tax credit to profit or loss	7	(213,571)	(97)	(213,668)
Recognition of deferred tax liabilities in respect of conversion of convertible notes		-	(47)	(47)
Exchange differences		2,645	-	2,645
At 30 September 2010 (Unaudited)		86,702	-	86,702

18. CAPITAL COMMITMENTS

As at 30 September 2010, the Group had the following capital commitments contracted but not provided for:

	30 September 2010 (Unaudited) HK\$'000	31 March 2010 (Audited) HK\$'000
Capital commitments contracted but not provided for:		
Construction cost	33,802	31,370

19. OPERATING LEASE ARRANGEMENTS

The Group leases its office properties and nursery gardens under operating leases arrangements. Leases for properties are negotiated for terms for one to two years. Leases for nursery gardens are negotiated for terms for six years.

The Group as lessee

At 30 September 2010, the Group had total future minimum lease payments under non-cancellable operating leases in respect of the Group falling due as follows:

	30 September 2010 (Unaudited) HK'000	31 March 2010 (Audited) HK'000
Within one year	6,493	9,430
In the second to fifth years, inclusive	668	2,710
More than five years	30	90
	7,191	12,230

The Group as lessor

The Group endeavours to sub-lease vacant space of office properties on short-term sub-lets operating leases.

As at 30 September 2010, the Group's total future minimum lease payments receivable under non-cancellable operating leases are as follows:

	30 September 2010 (Unaudited) HK'000	31 March 2010 (Audited) HK'000
Within one year	1,435	3,788

20. CONTINGENT LIABILITIES

As at 30 September 2010, the Company and the Group did not have contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial highlights

For the six months ended 30 September 2010, the Group recorded a turnover of approximately HK\$2 million, representing a decrease of 58.1% compared with the six months ended 30 September 2009 (the "period ended 30 September 2009"). The Group's loss attributable to shareholders was approximately HK\$652 million, and its basic loss per share for the Period was HK7.52 cents (for the period ended 30 September 2009: loss of HK\$133 million, representing a basic loss of HK\$2.38 cents).

Dividend

The Board does not recommend any interim dividend for the period ended 30 September 2010.

Business review

The ecological forestry business has been identified as the single operating segment for the Group for the period ended 30 September 2010.

(i) *Forest land and timber business*

During the Period, there was no significant acquisition or disposal of forest land. As at 30 September 2010, the total area of traditional forest land use right owned by the Group amounted to approximately 5 million Chinese Mu. Such forest land is mainly located in Hunan, Chongqing, Yunnan and Guizhou.

It would be difficult to yield a reasonable return from the production and sales of traditional timber products under the current market conditions where production cost increases greatly and high capital expenditure of road construction in forest farms. Therefore, the Group scale down traditional logging business and turnover dropped during the Period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Business review (Continued)

(ii) *Biomass energy*

Biomass energy is providing a significant business opportunity for the forestry industry in China which is a clean burning alternative fuel, produced from renewable and sustainable resources. As at 30 September 2010, the Group owned Jatropa estate of approximately 300,000 Chinese Mu in Yunnan Province.

A trial processing plant of Jatropa based bio-diesel has been operated in August 2010. The Group would evaluate the trial result and determine the development strategy.

Prospects

PRC Government highlighted, to proactively address climate change, additional afforestation for boosting 'greening' efforts and improving forest carbon sequestration. The Group expects that domestic harvesting in the plantations and domestic timber supply would be tightened, thereby increasing the forest coverage. Thus, the Group has to seek appropriate resources business opportunities.

Looking forward, the Group is optimistic about the resources business growth in the coming years to capture business opportunities arising from the surging demand on resources, especially in PRC. The Group is aimed to strengthen its competitive edge by optimizing its forest portfolios and will actively sourcing any high-quality resources investment opportunities to maximise our shareholders' returns.

Operating results and financial review

Revenue

The sales of forestry products for the Group during the Period mainly the sales of standing timber.

Other net gain

Other net gain in the current Period mainly included net unrealised gain on investments in equity securities listed in Hong Kong-financial assets at fair value amounting to approximately HK\$4 million.

Cost of inventories and forestry products sold

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Operating results and financial review (Continued)

Other operating expenses

The Group's other operating expenses for the Period in the amount of approximately HK\$15 million mainly included various administrative and selling expenses. During the Period, the Group adopted a tighter cost control in order to reduce the operating loss.

Finance costs

Finance costs mainly represent non-cash imputed interest expenses on payables for previous acquisitions of certain forest land.

Biological assets

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

	Liquorices <i>HK\$'000</i>	Paper mulberry trees <i>HK\$'000</i>	Jatropha <i>HK\$'000</i>	Other forest assets <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 April 2010	22,230	18,420	379,340	2,952,263	3,372,253
Plantation expenditures	–	3	1,627	1,421	3,051
Direct sales and harvest as agricultural produce	–	–	–	(654)	(654)
Exchange differences	424	351	7,743	40,169	48,687
Gain/(loss) arising from changes in fair value less costs to sell	–	–	35,310	(853,788)	(818,478)
As at 30 September 2010	22,654	18,774	424,020	2,139,411	2,604,859

The revaluation loss of other forest assets reflect the effects of flooding damage across a number of provinces in the Group's forest estate and a downward adjustment in projected woodflow.

During July and August of year 2010, there was continuous rain across a number of provinces in China. Since most of the Group's forest assets are located on mountains, flooding damage cannot be sighted or aware easily without site visit. The independent forestry surveyors completed the survey reports in late November 2010 and reported that the locations of flooding damage affected directly were mainly located in Chongqing, Shannxi, Guizhou and Yunnan. Solely rain storm would not directly and greatly harm to trees under normal condition. However, consecutive climate events/disasters (such as drought, snow storm, and heavy rain etc.) caused by adverse climate change over the past few years greatly amplified current year damage loss on the trees from rain storm indirectly. Apart from the direct flooding damages, in order to reflect the uncertainty regarding future projections of the Group's forest assets' harvest production volume, future wood flow projection has to adjust downward then.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Operating results and financial review (Continued)

Biological assets (Continued)

Poyry Forest Industry Limited has performed a valuation update on Jatropha and other forest assets to assist the Group to assess the fair value of those biological assets.

Prepaid lease payments

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

Other payables and accruals and long-term payables

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

Significant event

On 3 August 2010, the Group entered into the memorandum of understanding (“MOU”) in relation to the proposed acquisition of equity interests in (i) Mingxin Enterprises Limited (“target company 1”) incorporated in British Virgin Islands and/or (ii) Hai Hua Holdings Limited (“target company 2”) incorporated in British Virgin Islands. Both target companies are the registered holders of exploration licence in respect of the coking coal mine in Mongolia. The proposed acquisition is subject to the preliminary valuation of target company 1 by an independent valuer of international standing acceptable to indicate a value of asset of target company 1 not less than HK\$8 billion, and/or the preliminary valuation of target company 2 by an independent valuer of international standing acceptable to indicate a value of asset of target company 2 not less than HK\$8 billion. Any acquisition of target company 1 will not need to be conditional upon the acquisition of the target company 2 or vice-versa. On 17 August 2010, the Company has deposited the sum of HK\$100 million as a refundable deposit for the Proposed Acquisition pursuant to the MOU. There is no formal agreement in relation to the proposed acquisition has been entered into up to the date of this interim report.

Liquidity, financial resources and capital structure

As at 30 September 2010, the Group’s cash and bank balances, which were principally Renminbi and Hong Kong dollar denominated, amounted to approximately a total of HK\$688 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Liquidity, financial resources and capital structure (Continued)

As at 30 September 2010, the Group had no borrowing and therefore, the Group's gearing ratio is zero, measured on the basis of total borrowings as a percentage of total shareholders' funds.

The Group's currently available liquidity resources are sufficient to meet its capital commitments. As at 30 September 2010, the Group's net current assets amounted to approximately HK\$716 million. The Group's current ratio, being the percentage of its current assets in its current liabilities, amounted to 3.32 times.

As at 30 September 2010, the capital structure of the Company is constituted exclusively of 9,741,048,933 ordinary shares of HK\$0.1 each.

During the Period under review, a total of 1,000,000,000 new shares have been issued by way of placing. The net proceeds from the placing amount to approximately HK\$204.7 million and would be used for future business investment of the Group. During the Period, HK\$100 million was utilised to pay as refundable deposit of a proposed acquisition of coking coal mine project in Mongolia.

On 30 April 2010 and 7 May 2010, holders of Convertible Notes converted the entire Convertible Notes with principal amount of HK\$100,000,000 into 833,333,333 new ordinary shares of the Company.

Charge on the Group's assets

The Group did not have any pledged assets as at 30 September 2010.

Contingent liabilities

As at 30 September 2010, the Group did not have any material contingent liabilities.

Employees

As at 30 September 2010, the Group employed a total of approximately 200 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.

DISCLOSURE OF ADDITIONAL INFORMATION

Directors' and chief executives' interests in shares or short position in shares and underlying shares

As at 30 September 2010, 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	Interest in underlying shares (share option)	Total interests (including underlying shares) as % of issued share capital	Note
Mr. Tse On Kin	-	-	-	-	0.00%	78,900,000	1.00%	1
Mr. Pang Chun Kit	500,000	3,450,000	-	3,950,000	0.05%	22,000,000	0.33%	2
Mr. Chi Chi Hung Kenneth	-	-	-	-	0.00%	26,900,000	0.34%	1

Notes:

- The interests in underlying shares attributed to Mr. Tse On Kin and Mr. Chi Chi Hung Kenneth respectively represents share options to subscribe for 78,900,000 and 26,900,000 new shares in the Company, exercisable at a price of HK\$0.29 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 attributed to Mr. Pang Chun Kit 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;
 - share options to subscribe for 6,000,000 new shares in the Company, exercisable at a price of HK\$0.39 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; and

DISCLOSURE OF ADDITIONAL INFORMATION (CONTINUED)

Directors' and chief executives' interests in shares or short position in shares and underlying shares (Continued)

Notes: (Continued)

- (iii) share options to subscribe for 10,000,000 new shares in the Company, exercisable at a price of HK\$0.295 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 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.

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.

DISCLOSURE OF ADDITIONAL INFORMATION (CONTINUED)

Share option scheme (Continued)

The New Scheme (Continued)

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 is 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 the 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 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 shall not be later than 10 years from the date of the grant of the share options.

DISCLOSURE OF ADDITIONAL INFORMATION (CONTINUED)

Share option scheme (Continued)

The New Scheme (Continued)

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.

DISCLOSURE OF ADDITIONAL INFORMATION (CONTINUED)

Share option scheme (Continued)

The New Scheme (Continued)

Particulars of options granted under the New Scheme during the Period, which remained outstanding up to 30 September 2010 are as follows:

	Number of shares under options				End of the period	Subscription price per share	Date of grant of share options	Exercisable period
	Beginning of the period	Granted during the period	Exercised during the period	Cancelled during the period				
Directors								
Mr. Tse On Kin	78,900,000	-	-	-	78,900,000	HK\$0.290	2 March 2010	2 March 2010 to 1 March 2013
Mr. Pang Chun Kit	6,000,000	-	-	-	6,000,000	HK\$0.98	27 March 2007	1 April 2007 to 31 March 2017
	6,000,000	-	-	-	6,000,000	HK\$0.39	30 September 2008	30 September 2008 to 29 September 2018
	10,000,000	-	-	-	10,000,000	HK\$0.295	9 February 2009	9 February 2009 to 8 February 2019
Mr. Chi Chi Hung Kenneth	26,900,000	-	-	-	26,900,000	HK\$0.290	2 March 2010	2 March 2010 to 1 March 2013
Sub-total	127,800,000				127,800,000			
Employees and Others								
	30,600,000	-	-	-	30,600,000	0.980	27 March 07	1 April 2007 to 31 March 2017
	6,000,000	-	-	-	6,000,000	2.610	2 October 07	2 October 2007 to 1 October 2017
	119,000,000	-	-	-	119,000,000	0.390	30 September 08	30 September 2008 to 29 September 2018
	10,000,000	-	-	-	10,000,000	0.242	30 October 08	30 October 2008 to 29 October 2018
	20,000,000	-	-	-	20,000,000	0.286	23 January 09	23 January 2009 to 22 January 2019
	163,600,000	-	-	-	163,600,000	0.295	9 February 09	9 February 2009 to 8 February 2019
	552,300,000	-	-	-	552,300,000	0.290	2 March 10	2 March 2010 to 1 March 2013
Sub-total	901,500,000				901,500,000			
Total	1,029,300,000	-	-	-	1,029,300,000			

DISCLOSURE OF ADDITIONAL INFORMATION (CONTINUED)

Substantial shareholders

As at 30 September 2010, so far as was known to the Directors or chief executive of the Company, the following interests of which fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who were deemed to be directly or indirectly interested in 5% or more of the issued share capital of the Company, or which were recorded in the register of interests required to be kept under Section 336 of the SFO or have notified to the Company were as follows:

Name	Class of Shares	Capacity	Number of shares	Percentage of holding
Mrs. Chu Yuet Wah	Ordinary	Interest of Controlled Corporation	860,000,000 (Note 1)	8.83%
Best China Limited	Ordinary	Beneficial Owner	850,000,000 (Note 2)	8.73%
Leader Asia Holdings Limited	Ordinary	beneficial Owner	500,000,000 (Note 3)	5.13%

Notes:

1. The beneficial interests of Mrs. Chu Yuet Wah in 860,000,000 Shares comprise corporate interest in 850,000,000 Shares, held through Best China Limited, and 10,000,000 Share Options held through Kingston Corporate Finance Limited.
2. The entire issued share capital of Best China Limited is beneficially owned by Mrs. Chu Yuet Wah.
3. Leader Asia Holdings Limited is beneficially owned by 首鋼控股有限責任公司 (Capital Steel Holdings Limited) which is in turn ultimately owned as to approximately 91.51% by 首鋼總公司 (Shougang Group). 首鋼總公司 (Shougang Group) is incorporated in the People's Republic of China (the "PRC").

DISCLOSURE OF ADDITIONAL INFORMATION (CONTINUED)

Substantial shareholders (Continued)

Saved as disclosed above, as at 30 September 2010, the Company had not notified by any persons (other than the Directors of the Company and the chief executive of the Group) who had interests or short positions in the Shares or underlying shares of the Company which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or who were interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any options in respect of such capital.

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 2010.

Purchase, redemption or sale of listed securities by the Company

During the reporting period, the Company has placed a total of 1,000,000,000 placing shares at the placing price of HK\$0.210 per share. 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 2010.

On 30 April and 7 May 2010, holders of Convertible Notes converted the entire Convertible Notes with total principal amount of HK\$100,000,000 into 833,333,333 new ordinary shares of the Company.

Directors' interests in a competing business

During the Period 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.

DISCLOSURE OF ADDITIONAL INFORMATION (CONTINUED)

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, Dr. Wong Yun Kuen, Mr. Chan Chi Yuen and Ms. Xu Lei.

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.

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 (29 November 2010) prior to the issue of this interim result.

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

Hong Kong, 29 November 2010