



GOOD FELLOW GROUP LIMITED

金威集團控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock code : 910)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2006

The board of directors (the “Board”) of Good Fellow Group Limited (the “Company”) announces the audited consolidated results of the company and its subsidiaries (collectively the “Group”) for the year ended 30 June 2006 together with the comparative figures for the preceding year as follows:

CONSOLIDATED INCOME STATEMENT

for the year ended 30 June 2006

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (restated)
Turnover	5	360,770	138,262
Cost of sales		(166,852)	(126,776)
Gross profit		193,918	11,486
Other revenue	5	4,435	2,722
Other net gain/(loss)	6	8,752	(8,580)
Selling and distribution expenses		(25,839)	(13,035)
Administrative expenses		(15,992)	(14,885)
Other operating expenses		(40,714)	(96,486)
Profit/(loss) from operating activities	7	124,560	(118,778)
Finance costs	8	(3,295)	(152)
Share of profits/(losses) of jointly-controlled entities		1,640	(30,838)
Profit/(loss) before taxation		122,905	(149,768)
Taxation	9	534	(421)
Profit/(loss) for the year		123,439	(150,189)

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (restated)
Attributable to:			
- Equity holders of the Company		83,208	(150,189)
- Minority interests		40,231	-
		<u>123,439</u>	<u>(150,189)</u>
Earnings/(loss) per share for result attributable to the equity holders of the Company during the year			
- basic	<i>10</i>	<u>HK2.72 cents</u>	<u>(HK5.61 cents)</u>
- diluted	<i>10</i>	<u>HK2.56 cents</u>	<u>N/A</u>

CONSOLIDATED BALANCE SHEET

At 30 June 2006

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (restated)
ASSETS			
Non-current assets			
Property, plant and equipment		64,232	63,897
Construction in progress		11,240	-
Prepaid lease payments		13,122	4,620
Investment properties		2,500	10,909
Intangible assets		594,479	-
Interests in jointly-controlled entities		28,282	19,509
Biological assets		241,691	-
		<u>955,546</u>	<u>98,935</u>
Current assets			
Inventories		38,264	33,021
Trade receivables	<i>11</i>	207,344	40,719
Prepaid lease payments		301	125
Prepayments, deposits and other receivables		24,350	40,465
Financial assets at fair value through profit or loss		4,992	14,140
Non-current asset held for sale		2,735	-
Pledged bank deposits		10,988	14,760
Bank and cash balances		273,421	217,382
		<u>562,395</u>	<u>360,612</u>

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (restated)
Total assets		1,517,941	459,547
EQUITY AND LIABILITIES			
Capital and reserves attributable to the Company's equity holders			
Share capital		387,981	294,149
Reserves		310,138	148,443
		698,119	442,592
Minority interests		236,818	–
Total equity		934,937	442,592
Non-current liabilities			
Promissory notes payable		46,146	–
Convertible notes payable		150,858	–
Deferred taxation		63,000	691
		260,004	691
Current liabilities			
Trade payables	<i>12</i>	2,926	2,869
Other payables and accruals		25,829	8,031
Promissory notes payable		174,452	–
Amount due to minority interests		56,005	–
Interest-bearing bank borrowings		21	88
Finance lease payable		–	120
Provision for taxation		5,235	5,156
Deferred revenue		58,532	–
		323,000	16,264
Total liabilities		583,004	16,955
Total equity and liabilities		1,517,941	459,547

Notes:

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic re-measurement of leasehold properties, investment properties, financial assets at fair value through profit or loss as well as certain biological assets. These financial statements are presented in Hong Kong dollar and all values are rounded to the nearest thousand (HK\$’000) except when otherwise indicated.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In current year, the Group has applied, for the first time, a number of Hong Kong Financials Reporting Standards, Hong Kong Accounting Standards and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 “Leases”. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively.

Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 “Investment Property”. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair values of investment properties to be recognised directly in profit or loss for the year in which they arise. In previous years, investment properties under the predecessor accounting standard were measured at open market markets values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the consolidated income statement. Where a decrease had previously been charged to the consolidated income statement and a revaluation surplus subsequently arose, that increase was credited to the consolidated income statement to the extent of the decrease previously charged. As a result of the adoption of the new accounting standard, the amount held in investment properties revaluation reserve at 1 July 2005 has been transferred to the Group’s retained profits.

Financial instruments

In the current year, the Group has applied HKAS 32 “Financial Instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement”. The adoption of these new HKASs has resulted in a change in accounting policy for the recognition, measurement, de-recognition and disclosure of financial instruments. Upon the adoption of HKASs 32 and 39, the financial assets of the Group have been classified into the respective categories of financial assets at fair value through profit and loss; available-for-sale financial assets; loans and receivables; and held-to-maturity financial assets. The classification depends on the purpose for which the assets are held.

At 30 June 2005, the Group owned short term securities investment that are stated at their fair values on the basis of quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in fair values of the securities were credited or charged to the profit and loss account in the period in which they arise. Commencing the current financial year, as a result of the adoption of the new HKASs, the Group has reclassified these securities investment as “financial assets at fair value through profit or loss”. The reclassification has no material effect on the results of the Group for the current and prior year.

Convertible notes

Previously, convertible notes were classified as liabilities and carried at proceeds received. In accordance with HKAS 32 and HKAS 39, convertible notes are regarded as compound instruments, consisting of a liability component and an equity component, unless in certain circumstances when the issuer is required to recognize the instrument as a whole as financial liability with embedded derivatives. Derivatives embedded in a financial instrument are treated as separate components when their economic risks and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss. Upon first time adoption of HKAS 32 and HKAS 39, convertible notes issued by the Company are split into their liability and equity components at initial recognition. The liability component is subsequently carried at amortised cost. The equity component is recognised as conversion option reserve, a separate component of equity, until the convertible notes are either converted (in which case it is transferred to share premium account) or redeemed (in which case it is released directly to retained profits).

Share-based payments

In the current year, the Group has applied HKFRS 2 “Share-based Payments” which requires an expense to be recognised where the Group buys goods or obtain services in exchange for shares or rights over shares (“equity-settled transactions”), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (“cash-settled transactions”). Prior to the application of HKFRS 2, the Group did not recognised the financial effect of share options until they are exercised. As a result of the adoption of this new HKFRS, the Group’s accounting policy has been revised for the recognition of the fair value of share options granted as an expense. In respect of share options outstanding as at 30 June 2005, the Group was not required to account for these outstanding share options in accordance with the relevant transitional provisions of this new HKFRS, as they were either granted on or before 7 November 2002 or granted after 7 November 2002 and fully vested before 1 July 2005. The Group however has evaluated that impact on the results of the Group for current or prior accounting periods is not material.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

(i) The effects of the changes in the accounting policies described in Note 2 on the Group's results for the current and prior year are as follows:

Increase/(decrease) in result	Year ended 30 June 2006 HK\$'000	Year ended 30 June 2005 HK\$'000
Increase in surplus/decrease in deficit arising on revaluation of investment properties	850	172
Increase/(decrease) in revaluation surplus of leasehold properties	(93)	37
Increase in release of prepaid lease payments	(154)	(125)
Increase in convertible note interest	(1,023)	–
Increase in promissory note interest	(1,878)	–
Increase in deferred tax charges	–	(142)
Decrease in depreciation charges	103	33
	<u>(2,195)</u>	<u>(25)</u>

(ii) The cumulative effects of the application of the new HKFRSs on the consolidated income statement for the year ended 30 June 2005 are summarised below:

Income statement items	Year ended 30 June 2005 (originally stated) HK\$'000	adoption of HKAS 17 HK\$'000	Adjustments on adoption of HKAS 40 HK\$'000	adoption of HKAS 32 & 39 HK\$'000	Year ended 30 June 2005 (restated) HK\$'000
<u>Increase/(decrease) in result</u>					
Depreciation	(6,550)	33	–	–	(6,517)
Release of prepaid lease payments	–	(125)	–	–	(125)
Surplus on revaluation of leasehold properties	215	37	–	–	252
Deficit on revaluation of investment properties	(4,053)	–	172	–	(3,881)
Deferred tax charges	–	(53)	(89)	–	(142)
Net unrealized loss on short term investments	(4,951)	–	–	4,951	–
Net loss on re-measurement of financial assets at fair value through profit or loss	–	–	–	(4,951)	(4,951)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(4,951)</u>	<u>(4,951)</u>

The cumulative effects of the application of the new HKFRSs on the consolidated balance sheet as at 30 June 2005 and 1 July 2005 are summarised below:

	At 30 June 2005 (originally stated) HK\$'000	Adjustments on adoption of HKAS 17 HK\$'000	adoption of HKAS 40 HK\$'000	adoption of HKAS 32 & 39 HK\$'000	At 30 June 2005 and 1 July 2005 (restated) HK\$'000
Balance sheet items					
<u>Increase/(decrease) in assets</u>					
Property, plant and equipment	79,887	(15,990)	-	-	63,897
Prepaid lease payments (non-current portion)	-	4,620	-	-	4,620
Prepaid lease payments (current portion)	-	125	-	-	125
Short term investment	14,140	-	-	(14,140)	-
Financial assets at fair value through profit or loss	-	-	-	14,140	14,140
<u>Increase/(decrease) in liabilities</u>					
Deferred taxation	2,954	(2,263)	-	-	691
<u>Increase/(decrease) in equity</u>					
Retained profits	41,655	(582)	208	-	41,281
Investment property revaluation reserve	208	-	(208)	-	-
Fixed asset revaluation reserve	13,716	(8,400)	-	-	5,316
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

4. SEGMENTAL INFORMATION

Segmental information is presented by way of two segment formats: (a) on a primary segment reporting basis, by business segment; and (b) on a secondary segment reporting basis, by geographical segment.

For management purpose, the Group's operations are currently organized into the ecological forestry business and the manufacture and sale of garment. The following tables represent revenue and profit/(loss) information on each of the above business segments for the year ended 30 June 2006 and certain assets and liabilities information regarding business segments at 30 June 2006:

(a) Primary Reporting Format – Business segments
Revenue and profit/(loss) information

	Ecological forestry Business		Garment Business		Elimination		Consolidated	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000 (restated)
Revenue:								
External sales	219,230	-	141,540	138,262	-	-	360,770	138,262
Inter-segment sales	-	-	-	-	-	-	-	-
Total sales	<u>219,230</u>	<u>-</u>	<u>141,540</u>	<u>138,262</u>	<u>-</u>	<u>-</u>	<u>360,770</u>	<u>138,262</u>
Segment results	<u>133,602</u>	<u>-</u>	<u>(2,705)</u>	<u>(28,990)</u>	<u>-</u>	<u>-</u>	<u>130,897</u>	<u>(28,990)</u>
Unallocated revenue and net gain/(loss)							1,276	(5,858)
Unallocated expenses							(7,613)	(83,930)
Profit from operating activities							124,560	(118,778)
Finance costs							(3,295)	(152)
Share of profits/(losses) of jointly controlled entities							1,640	(30,838)
Taxation							534	(421)
Profit/(loss) for the year							<u>123,439</u>	<u>(150,189)</u>

Assets and liabilities information

	Ecological forestry Business		Garment Business		Unallocated		Consolidated	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000 (restated)
Segment assets	1,088,593	-	364,375	336,275	64,973	123,272	1,517,941	459,547
Segment liabilities	171,980	-	26,673	10,582	384,351	6,373	583,004	16,955
Other information								
Capital Expenditure	29	-	12,211	761	-	-	12,240	761
Depreciation and amortisation	26,951	-	6,757	6,642	-	10,694	33,708	17,336
Provision for doubtful debts	-	-	-	3,522	-	-	-	3,522
Provision for obsolete inventories	-	-	-	13,421	-	-	-	13,421
Impairment losses	-	-	-	-	-	68,609	-	68,609

(b) Secondary Reporting Format – geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographic location of customers, whereas segment assets and capital expenditure are based on the geographical location of the assets.

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

	The PRC (excluding Hong Kong)		Hong Kong		Elimination		Consolidated	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Segment revenue:								
External sales	352,903	115,522	7,867	22,740	-	-	360,770	138,262
Inter-segment sales	8,106	19,025	-	1,271	(8,106)	(20,296)	-	-
	361,009	134,547	7,867	24,011	(8,106)	(20,296)	360,770	138,262

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

	The PRC (excluding Hong Kong and Macau)		Hong Kong		Macau		Unallocated		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(restated)		(restated)		(restated)		(restated)		(restated)
Segment assets	756,350	255,724	73,898	119,456	93,214	84,367	-	-	923,462	459,547
Goodwill	-	-	-	-	-	-	91,421	-	91,421	-
Patent in application	-	-	-	-	-	-	503,058	-	503,058	-
	<u>756,350</u>	<u>255,724</u>	<u>73,898</u>	<u>119,456</u>	<u>93,214</u>	<u>84,367</u>	<u>594,479</u>	<u>-</u>	<u>1,517,941</u>	<u>459,547</u>
	<u>756,350</u>	<u>255,724</u>	<u>73,898</u>	<u>119,456</u>	<u>93,214</u>	<u>84,367</u>	<u>594,479</u>	<u>-</u>	<u>1,517,941</u>	<u>459,547</u>
Capital expenditure	11,471	734	769	24	-	3	-	-	12,240	761
	<u>11,471</u>	<u>734</u>	<u>769</u>	<u>24</u>	<u>-</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>12,240</u>	<u>761</u>

5. TURNOVER AND REVENUE

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

	2006 HK\$'000	2005 HK\$'000
Turnover		
Sale of goods and forestry products	233,847	138,262
Sale of paper mulberry saplings	126,923	-
	<u>360,770</u>	<u>138,262</u>
Other revenue		
Dividend income from listed investments	148	67
Interest income	3,644	1,517
Rental income	93	259
Others	550	879
	<u>4,435</u>	<u>2,722</u>
Total revenue	<u>365,205</u>	<u>140,984</u>

6. OTHER NET GAIN/(LOSS)

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (restated)
Surplus on revaluation of leasehold properties, net	43	252
Surplus/(deficit) on revaluation of investment properties, net	850	(3,881)
Net realised loss on disposal of financial assets at fair value through profit or loss	(450)	–
Net unrealised loss on financial assets at fair value through profit or loss	(3,611)	(4,951)
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	11,920	–
	<u>8,752</u>	<u>(8,580)</u>

7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'0000</i> (restated)
Amortisation of goodwill	–	10,694
Amortisation of patent in application	9,064	–
Amortisation of paper mulberry saplings	17,833	–
Auditors' remuneration	800	735
Cost of goods and forestry products sold	140,019	126,776
Cost of saplings sold	26,833	–
Depreciation on property, plant & equipment		
– owned assets	6,810	6,407
– leased assets	–	110
Exchange loss/(gain)	(64)	6
Gross rental income	(93)	(259)
Less: Outgoings	2	8
Net rental income	(91)	(251)
Impairment loss on goodwill (included in other operating expenses)	–	61,942
Impairment loss on long term investment (included in other operating expenses)	–	6,667
Minimum lease payments under operating leases on leasehold properties	–	544
Release of prepaid lease payments	154	125
Research and development cost	10,577	–
Net unrealised loss on financial assets at fair value through profit or loss	3,611	4,951
Provision for doubtful debts	1,923	3,522
Provision for obsolete inventories	–	13,421
Staff costs (excluding directors' emoluments)		
Wages and salaries	11,353	9,472
Retirement benefits scheme contributions	295	338

8. FINANCE COSTS

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans and overdrafts	74	135
Interest on a finance lease	3	17
Interest on convertible notes	1,340	–
Interest on promissory notes	1,878	–
	<hr/>	<hr/>
Total finance costs	3,295	152
	<hr/> <hr/>	<hr/> <hr/>

9. TAXATION

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i> (restated)
Hong Kong profits tax		
– current	–	(6)
– over provision in previous year	–	–
– deferred tax credit/(charge)	42	(142)
Overseas tax		
– current	–	–
– under provision in previous year	–	(273)
– deferred tax credit	492	–
	<hr/>	<hr/>
	534	(421)
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong profits tax had been provided at 17.5% based on the estimated assessable profit for the year. Taxes on profits assessable elsewhere had been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

In accordance with the relevant applicable tax regulations of the PRC, Beijing Wan Fu Chun Forest Resources Development Company Limited (“Beijing WFC”), the Company’s principal operating subsidiary engaged in the forestry business, is entitled to full exemption from enterprise income tax for the first three years and 50% reduction in enterprise income tax for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years. Local income tax is exempted during the tax concession years. Currently, Beijing WFC is under the full tax exemption period and accordingly no tax provision has been made in respect of the operating results derived by Beijing WFC during the post-acquisition period.

10. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. The calculation of the basic earnings per share is based on the following data:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (restated)
Profit/(loss) attributable to equity holders of the Company	83,208	(150,189)
Weighted average number of ordinary shares in issue (thousands)	3,055,886	2,677,388

(b) Diluted earnings/(loss) per share

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible notes and share options. Reconciliation of the earnings and number of shares used in the calculation of diluted earnings for shares is as follows:

	2006 <i>HK\$'000</i>
<i>Earnings:</i>	
Profit for the year and earnings for the purposes of basic earnings per share	83,208
Effect of dilutive potential ordinary shares in respect of convertible notes	1,340
Earnings for the purpose of diluted earnings per share	84,548
<i>Number of shares</i>	<i>HK\$'000</i>
Weighted average number of ordinary shares for the purposes of basic earnings per share	3,055,886
Effect of dilutive potential ordinary shares in respect of:	
Share options	3,103
Convertible notes	248,781
Weighted average number of ordinary shares for the purpose of diluted earnings per share	3,307,770

No diluted loss per share had been presented for the year ended 30 June 2005 since the assumed exercise of the Company's outstanding share options would have no dilutive effect on loss per share and there were no convertible notes outstanding as at 30 June 2005.

11. TRADE RECEIVABLE

The Group normally allows credit terms to established customers ranging from 30 to 120 days. The Group seeks to maintain strict control over its outstanding receivables to minimize credit risk, with overdue balances regularly reviewed by senior management. Trade receivables are generally non-interest bearing and their carrying amount approximate to their fair values.

The aging analysis of the trade receivables as at the balance sheet date, based on the date of recognition of the sales, is as follows:

	Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	66,906	18,189
31 – 60 days	127,426	5,731
61 – 90 days	5,640	5,422
Over 90 days	7,372	11,377
	<u>207,344</u>	<u>40,719</u>

The directors consider that the carrying amounts of the Group's trade receivables at 30 June 2006 approximate to their fair values.

12. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 120 days from its suppliers.

An aging analysis of the trade payables as at the balance sheet date, based on the receipt of goods purchased, is as follows:

	Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	1,268	1,950
31 – 60 days	325	39
61 – 90 days	13	34
Over 90 days	1,320	846
	<u>2,926</u>	<u>2,869</u>

The directors consider that the carrying amounts of the Group's trade payables at 30 June 2006 approximate to their fair values.

FINANCIAL HIGHLIGHTS

For the financial year ended 30 June 2006, the Group recorded turnover of HK\$360.7 million, representing a 160 per cent increase from the preceding year. The Group's profit attributable to shareholders was approximately HK\$83.2 million (2005: net loss of 150.1 million), and earnings per share for the year was HK2.72 cents (2005: loss per share of HK5.61 cents).

During the year under review, the Company completed the acquisition of the ecological forestry business and the post-acquisition turnover and profit contribution from the newly diversified business was first-time consolidated into the Group accounts. The increase in turnover was mainly attributable to post-acquisition revenue generated from the newly acquired ecological forestry business. For the year under review, the Group's ecological forestry business and garment business accounted for approximately 60.7 per cent and 39.3 per cent, respectively, of the Group's total turnover.

In arriving at the Group's net profit, sharing in profits of joint-venture investment in Nano-technologies in the amount of HK\$1.6 million (2005: sharing in loss of HK\$30.8 million) has been included.

BUSINESS AND OPERATIONAL REVIEW

The Ecological Forestry Business

The Group's business operations in the ecological forestry business was carried out by Beijing Wan Fu Chun Forest Resources Development Company Limited ("Beijing WFC"), a Sino-Foreign joint venture principally engaged in the business of tree planting and management, manufacture and distribution of forest products such as timber and bark materials. The Company held a 70 per cent effective equity interest in Beijing WFC.

For the first post-acquisition period, the Group's share in net profit contribution from Beijing WFC attributable to the Company's shareholders amounted to approximately HK\$93.8 million. The profit contribution, which has been consolidated into the Group accounts for the financial year ended 30 June 2006, arose mainly from the sale of paper mulberry saplings and also quality pinewood by Beijing WFC. The sale of paper mulberry saplings was undertaken in Beijing WFC's initial stage of business launching to avail working capital and cash resources for future large scale plantation of the modified tree specie *Broussonetia Papyriferalvent*. The Group's turnover in respect of its forestry operations were entirely derived from the PRC.

In addition to the direct sale of saplings, during the post-acquisition period Beijing WFC has also commenced the plantation of the modified tree specie *Broussonetia Papyriferalvent*. The plantation works was carried out in a leasehold agricultural premise in the Shandong province and also certain other leased premises in other regions of the PRC; mainly near the Beijing border. Based on professional survey performed, as at 30 June 2006, the harvestable volume of *Broussonetia Papyriferalvent* being grown was assessed as approximately 805 tons of bark and 5,926 tons of tree trunk. During the current year, post-acquisition profit contribution in the amount of HK\$11.9 million was recorded in respect of the fair value re-measurement gains assessed in terms of harvestable timber which can be obtained by Beijing WFC from its plantation activities rendered during the period. At this stage of new commencement of plantation, however, the growth of the *Broussonetia Papyriferalvent* was still in continuance and has not reached their optimal stage for harvest. Therefore, no harvesting of the modified tree specie and sale of the collectible timber has been made during the year.

In respect of the Group's secondary forestry business operation in pinewoods, namely, the Shanxi Xiyang Dongfeng Forest Farm and the Shanxi Xiyang State-run Bixiaguan Forest Farm, both of them being located in Shanxi province, the PRC, during the post-acquisition period, harvesting has been made of approximately 56,000 cubic meters by volume of the pinewoods and sale of the collectible timber. Based on professional survey performed, as at 30 June 2006, the flocks of living pine trees of different maturities grown thereon was assessed to have an aggregate bulk volume of approximately 332,000 cubic meters. Amongst these, approximately 91 per cent by volume of the living pine trees have reached optimal harvestable stage of full maturity and near-maturity. Of these wholesome living pine trees, the Group has vested interests in contracts for the sale of portions of the flocks of approximately HK\$49 million by sales value, the delivery of which has not been completed as at 30 June 2006.

The Garment Business

The Group's core garment business consisted of the design, manufacture and sale of a range of high-end apparel and uniforms. The PRC market remained the most important market segment, accounting for over 90 per cent of the Group's total garment sales. During the year, the turnover generated from the garment business remains stable while the gross product margin normalized and improved from 8.4 per cent in last year to a healthier level of around 13.6 per cent. As a result, the Group succeeded in considerably reducing the net operating loss from its garment operation to approximately HK\$2.6 million for the year ended 30 June 2006.

The improvement was mainly the result of the Group's effort in rectifying its operations and advertising and intensified marketing and promotional campaign, including the appointment of renowned screen celebrity as the brand image ambassador and the roll out of a series of television advertisements to increase customers' brand awareness. In addition, the Group's effort in promulgating a nationwide sales retail network in the PRC and broaden sales channel has enabled the Group to concentrate on products with higher profit margin. Such promotional effort while requires a higher level of overhead outlay on part of the Group over the last two years, was beginning to impart its benefits. Along with the increase in brand awareness, a higher emphasis of sales effort was placed with apparel products under the Group's own branding which generally command higher profit margin than uniform sales. During the year, the Group also introduced to the market the leisure series of apparel to complement the men's suits and uniform product lines; and was well received by the market.

Investment in Nano-technology business

The Group's share of results of jointly-controlled entities, in the amount of HK\$1.6 million, represents share of operational loss from high-tech investment in Zhongke Nanotech, the Group's joint venture investment vehicle engaged in the development and sales of nano materials and transfer of related technology. Following a period of loss-incurring operational consolidation over the last year, Zhongke Nanotech succeeded in turning around the operation for the current year. The result contribution for the year was derived mainly from the sale of Nano metallic paint; Nano interior and exterior paint; and Nano paste as successfully commercialized by Zhongke Nanotech's second industrialization plant in Suzhou, the PRC. In addition, technology transfer contracts completed during the year includes the technology in the industrial manufacture of Nano self-cleansing glass material.

PROSPECTS

Going forward, the Board sees the Group's newly diversified ecological forestry business as the turbo engine to the Group's growth momentum. Capitalizing on the global ecological emphasis, the Board sees the business development potential of this new business as very promising. The Group will actively seek out suitable forest lands with growth potential in order to further expand our ecological forestry resources and develop related business. On 16 October 2006, the Group entered into a conditional agreement for the acquisition of an additional 30 per cent stakeholding in the ecological forestry business.

The reform of the PRC forestry industry has reached the final stage of lifting previous confinements. Along with the new development, the Group stands to benefit from opportunities arising from the conversion of State-owned forest fields and the incentives provided to encourage domestic and foreign participation in the industry. In particular, in view that the country is facing a serious unfulfilled market demand with wood pulp materials, the hybridized advancement of the traditional tree specie *Broussonetia papyrifera* to its high growth variety suitable for frequent cyclic harvest methodologies; and the forthcoming country-wise promotion of the modified tree specie as one of the major wood pulp sourcing tree specie will confer immense development potential as well as generating increasing future revenue sources for the Group.

Meanwhile, the garment business will continue to provide the Group with a reliable revenue base. While the Board anticipates the competition in the PRC's apparel market will continue to be severe, the Board is confident that the Group has successfully seasoned its difficult trial period and begun to turn around the operations. Nevertheless, the Group will review its marketing strategy periodically and adjust to the market environment as warranted, and devote sales and marketing efforts to substantiate its market share in the PRC. The Group's active expansion of its reach in the PRC market through the establishment of more outlets in various provinces has already proceeded to important cities such as Beijing, Shandong and Shanxi, providing a solid foundation to the garment business.

The Board sees the Group as heading on the right track. Leveraged on the Group's competitive strength in its chosen fields, the Board believes that the Group is geared to reap its greater achievements in the upcoming years.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2006, the Group's cash and bank balances, which were principally Renminbi and Hong Kong dollar denominated, amounted to over HK\$284 million. The Group was not exposed to any substantial risk in foreign exchange fluctuations.

As at 30 June 2006, the Group's total borrowings (excluding convertible notes liabilities) amounted to approximately HK\$276.6 million, out of which approximately HK\$220.6 million represents the amortized value of non-interest bearing promissory notes payable and HK\$56.0 million represents current account payable to minority shareholder. The promissory notes have an aggregate nominal value of HK\$230 million. Partial of the Company's promissory notes in the denomination of HK\$130 million are repayable on demand at any time starting from 1 October 2006 and the corresponding amortized value are classified as current

liabilities as at 30 June 2006. Settlement is in progress subsequent to 30 June 2006 of the above current portion of the promissory notes which has fallen due. The remaining outstanding portions of the Company's promissory notes are repayable by two installments each of HK\$50 million which shall fall due on 1 April 2007 and 1 July 2007, respectively.

The Group's presently available liquidity resources are sufficient in servicing its promissory notes and other borrowings and meeting its capital commitments. The Group generally finances its operation with internally generated resources. As at 30 June 2006, the Group's net current assets amounted to over HK\$239.5 million. The Group's current ratio, expressed as a percentage of current assets to current liabilities, amount to 1.7 times.

The Group has obtained available bank credit facilities which are secured by certain of the Group's pledged bank deposits and corporate guarantees given by the Company. During the year, these available bank credit facilities have been utilized in trade credit financing.

CAPITAL STRUCTURE

As at 30 June 2006, the capital structure of the Company is constituted exclusively of 3,879,807,600 ordinary shares of HK\$0.10 each. Apart from ordinary shares in issue, the capital instruments in issue of the Company include convertible notes and options to subscribe for shares in the Company.

During the year under review, a total of 206,200,000 new shares have been issued as a result of the exercise of options to subscribe for new shares in the Company. Subsequent to 30 June 2006, options were further exercised for the subscription of an additional 18,000,000 new shares in the Company.

During the year, the Company issued 580,000,000 consideration shares, credited as fully paid, and convertible notes in aggregate principal amount of HK\$210.4 million as consideration for the acquisition of the ecological forestry business.

The Company's convertible notes in aggregate principal amount of HK\$210.4 million are Hong Kong dollar denominated and interest-bearing at a fixed rate of 1.5 per cent per annum. The principal denomination of the convertible notes is convertible in full or in part into ordinary shares in the Company at a conversion price of HK\$0.12 per share. During the year, partial of the principal denomination of HK\$18.6 million of the convertible notes has been converted into 155,000,000 ordinary shares in the Company. Subsequent to 30 June 2006, further conversion has been made of principal denomination of HK\$91.8 million in the convertible notes into 765,000,000 ordinary shares in the Company. After accounting for the above share issues, as at the date of this report, there are 4,644,807,600 ordinary shares in issue with the Company.

The remaining outstanding convertible notes in an aggregate principal amount of HK\$100 million are restricted portion convertible only subsequent to the year 2007. Assuming full conversion is made of these outstanding convertible notes, under the existing capital structure of the Company, the capital base of the Company will be increased to approximately 5,478,140,930 ordinary shares under the existing capital structure of the Company. To accommodate the future expansion and growth of the Group and facilitate the business acquisition, on 8 May 2006, the Company increased its authorized share capital from HK\$500 million to HK\$650 million by the creation of an additional 1,500,000,000 un-issued ordinary shares of HK\$0.10 each in the Company.

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

CAPITAL COMMITMENTS

As at 30 June 2006, the Group had capital commitments contracted but not provided for of approximately HK\$1.1 million in respect of construction contractor cost; and approximately HK\$19.2 million in respect of acquisition of leasehold forest land.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATE

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, by virtue of the exercise of options to subscribe for new ordinary shares in the Company, the Company has issued and allotted 7,200,000 new ordinary shares in the Company at a share issue price of HK\$0.10 and 199,000,000 new ordinary shares in the Company at a share issue price of HK\$0.24. As a result of the above issue of shares, the Company collected share issue proceeds before expenses of HK\$48.4 million.

In addition, during the period from 8 July 2005 to 12 July 2005, by virtue of exercise of the rights granted by the Company's shareholders to the directors under general mandate, the Company repurchased on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in aggregate 2,880,000 of its ordinary shares of HK\$0.10 each at a total consideration before expenses of approximately HK\$307,000. The subject shares were cancelled after repurchases and the issued share capital of the Company was reduced by the nominal value thereof.

DIVIDEND

The Board of directors has resolved not to recommend any dividend for the financial year ended 30 June 2006.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company substantially complied with the provisions of the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the year ended 30 June 2006, except for the appointment and retirement of directors as discussed below.

- (1) The Company’s independent non-executive directors were not appointed for specific terms as required by code provision A.4.1 but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company. Commencing 25 October 2005, to comply with the Code provisions, revisions have been made to appoint the independent non-executive directors on the basis of specific terms of three years.
- (2) The existing bye-laws of the Company provide that at each annual general meeting one-third of the Directors for the time being, with the exception of the Chairman and Deputy Chairman, are subject to retirement by rotation. Apart from those who do not wish to offer themselves for re-election, the Directors to retire shall include those who have been longest in office since last re-election. In addition, all Directors appointed to fill a casual vacancy shall retire in the next annual general meeting but eligible for re-election. In order to bring the Bye-laws of the Company in line with the Code provisions, resolutions will be proposed at the forthcoming annual general meeting to seek shareholders’ approval for the amendments of the bye-laws of the Company in the order that all Directors are subject to retirement by rotation at least once every three years.

AUDIT COMMITTEE

The Company has established an audit committee for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. It also reviews the effectiveness of the audit process and risk evaluation. The audit committee currently comprises the three independent non-executive directors of the Company, namely, Mr. Lo Cheung Kin, Mr. Zou Zi Ping and Mr. Zhu Jian Hong. The Group’s financial statements for the year ended 30 June 2006 has been reviewed by the audit committee, which include a review and discussion of the accounting principles and practices adopted by the Company in preparing these financial statements.

EMPLOYEES

At 30 June 2006, the Group employed a total of approximately 750 employees of which 19 staff was employed in Hong Kong. In addition to competitive package offered to the employees, other benefits for eligible candidates include contributions to mandatory provident fund, group medical and accident insurance. On-going training sessions were also conducted to enhance the competitiveness of the Group's human assets. The Company also maintains a share option scheme, pursuant to which share options may be granted to directors, executives and employees of the Company to provide them with incentive interest in the growth of the Group.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 22 November 2006 to 28 November 2006, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attendance at the annual general meeting of the Company to be held on 28 November 2006, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 21 November 2006.

PUBLICATION OF DETAILED ANNUAL RESULTS ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE") WEBSITE

A detailed announcement of the results of the Group for year containing the information required by the Listing Rules will be published on the website of the Stock Exchange in due course.

LIST OF DIRECTORS

As of the date of this announcement, the Board comprised Mr. Ng Leung Ho, Ms. Lee Ming Hin, Mr. Hu Xiaoming, Mr. Wang Weining and Mr. Ge Wen Hong being the executive directors of the Company, Mr. Ng Leung Tung being the non-executive director and Mr. Lo Cheung Kin, Mr. Zhou Zi Ping and Mr. Zhu Jian Hong being the independent non-executive directors of the Company.

By Order of the Board
Good Fellow Group Limited
Ng Leung Ho
Chairman

Hong Kong, 23 October 2006

** for identification purposes only*

Please also refer to the published version of this announcement in The Standard.