



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)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2007

Financial Highlights

- Turnover + 1.3 times to HK\$829 million
- Gross profit + 1.7 times to HK\$530 million
- Profit attributable to shareholders + 14.9 times to HK\$1,319 million
- Basic earnings per share + 9.6 times to HK28.82 cents
- Profit attributable to shareholders
excluding the revaluation
gain of biological assets HK\$298 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 audited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the period from 1 July 2006 to 31 March 2007, being the financial year 2006 of the Company by virtue of its change of financial year end date from 30 June to 31 March (please refer to an announcement of the Company published on the website of the Hong Kong Stock Exchange (www.hkex.com.hk) on 5 July 2006 for details of such change) (the “Year Ended 31 March 2007”) with comparative figures for the period from 1 July 2005 to 30 June 2006 (the “Year Ended 30 June 2006”) as follows. These results have been reviewed by the Company’s Audit Committee.

AUDITED CONSOLIDATED INCOME STATEMENT

for the Year Ended 31 March 2007

	<i>Notes</i>	Year Ended 31 March 2007 HK\$’000	Year Ended 30 June 2006 HK\$’000
Turnover	3	828,918	360,770
Cost of sales		(298,583)	(166,852)
Gross profit		530,335	193,918
Other revenue	3	5,159	4,435
Other net gain	4	1,141,730	8,752
Selling and distribution expenses		(88,666)	(25,839)
Administrative expenses		(52,908)	(15,992)
Other operating expenses		(62,861)	(40,714)
Profit from operating activities	5	1,472,789	124,560
Finance costs	6	(14,155)	(3,295)
Share of (losses)/profits of jointly-controlled entities		(3,684)	1,640
Gain on disposal of interest in a jointly-controlled entity		2,326	–
Profit before taxation		1,457,276	122,905
Taxation	7	(68,874)	534
Profit for the year		<u>1,388,402</u>	<u>123,439</u>
Attributable to:			
– Equity holders of the Company		1,319,310	83,208
– Minority interests		69,092	40,231
		<u>1,388,402</u>	<u>123,439</u>
Earnings per share for result attributable to the equity holders of the Company during the year			
– basic	8(a)	<u>HK28.82 cents</u>	<u>HK2.72 cents</u>
– diluted	8(b)	<u>HK24.49 cents</u>	<u>HK2.56 cents</u>

AUDITED CONSOLIDATED BALANCE SHEET

As at 31 March 2007

	<i>Notes</i>	31 March 2007 <i>HK\$'000</i>	30 June 2006 <i>HK\$'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		63,790	64,232
Construction in progress		12,081	11,240
Prepaid lease payments		17,730	13,122
Deposits for acquisition of forest farms		154,234	–
Investment properties		3,160	2,500
Intangible assets		571,657	594,479
Interests in jointly-controlled entities		28,755	28,282
Biological assets		1,598,133	241,691
		<u>2,449,540</u>	<u>955,546</u>
Current assets			
Inventories		31,886	38,264
Trade receivables	9	156,328	207,344
Prepaid lease payments		430	301
Other receivables, deposits and prepayments		40,333	24,350
Financial assets at fair value through profit or loss		23,578	4,992
Non-current asset held for sale		–	2,735
Pledged bank deposits		11,265	10,988
Bank and cash balances		613,044	273,421
		<u>876,864</u>	<u>562,395</u>
Total assets		<u>3,326,404</u>	<u>1,517,941</u>
EQUITY AND LIABILITIES			
Capital and reserves attributable to the Company's equity holders			
Share capital		506,281	387,981
Reserves		2,084,307	310,138
		<u>2,590,588</u>	<u>698,119</u>
Minority interests		–	236,818
Total equity		<u>2,590,588</u>	<u>934,937</u>
Non-current liabilities			
Promissory notes payable		–	46,146
Convertible notes payable		82,367	150,858
Deferred taxation		128,567	63,000
		<u>210,934</u>	<u>260,004</u>
Current liabilities			
Trade payables	10	4,414	2,926
Other payables and accruals		415,890	25,829
Promissory notes payable		98,969	174,452
Amount due to minority interests		–	56,005
Interest-bearing bank borrowings		–	21
Provision for taxation		5,609	5,235
Deferred revenue		–	58,532
		<u>524,882</u>	<u>323,000</u>
Total liabilities		<u>735,816</u>	<u>583,004</u>
Total equity and liabilities		<u>3,326,404</u>	<u>1,517,941</u>

Notes:

1. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current reporting year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as the “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which are effective for accounting periods beginning on or after 1 December 2005 and 1 January 2006. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods have been prepared and presented.

The HKICPA has issued the following new standards and interpretations that are not yet effective. The Group has already commenced an assessment of these new standards and interpretations but is not yet in a position to state whether these new standards and interpretations would have a significant impact on its results of operations and financial position.

		<i>Notes</i>
HKAS 1 (Amendment)	Capital Disclosures	1
HKFRS 7	Financial Instruments: Disclosures	1
HKFRS 8	Operating Segments	5
HK(IFRIC)-Int 8	Scope of HKFRS 2	6
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment	2
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions	3
HK(IFRIC)-Int 12	Service Concession Arrangements	4

Notes:

1. Effective for the financial years beginning on or after 1 January 2007.
2. Effective for the financial years beginning on or after 1 November 2006.
3. Effective for the financial years beginning on or after 1 March 2007.
4. Effective for the financial years beginning on or after 1 January 2008.
5. Effective for the financial years beginning on or after 1 January 2009.
6. Effective for the financial years beginning on or after 1 May 2006.

2. 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 31 March 2007 and for the Year Ended 30 June 2006 and certain assets and liabilities information regarding business segments at 31 March 2007 and 30 June 2006:

(a) Primary Reporting Format – Business segments

Revenue and profit/(loss) information

	Ecological		Garment Business		Elimination		Consolidated	
	Forestry Business		Garment Business		Elimination		Consolidated	
	Year Ended	Year Ended	Year Ended	Year Ended	Year Ended	Year Ended	Year Ended	Year Ended
	31 March	30 June	31 March	30 June	31 March	30 June	31 March	30 June
	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue:								
External sales	733,126	219,230	95,792	141,540	-	-	828,918	360,770
Inter-segment sales	-	-	-	-	-	-	-	-
Total sales	<u>733,126</u>	<u>219,230</u>	<u>95,792</u>	<u>141,540</u>	<u>-</u>	<u>-</u>	<u>828,918</u>	<u>360,770</u>
Segment results	<u>1,490,840</u>	<u>133,602</u>	<u>15,736</u>	<u>(2,705)</u>	<u>-</u>	<u>-</u>	<u>1,506,576</u>	<u>130,897</u>
Unallocated revenue and net gain							2,460	1,276
Unallocated expenses							(36,247)	(7,613)
Profit from operating activities							1,472,789	124,560
Finance costs							(14,155)	(3,295)
Share of (losses)/profits of jointly-controlled entities							(3,684)	1,640
Gain on disposal of interest in a jointly-controlled entity							2,326	-
Profit before taxation							1,457,276	122,905
Taxation							(68,874)	534
Profit for the year							<u>1,388,402</u>	<u>123,439</u>

Assets and liabilities information

	Ecological		Garment Business		Unallocated		Consolidated	
	Forestry Business							
	31 March	30 June	31 March	30 June	31 March	30 June	31 March	30 June
	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	<u>2,807,252</u>	<u>1,088,593</u>	<u>368,411</u>	<u>364,375</u>	<u>150,741</u>	<u>64,973</u>	<u>3,326,404</u>	<u>1,517,941</u>
Segment liabilities	<u>472,065</u>	<u>171,980</u>	<u>76,842</u>	<u>26,673</u>	<u>186,909</u>	<u>384,351</u>	<u>735,816</u>	<u>583,004</u>

(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		Hong Kong		Elimination		Consolidated	
	(excluding Hong Kong)							
	Year Ended	Year Ended	Year Ended	Year Ended	Year Ended	Year Ended	Year Ended	Year Ended
	31 March	30 June	31 March	30 June	31 March	30 June	31 March	30 June
	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
External sales	<u>828,411</u>	<u>352,903</u>	<u>507</u>	<u>7,867</u>	<u>-</u>	<u>-</u>	<u>828,918</u>	<u>360,770</u>
Inter-segment sales	<u>3,771</u>	<u>8,106</u>	<u>-</u>	<u>-</u>	<u>(3,771)</u>	<u>(8,106)</u>	<u>-</u>	<u>-</u>
	<u>832,182</u>	<u>361,009</u>	<u>507</u>	<u>7,867</u>	<u>(3,771)</u>	<u>(8,106)</u>	<u>828,918</u>	<u>360,770</u>

3. TURNOVER AND REVENUE

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

	Year Ended 31 March 2007 <i>HK\$'000</i>	Year Ended 30 June 2006 <i>HK\$'000</i>
Turnover		
Sale of garment products	95,792	141,540
Sale of forestry products	587,947	92,307
Sale of paper mulberry saplings	145,179	126,923
	<u>828,918</u>	<u>360,770</u>
Other revenue		
Dividend income from listed investments	–	148
Interest income	3,713	3,644
Others	1,446	643
	<u>5,159</u>	<u>4,435</u>
Total revenue	<u><u>834,077</u></u>	<u><u>365,205</u></u>

4. OTHER NET GAIN

	Year Ended 31 March 2007 <i>HK\$'000</i>	Year Ended 30 June 2006 <i>HK\$'000</i>
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	1,117,515	11,920
Net unrealised gain/(loss) on financial assets at fair value through profit or loss	20,421	(3,611)
Net realised gain on disposal of non-current asset held for sale	4,223	–
Surplus on revaluation of investment properties, net	660	850
Surplus on revaluation of leasehold properties, net	–	43
Loss on disposal of property, plant and equipment	(985)	–
Net realised loss on disposal of financial assets at fair value through profit or loss	(140)	(450)
Others	36	–
	<u><u>1,141,730</u></u>	<u><u>8,752</u></u>

5. PROFIT FROM OPERATING ACTIVITIES

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

	Year Ended 31 March 2007 <i>HK\$'000</i>	Year Ended 30 June 2006 <i>HK\$'000</i>
Amortisation of patent	18,865	9,064
Amortisation of paper mulberry saplings	22,146	17,833
Auditors' remuneration	820	800
Cost of goods and forestry products sold	267,905	140,019
Cost of saplings sold	30,678	26,833
Depreciation on property, plant & equipment	6,721	6,810
Minimum lease payments under operating leases on leasehold properties	11,778	1,664
Release of prepaid lease payments	179	154
Research and development cost	20,739	10,577
Provision for doubtful debts	–	1,923
Provision for obsolete inventories	1,431	–
Directors' emoluments	6,589	2,578
Staff costs (excluding directors' emoluments)		
Wages and salaries	26,148	11,353
Retirement benefits scheme contributions	277	295
Exchange gain	(748)	(64)

6. FINANCE COSTS

	Year Ended 31 March 2007 <i>HK\$'000</i>	Year Ended 30 June 2006 <i>HK\$'000</i>
Interest on bank loans and overdrafts	17	74
Interest on a finance lease	–	3
Interest on convertible notes	5,767	1,340
Interest on promissory notes	8,371	1,878
	<hr/>	<hr/>
Total finance costs	14,155	3,295

7. TAXATION

	Year Ended 31 March 2007 HK\$'000	Year Ended 30 June 2006 HK\$'000
Hong Kong profits tax		
– current	(2)	–
– deferred tax credit	774	42
Overseas tax		
– deferred tax (charge)/credit	<u>(69,646)</u>	<u>492</u>
	<u>(68,874)</u>	<u>534</u>

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 year.

8. EARNINGS PER SHARE

(a) Basic earnings 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:

	Year Ended 31 March 2007 HK\$'000	Year Ended 30 June 2006 HK\$'000
Profit attributable to equity holders of the Company	<u>1,319,310</u>	<u>83,208</u>
Weighted average number of ordinary shares in issue (thousands)	<u>4,577,257</u>	<u>3,055,886</u>

(b) Diluted earnings 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. The convertible notes are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the related interest expense less tax effect. For the share options a calculation is made to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. Reconciliation of the earnings and number of shares used in the calculation of diluted earnings for shares is as follows:

	Year Ended 31 March 2007 HK\$'000	Year Ended 30 June 2006 HK\$'000
<i>Earnings:</i>		
Profit for the year and earnings for the purposes of basic earnings per share	1,319,310	83,208
Effect of dilutive potential ordinary shares in respect of convertible notes	<u>5,767</u>	<u>1,340</u>
Earnings for the purpose of diluted earnings per share	<u>1,325,077</u>	<u>84,548</u>
<i>Number of shares:</i>		
	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	4,577,257	3,055,886
Effect of dilutive potential ordinary shares in respect of:		
Share options	21	3,103
Convertible notes	<u>833,333</u>	<u>248,781</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>5,410,611</u>	<u>3,307,770</u>

9. 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 amounts 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	
	31 March 2007	30 June 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	81,561	66,906
31 – 60 days	60,543	127,426
61 – 90 days	7,966	5,640
Over 90 days	6,258	7,372
	<u>156,328</u>	<u>207,344</u>

The directors consider that the carrying amounts of the Group's trade receivables at 31 March 2007 approximate to their fair values.

10. 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	
	31 March 2007	30 June 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	1,358	1,268
31 – 60 days	201	325
61 – 90 days	–	13
Over 90 days	2,855	1,320
	<u>4,414</u>	<u>2,926</u>

The directors consider that the carrying amounts of the Group's trade payables at 31 March 2007 approximate to their fair values.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Company, I would like to express our heartfelt gratitude for your support and confidence in the Company. I am pleased to announce the results of the Group for the Year Ended 31 March 2007.

For the Year Ended 31 March 2007, against the backdrop of a booming economy in the People's Republic of China (the "PRC") and buoyant market demand for wood products, a favorable business environment was created for the Group, which added strong impetus to our business development. Furthermore, with forestry industry in the PRC undergoing further integration, the Group seized various tremendous opportunities to acquire premier forest resources, resulting in the forest areas under its management being further expanded and its forest resources reserves being increased.

Sustainable development and utilization of forest resources lies at the core of our business philosophy. Our operation chain involves seedlings growing, construction of fast-growing and high-yield plantation and low-yield plantation improvement. With its business expanding, the Group will also take proactive steps to examine the opportunities existed in the pulp production industry chain and commence its research and development programme on biomass energy. Besides, through large-scale forestation, the Group will also make contribution to environmental protection undertakings such as carbon mitigation. The Group will strive to strengthen its core competitiveness continuously so as to bring added-value to our shareholders.

Remarkable performance leading to impressive results

For the Year Ended 31 March 2007, the Group recorded net profit attributable to shareholders of HK\$1,319 million, equivalent to earnings per share of HK28.82 cents. Excluding the gains from an increase in the fair value of biological assets, net profit attributable to shareholders amounted to HK\$298 million.

The growth of profit from core operating activities was mainly attributed to an increase in the sales volume and the sustained high unit selling price of timber. During the year, as the macro-economic environment was healthy and the demand for timber was robust, the imbalances arising from scant supply of and excess demand for timber remained, leading to the soar of timber prices, which enabled the Group to achieve good financial results.

As the Group is experiencing rapid growth and is proactively exploring suitable opportunities to acquire forest resources, the Board has recommended not to pay dividends for the year.

Principal businesses and income streams of the Group

Through accelerating the acquisition of forest resources, saplings growing, construction of fast-growing and high-yield plantation and low-yield plantation improvement, the Group achieved the objectives of enhancing integrated benefits of forest resources and maintaining sustainable development and utilization of forest resources.

(i) Accelerating the acquisition of forest resources

The Group strived to increase its forest resources and forest lands in the PRC through acquisitions. As at 30 June 2006, the Group possessed forest lands and forests with a total area of approximately 380,000 Chinese Mu only. Significant development has been achieved by the Group since then. As at 31 March 2007, the Group possessed forest lands and forests of over 1,000,000 Chinese Mu. The Group also entered into letters of intent and cooperative agreements with third parties in respect of the lands the total area of which over 10,000,000 Chinese Mu. Those lands are located in Shanxi, Hunan, Chongqing, Sichuan, Guangxi, Fujian and Hubei. As at 30 June 2007, the Group possessed forest lands and forest resources, the total area of which was over 1,700,000 Chinese Mu. According to the Group's acquisition plans as well as the letters of intent and cooperative agreements signed by it with third parties, it is expected that forest resources and forest lands in the PRC under the Group's possession will be increased significantly in the coming year (i.e. the year ending 31 March 2008).

During the Year Ended 31 March 2007, the Group completed several overseas field trips to identify appropriate acquisition or cooperation opportunities. It is expected that major breakthroughs could be achieved within the coming year, and the Group's forest resources and forest lands reserves would then be expanded considerably and the value of its biological assets would also be enhanced.

(ii) Saplings growing

The Group placed great importance on saplings growing. During the year, the Group established forest nursery centers in Beijing, Shanxi, Hebei, Hubei, Hunan and Chongqing for the cultivation of saplings of modified tree specie *Broussonetia Papyriferalvent* developed by the Group. As at 31 March 2007, the Group had planted over 100 million of the saplings of modified tree specie *Broussonetia Papyriferalvent* and transported those saplings to the Group's forest lands for progressive plantation. Forest nursery centers were used as our employee training centers, through which our employees acquired knowledge in the area of the biological characteristics and cultivation method of modified tree specie *Broussonetia Papyriferalvent*, thus providing the Group with talents for its continuous development in future.

(iii) Pulp business

China is one of the world's largest importers of pulp. Its pulp market shows enormous potential. In order to meet market demand, the Group is actively perusing the distribution chain of the pulp industry (i.e. the production and processing of pulp) and the use of brush to produce raw pulp. The prospects of the pulp business are brightening and it is expected to be one of the Group's principal businesses and income streams in three years.

(iv) *Construction of fast-growing and high-yield plantation and low-yield plantation improvement*

The development of forestry industry should contribute to the eco-construction and supply of timber products. The modified tree specie *Broussonetia Papyriferalvent*, which was developed by the Group, possesses strong sprouting ability. An one-time plantation of *Broussonetia Papyriferalvent* can offer consecutive annual loggings for 8 to 10 years. This tree specie is fast-growing, possesses robust production ability and is environmentally-friendly. All these attributes helped promote the Group's construction of fast-growing and high-yield plantation and improved its low-yield plantation. The plantation of modified tree specie *Broussonetia Papyriferalvent* not only boosted the Group's forest resources effectively, but also provided high-end raw materials for the Group's pulp production, thus enabling the Group to achieve the integration of its forestry and pulp production businesses. As at 31 March 2007, the Group had planted over 91 million of the modified tree specie *Broussonetia Papyriferalvent* in Shandong, Hebei, Beijing, Hunan, Chongqing, Sichuan and Shanxi. The development of seedlings growing was satisfactory, with plantable area expanding considerably. These achievements, in turn, offer promising prospects for the *Broussonetia Papyriferalvent* plantation project of the Group. Fast-growing and high-yield plantation can fully utilize land resources and maximize economic benefits. The operation related to the Company's flagship tree specie *Broussonetia Papyriferalvent* will become one of the Group's principal businesses and income streams.

(v) *Logging*

Timber supply in the PRC always fails to satisfy the country's huge demand. After the Group's construction of fast-growing and high-yield plantations and its implementation of the low-yield plantation improvement plans in respect of its forest farms, the Group conducted its logging operation according to the PRC laws and regulations and increased its timber supply to cope with market demand. Logging will still be one of the Group's principal businesses and income streams.

(vi) *Carbon mitigation*

Climatic deterioration is a burning issue for the global village in the 21st century. Facing the intensifying greenhouse effect, the Group will step up its forestation efforts resolutely and improve our environment, thus generating income from its carbon mitigation project.

(vii) *Biomass energy*

In the coming year, the Group will start the research and development of biomass energy project. It is expected that this new project will become a driver to our revenue growth. Apart from that, the project could convert forest resources into biomass energy and achieve biodiversity in forest land plantations. Meanwhile, the promotion of renewable biomass energy not only supports carbon mitigation, it could also counter rock-desertification by bringing in pioneer tree species. This new initiative is expected to be an innovative principal business of and provide continuous positive growth momentum to the Group.

OUTLOOK

To promote the quality pulp from our fast-growing plantation for industrial use and as our major brand, the plantation and marketing of tree specie *Broussonetia Papyriferalvent* will become one of the Group's principal businesses and income streams.

As a supplier of raw materials for wood products and pulp, we will capture the opportunities arising from the imbalance between the scant supply of and strong demand for the products to deliver stellar performance.

The Group will restructure resources and focus on the development of forests and forest lands resources. The Group will also speed up its development of renewable, sustainable and energy saving carbon mitigation projects for the pursuit of an environmentally friendly and pleasant ecological environment, so as to increase shareholders' return.

Appreciation

On behalf of the board, I would like to express our gratitude to the shareholders, customers, suppliers and professional advisors for their support over the past year, and to sincerely thank our management and staff for their dedication and diligence.

Ng Leung Ho
Chairman

Hong Kong, 10 July 2007

MANAGEMENT DISCUSSION AND ANALYSIS

HIGHLIGHTS

For the Year Ended 31 March 2007, the Group recorded a turnover of approximately HK\$829 million, representing an increase of 130% compared with the Year Ended 30 June 2006. The Group's gross profit and profit attributable to shareholders were approximately HK\$530 million and HK\$1,319 million respectively, and its earnings per share for the year was HK28.82 cents, representing an increase of 173%, 1,486% and 960% respectively compared with the Year Ended 30 June 2006. The Group's profit attributable to shareholders excluding the revaluation gain of biological assets was approximately HK\$298 million.

During the year, the Group actively pursued the opportunities of acquiring forest lands, and the lands so acquired, coupled with forest lands previously acquired was over 1,000,000 Chinese Mu as at 31 March 2007. In addition, the turnover and profit derived from the ecological forestry business was consolidated into the Group accounts for the whole year. The increase in turnover and profit of the Group was mainly attributable to its ecological forestry business. For the year, the Group's ecological forestry business and garment business accounted for approximately 88% and 12%, respectively, of the Group's total turnover.

In arriving at the Group's net profit, sharing in losses of its joint-venture investment in Nanotechnologies in the amount of HK\$3.7 million (in the Year Ended 30 June 2006, the Group recorded a profit in the amount of HK\$1.6 million for this investment) has been included.

DIVIDEND

The Board has resolved not to recommend any dividend for the Year Ended 31 March 2007.

BUSINESS AND OPERATIONAL REVIEW

The ecological forestry business

The Group's business operations in the ecological forestry business was carried out by Beijing WFC. During the year, the Group's share in the net profit of Beijing WFC which was attributable to the Company's shareholders amounted to approximately HK\$1,351,416,000. The turnovers from the sale of timber and sale of paper mulberry saplings during the year were approximately HK\$587,947,000 and HK\$145,179,000 respectively.

Sales of timber

During the year, the profit margin from the sale of timber was improved owing to an increase in the average selling price of the timber and the effective cost control by the Group as a result of the improvement in its management. The timber sold during the year mainly came from Miaowan Forest Farm, Baiyunshan Forest Farm, Shizhu Forest Farm, Leimaping Forest Farm, Ruicheng Forest Farm and Shanxi Xiyang County Dongfeng Forest Farm.

Plantation of modified tree specie *Broussonetia Papyriferalvent*

During the year, Beijing WFC planted the modified tree specie *Broussonetia Papyriferalvent* in various saplings centre and forest lands. Based on a survey performed by a professional institution, as at 31 March 2007, Beijing WFC had planted over 91 million of the modified tree specie *Broussonetia Papyriferalvent*. As the growth of the *Broussonetia Papyriferalvent* continued and has not reached their golden stage for harvest, no felling of this modified tree specie nor sale of the collectible timber was made during the year. It was estimated that the aggregate volume of bark and trunk of the living modified tree specie *Broussonetia Papyriferalvent* of different maturities planted by Beijing WFC were approximately 10,497 net tons and 85,384 net tons respectively.

Forest land resources

During the year, the Group actively pursued the opportunity of acquiring forest lands. As at 31 March 2007, the long lease-term forest lands so acquired, coupled with the forest lands previously acquired by the Group was over 1,000,000 Chinese Mu.

The lease periods of the forest lands range from 20 years to 70 years. The Group had received the forest ownership certificates or other title documents in respect of an area of 273,191 Chinese Mu of the lands as at 31 March 2007. Application for the forest ownership certificates in respect of the remaining forest lands has been made.

Value of biological assets

Biological assets of the Group include paper mulberry saplings, paper mulberry trees and other trees. The values of such assets amounted to approximately HK\$21,781,000, HK\$279,860,000 and HK\$1,296,492,000 respectively as at 31 March 2007. The increase in the fair value of biological assets for the year was approximately HK\$1,117,515,000.

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 of the Group. During the year, the turnover of the Group generated from its garment business amounted to HK\$95,792,000.

Investment in nano-technology business

The Group's share of losses of jointly-controlled entities amounted to HK\$1,358,000, representing its share of operational losses in the amount of HK\$3,684,000 suffered from its 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, together with its share of gain derived from the disposal of Beijing Zhongke Health Medical Products Co., Ltd. in the amount of HK\$2,326,000.

OPERATING RESULTS REVIEW

Turnover

During the Year Ended 31 March 2007, the Group captured various business opportunities and recorded a turnover of HK\$828,918,000, representing an increase of 130% over the Year Ended 30 June 2006.

The table below sets out the sales of products by the Group for the Year Ended 31 March 2007:

Product	Unit Price <i>(HK\$)</i>	Volume <i>(cubic meters)</i>	Amount <i>(HK\$'000)</i>
Ecological forestry business			
Sales of timber			
Mixed hard wood	8,193.64	33,768	276,683
Other wood	2,261.68	137,625	311,264
			<hr/>
			587,947
Sales of Saplings			145,179
			<hr/>
			733,126
Garment business			95,792
			<hr/>
Total			828,918
			<hr/> <hr/>

An analysis of gross profit and gross profit margin

Cost of sales mainly included cost incurred in logging timber, raw materials consumption, direct labour costs, road repairs and maintenance and miscellaneous direct charges. The Group's increase in cost for the year was mainly a result of the consolidation of the expenses incurred in respect of the Group's ecological forestry business for the full period.

The table below sets out details of the gross profit and gross profit margin for the Year Ended 31 March 2007:

	Gross Profit <i>HK'000</i>	Gross Profit Margin <i>%</i>
Ecological forestry business		
Sales of timber	410,065	69.7
Sales of Saplings	114,501	78.9
	<hr/>	
	524,566	71.6
Garment business	5,769	6.0
	<hr/>	
Total	530,335	64.0
	<hr/> <hr/>	

The Group's aggregate gross profit margin increased from 53.8% to 64.0% in the Year Ended 31 March 2007, which was mainly attributed to an increase in the gross profit and gross profit margin of the ecological forestry business of the Group.

Selling and distribution cost

During the Year Ended 31 March 2007, the Group's selling and distribution costs increased by 243% to HK\$88,666,000, which was mainly resulted from an increase in transportation costs due to an increase in the sales volume of timber.

Administration expenses

The Group's administration expenses in the year amounted to HK\$52,908,000, representing an increase of 231% compared with the Year Ended 30 June 2006. Such increase was brought by the expansion of ecological forestry business which caused a substantial increase in management expenses.

Other operating expenses

The Group's other operating expenses for the year in the amount of approximately HK\$62,861,000 included patent amortisation, amortisation of paper mulberry saplings and expenses of share option scheme of approximately HK\$18,865,000, HK\$22,146,000 and HK\$21,850,000 respectively.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 March 2007, the Group's cash and bank balances, which were principally Renminbi and Hong Kong dollar denominated, totally amounted to approximately HK\$624,309,000. 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.

The table below summarizes the cash flow information for the Year Ended 31 March 2007:

	<i>HK'000</i>
Net cash inflow from operating activities	516,783
Net cash (outflow) from investing activities	(509,899)
Net cash inflow from financing activities	<u>321,102</u>
Net increase in cash and cash equivalents	327,986
Cash and cash equivalents at beginning of year	273,400
Effect of foreign exchange rate changes	<u>11,658</u>
Cash and cash equivalents at end of year	<u><u>613,044</u></u>

As at 31 March 2007, the Group's total borrowings (excluding convertible notes liabilities) amounted to approximately HK\$98,969,000, which represented the amortised value of non-interest bearing promissory notes payable. The promissory notes had an aggregate nominal value of HK\$100,000,000. The promissory notes were repayable by two instalments each of HK\$50,000,000 which fell due on 1 April 2007 and 1 July 2007 respectively.

The Group's currently available liquidity resources are sufficient to repay its promissory notes and to meet its capital commitments. The Group generally finances its operation using internally generated resources. As at 31 March 2007, the Group's net current assets amounted to approximately HK\$351,982,000. The Group's current ratio, being the percentage of its current assets in its current liabilities, amounted to 1.67.

The Group has obtained bank credit facilities which are secured by certain pledged bank deposits of the Group and corporate guarantees provided by the Company. During the year, these bank credit facilities were utilised in trade credit financing.

As at 31 March 2007, the share capital of the Company was consisted of 5,062,807,600 ordinary shares of HK\$0.10 each. Apart from the ordinary shares in issue, the Company issued convertible notes as alternative financing instruments.

During the year, a total of 18,000,000 new shares were issued as a result of the exercise of options to subscribe for new shares in the Company.

During the year, a total of 400,000,000 new shares were issued under a top-up placing and subscription arrangement.

During the year, the Company's convertible notes with principal denominated value of HK\$91,800,000 were converted into 765,000,000 ordinary shares in the Company.

As at 31 March 2007, the Group's gearing ratio, measured on the basis of total borrowings (including convertible notes) as a percentage of total shareholders' fund, was approximately 7%. (30 June 2006: 61%)

MATERIAL ACQUISITION

Pursuant to a resolution passed by the Company's shareholders on 17 January 2007 approving an agreement for the acquisition of an additional 30% equity interest in Beijing WFC, Beijing WFC became a wholly owned subsidiary of the Company.

EVENTS AFTER THE BALANCE SHEET DATE

On 25 May 2007, Ms Cao Chuan was appointed as an executive director, chief executive officer and deputy chairman of the Company.

On 30 April 2007 and 2 May 2007, 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 in aggregate 7,000,000 of its ordinary shares of HK\$0.10 each at a total consideration before expenses of approximately HK\$5,930,000. The subject shares were cancelled after repurchases and the issued share capital of the Company was reduced by the nominal value thereof.

CHARGE ON THE GROUP'S ASSETS

As at 31 March 2007, the Group's available banking facilities were secured by pledged bank deposits of the Group in the amount of HK\$11,265,000 and corporate guarantees provided by the Company.

CONTINGENT LIABILITIES

As at 31 March 2007, the Group did not have contingent liabilities of material amounts.

CAPITAL COMMITMENTS

As at 31 March 2007, the capital commitment in respect of acquisition of leasehold forest lands which had been made but which had not been provided for by the Group was approximately HK\$144,548,000.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATE

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

ISSUE OF NEW SHARES AND USE OF PROCEEDS

On 30 January 2007, the Company received share issue proceeds, net of related expenses, of approximately HK\$448,000,000 from the issue of 400,000,000 new shares in the Company under a top-up placing and subscription arrangement. Up to the Year Ended 31 March 2007, HK\$30,000,000 has been used to pay for partial consideration of 30% acquisition in Beijing Wan Fu Chun Forest Resources Development Company Limited. The resulting net proceeds have been retained as general working capital of the Group and will be used in further expansion of its forestry business thereby improving its production facilities when suitable investment opportunities arise.

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 issued and allotted 1,800,000 new ordinary shares in the Company at an issue price of HK\$0.24 each. The Company received proceeds before expenses in the amount of HK\$4,320,000 for such share issues.

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 31 March 2007, 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 will be 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 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 31 March 2007 have been reviewed by the Audit Committee, which review includes a review and discussion of the accounting principles and practices adopted by the Company in preparing these financial statements.

EMPLOYEES

As at 31 March 2007, the Group employed a total of approximately 645 employees of which 19 staff was employed in Hong Kong. In addition to the competitive package offered to the employees, other benefits provided to eligible candidates include 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 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 17 August 2007 to 21 August 2007, 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 21 August 2007, 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 16 August 2007.

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 the year containing the information required by the Listing Rules will be published on the website of the Stock Exchange at www.hkex.com.hk and at www.capitalfp.com.hk/eng/index.jsp?co=910 in due course.

LIST OF DIRECTORS

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

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

Hong Kong, 10 July 2007

* *for identification purposes only*