



# China Grand Forestry Green Resources Group Limited

(Incorporated in Bermuda with limited liability)

Stock code : 910



**INTERIM REPORT**

**2011/12**



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## CORPORATE INFORMATION

### EXECUTIVE DIRECTORS

Mr. Lau Man Tak  
Mr. Chi Chi Hung Kenneth  
Mr. Pang Chun Kit (*Chairman*)  
(resigned on 5 August 2011)

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Wong Yun Kuen  
Mr. Chan Chi Yuen  
Mr. Yu Pak Yan Peter

### REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

### COMPANY SECRETARY

Mr. Chi Chi Hung Kenneth

### 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

Bank of Communications Co., Ltd.  
2/F., 563 Nathan Road  
Kowloon  
Hong Kong

The Bank of East Asia Limited  
10 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 HM 11  
Bermuda

### BRANCH REGISTRARS AND TRANSFER OFFICE

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

### WEBSITE

[www.chinagrandforest.com](http://www.chinagrandforest.com)

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Six months ended 30 September	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Revenue	3	6,320	2,268
Loss arising from changes in fair values less costs to sell of biological assets		(7,073)	(818,478)
Other income	3	3,142	7,320
Other net (losses)/gains	5	(203,844)	5,008
Cost of inventories and forestry products sold		(2,233)	(1,088)
Staff costs		(4,906)	(9,474)
Depreciation of property, plant and equipment		(6,276)	(9,799)
Amortisation of patent		—	(456)
Release of prepaid lease payments		(14,439)	(16,215)
Other operating expenses		(15,721)	(14,691)
Finance costs	7	(4,326)	(6,886)
Impairment loss on available-for-sale investment		(1,046)	(3,403)
Loss before income tax credit		(250,402)	(865,894)
Income tax credit	8	5,930	213,668
Loss for the Period	6	(244,472)	(652,226)
Other comprehensive income for the Period:			
Exchange difference on translating foreign operations		76,250	73,217
Total comprehensive income for the Period		(168,222)	(579,009)

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

		Six months ended 30 September	
		2011	2010
		(Unaudited)	(Unaudited)
Notes		HK\$'000	HK\$'000
<b>Loss attributable to:</b>			
	9	(244,472)	(652,226)
		—	—
		<b>(244,472)</b>	<b>(652,226)</b>
<b>Total comprehensive income</b>			
<b>attributable to:</b>			
		(168,222)	(579,009)
		—	—
		<b>(168,222)</b>	<b>(579,009)</b>
<b>Loss per share</b>			
	10	<b>HK(2.51) cents</b>	HK(7.52) cents
— basic		<b>HK(2.51) cents</b>	HK(7.52) cents
— diluted		<b>HK(2.51) cents</b>	HK(7.52) cents

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 September 2011 (Unaudited) HK\$'000	31 March 2011 (Audited) HK\$'000
	Notes		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Biological assets		2,516,263	2,487,426
Property, plant and equipment	11	56,053	65,693
Construction in progress		41,444	39,857
Prepaid lease payments		1,184,377	1,217,950
Deposits paid for very substantial acquisition		430,000	—
Available-for-sale investments		379	1,425
		<b>4,228,516</b>	3,812,351
<b>Current assets</b>			
Inventories		3,401	816
Trade receivables	12	995	373
Prepaid lease payments		30,347	29,545
Other receivables, deposits and prepayments		17,022	13,625
Financial assets at fair value through profit or loss	13	190,801	313,266
Cash and cash equivalents		129,001	580,938
		<b>371,567</b>	938,563
<b>Total assets</b>		<b>4,600,083</b>	4,750,914

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

		30 September 2011 (Unaudited) HK\$'000	31 March 2011 (Audited) HK\$'000
	Notes		
<b>Current liabilities</b>			
Trade payables	17	18,495	18,007
Other payables and accruals		265,056	251,684
Tax payable		82,760	80,574
		<b>366,311</b>	350,265
<b>Net current assets</b>		<b>5,256</b>	588,298
<b>Total assets less current liabilities</b>		<b>4,233,772</b>	4,400,649
<b>Non-current liabilities</b>			
Long term payables		165,745	162,085
Deferred taxation	18	133,211	135,526
		<b>298,956</b>	297,611
<b>Total net assets</b>		<b>3,934,816</b>	4,103,038
<b>Capital and reserves attributable to the Company's owners</b>			
Share capital	14	974,105	974,105
Reserves	16	2,960,644	3,128,866
		<b>3,934,749</b>	4,102,971
Non-controlling interests		67	67
<b>Total equity</b>		<b>3,934,816</b>	4,103,038

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	<b>(15,825)</b>	(8,302)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<b>(437,470)</b>	(115,497)
NET CASH INFLOW FROM FINANCING ACTIVITIES	—	204,650
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	<b>(453,295)</b>	80,851
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<b>580,938</b>	605,952
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<b>1,358</b>	1,462
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>129,001</b>	688,265
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
CASH AND BANK BALANCES	<b>129,001</b>	688,265



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	For the six months ended 30 September 2011					
	Share capital HK\$'000	Share premium and other reserves HK\$'000	Accumulated losses HK\$'000	Attributable to owners of the Company HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
Balance at 1 April 2011 (Audited)	974,105	3,171,117	(42,251)	4,102,971	67	4,103,038
Loss for the period	—	—	(244,472)	(244,472)	—	(244,472)
Other comprehensive income	—	76,250	—	76,250	—	76,250
Total comprehensive income	—	76,250	(244,472)	(168,222)	—	(168,222)
Lapse of share option	—	(1,318)	1,318	—	—	—
Balance at 30 September 2011 (Unaudited)	974,105	3,246,049	(285,405)	3,934,749	67	3,934,816

	For the six months ended 30 September 2010					
	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	Total HK\$'000
Balance at 1 April 2010 (Audited)	790,772	2,880,665	1,151,227	4,822,664	67	4,822,731
Loss for the period	—	—	(652,226)	(652,226)	—	(652,226)
Other comprehensive income	—	73,217	—	73,217	—	73,217
Total comprehensive income	—	73,217	(652,226)	(579,009)	—	(579,009)
Issue of shares upon conversion of convertible notes	83,333	16,426	—	99,759	—	99,759
Placement	100,000	104,650	—	204,650	—	204,650
Balance at 30 September 2010 (Unaudited)	974,105	3,074,958	499,001	4,548,064	67	4,548,131

## **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 Unit 3309, 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 OF FINANCIAL STATEMENTS AND ACCOUNTING POLICIES**

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 September 2011 (the “Interim Financial Statements”) have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Accounting Standard (the “HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The Interim Financial Statements have been prepared under the historical cost basis except for certain financial instruments and certain biological assets which are measured at fair value or fair value less costs to sell.

The accounting policies 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 2011 (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 to these Interim Financial Statements. 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.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS AND ACCOUNTING POLICIES (CONTINUED)

In addition, in the current interim period, the Group has applied, for the first time, the following new and revised Hong Kong Financial Reporting Standards (“new or revised HKFRSs”) issued by the HKICPA, which are effective for the current period’s unaudited condensed consolidated interim financial statements.

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKAS 24 (Revised)	Related Party Disclosures
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of the new and revised HKFRSs had no material effect on the results and financial position for the current or prior accounting periods which have been prepared and presented.

The Group has not early applied the following new and revised standards, amendments or interpretations which have been issued but are not yet effective.

HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets <sup>1</sup>
HKFRS 9	Financial Instruments <sup>4</sup>
HKFRS 10	Consolidated Financial Statements <sup>4</sup>
HKFRS 11	Joint Arrangements <sup>4</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>4</sup>
HKFRS 13	Fair Value Measurement <sup>4</sup>
HKAS 1 (Amendments)	Presentation of Item of Other Comprehensive Income <sup>3</sup>
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>2</sup>
HKAS 19 (2011)	Employee Benefits <sup>4</sup>
HKAS 27 (2011)	Separate Financial Statements <sup>4</sup>
HKAS 28 (2011)	Investments in Associate and Joint Ventures <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013

The Group anticipate that the application of these new and 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:

	Six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Revenue		
Sale of forestry products	<b>6,320</b>	2,268
Other income		
Bank interest income	<b>1,402</b>	1,612
Imputed interest arising from the discounting of the consideration receivable for the disposal of certain forest farms	—	868
Dividend income from listed investments	<b>1,740</b>	369
Income arising from transfer of research and development project to third parties	—	3,342
Income arising from granting of patent use rights	—	1,129
	<b>3,142</b>	7,320
	<b>9,462</b>	9,588

### 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. OTHER NET (LOSSES)/GAINS

	Six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Fair value (loss)/gain on financial assets at fair value through profit or loss	(132,465)	4,299
Loss on disposal of forest farms	(81,273)	—
Loss on disposal of property, plant and equipment	(2,240)	—
(Loss)/gain on disposal of a subsidiary	(920)	3
Exchange differences	11,237	25
Others	1,817	681
	<b>(203,844)</b>	<b>5,008</b>

## 6. LOSS FOR THE PERIOD

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

	Six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Auditor's remuneration	—	303
Minimum lease payments under operating leases on leasehold properties	2,312	2,698
Research and development costs	3,668	645
Staff costs:		
Basic salaries and allowances	4,684	8,857
Retirement benefits scheme contribution	42	617
Net exchange gains	(11,237)	(25)

## 7. FINANCE COSTS

	Six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Imputed interest arising from the discounting of the consideration payables for the acquisitions of certain forest farms	4,326	6,156
Interest on convertible notes	—	730
	<b>4,326</b>	<b>6,886</b>

## 8. INCOME TAX CREDIT

	Note	Six months ended 30 September	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Overseas tax			
— deferred tax credit	18	5,930	213,571
Hong Kong profit tax			
— deferred tax credit		—	97
		<b>5,930</b>	<b>213,668</b>

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 2011 (2010: 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.

## 8. 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 years ending 31 December 2011 and 2010, 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. Due to the unexpected prolonged application process in previous years, management was not confident that the exemption will be granted from the tax authority, and so it did not qualify for tax exemption for the calendar years ended 31 December 2011 and 2010. Accordingly, WFC is subject to enterprise income tax rate of 25% and deferred taxation has been provided for the periods ended 30 September 2011 and 2010. WFC did not subject to enterprise income tax as it sustained loss for both periods.

Pursuant to the approval obtained from the relevant PRC tax authority, Yunnan Shenyu New Energy Company Limited (“Yunnan Shenyu”), a wholly owned subsidiary of the Group, is entitled to a tax concession period whereby it is fully exempted from PRC enterprise income tax for the calendar year ended 31 December 2010. Upon expiry of the tax concession period in 2011, the standard PRC enterprise income tax rate of 25% will be applied in accordance with the PRC Enterprise Income Tax Law approved by the National People’s Congress on 16 March 2007 and became effective from 1 January 2008. Yunnan Shenyu is also entitled to full exemption from the PRC enterprise income tax as it is operating in forestry business. 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 2011 and 2010 for other PRC subsidiaries.

## 9. 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 2011 dealt with in the financial statements of the Company was approximately HK\$7,231,000 (for the six months ended 30 September 2010: net loss of HK\$11,526,000).

No dividend was paid or proposed during the period ended 30 September 2011 (for the six months ended 30 September 2010: HK\$Nil), nor has any dividend been proposed since 30 September 2011.

**10. 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**

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2011</b>	<b>2010</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Loss for the Period attributable to owners of the Company	<b>(244,472)</b>	(652,226)
Interest expense on convertible notes	—	—
Loss for the Period attributable to owners of the Company used in the diluted loss per share calculation	<b>(244,472)</b>	(652,226)

**(ii) Weighted average number of ordinary shares**

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2011</b>	<b>2010</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 per share	<b>9,741,048</b>	8,674,109
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	<b>9,741,048</b>	8,674,109

The computation of diluted loss per share for the periods ended 30 September 2011 and 2010 did not assume the exercise of share options and conversion of convertible notes since their exercise would result in a decrease in loss per share.



**11. PROPERTY, PLANT AND EQUIPMENT**

During the Period, additions of property, plant and equipment amounted to approximately HK\$306,000 (for the six months ended 30 September 2010: HK\$305,000).

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

	<b>30 September 2011 (Unaudited) HK\$'000</b>	31 March 2011 (Audited) HK\$'000
0–30 days	<b>612</b>	—
31–60 days	—	—
61–90 days	—	—
Over 90 days	<b>71,477</b>	69,589
	<b>72,089</b>	69,589
Less: Impairment loss	<b>(71,094)</b>	(69,216)
	<b>995</b>	373

**13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>30 September 2011 (Unaudited) HK\$'000</b>	31 March 2011 (Audited) HK\$'000
Equity securities listed in Hong Kong, at fair value	<b>190,801</b>	313,266

The above equity securities were designated as financial assets at fair value through profit or loss on initial recognition by the directors of the Company. Changes in fair values of financial assets at fair value through profit or loss are recorded in profit or loss as other net losses/gains.

#### 14. SHARE CAPITAL

	<b>30 September 2011 (Unaudited) HK\$'000</b>	31 March 2011 (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:		
9,741,048,933 ordinary shares of HK\$0.10 each	<b>974,105</b>	974,105

#### 15. 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 2011.

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

	Six months ended 30 September 2011 (Unaudited)		Year ended 31 March 2011 (Audited)	
	Weighted average exercise price HK\$	Number of options	Weighted average exercise price HK\$	Number of options
Outstanding at beginning of Period/year	0.335	963,300,000	0.341	1,029,300,000
Forfeited during the Period/year	0.295	(10,000,000)	0.422	(66,000,000)
Outstanding at end of Period/year	0.335	953,300,000	0.335	963,300,000
Exercisable at end of Period/year	0.335	953,300,000	0.335	963,300,000

No share option has been exercised during the six months ended 30 September 2011.

## 16. 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	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2011 (Audited)	2,176,284	99,156	24,543	137,290	4,069	729,775	(42,251)	3,128,866
Loss for the period	–	–	–	–	–	–	(244,472)	(244,472)
Other comprehensive income	–	–	–	–	–	76,250	–	76,250
Total comprehensive income	–	–	–	–	–	76,250	(244,472)	(168,222)
Lapse of share option	–	(1,318)	–	–	–	–	1,318	–
At 30 September 2011 (unaudited)	2,176,284	97,838	24,543	137,290	4,069	806,025	(285,405)	2,960,644

## 17. 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 2011 (Unaudited) HK\$'000	31 March 2011 (Audited) HK\$'000
0–30 days	–	–
31–60 days	–	–
61–90 days	–	–
Over 90 days	18,495	18,007
	<b>18,495</b>	<b>18,007</b>

## 18. DEFERRED TAXATION

The following are the deferred tax liabilities recognised by the Group and movement thereon during the period ended 30 September 2011:

	Note	Fair value of biological assets over procurement cost HK\$'000
At 31 March 2011 (Audited)		135,526
Deferred tax credit to profit or loss	8	(5,930)
Exchange differences		3,615
At 30 September 2011 (Unaudited)		133,211

**19. CAPITAL COMMITMENTS**

As at 30 September 2011, the Group had the following capital commitments contracted but not provided for:

	<b>30 September 2011 (Unaudited) HK\$'000</b>	31 March 2011 (Audited) HK\$'000
Capital commitments contracted but not provided for:		
Construction cost	<b>34,756</b>	33,479

**20. 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 year. Leases for nursery gardens are negotiated for terms for five years.

**The Group as lessee**

At 30 September 2011, the Group had total future minimum lease payments under non-cancellable operating leases in respect of the Group falling due as follows:

	<b>30 September 2011 (Unaudited) HK\$'000</b>	31 March 2011 (Audited) HK\$'000
Within one year	<b>567</b>	920
In the second to fifth years, inclusive	<b>413</b>	535
	<b>980</b>	1,455

**21. CONTINGENT LIABILITIES**

As at 30 September 2011, the Company and the Group did not have contingent liabilities.

**22. SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD**

- (a) On 26 July, 30 September 2011 and 28 October 2011, a wholly owned subsidiary of the Company, entered into an equity transfer agreement and the supplemental agreements with Top Trendy Holdings Limited (independent third party) for the acquisition of the entire equity interest in Grandbiz Holdings Limited (“Sale Share A”) for an aggregate consideration of HK\$2,198,000,000, which will be satisfied as to (i) HK\$444,500,000 in cash; (ii) HK\$1,263,500,000 by the issue and allotment of the convertible preference shares of the Company; and (iii) HK\$490,000,000 by way of issue of the convertible notes of the Company. After the completion of the reorganization, Grandbiz Holdings Limited will hold an entire equity interest in Mazy International Limited, which in turn holds 40% equity interest in Fujian Sinco Industrial Co., Ltd (“Fujian Sinco”). Details of the aforesaid acquisition were set out in the announcement of the Company dated 30 September 2011 in relation to, among other things, acquisition of Sale Share A, which constitutes a very substantial acquisition of the Company.
- (b) On 30 September 2011 and 28 October 2011, a wholly owned subsidiary of the Company, entered into an equity transfer agreement with Good Fellow Resources Holdings Limited, the issued shares of which are listed on the Stock Exchange, for the acquisition of the entire equity interest in Great Peace Global Group Limited (“Sale Share B”), and the loan advanced to Great Peace Global Group Limited (“Sale Loan”) for an aggregate consideration of HK\$942,000,000, which will be satisfied as to (i) HK\$190,500,000 in cash; (ii) HK\$541,500,000 by the issue and allotment of the convertible preference shares of the Company; and (iii) HK\$210,000,000 by way of issue of the convertible notes of the Company. Great Peace Global Group Limited holds 50% equity interest in a jointly controlled entity, Grand International Development limited, which in turn holds 60% equity interest in Fujian Sinco. Details of the aforesaid acquisition were set out in the announcement of the Company dated 30 September 2011 in relation to, among other things, acquisition of Sale Share B and Sale Loan, which constitutes a very substantial acquisition of the Company.
- (c) Pursuant to a special resolution passed by the Company’s shareholders on 30 November 2011, the proposed reorganisation of the share capital of the Company involving *inter alia*, (a) a consolidation of every twenty (20) shares of HK\$0.10 each into one (1) consolidated share of HK\$2.00 each; (b) a reduction in the nominal value of the then issued consolidated shares from HK\$2.00 to HK\$0.01 each by canceling the paid-up capital to the extent of HK\$1.99 on each of the issued consolidated shares; and (c) a subdivision of each authorised but unissued consolidated shares into two hundred (200) adjusted shares of HK\$0.01 each, was approved. Details of which are set out in the circular dated 7 November 2011.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL HIGHLIGHTS

For the six months ended 30 September 2011, the Group recorded a turnover of approximately HK\$6 million, representing an increase of 179% compared with the six months ended 30 September 2010 (the “period ended 30 September 2010”). The Group’s loss attributable to shareholders was approximately HK\$244 million, and its basic loss per share for the Period was HK2.51 cents (for the period ended 30 September 2010: loss of HK\$652 million, representing a basic loss of HK7.52 cents).

### DIVIDEND

The Board does not recommend any interim dividend for the period ended 30 September 2011.

### BUSINESS REVIEW

The ecological forestry business has been identified as the single operating segment for the Group for the period ended 30 September 2011.

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

During the Period, there was no significant acquisition or disposal of forest land. As at 30 September 2011, 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.

#### (ii) Biomass energy

Biomass energy in China is a clean burning alternative fuel, produced from renewable and sustainable resources. As at 30 September 2011, the Group owned Jatropha estate of approximately 300,000 Chinese Mu in Yunnan Province.

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

## **MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)**

### **PROSPECTS**

Due to the increasing concerns for environmental protection issues such as carbon sequestration in the PRC, the Group expects that the domestic harvesting in the plantations would be tightened.

The *Jatropha* based bio-diesel production is still at trial processing. Certain issues have to be overcome in order to move on to the next phase of the development.

In view of the stringent business environment of the forestry industry, the Group has to seek other business opportunities, such as property investment, which may generate steady inflow of cash and profit to the Group.

### **OPERATING RESULTS AND FINANCIAL REVIEW**

#### **Revenue**

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

#### **Other net (losses)/gains**

Other net (losses)/gains in the current Period mainly included fair value loss on investments in equity securities listed in Hong Kong amounting to approximately HK\$132 million, and loss on disposal of forest farms amounting to approximately HK\$81 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.

#### **Other operating expenses**

The Group's other operating expenses for the Period in the amount of approximately HK\$16 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.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### OPERATING RESULTS AND FINANCIAL REVIEW (CONTINUED)

#### Biological assets

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

	Jatropha HK\$'000	Other forest assets HK\$'000	Total HK\$'000
As at 1 April 2011	362,920	2,124,506	2,487,426
Plantation expenditures	2,950	217	3,167
Direct sales and harvest as agricultural produce	—	(1,977)	(1,977)
Disposal	—	(32,360)	(32,360)
Exchange differences	10,036	57,044	67,080
Gain/(loss) arising from changes in fair value less costs to sell	15,731	(22,804)	(7,073)
As at 30 September 2011	391,637	2,124,626	2,516,263

Pöyry (Beijing) Consulting Co. Ltd., Shanghai Branch 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\$14 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.



## **MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)**

### **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

As at 30 September 2011, the Group's cash and bank balances, which were principally Renminbi and Hong Kong dollar denominated, amounted to approximately a total of HK\$129 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 2011, 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 2011, the Group's net current assets amounted to approximately HK\$5 million. The Group's current ratio, being the percentage of its current assets in its current liabilities, amounted to 1.01 times.

As at 30 September 2011, the capital structure of the Company is constituted exclusively of 9,741,048,933 ordinary shares of HK\$0.1 each.

### **CHARGE ON THE GROUP'S ASSETS**

The Group did not have any pledged assets as at 30 September 2011.

### **CONTINGENT LIABILITIES**

As at 30 September 2011, the Group did not have any material contingent liabilities.

### **EMPLOYEES**

As at 30 September 2011, the Group employed a total of approximately 150 employees of which 10 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 2011, 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. Chi Chi Hung Kenneth	–	–	–	–	–	26,900,000	0.28%	1

Note:

- The interests in underlying shares attributed to Mr. Chi Chi Hung Kenneth represents share options to subscribe for 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.

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.

## **DISCLOSURE OF ADDITIONAL INFORMATION (CONTINUED)**

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

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

### **SHARE OPTION SCHEME**

#### **The Old Scheme**

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

The documented purpose of the Old 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 Old Scheme are summarised as follows:

1. Eligible participants of the Old Scheme include executive, employee, executive Director and/or non-executive Director (including independent non-executive Director) of the Company and its subsidiaries who is in employment at the time when the option is granted to such person.
2. The total number of shares available for issue upon exercise of all options to be granted under the Old 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 Old 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 Old 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.

## **DISCLOSURE OF ADDITIONAL INFORMATION (CONTINUED)**

### **SHARE OPTION SCHEME (CONTINUED)**

#### **The Old Scheme (Continued)**

4. Any grant of share options to a Director, chief executive or substantial shareholders of the Company or any of their associates are subject to approval in advance by the independent non-executive Directors of the Company.
5. Any grant of share options to a substantial shareholder or an independent non-executive Director of the Company, or any of their associates, which would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person within the 12-month period up to the date of grant of options representing in aggregate in excess of 0.1% of the shares of the Company in issue and having an aggregate value (based on closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, is subject to prior approval by shareholders in a general meeting.
6. Unless otherwise determined by the board of Directors in its absolute discretion, there is no general requirement in respect of the minimum period for which an option must be held before it can be exercised.
7. The exercise period of the share options granted is not later than 10 years from the date of the grant of the share options.
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 Old 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 Old Scheme (Continued)

Particulars of options granted under the Old Scheme during the year ended 30 September 2011 and remained outstanding up to 30 September 2011 are as follows:

	Number of shares options				End of the year	Subscription per share	Date of grant of share option	Exercisable period
	Beginning of the year	Granted of the year	Exercised of the year	Cancelled of the year				
<b>Directors</b>								
Mr. Chi Chi Hung Kenneth	26,900,000	–	–	–	26,900,000	HK\$0.290	2 March 2010	2 March 2010 to 1 March 2013
Mr. Pang Chun Kit*	6,000,000	–	–	–	6,000,000	HK\$0.980	27 March 2007	1 April 2007 to 31 March 2017
	6,000,000	–	–	–	6,000,000	HK\$0.390	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
Sub-total	48,900,000	–	–	–	48,900,000			
<b>Employees and consultants</b>								
	20,600,000	–	–	–	20,600,000	HK\$0.980	27 March 2007	1 April 2007 to 31 March 2017
	6,000,000	–	–	–	6,000,000	HK\$2.610	2 October 2007	3 October 2007 to 2 October 2017
	103,000,000	–	–	–	103,000,000	HK\$0.390	30 September 2008	30 September 2008 to 29 September 2018
	10,000,000	–	–	–	10,000,000	HK\$0.242	30 October 2008	30 October 2008 to 29 October 2018
	20,000,000	–	–	–	20,000,000	HK\$0.286	23 January 2009	23 January 2009 to 22 January 2019
	123,600,000	–	–	(10,000,000)	113,600,000	HK\$0.295	9 February 2009	9 February 2009 to 8 February 2019
	631,200,000	–	–	–	631,200,000	HK\$0.290	2 March 2010	2 March 2010 to 1 March 2013
Sub-total	914,400,000	–	–	(10,000,000)	904,400,000			
Total	963,300,000	–	–	(10,000,000)	953,300,000			

\* Mr. Pang Chun Kit resigned as executive director of the Company on 5 August 2011.

## **DISCLOSURE OF ADDITIONAL INFORMATION (CONTINUED)**

### **SHARE OPTION SCHEME (CONTINUED)**

#### **The New Scheme**

At the annual general meeting of the Company held on 16 September 2011, the shareholders of the Company approved the adoption of a new share scheme (the “New Scheme”) and the termination of the Old Scheme. The purpose of the New Scheme is to provide the Company with a flexible and effective means of incentivizing, rewarding, remunerating, compensating and/or providing benefits to the Participants. There appears to be no material difference between the terms of the Old Scheme and New Scheme, other than the scope of participants which, under the New Scheme, is more specific than that covered under the Old Scheme. The New Scheme covers any employee (full time and part time) holding salaries, consultants, agents, contractors, consumers and suppliers as the Board in its sole discretion considers eligible. Moreover, in relation to the various circumstances under which an Option will lapse, e.g. death and termination of employment, the periods following such circumstances during which an option-holder may exercise their options are different under the two schemes.

The exercise price, vesting period, the exercisable period and the number of Shares subject to each option will be determined by the Board at the time of grant. No option was granted by the Company under the New Scheme since its adoption to the date of this report.

## DISCLOSURE OF ADDITIONAL INFORMATION (CONTINUED)

### SUBSTANTIAL SHAREHOLDERS

As at 30 September 2011, 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 of Shareholder	Capacity/ Nature of Interest	Number of shares and underlying shares of the Company		Approximate % of issued share capital of the Company
		Long Position	Short Position	
Mrs. Chu Yuet Wah (Note 1)	Interest of controlled corporation	850,000,000	—	8.72%
Best China Limited (Note 2)	Beneficial owner	850,000,000	—	8.72%
Atlantis Capital Holdings Limited (Note 3)	Beneficial owner	500,000,000	—	5.13%
Liu Yang (Note 4)	Interest of controlled corporation	500,000,000	—	5.13%
Top Trendy Holdings Limited (Note 5)	Beneficial owner	11,689,999,999	—	120.00%
Guo Jiadi (Note 6)	Interest of controlled corporation	11,689,999,999	—	120.00%
Good Fellow Resources Holdings Limited (Note 7)	Beneficial owner	5,067,854,000	—	52.02%

#### Notes:

- The beneficial interests of Mrs. Chu Yuet Wah in 850,000,000 Shares comprise corporate interest in 850,000,000 Shares, held through Best China Limited.
- The entire issued share capital of Best China Limited is beneficially owned by Mrs. Chu Yuet Wah.
- The entire issued share capital of Atlantis Capital Holdings Limited is beneficially owned by Liu Yang.
- The beneficial interests of Liu Yang in 500,000,000 Shares comprise corporate interest in 500,000,000 Shares, held through Atlantis Capital Holdings Limited.
- The interests include (i) 8,423,333,333 underlying shares representing the conversion rights attaching to the convertible preference shares which was agreed to be issued to Top Trendy Holdings Limited; and (ii) 3,266,666,666 underlying shares representing the conversion rights attaching to the convertible note, which were agreed to be issued to Top Trendy Holdings Limited upon completion of acquisition of entire issued shares of Grandbiz Holdings Limited (please refer to note 22(a) to the financial statement for details).

## **DISCLOSURE OF ADDITIONAL INFORMATION (CONTINUED)**

### **SUBSTANTIAL SHAREHOLDERS (CONTINUED)**

Notes: (Continued)

6. The entire issued share capital of Top Trendy Holdings Limited is beneficially owned by Mr. Guo Jiadi. Mr. Guo Jiadi was therefore deemed to be interested in the shares held by Top Trendy Holdings Limited under the SFO.
7. The interests include (i) 3,610,000,000 underlying shares representing the conversion rights attaching to the convertible preference shares which was agreed to be issued to Good Fellow Resources Holdings Limited; and (ii) 1,400,000,000 underlying shares representing the conversion rights attaching to the convertible note, which were agreed to be issued to Good Fellow Resources Holdings Limited upon completion of acquisition of entire issued shares of Great Peace Global Group Limited (please refer to note 22(b) to the financial statement for details).

Saved as disclosed above, as at 30 September 2011, 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 2011.

### **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES BY THE COMPANY**

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 2011.

### **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 Mr. Yu Pak Yan Peter.

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 2011) prior to the issue of this interim result.

On behalf of the Board  
**China Grand Forestry Green Resources Group Limited**  
**Chi Chi Hung Kenneth**  
*Director*

Hong Kong, 30 November 2011