



CHINA GRAND FORESTRY GREEN RESOURCES GROUP LIMITED

中國林大綠色資源集團有限公司

(Formerly known as “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: 00910)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

The board of directors (the “Board” or “Directors”) of China Grand Forestry Green Resources Group Limited (formerly known as China Grand Forestry Resources 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 30 September 2008, being the interim results of the Group for financial year ending 31 March 2009 of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended	
		30 September	
		2008	2007
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
			<i>(Note 23)</i>
Continuing operations			
Revenue	2	718,254	641,157
Gain arising from changes in fair value of biological assets less estimated point-of-sale costs		—	1,036,170
Other income	2	13,926	6,396
Other net (loss)/gain		(20,142)	3,720
Cost of inventories and forestry products sold		(345,122)	(242,887)
Staff costs		(39,517)	(12,171)
Depreciation of property, plant and equipment		(5,045)	(1,408)
Amortisation of biological assets		(17,835)	(13,034)
Amortisation of patent		(13,333)	(12,576)
Release of prepaid lease payments		(11,141)	(5,083)
Other operating expenses		(72,506)	(49,008)
Finance costs	5	(18,693)	(4,460)
Share of losses of jointly-controlled entities		(1,507)	(721)
Profit before taxation		187,339	1,346,095
Taxation credit/(charge)	6	561	(59,630)

		Six months ended 30 September 2008		2007
		(Unaudited)	(Unaudited)	
		HK\$'000	HK\$'000	(Note 23)
Notes				
	Profit for the period from continuing operations	187,900	1,286,465	
	Discontinued operations			
	Loss for the period from discontinued operations	7	–	(17,309)
	Profit for the period	4	187,900	1,269,156
	Attributable to:			
	Equity holders of the Company	8	187,900	1,269,156
	Minority interest		–	–
			187,900	1,269,156
	Dividend	8	–	–
	Earnings per share for result attributable to the equity holders of the Company	9		
	From continuing and discontinued operations			
	– basic		HK3.39 cents	HK24.76 cents
	– diluted		HK3.20 cents	HK21.06 cents
	From continuing operations			
	– basic		HK3.39 cents	HK25.09 cents
	– diluted		HK3.20 cents	HK21.35 cents

CONDENSED CONSOLIDATED BALANCE SHEET

		30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
	<i>Notes</i>		
ASSETS			
Non-current assets			
Biological assets		7,191,820	5,128,712
Property, plant and equipment	10	62,013	31,970
Construction in progress		80,016	36,792
Prepaid lease payments		1,378,605	956,682
Long-term prepayments		116,177	112,918
Intangible assets		1,774,025	552,293
Interests in jointly-controlled entities	11	20,287	19,387
Available-for-sale investments		40,714	40,714
		10,663,657	6,879,468
Current assets			
Inventories		195	38,240
Trade receivables	12	553,672	125,696
Prepaid lease payments		30,989	20,960
Other receivables, deposits and prepayments		155,615	120,512
Financial assets at fair value through profit or loss		60,312	56,949
Amounts due from jointly-controlled entities	21	5,685	5,193
Amount due from a director	22	53	116
Bank and cash balances		374,990	853,686
		1,181,511	1,221,352
Total assets			
		11,845,168	8,100,820

		30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
	<i>Notes</i>		
EQUITY AND LIABILITIES			
Capital and reserves attributable to the Company's equity holders			
Share capital	13	551,322	555,781
Treasury shares	14	(10,987)	(4,420)
Reserves	16	7,174,767	6,370,131
		7,715,102	6,921,492
Minority interests		68	–
Total equity		7,715,170	6,921,492
Non-current liabilities			
Convertible notes payable	18	90,275	87,622
Purchase consideration payable	19	2,806,573	–
Other payables		182,070	–
Deferred taxation		1,605	2,166
		3,080,523	89,788
Current liabilities			
Trade payables	17	151,046	30,073
Other payables and accruals		790,449	1,013,077
Purchase consideration payable	19	100,000	–
Amounts due to related companies	21	7,980	46,390
		1,049,475	1,089,540
Total liabilities		4,129,998	1,179,328
Total equity and liabilities		11,845,168	8,100,820
Net current assets		132,036	131,812
Total assets less current liabilities		10,795,693	7,011,280
Net assets		7,715,170	6,921,492

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH GENERATED FROM OPERATING ACTIVITIES	148,744	402,684
NET CASH USED IN INVESTING ACTIVITIES	(518,837)	(786,742)
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES	(137,812)	1,241,127
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(507,905)	857,069
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	853,686	613,044
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	29,209	9,549
CASH AND CASH EQUIVALENTS AT END OF PERIOD	374,990	1,479,662
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
CASH AND BANK BALANCES	374,990	1,479,870
BANK OVERDRAFTS	–	(208)
	374,990	1,479,662

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total shareholders' equity as at 1 April 2008/2007	6,921,492	2,590,588
Repurchase of shares	(31,965)	(5,952)
Profit for the period	187,900	1,269,156
Exchange difference on translation of foreign operations recognized directly in equity	226,066	51,071
Share of reserve movement of jointly-controlled entities	2,407	391
Exercise of share options	–	78,400
Arising from business combination	376,619	–
Placement of new shares	–	1,268,682
Equity settled share-based transactions	32,583	6,728
Total shareholders' equity as at 30 September 2008/2007	<u>7,715,102</u>	<u>5,259,064</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 31 March 2008 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:

HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The Group has assessed the impact of the adoption of the above new and revised HKFRSs and concluded that there was no significant impact on the Group’s results and financial position.

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 30 September 2008.

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

HKFRS 2 Amendments	Share-based Payment – Vesting Conditions and Cancellations ⁽¹⁾
HKFRS 3 (Revised)	Business Combinations ⁽²⁾
HKFRS 8	Operating segments ⁽¹⁾
HKAS 1 (Revised)	Presentation of Financial Statements ⁽¹⁾
HKAS 23 (Revised)	Borrowing Costs ⁽¹⁾
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ⁽²⁾
HKAS 32 and HKAS 1 Amendments	Puttable Financial Instruments and Obligations Arising on Liquidation ⁽¹⁾
HK(IFRIC)-Int 13	Customer Loyalty Programmes ⁽³⁾
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate ⁽¹⁾
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation ⁽⁴⁾
HK(IFRIC)-Int 17	Distribution of Non-Cash Assets to Owners
HKFRSs (Amendments)	Improvement to HKFRSs ⁽⁵⁾

⁽¹⁾ Effective for annual periods beginning on or after 1 January 2009

⁽²⁾ Effective for annual periods beginning on or after 1 July 2009

⁽³⁾ Effective for annual periods beginning on or after 1 July 2008

⁽⁴⁾ Effective for annual periods beginning on or after 1 October 2008

⁽⁵⁾ Effective for annual periods beginning on or after 1 January 2009, except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

2. REVENUE AND OTHER INCOME

The Group is currently engaged in forestry business. Revenue and other income recognised during the Period are as follows:

		Six months ended 30 September	
		2008	2007
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
			(Note 23)
From continuing operations			
Revenue/Turnover			
Sale of forestry products		718,254	641,157
Other income			
Interest income		3,914	6,396
Others		10,012	–
		<u>13,926</u>	<u>6,396</u>
		<u>732,180</u>	<u>647,553</u>
From discontinued operations			
Revenue/Turnover			
Sale of garment products	7	–	50,352
Other income			
Dividend income from financial assets at fair value through profit or loss		–	1
Interest income		–	356
Others		–	1,106
	7	<u>–</u>	<u>1,463</u>
		<u>–</u>	<u>51,815</u>

3. 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 organised into the ecological forestry business. The following tables represent revenue and profit/(loss) information of the business segments for the period ended 30 September 2008 and 2007:

(a) Primary Reporting Format – Business segments

	Continuing operations		Discontinued operations					
	Ecological							
	Forestry Business		Garment Business		Elimination		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue:								
External sales	718,254	641,157	-	50,352	-	-	718,254	691,509
Segment results	285,157	1,357,784	-	(16,927)	-	-	285,157	1,340,857
Unallocated revenue and net (loss)/gain							(30,914)	10,343
Unallocated expenses							(46,704)	(16,495)
Profit from operating activities							207,539	1,334,705
Finance costs							(18,693)	(4,463)
Share of loss of jointly-controlled entities							(1,507)	(1,457)
Profit before taxation							187,339	1,328,785
Taxation credit/(charge)							561	(59,629)
Profit for the period							187,900	1,269,156

(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.

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	
	2008	2007	2008	2007	2008	2007	2008	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
External sales	718,254	690,439	-	1,070	-	-	718,254	691,509
Inter-segment sales	-	1,815	180	360	(180)	(2,175)	-	-
	718,254	692,254	180	1,430	(180)	(2,175)	718,254	691,509

4. PROFIT FOR THE PERIOD

The Group's profit for the period (including continuing and discontinued operations) is arrived at after charging/(crediting) the following:

	Six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Note 23)
Amortisation of patent	13,333	12,576
Amortisation of biological assets	17,835	13,034
Depreciation on property, plant and equipment	5,045	4,349
Release of prepaid lease payments	11,141	5,102
Research and development costs	1,020	22,345
Provision for doubtful debts	–	8,000
Provision for obsolete inventories	–	4,000
Staff costs	39,517	14,468
Unrealised loss/(gain) on financial assets		
at fair value through profit or loss	35,249	(4,303)
Realised (gain)/loss on disposal of financial assets		
at fair value through profit or loss	(411)	5,482
Interest income	(3,914)	(6,752)
	<u> </u>	<u> </u>

5. FINANCE COSTS

	Six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Note 23)
Continuing operations		
Interest on long term payables	2,671	–
Interest on convertible notes	16,022	3,429
Interest on promissory notes	–	1,031
	<u> </u>	<u> </u>
	18,693	4,460
	<u> </u>	<u> </u>
Discontinued operations		
Interest on bank loans and overdrafts wholly		
repayable within five years (Note 7)	–	3
	<u> </u>	<u> </u>
	–	3
	<u> </u>	<u> </u>

6. TAXATION

	Six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Note 23)
Hong Kong profits tax		
– current	–	1
Deferred taxation		
– deferred tax credit/(charge)	561	(59,630)
	561	(59,629)
From continuing operations	561	(59,630)
From discontinued operations (Note 7)	–	1
	561	(59,629)

Hong Kong profits tax has been provided at 16.5% (for the six months ended 30 September 2007: 17.5%) based on the estimated assessable profit for the period ended 30 September 2008.

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

In accordance with the relevant applicable tax regulations of the PRC, Beijing WFC, the Company's principal operating subsidiary engaged in the forestry business, is entitled to full exemption from PRC 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 from Beijing WFC during the period.

According to the Implementation Rules, all forestry business is entitled to full exemption from PRC enterprise income tax commencing from 1 January 2008. Beijing WFC is currently under the full tax exemption period and therefore has not yet lodged application for full exemption under the New Tax Law. However, as Beijing WFC is operating forestry business, the directors are confident that full exemption will be granted from the PRC tax authority when the application is lodged. Therefore, no deferred tax had been provided for the period.

7. DISCONTINUED OPERATIONS

In March 2008, the Group disposed of its 100% equity interest in Holt Hire Holdings Limited and its subsidiaries (the “Holt Hire Group”) and Able Business Developments Limited.

The results of the discontinued operations during the period are set out below.

		Six months ended	
		30 September	
		2008	2007
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
			<i>(Note 23)</i>
Revenue	2	–	50,352
Other income	2	–	1,463
Other net loss		–	(5,126)
Cost of inventories and products sold		–	(43,932)
Staff costs		–	(2,297)
Depreciation of property, plant and equipment		–	(2,941)
Release of prepaid lease payments		–	(19)
Allowance for doubtful debts		–	(8,000)
Provision for obsolete inventories		–	(4,000)
Other operating expenses		–	(2,071)
Finance costs	5	–	(3)
Share of losses of jointly-controlled entities		–	(736)
Loss before taxation		–	(17,310)
Taxation credit	6	–	1
Loss for the period from discontinued operations			

8. NET LOSS FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY AND DIVIDEND

The net loss for the period attributable to equity holders of the Company for the period ended 30 September 2008 dealt with in the financial statements of the Company was approximately HK\$60,634,000 (for the six months ended 30 September 2007: net loss of HK\$11,665,000).

No dividend was paid or proposed during the period ended 30 September 2008 (for the six months ended 30 September 2007: nil), nor has any dividend been proposed since 30 September 2008.

9. EARNINGS PER SHARE

(a) From continuing and discontinued operations

The calculation of basic and diluted earnings per share attributable to equity holders of the Company is based on the following data:

(i) Profit attributable to equity holders of the Company

	Six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Note 23)
Profit for the period attributable to equity holders of the Company	187,900	1,269,156
Interest expense on convertible notes (Note 5)	16,022	3,429
Profit for the period attributable to equity holders of the Company used in the diluted earnings per share calculation	<u>203,922</u>	<u>1,272,585</u>

(ii) Weighted average number of ordinary shares

	Six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	'000	'000
Weighted average number of ordinary shares at 30 September for the purpose of calculation of basic earnings per share	5,542,411	5,126,722
Effect of dilutive potential ordinary shares:		
Share options	—	81,963
Convertible notes	833,333	833,333
Weighted average number of ordinary shares at 30 September for the purpose of calculation of diluted earnings per share	<u>6,375,744</u>	<u>6,042,018</u>

(b) From continuing operations

(i) Profit attributable to equity holders of the Company

	Six months ended	
	30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the period attributable to equity holders of the Company	187,900	1,269,156
Loss for the period from discontinued operations	<u>—</u>	<u>17,309</u>
Profit for the period for the purpose of basic earnings per share from continuing operations	187,900	1,286,465
Interest expense on convertible notes (<i>Note 5</i>)	<u>16,022</u>	<u>3,429</u>
Profit for the period for the purpose of calculation of diluted earnings per share from continuing operations	<u>203,922</u>	<u>1,289,894</u>

(ii) Weighted average number of ordinary shares

	Six months ended	
	30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	'000	'000
Weighted average number of ordinary shares at 30 September for the purpose of calculation of basic earnings per share	5,542,411	5,126,722
Effect of dilutive potential ordinary shares:		
Share options	<u>—</u>	<u>81,963</u>
Convertible notes	<u>833,333</u>	<u>833,333</u>
Weighted average number of ordinary shares at 30 September for the purpose of calculation of diluted earnings per share	<u>6,375,744</u>	<u>6,042,018</u>

(c) **From discontinued operations**

(i) *Loss attributable to equity holders of the Company*

	Six months ended	
	30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss for the period from discontinued operations for the purpose of basic and diluted loss per share	<u><u>–</u></u>	<u><u>(17,309)</u></u>

(ii) *Weighted average number of ordinary shares*

	Six months ended	
	30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	'000	'000
Weighted average number of ordinary shares at 30 September for the purpose of calculation of basic earnings per share	<u><u>5,542,411</u></u>	<u><u>5,126,722</u></u>
Weighted average number of ordinary shares at 30 September for the purpose of calculation of diluted earnings per share	<u><u>6,375,744</u></u>	<u><u>6,042,018</u></u>

- * Because the basic loss per share amount attributable to discontinued operations for the period ended 30 September 2007 is reduced when taking share options and/or convertible notes into account, the share options and convertible notes have an anti-dilutive effect on the basic loss per share attributable to the discontinued operations for the period. Accordingly, no diluted loss per share attributable to the discontinued operations is presented for the period ended 30 September 2007.

10. PROPERTY, PLANT AND EQUIPMENT

During the Period, additions of property, plant and equipment amounted to approximately HK\$30,614,000 and arising from acquisition of new subsidiaries amounted to approximately HK\$4,743,000 (for the six months ended 30 September 2007: HK\$15,420,000 and nil respectively).

11. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
Shares of net assets, unlisted	20,287	19,387

Particulars of the jointly-controlled entity which account principally for the results and net assets shared by the Group are as follow:

Name	Form of business structure	Place of establishment and operation	Percentage of ownership interest attributable to the Group	Principal activities
中科納米技術工程 中心有限公司 (Zhongke Nanotech Engineering Center Co. Ltd)	Corporate	The PRC	55%	Development and sales of nano materials and transfer of related technology
中科納米技術工程 (蘇州) 有限公司 (Zhongke Nanotech Engineering Center Co. Ltd)	Corporate	The PRC	38.5%	Development and sales of nano materials and transfer of related technology
北京中科納米高彈 材料有限公司 (Beijing Zhongke Nanotech High-elastic Material Co. Ltd)	Corporate	The PRC	38.5%	Manufacture and sales of nano high-elastic plastic and materials
蘇州中科納米高彈 材料有限公司 (Suzhou Zhongke Nanotech High-elastic Material Co. Ltd)	Corporate	The PRC	19.6%	Development and sales of nano high elastic plastic

12. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 90 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:

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
0-30 days	225,740	54,734
31-60 days	194,979	18,902
61-90 days	93,323	8,538
Over 90 days	39,630	43,522
	<u>553,672</u>	<u>125,696</u>

13. SHARE CAPITAL

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
Authorised:		
20,000,000,000 ordinary shares of HK\$0.10 each	<u>2,000,000</u>	<u>2,000,000</u>
Issued and fully paid:		
5,513,223,600 (31 March 2008: 5,557,813,600) ordinary shares of HK\$0.10 each	<u>551,322</u>	<u>555,781</u>

During the period ended 30 September 2008, by virtue of exercise of the rights granted by the Company's shareholders to the directors under general mandate, the Company repurchased and subsequently cancelled on the Stock Exchange of Hong Kong Limited in aggregate 39,402,000 of its ordinary shares of HK\$0.10 each at a total consideration of approximately HK\$20,978,000. In addition, the Company cancelled treasury shares as at 31 March 2008 and resulted in the reduction of 5,188,000 shares.

14. TREASURY SHARES

During the period ended 30 September 2008, the Group repurchased 70,352,000 ordinary shares for a total consideration of approximately HK\$31,965,000. 39,402,000 ordinary shares have been cancelled and resulted in the reduction of share capital of HK\$3,940,000 and share premium of approximately HK\$17,038,000. The repurchase of the remaining 30,950,000 ordinary shares for a total consideration of approximately HK\$10,987,000 have not been cancelled until October 2008 and so these shares were accounted for as treasury shares as at 30 September 2008.

15. EQUITY SETTLED SHARE-BASED TRANSACTION

In 2001, the Company adopted a share option scheme that entitles key management personnel and employees to subscribe for shares in the Company. The terms and conditions of the share option scheme are disclosed in the consolidated financial statements for the year ended 31 March 2008.

A summary of option movements for the six months ended 30 September 2008 is presented below:

	Six months ended 30 September 2008 (Unaudited)		Year ended 31 March 2008 (Audited)	
	Weighted average exercise price HK\$	Number of shares involved in the options	Weighted average exercise price HK\$	Number of shares involved in the options
At beginning of period/year	1.11	114,100,000	0.98	185,100,000
Granted	0.39	149,000,000	2.61	9,000,000
Exercised	–	–	0.98	(80,000,000)
Cancelled	1.80	(6,000,000)	–	–
Outstanding at end of period/year	0.68	257,100,000	1.11	114,100,000
Exercisable of the end of period/year	0.58	210,370,000	1.27	20,440,000

No share options has been exercised during the six months ended 30 September 2008.

16. RESERVES

	Share premium account HK\$'000	Share-based compensation reserve HK\$'000	Subscription right reserve HK\$'000	Fixed asset revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Statutory reserve fund HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Conversion option reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2008 (Audited)	1,686,355	22,618	24,543	976	1,727	136,819	9,117	412,691	19,039	4,056,246	6,370,131
Currency translation difference	–	–	–	–	–	–	–	226,066	–	–	226,066
Equity settled share-issued transactions	–	32,583	–	–	–	–	–	–	–	–	32,583
Arising from business combination (Note 19(b))	–	–	–	–	–	–	–	–	376,619	–	376,619
Repurchase of shares	(20,939)	–	–	–	–	–	–	–	–	–	(20,939)
Profit attributable to equity holders of the Company	–	–	–	–	–	–	–	–	–	187,900	187,900
Share in reserve movement of jointly-controlled entities	–	–	–	–	–	–	1,883	524	–	–	2,407
At 30 September 2008 (Unaudited)	1,665,416	55,201	24,543	976	1,727	136,819	11,000	639,281	395,658	4,244,146	7,174,767

17. 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:

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
0-30 days	28,622	182
31-60 days	63,256	–
61-90 days	38,033	–
Over 90 days	21,135	29,891
	<u>151,046</u>	<u>30,073</u>

18. CONVERTIBLE NOTES PAYABLES

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
Convertible notes – issued	<u>90,275</u>	<u>87,622</u>

The convertible notes were issued as partial settlement of the consideration for the acquisition of Strong Lead and its subsidiary, Beijing WFC. The principal terms of the convertible notes are as follows:

Date of issue	8 May 2006
Aggregate principal amount	HK\$210.4 million
Denomination	In multiple of HK\$100,000
Interest rate per annum	1.5%, payable semi-annually in arrears
Conversion price applicable	HK\$0.12, subject to the usual adjustments
Maturity date	4 years from the date of issue

19. BUSINESS COMBINATION

(a) Financial effect of business combination

On 12 September 2008, the Company completed the acquisition of the entire shareholdings of Shenyu New Energy Group Limited, a company incorporated in the British Virgin Island and held as its principal assets a 100 per cent equity interests in Beijing Shenhao New Energy Technology Company Limited. Beijing Shenhao New Energy Technology Company Limited owns the entire equity interest in Yunnan Shenyu New Energy Company Limited, which in turn owns 99% equity interest in Shuangbai Shenyu New Energy Base Company Limited (collectively referred to as “Shenyu New Energy Group”). The financial effect of the acquisition is analysed as follows:

	Acquiree's	
	Carrying amount	Fair value
	HK\$'000	HK\$'000
Goodwill	–	1,221,691
Property, plant and equipment	4,743	4,743
Construction in progress	42,299	42,299
Biological assets	2,054,646	2,054,646
Prepaid lease payments	45,977	441,550
Inventories	194	194
Bank and cash balances	19,001	19,001
Prepayments, deposits and other receivables	9,198	9,198
Trade payables	(198)	(198)
Other payables and accruals	(241,019)	(241,019)
Long-term payables	(68,845)	(68,845)
Net assets acquired	1,865,996	3,483,260
		HK\$'000
Represented by:		
Fair value of purchase consideration		3,483,192
Minority interests in net assets acquired		68
		3,483,260

Post-acquisition contribution to turnover of Shenyu New Energy Group as included in the Group's consolidated income statement for the six months ended 30 September 2008 amounts to HK\$Nil. Post-acquisition negative contribution to net results of as included in the Group's consolidated income statement amounts to a profit for the period of approximately HK\$118,000.

(b) Analysis of the components of purchase consideration as at period ended 30 September 2008

HK\$'000

The purchase consideration comprised of the following components:

Cash paid	200,000
Fair value of consideration payable (<i>note i</i>)	826,620
Fair value of convertible notes to be issued (<i>note ii</i>)	2,079,953
Fair value of conversion option reserve to be issued (<i>note ii</i>)	376,619
	3,483,192

The purchase consideration of the acquisition of Shenyu New Energy Group shall be up to a maximum aggregate amount of HK\$4,000 million and shall comprise:

- 30% of the consideration in cash; and
- 70% of the consideration by issue of the convertible notes.

During the period ended 30 September 2008, the Company paid HK\$200 million to the Vendor as the first part of the Cash Consideration. On 31 December 2008, the Company shall pay HK\$100 million in cash to the Vendor as the second part of the Cash Consideration.

Subject to the above maximum aggregate amount of the Consideration, the remaining portion of the contingent consideration of HK\$3,700 million (the “Remaining Portion”) shall be payable by four consecutive instalments in August 2009, 2010, 2011 and January 2012. The amount payable for each of the four consecutive instalments shall be calculated by the Audited Net Profit of that relevant instalment multiplied by a price-earning ratio of 5 times and then divided by 3. The price-earning ratio of 5 times has been determined after arm’s length negotiation between the Company and the Vendor with reference to the business prospect and potential profitability of Shenyu New Energy Group.

Based on management best estimation, it is presumed that:

- the total fair value of approximately HK\$827 million was recorded as consideration payable which represents the present value of the cash settlement of the Remaining Portion of cash consideration. It was calculated based on the discount rate as estimated by management. In addition, management estimated that fair value of HK\$100 million to be paid within one year; and
- issuance of convertible notes at the total principal amount of approximately HK\$2,800 million will be made on 31 August 2009, 2010, 2011 and 31 January 2012. The total fair values of approximately HK\$2,080 million and HK\$377 million were included in convertible notes and conversion option reserve respectively which were calculated by an independent valuer, LCH (Asia Pacific) Surveyors Limited.

The total purchase consideration payable amounted to HK\$2,906,573,000 included the fair value of consideration payable and fair value of convertible notes to be issued.

The principal terms of the Convertible notes – to be issued are as follows:

Aggregate principal amount	HK\$2,800 million
Denomination	In multiple of HK\$100,000
Interest rate per annum	1.5%, payable semi-annually in arrears
Conversion price applicable	HK\$2.5, subject to the usual adjustments
Maturity date	4 years from the date of issue
Redemption	Redeemable

(c) **Analysis of the net outflow of cash and cash equivalent as at period ended 30 September 2008 as a result of the acquisition is as follows:**

	<i>HK\$'000</i>
Cash portion of purchase consideration paid	200,000
Bank and cash balance acquired	(19,001)
	180,999

20. CAPITAL COMMITMENTS

As at 30 September 2008, the Group had the following capital commitments contracted but not provided for:

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
Construction cost	70,074	9,089

21. AMOUNTS DUE FROM/(TO) JOINTLY-CONTROLLED ENTITIES AND RELATED COMPANIES

The amounts due were unsecured, non-interest bearing and have no fixed repayment terms.

22. AMOUNT DUE FROM A DIRECTOR

As at 30 September 2008, the amount is due from Mr. Cheng Shouheng. The balance is unsecured, interest free and with no fixed repayment terms. The maximum amount outstanding during the period was HK\$53,000.

As at 31 March 2008, the amount is due from Ms. Cao Chuan and the amount is fully repaid during the Period. The maximum amount outstanding during the Period was HK\$116,000.

23. COMPARATIVE FIGURES

The presentation of financial information in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts to assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The consolidated income statement is presented by nature of expenses which the directors considered is more appropriate to reflect the operating results of the Group. Certain comparative figures have been reclassified to conform with this presentation.

In addition, as a result of the discontinued operations, certain comparative figures have been also adjusted or re-classified to conform with change in disclosure in the current period and to show separately comparative amounts in respect of items disclosed for the first time in 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

For the six months ended 30 September 2008 (the “Period”), the Group recorded a turnover of approximately HK\$718 million, representing an increase of 3.87% compared with the six months ended 30 September 2007 (the “Period Ended 30 September 2007”). The Group’s profit attributable to shareholders was approximately HK\$188 million, and its basic earnings per share for the Period was HK3.39 cents, representing a decrease of 85.19% and 86.31% respectively compared to the corresponding period last year. The Group’s profit attributable to shareholders excluding the net revaluation gain of biological assets was approximately HK\$188 million (for the Period Ended 30 September 2007: HK\$293 million) representing a decrease of 35.84%.

In arriving at the Group’s net profit, sharing in losses of its joint-venture investment in Nano-technologies in the amount of HK\$1.5 million (for the Period Ended 30 September 2007: loss of HK\$1.5 million) has been included.

DIVIDEND

The Board does not recommend any interim dividend for the period ended 30 September 2008.

BUSINESS REVIEW

The ecological forestry business

During the Period, the turnover and segment result before taxation of the ecological forestry business were approximately HK\$718 million and HK\$285 million respectively. The result before taxation excluding the revaluation gain of biological assets was approximately HK\$285 million (for the Period Ended 30 September 2007: HK\$322 million) and its operating margin was 39.7% (for the Period Ended 30 September 2007: 50.2%).

(i) Forest land and timber resources

During the Period, the Group completed the acquisition of Shenyu New Energy Group and as a result, successfully acquired 1.4 million Chinese Mu forest land and 0.9 million Chinese Mu Jatropha Plantation. As at 30 September 2008, the total area of forest land use right owned by the Group amounted to approximately 7.7 million Chinese Mu. The total timber resources owned by the Group increased to approximately 22 million cubic meters. With the growing timber resources, it is anticipated that the potential production capacity of timber products would increase accordingly.

(ii) Biomass energy

Bio-mass energy is providing a significant business opportunity for the forestry industry in China. Bio-diesel, a type of biomass energy, is a clean burning alternative fuel, produced from renewable resources. In September 2008, the Company completed the acquisition of Shenyu New Energy Group. The principal business of Shenyu New Energy Group is the research and development of biological energy sources by using *Jatropha Curcas* L. (“Jatropha”). The plantation of Jatropha is very undemanding to soil quality and the Group considers that Jatropha is one of the most promising non-edible crops for bio-fuel production. As at 30 September 2008, the accumulated plantation area of Jatropha amounted to approximately 0.9 million Chinese Mu. The detailed financial effect of business combination was disclosed in Note 19 of the condensed financial statements.

(iii) Sales of Forestry Products

The turnovers from the sale of processed timber in various log grades, standing timber, paper mulberry products and pulpwood during the Period were approximately HK\$538 million, HK\$124 million, HK\$55 million and HK\$1 million respectively.

The detailed analysis of the revenue was described in the paragraph headed “Revenue”.

PROSPECT

The financial turmoil has adversely impacted the global economy. Despite the global economic downturn, the Group is optimistic towards the long-term prospect of the ecological forestry sector. China has emerged as the world's largest wood-based panel producer and consumer. Thus, growing demand of wood panel and related products is anticipated in the long run.

In addition, with the increasing awareness of ecological development and protection, the Chinese government is implementing supportive measures to ecological forestry industry. For example, the land concession right reform, subsidy to plantation of environmental-friendly species and the tax reduction and rebate to forestry corporations would further hasten the development of ecological forestry industry. The Group is confident in capitalizing the business opportunities created by the government policies.

In view of the surging demand of energy, the newly acquired biomass energy business will bring new income stream to the Group. In the long run, the Group will continue to optimize its forest resources in order to capture the surging demand of timber products as well as biomass energy sources, so as to maximize shareholders' returns.

OPERATING RESULTS AND FINANCIAL REVIEW

Revenue

During the Period, the Group captured various business opportunities and recorded a turnover of HK\$718 million, representing an increase of 3.87% over the Period Ended 30 September 2007.

The table below sets out the sales of products by the Group for the Period:

2008

Product	Average Unit Price (HK\$)	Quantity (cubic meter/ tonne)	Amount (HK\$'000)
Processed timber products in various log grades	2,716.05	198,058 cubic meters	537,936
Standing timber	283.89	438,258 cubic meters	124,417
Paper mulberry products	1,538.52	35,644 tonnes	54,839
Pulpwood	708.00	1,500 tonnes	1,062
Total			718,254

2007

Product	Average Unit Price (HK\$)	Quantity (cubic meter/ tonne)	Amount (HK\$'000)
Processed timber products in various log grades	4,179.63	134,547 cubic meters	562,357
Pulpwood	927.06	85,000 tonnes	78,800
			641,157
Discontinued operation			50,352
Total			691,509

The sales of forestry products included processed timber in various log grades, standing timber, paper mulberry products and pulpwood. All the forestry products were sold in China, the global financial turmoil has adversely impacted economy which caused the decrease of average selling price of forestry products.

Gain arising from changes in fair value of biological assets less estimated point-of-sale costs

In the corresponding period of last year, the gain mainly arose from the difference between the fair value and the purchase cost of biological assets acquired. During the Period, no new acquisition of forest farms has been completed, thus no such gain has been obtained.

Other net loss

Other net loss included net unrealised losses on investments in equity securities listed in Hong Kong-financial assets at fair value amounted to approximately HK\$35 million arising from the continued shrink in the financial market during the Period and gain from disposal of land use right of approximately HK\$15 million.

Cost of inventories and forestry products sold

Cost of inventories and forestry products sold of processed timber in various log grades included timber consumption cost and direct cost which amounted to HK\$53 million and HK\$182 million respectively. Direct cost included logging and road construction cost, processing costs, transportation cost, forest farms management fees and various tax levies which represented 54.8%, 21.4%, 7.2%, 4.2% and 12.4% of total direct cost respectively.

The total cost of inventories and forestry products of standing timber, paper mulberry products and pulpwood was HK\$110 million and most of the costs were timber consumption costs.

The Group's increase in cost for the period was mainly a result of the expanded scale of production and an increase in the sales of products. In addition, unit cost of timber consumption was increased as a result of the increase in the purchase price of timber during the acquisition of forest land and fair value adjustments.

Other operating expenses

The Group's other operating expenses for the Period in the amount of approximately HK\$73 million mainly included expenses of debris removal and rebuilding of paths of forest farms within the affected area after the snow-storm disaster of approximately HK\$34 million and various administrative and selling expenses which amounted to HK\$39 million.

Analysis of net profit margin of continuing operations

	Six months ended 30 September 2008		2007
Turnover	HK\$718 million		HK\$641 million
Net profit adjusted for net revaluation gain of biological assets	HK\$188 million		HK\$310 million
Net profit margin	26.18%		48.36%

The net decrease in net profit margin of continuing operations was mainly attributable to the following reasons:

- (i) a decrease in average selling price of processed timber in various log grades and an increase in unit cost of timber consumed.
- (ii) HK\$34 million incurred in debris removal and rebuilding of paths of forest farms within the affected area after snow-storm disaster which happened in early 2008.
- (iii) unrealized loss of HK\$35 million on financial assets at fair value; and
- (iv) increase of various expenses arising from expansion of business.

Biological assets

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

	Paper mulberry trees <i>HK\$'000</i>	Jatropha <i>HK\$'000</i>	Other forest assets <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 April 2008	329,970	–	4,798,742	5,128,712
Increase due to acquisition of subsidiaries	–	787,614	1,267,032	2,054,646
Amortization of stumps during the Period	(17,835)	–	–	(17,835)
Direct sales and harvest as agricultural produce	–	–	(124,294)	(124,294)
Exchange differences	9,395	1,383	139,813	150,591
At 30 September 2008	<u>321,530</u>	<u>788,997</u>	<u>6,081,293</u>	<u>7,191,820</u>

During the Period, Poyry Forest Industry Limited (the “Valuer”) assisted the Group in valuing the Group’s other forest assets and Jatropha plantation, the Valuer applied an income expectation approach based on projected wood flows of the Group’s other forest assets, the projected future pre-tax cash flows, based on their assessments of current timber log prices, and a discounted rate of 11.5%. The Valuer applied replacement cost approach to value Jatropha plantation with compound rate of 20% per annum.

The significant increase in value mainly arising from acquisition of Shenyu New Energy Group amounted to HK\$2,055 million.

Prepaid lease payments

Prepaid lease payments being the prepayments of land use rights located in the PRC and the net significant increase in value mainly arising from acquisition of Shenyu New Energy Group amounted to HK\$442 million.

Intangible assets

Intangible assets included goodwill of HK\$1,307 million and patent of HK\$467 million. The significant increase mainly arising from the acquisition of Shenyu New Energy Group amounted to HK\$1,222 million which is the goodwill resulted from the respective acquisition.

Trade receivable

The Group has to rebuild paths of some forest farms, remove debris and revise the logging plan after the snow storm disaster occurred in early 2008. The Group sold the timber products mainly in last two months of the Period which caused the trade receivable to increase greatly.

Other receivables, deposits and prepayment

Balances mainly included prepayment and deposits for various infrastructure of forest farms and plantation expenditure. The expansion of forestry business in Yunnan Province and Inner Mongolia caused the increase.

Purchase consideration payable

The balances represent the purchase consideration payable arising from acquisition of Shenyu New Energy Group. The detailed information was disclosed in Note 19 of the condensed financial statements.

Other payables and accruals

Other payables and accruals mainly included payables of forest farms and plantation expenditures.

The net decrease mainly represents the result of the repayment of forest farms, additional plantation expenditure payable and acquisition of Shenyu New Energy Group.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 September 2008, the Group's cash and bank balances, which were principally Renminbi and Hong Kong dollar denominated, amounted to approximately a total of HK\$375 million. The Group was not exposed to any substantial risk in foreign exchange fluctuations. In general, the Group mainly used its Renminbi income receipt for operating expenses in China and did not use any financial instruments for hedging purpose.

The Group's currently available liquidity resources are sufficient to meet its capital commitments. As at 30 September 2008, the Group's net current assets amounted to approximately HK\$132 million. The Group's current ratio, being the percentage of its current assets in its current liabilities, amounted to 1.13 times.

As at 30 September 2008, the capital structure of the Company is constituted exclusively of 5,513,223,600 ordinary shares of HK\$0.10 each. Apart from ordinary shares in issue, the capital instruments of the Company in issue include convertible notes.

Charge on the Group's assets

The Group did not have any pledged assets as at 30 September 2008.

Contingent liabilities

As at 30 September 2008, the Group did not have any material contingent liabilities.

Employees

As at 30 September 2008, the Group employed a total of approximately 400 employees of which 14 staffs were employed in Hong Kong. In addition to competitive package offered to the employees, other benefits included contributions to mandatory provident fund, as well as group medical and accident insurance. On-going training sessions were also conducted to enhance the competitiveness of the Group's human assets. The Company also maintains a share option scheme, pursuant to which share options may be granted to Directors, executives and employees of the Company to provide them with incentives in the growth of the Group.

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 ("Model Code") in respect of securities dealing by the Directors. The Company has made specific enquiry to all Directors 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 30 September 2008.

Purchase, redemption or sale of listed securities of the company

During the Period, by virtue of the exercise of the rights granted by the Company's shareholders to the Directors under the repurchase mandate, the Company repurchased on the Stock Exchange in aggregate 70,352,000 of its ordinary shares of HK\$0.1 each at a total consideration of approximately HK\$31,965,000. 39,402,000 shares have been cancelled and the cancellation of the remaining 30,950,000 shares for a total consideration of HK\$10,987,000 have been completed in October 2008 and held these shares as treasury shares as at 30 September 2008.

Apart from the foregoing, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Period.

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 Period.

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 the unaudited condensed consolidated financial statements and the interim report for the Period, and was content that the accounting policies of the Group are in accordance with the current best practice in Hong Kong.

The remuneration committee also comprises the three independent non-executive Directors. The principal responsibilities of the remuneration committee include making recommendations to the Board on the Company's policy and structure of remuneration of Directors and senior management of the Company and on the establishment of a formal and transparent procedure for developing such policy, and reviewing the specific remuneration packages of all executive Directors and senior management of the Company by reference to corporate goals and objective resolved by the Board from time to time.

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

Hong Kong, 29 December 2008

As at the date of this announcement, the Board of Directors of the Company comprises of Mr. Ng Leung Ho, Ms. Cao Chuan, Ms. Lee Ming Hin, Mr. Cheung Wai Tak and Mr. Cheng Shouheng 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 purpose only*