



CHINA GRAND FORESTRY RESOURCES GROUP LIMITED

中國林大資源集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 910)

UNAUDITED RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

Financial Highlights

• Turnover	+ 4 times to HK\$367 million
• Gross profit	+ 16 times to HK\$255 million
• Profit attributable to shareholders	+ 66 times to HK\$165 million
• Basic earnings per share	+ 46 times to HK3.74 cents
• Profit attributable to shareholders adjusts for gain from changes in fair value of biological assets	+ 37 times to HK\$92 million

The board of directors (the “Board” or “Directors”) of China Grand Forestry Resources Group Limited (formerly known as Good Fellow Group Limited) (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31 December 2006.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 31 December	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Turnover	2	366,551	72,422
Cost of sales		(111,775)	(57,419)
Gross profit		254,776	15,003
Other revenue		2,131	1,910
Other net gain/(loss)		124,263	(1,531)
Selling and distribution expenses		(38,685)	(6,987)
Administrative expenses		(22,648)	(7,165)
Other operating expenses		(74,740)	(165)
Profit from operations	4	245,097	1,065
Finance costs	5	(10,610)	(75)
Share of (losses)/profits of jointly-controlled entities		(3,457)	1,463
Gain on disposal of interest in a jointly-controlled entity		2,258	–
Profit before taxation		233,288	2,453
Taxation	6	556	–
Profit for the period		233,844	2,453
Profit attributable to:			
Equity holders of the Company		164,752	2,453
Minority interest		69,092	–
		233,844	2,453
Earnings per share for profit attributable to equity holders of the Company	7		
Basic		HK3.74 cents	HK0.08 cent
Diluted		HK3.22 cents	HK0.08 cent

CONDENSED CONSOLIDATED BALANCE SHEET

		31 December 2006 (Unaudited) <i>HK\$'000</i>	30 June 2006 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	8	66,147	64,232
Construction in progress		13,790	11,240
Prepaid lease payments		14,152	13,122
Investment properties		2,500	2,500
Intangible assets		562,754	594,479
Interests in jointly-controlled entities		27,835	28,282
Biological assets		398,112	241,691
		1,085,290	955,546
CURRENT ASSETS			
Inventories		37,799	38,264
Trade receivables	9	200,081	207,344
Prepaid lease payments		349	301
Prepayments, deposits and other receivables		196,445	24,350
Financial assets at fair value through profit or loss		19,938	4,992
Non-current asset held for sale		–	2,735
Deferred expenditure		104,036	–
Pledged bank deposits		10,988	10,988
Bank and cash balances		211,259	273,421
		780,895	562,395
		1,866,185	1,517,941
TOTAL ASSETS			
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS			
Share capital	10	466,281	387,981
Reserves		494,206	310,138
		960,487	698,119
Minority interests		305,910	236,818
		1,266,397	934,937
		1,266,397	934,937

	<i>Note</i>	31 December 2006 (Unaudited) HK\$'000	30 June 2006 (Audited) HK\$'000
NON-CURRENT LIABILITIES			
Promissory notes payable		–	46,146
Convertible notes payable		81,124	150,858
Deferred taxation		56,098	63,000
		<u>137,222</u>	<u>260,004</u>
CURRENT LIABILITIES			
Trade payables	<i>11</i>	9,142	2,926
Other payables and accruals		27,780	25,829
Promissory notes payable		97,036	174,452
Amount due to minority interests		57,517	56,005
Interest-bearing bank borrowings		–	21
Provision for taxation		5,854	5,235
Deferred revenue		265,237	58,532
		<u>462,566</u>	<u>323,000</u>
TOTAL LIABILITIES		599,788	583,004
TOTAL EQUITY AND LIABILITIES		<u>1,866,185</u>	<u>1,517,941</u>
NET CURRENT ASSETS		<u>318,329</u>	<u>239,395</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,403,619</u>	<u>1,194,941</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	31 December 2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
NET CASH GENERATED FROM OPERATING ACTIVITIES	37,402	5,332
NET CASH USED IN INVESTING ACTIVITIES	(118,672)	(41,107)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	5,912	(356)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(75,358)	(36,131)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	273,400	217,294
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	13,217	2,640
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>211,259</u>	<u>183,803</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
CASH AND BANK BALANCES	<u>211,259</u>	<u>183,803</u>

NOTES:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

The accounting policies used in preparation of the condensed consolidated interim financial statements are consistent with those adopted in the annual financial statements for the year ended 30 June 2006 with addition of certain new standards and interpretations of Hong Kong Financial Reporting Standards (“HKFRSs”) issued and effective as at the time of preparing this report. These are:

HKAS 21 (Amendment)	The effects of change in foreign exchange rate – net investment in a foreign operation
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 (Amendment)	The fair value option
HKAS 39 & HKFRS 4 (Amendment)	Financial guarantee contracts
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives

The adoption of such standards or interpretations does not result in substantial changes to the Group’s accounting policies and has no significant effect on the results reported for the six months ended 31 December 2006.

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

HKAS 21 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment ²
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Shares Transactions ³

¹ Effective for annual periods beginning on or after 1 January 2007

² Effective for annual periods beginning on or after 1 November 2006

³ Effective for annual periods beginning on or after 1 March 2007

2. TURNOVER

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

3. SEGMENT INFORMATION

(a) Business segments:

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

Group

For the six months ended 31 December

	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	294,546	-	72,005	72,422	-	-	366,551	72,422
Inter-segment sales	-	-	-	-	-	-	-	-
Total sales	<u>294,546</u>	<u>-</u>	<u>72,005</u>	<u>72,422</u>	<u>-</u>	<u>-</u>	<u>366,551</u>	<u>72,422</u>
Segment results	<u>230,307</u>	<u>-</u>	<u>(2,846)</u>	<u>2,678</u>	<u>-</u>	<u>-</u>	<u>227,461</u>	<u>2,678</u>
Unallocated revenue and other net gain							23,134	379
Unallocated expenses							(5,498)	(1,992)
Profit from operations							245,097	1,065
Finance costs							(10,610)	(75)
Share of results of jointly-controlled entities							(1,199)	1,463
Profit before taxation							233,288	2,453
Taxation							556	-
Profit for the period							<u>233,844</u>	<u>2,453</u>

(b) Geographical segments

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

Group

For the six months ended 31 December

	The PRC (excluding Hong Kong and Macau)		Hong Kong		Elimination		Consolidation	
	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	366,073	65,063	478	7,359	-	-	366,551	72,422
Inter-segment sales	4,212	3,647	-	-	(4,212)	(3,647)	-	-
Total revenue	<u>370,285</u>	<u>68,710</u>	<u>478</u>	<u>7,359</u>	<u>(4,212)</u>	<u>(3,647)</u>	<u>366,551</u>	<u>72,422</u>
Segment results	<u>229,609</u>	<u>15</u>	<u>(2,148)</u>	<u>2,663</u>			<u>227,461</u>	<u>2,678</u>
Unallocated revenue and other net gain							23,134	379
Unallocated expenses							(5,498)	(1,992)
Profit from operations							245,097	1,065
Finance costs							(10,610)	(75)
Share of results of jointly-controlled entities							(1,199)	1,463
Profit before taxation							233,288	2,453
Taxation							556	-
Profit for the period							<u>233,844</u>	<u>2,453</u>

4. PROFIT FROM OPERATIONS

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

	Six months ended 31 December	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Gain on disposal of property held for disposal	(4,223)	–
Gain from changes in fair value of biological assets	(103,260)	–
Amortisation of prepaid lease payment	203	60
Depreciation of property, plant and equipment	2,641	3,280
Realised loss on disposal of financial assets at fair value through profit or loss	–	450
Interest income	(981)	(1,434)
Unrealised gain on financial assets at fair value through profit or loss	(16,780)	–
Unrealised loss on financial assets at fair value through profit or loss	–	1,081
	<u>–</u>	<u>1,081</u>

5. FINANCE COSTS

	Six months ended 31 December	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest on bank loans and overdrafts	80	72
Interest on a finance lease	–	3
Interest on convertible notes	4,092	–
Interest on promissory notes	6,438	–
	<u>10,610</u>	<u>75</u>

6. TAXATION

	Six months ended 31 December	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Current:		
Hong Kong	–	–
Elsewhere	–	–
Deferred	556	–
Tax credit for the period	556	–
	<u>556</u>	<u>–</u>

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

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

7. EARNINGS PER SHARE

The calculation of basic earnings per share for six months ended 31 December 2006 is based on the Group's profit attributable to the equity holders of the Company for the period of approximately HK\$164,752,000 (2005: HK\$2,453,000) and the weighted average number of 4,402,802,165 (2005: 2,938,736,296) ordinary shares in issue during the period.

The calculation of diluted earnings per share for six months ended 31 December 2006 is based on the Group's profit attributable to the equity holders of the Company for the period of approximately HK\$168,844,000 (2005: HK\$2,453,000) and the weighted average number of 5,236,135,498 (2005: 2,940,473,991) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares of the Company's convertible note outstanding during the period.

8. PROPERTY, PLANT AND EQUIPMENT

During the period, additions of property, plant and equipment amounted to approximately HK\$4,137,000 (2005: HK\$55,000).

9. TRADE RECEIVABLES

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

	31 December 2006 (Unaudited) HK\$'000	30 June 2006 (Audited) HK\$'000
0-30 days	191,588	66,906
31-60 days	6,172	127,426
61-90 days	1,424	5,640
Over 90 days	897	7,372
	<u>200,081</u>	<u>207,344</u>

10. SHARE CAPITAL

	31 December 2006 (Unaudited) HK\$'000	30 June 2006 (Audited) HK\$'000
Authorized: 6,500,000,000 ordinary shares of HK\$0.10 each	<u>650,000</u>	<u>650,000</u>
Issued and fully paid: 4,662,807,600 (30 June 2006: 3,879,807,600) ordinary shares of HK\$0.10 each	<u>466,281</u>	<u>387,981</u>

11. TRADE PAYABLES

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

	31 December 2006 (Unaudited) HK\$'000	30 June 2006 (Audited) HK\$'000
0-30 days	7,843	1,268
31-60 days	25	325
61-90 days	56	13
Over 90 days	1,218	1,320
	<u>9,142</u>	<u>2,926</u>

12. COMMITMENTS

As at 31 December 2006, the Group had the following commitments contracted but not provided for:

	31 December 2006 (Unaudited) HK\$'000	30 June 2006 (Audited) HK\$'000
Group: Contractor costs	-	1,067
Acquisition of leasehold forest land	43,980	19,230
Group's share of capital commitments of jointly-controlled entities	-	158
	<u>43,980</u>	<u>20,455</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

For the financial period ended 31 December 2006, the Group recorded turnover of approximately HK\$366.6 million, representing a 4 times increase from the preceding period. The Group's profit attributable to shareholders was approximately HK\$164.8 million (2005: 2.5 million), and earnings per share for the period was HK3.74 cents (2005: HK0.08 cent).

During the period under review, the Group contracted the acquisition of the forest land of approximately 98,721 Chinese Mu and the Group asset's quality was improved. As at 31 December 2006, the forest land of the Group was approximately 479,800 Chinese Mu. In addition, the turnover and profit contribution from the ecological forestry business was consolidated into the Group accounts for the whole period. Both the increase in turnover and profit were mainly attributable from the ecological forestry business. For the period under review, the Group's ecological forestry business and garment business accounted for approximately 80 per cent and 20 per cent, respectively, of the Group's total turnover.

In arriving at the Group's net profit, sharing in losses of joint-venture investment in Nano-technologies in the amount of HK\$3.4 million (2005 profits: HK\$1.5 million) has been included.

Dividend

The Board has resolved not to recommend any dividend for the financial period ended 31 December 2006.

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 during the period under review.

During the period, the Group's share in net profit contribution from Beijing WFC attributable to the Company's shareholders amounted to approximately HK\$161.2 million. The profit contribution, which has been consolidated into the Group accounts for the period ended 31 December 2006, arose mainly from the sale of timber and sale of paper mulberry sapling. The turnover from the sale of timber and sale of paper mulberry sapling during the period were approximately HK\$181.7 million and HK\$78.7 million respectively.

During the period under review, the profit margin from the sale of timber was improved because of the increase in the unit selling price by approximately 10% and the effective cost control after the enhancement of the management team. The sale of timber recognised during the period was mainly arising from Miaowan Forest Land in Hunan Province and Shanxi Xiyang Dongfeng Forest Farm in Shanxi Province only.

In addition to the direct sale of paper mulberry saplings, during the period Beijing WFC has planted 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. Based on professional survey performed, as at 31 December 2006, Beijing WFC has planted approximately 81.1 million of the modified tree specie *Broussonetia Papyriferalvent*. As the growth of the *Broussonetia Papyriferalvent* was still in continuance and has not reached their optimal stage for harvest, no harvesting of the modified tree specie and sale of the collectible timber has been made during the period. The flocks of living modified free specie *Broussonetia Papyriferalvent* of different maturities grown thereon was assessed to have an aggregated volume of bark and trunk of approximately 3,814 net tons and 33,090 net tons respectively. As at 31 December 2006, the Group has approximately 122.9 million of paper mulberry saplings to be planted in various forest land contracted.

During the period, the Group contracted the acquisition of forest land of approximately 98,721 Chinese Mu. As at the date of report, the contracted forest land of the Group was 802,138 Chinese Mu. The following table summarised the details.

Province/City	As at 1.7.2006 (Chinese Mu)	Contracted during the period (Chinese Mu)	Total forest land contracted as at 31.12.2006 (Chinese Mu)	Major forest land contracted from 1.1.2007 to date of report (Chinese Mu)	Forest land to be acquired (Chinese Mu)
Shandong	300,000	–	300,000	–	–
Shanxi	46,994	58,900	105,894	–	641,100
Hunan	34,085	30,797	64,882	196,000	2,373,203
Chongqing	–	6,948	6,948	26,013	773,987
Sichuan	–	2,076	2,076	–	–
Guangxi	–	–	–	100,325	5,899,675
Fujian	–	–	–	–	401,000
Hubei	–	–	–	–	1,000,000
Total	381,079	98,721	479,800	322,338	11,088,965

Note: Forest land to be acquired represents the incomplete acquisitions of forest land in which letter of intent or cooperative agreements had been signed as at the date of report.

The Group is positive about the prospects of its ecological forestry business. Growth in demand of our products, potential acquisition opportunities and extensions of business methodologies provide business development in a favourable direction.

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 period, the turnover generated from the garment business remains stable and amounted to HK\$72.0 million.

Cost of sales, selling and distribution cost

The increase in cost for the period was mainly the result of the consolidation of full period expenses incurred in respect of the Group's ecological forestry business. These include cost incurred in harvesting timber, related storage and transportation charges.

Other operating expenses

The other operating expenses for the current period of approximately HK\$74.7 million included patent amortisation of approximately HK\$31.3 million.

Liquidity and financial resources and Capital Structure

As at 31 December 2006, the Group's cash and bank balances, which were principally Renminbi and Hong Kong dollar denominated, amounted to over HK\$222.2 million. The Group was not exposed to any substantial risk in foreign exchange fluctuations.

As at 31 December 2006, the Group's total borrowings (excluding convertible notes liabilities) amounted to approximately HK\$154.5 million, out of which approximately HK\$97.0 million represents the amortised value of non-interest bearing promissory notes payable and HK\$57.5 million represents current account payable to minority shareholder. The promissory notes have an aggregate nominal value of HK\$100.0 million. The promissory notes are repayable by two instalments each of HK\$50.0 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 31 December 2006, the Group's net current assets amounted to over HK\$318.3 million. The Group's current ratio, expressed as a percentage of current assets to current liabilities, amounted 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 period, these available bank credit facilities have been utilised in trade credit financing.

As at 31 December 2006, the capital structure of the Company is constituted exclusively of 4,662,807,600 ordinary shares of HK\$0.10 each. Apart from ordinary shares in issue, the capital instruments in issue of the Company include convertible notes.

During the period under review, a total of 18,000,000 new shares have been issued as a result of the exercise of options to subscribe for new shares in the Company.

During the period, 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.

As at 31 December 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 25 per cent. (30 June 2006: 61%)

Material acquisitions

During the period, the Group has completed the following material acquisitions:

- a) On 13 December 2006, Beijing WFC, a subsidiary owned as to 70% by the Company at the time, has entered into an agreement ("Ning Yuan County Agreement") with State-run forest of Bai Yun Shan, Ning Yuan County, the PRC for acquiring a leasehold interest in forest land in Bai Yun Shan, Ning Yuan County with total land area of 30,797.5 Chinese Mu at a cash consideration of RMB13,800,000. Pursuant to the Ning Yuan County Agreement, Beijing WFC is entitled to exercise the rights of the leasehold forest land for a term of 30 years.
- b) On 18 December 2006, Beijing WFC, a subsidiary owned as to 70% by the Company at the time, has entered into an agreement ("Ruicheng County Agreement") with State-run forest of Ruicheng County, for acquiring a leasehold interest in forest land in Ruicheng County with total land area of 58,900 Chinese Mu at a cash consideration of RMB22,300,000. Pursuant to the Ruicheng County Agreement, Beijing WFC is entitled to exercise the rights of the leasehold forest land for a term of 50 years.

Charge on the Group's assets

As at 31 December 2006, the Group's available banking facilities were secured by pledged bank deposits of HK\$10,988,000 and corporate guarantees given by the Company.

Contingent liabilities

At 31 December 2006, the Group does not have contingent liabilities of material amounts.

Model code for securities transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 of the Listing Rules in respect of securities dealing by Directors. The Company has made specific enquiry to all Directors of the Company in respect of securities dealing by the Directors and is not aware of any non-compliance with the Model Code during the six months ended 31 December 2006.

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

There was no purchase, sale or redemption of shares of the Company by the Company or its subsidiaries during the six months ended 31 December 2006.

Events after the balance sheet date

Subsequent to 31 December 2006, the following post balance sheet events took place:

- a) On 9 January 2007, Beijing WFC, a subsidiary owned as to 70% by the Company at the time, entered into an agreement (“Chengbu County Agreement”) with the Peoples’ Government of Chengbu Miao Group Autonomous County of the Hunan Province (the “Chengbu Miao Group Autonomous County Government”) whereby the Chengbu Miao Group Autonomous County Government will provide assistance and applicable policy incentives in forest land transfer to Beijing WFC of no less than 600,000 Chinese Mu by area, for the purpose of field plantation and the establishment of a processing base for timber and wood pulp materials; and Beijing WFC will provide the genetically modified tree specie *Broussonetia Papyriferalvent* and technical support for plantation of the tree specie in Hunan province. The proposed cooperation is subject to any legally binding agreement to be entered in due course in relation to the procurement of forest land by Beijing WFC and other contractual arrangements. Further details of the Chengbu County Agreement are set out in the Company’s press announcement of 9 January 2007.
- b) On 15 January 2007, Beijing WFC, a subsidiary owned as to 70% by the Company at the time, has entered into an agreement (“Pengshui County Agreement”) with Maoyunshan State-run forest of the Pengshui Miao and Tujia Autonomous County of the ChongQing City for acquiring a leasehold interest in forest land in Pengshui County with total land area of 1,734.2 hectares and volume of timber vested with the forest land of 159,081.2 cubic meters at a cash consideration of RMB19,780,000. Pursuant to the Pengshui County Agreement, Beijing WFC is entitled to exercise the rights of the leasehold forest land for a term of 70 years. The completion of the Pengshui County Agreement is subject to the issuance of the forest ownership certificate to Beijing WFC. Further details of the Pengshui County Agreement are set out in the Company’s press announcement of 15 January 2007.
- c) Pursuant to the resolution passed by the Company’s shareholders on 17 January 2007 to approve an acquisition agreement for the acquisition of an additional 30 per cent equity interest in Beijing WFC, Beijing WFC became a 100 per cent subsidiary of the Company. Further details are set out in the Company’s press announcement of 17 January 2007.
- d) Pursuant to the resolution passed by the Company’s shareholders on 26 January 2007, Horwath Hong Kong CPA Limited (“Horwath”), has been appointed auditors of the Company to fill the vacancy following the resignation of Johnny Chan & Co. Limited, and to hold office until the conclusion of the Company’s next annual general meeting. Further details are set out in the Company’s press announcement of 26 January 2007.
- e) On 30 January 2007, the Company raised share issue proceeds, net of related expenses, of approximately HK\$448 million from the issue of 400,000,000 new shares in the Company under a top-up placing and subscription arrangement. The resulting net proceeds has been retained as general working capital of the Group and will be used for further expansion of the forestry business thereby improving its production facilities when suitable investment opportunities arise. Further details are set out in the Company’s press announcement of 17 January 2007.
- f) On 2 February 2007, Beijing WFC has entered into a letter of intent (“Letter of Intent”) with the Peoples’ Government of the PingLu County (the “PingLu Government”) whereby the PingLu Government will provide favourable assistance to Beijing WFC in procurement on a leased basis of forest land of no less than 500,000 Chinese Mu by area for the purpose of field plantation; and Beijing WFC will provide the genetically modified tree specie *Broussonetia Papyriferalvent* and technical support for plantation of the tree specie in PingLu County. The proposed cooperation is subject to any legally binding agreement to be entered in due course in relation to the procurement of forest land by Beijing WFC and other contractual arrangements. Further details of the Letter of Intent are set out in the Company’s press announcement of 2 February 2007.

- g) On 13 February 2007, Beijing WFC has entered into an agreement (“Hezhou Agreement”) with 賀州市盛東林業開發有限責任公司 for acquiring 10 leasehold forest land in He Zhou City, Guangxi Province with total land area of 100,325 Chinese Mu and volume of timber vested with the forest land of 816,244 cubic meters at a cash consideration of RMB70,227,500. Pursuant to the Hezhou Agreement, the Purchaser is entitled to exercise the rights of the various leasehold forest land for terms up to 49 years. The completion of the Hezhou Agreement is subject to the issuance of the forest ownership certificate to Beijing WFC. Further details of the Hezhou Agreement are set out in the Company’s press announcement of 13 February 2007.
- h) On 7 March 2007, Beijing WFC has entered into an agreement (“Chengbu County Agreement”) with 湖南省城步苗族自治縣金紫山國有林場 for acquiring a leasehold forest land in Chengbu County Hunan Province with total land area of 196,000 Chinese Mu at a cash consideration of RMB71,800,000. Pursuant to the Chengbu County Agreement, the Purchaser is entitled to exercise the rights of the leasehold forest land for a terms of 30 years. The completion of the Chengbu County Agreement is subject to the issuance of the forest ownership certificate to Beijing WFC. Further details of the Chengbu County Agreement are set out in the Company’s press announcement of 7 March 2007.

Corporate governance

In the opinion of the Directors, the Company complied with the provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (“CG Code”) throughout the six months ended 31 December 2006.

Audit and remuneration committee

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

The unaudited condensed consolidated interim financial report has been reviewed by the audit committee.

Pursuant to the recommendation of the CG Code, the company established a remuneration committee on 15 April 2005 with specific written terms of reference in accordance with the CG Code. The remuneration committee also comprises the three independent non-executive Directors. The principal responsibilities of the remuneration committee include making recommendations to the Board on the Company’s policy and structure of remuneration of Directors and senior management of the Company and on the establishment of a formal and transparent procedure for developing such policy, and reviewing the specific remuneration packages of all executive Directors and senior management of the Company by reference to corporate goals and objective resolved by the Board from time to time.

Publication of interim results

This result announcement is published on the HKSE’s website – <http://www.hkex.com.hk>.

By Order of the Board
China Grand Forestry Resources Group Limited
Ng Leung Ho
Chairman

Hong Kong, 23 March 2007

As at the date of this announcement, the Directors of the Company comprises of Mr. Ng Leung Ho, Ms. Lee Ming Hin, Mr. Hu Xiaoming and Mr. Ge Wen Hong being the executive Directors, and Mr. Lo Cheung Kin, Mr. Zou Zi Ping and Mr. Zhu Jian Hong being the independent non-executive Directors.

* *For identification purposes only*

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