# China Grand Forestry Green Resources Group Limited

(Incorporated in Bermuda with limited liability)
Stock code : 910

ANNUAL REPORT
2010/11

# Contents



# Corporate Information

## EXECUTIVE DIRECTORS

Mr. Pang Chun Kit *(Chairman)*
Mr. Lau Man Tak
(appointed on 7 April 2010)
Mr. Chi Chi Hung Kenneth
(appointed on 19 May 2010)
Mr. Tse On Kin *(Chairman)*
(resigned on 31 December 2010)

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Wong Yun Kuen
Mr. Chan Chi Yuen
Mr. Yu Pak Yan Peter
(appointed on 31 December 2010)
Ms. Xu Lei
(resigned on 31 December 2010)

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

## COMPANY SECRETARY

Mr. Chi Chi Hung Kenneth
(appointed on 31 December 2010)
Mr. Pang Chun Kit
(appointed on 20 September 2010)
(resigned on 31 December 2010)
Ms. Lai Yeung Fun
(resigned on 20 September 2010)

## AUDITOR

BDO Limited
25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

Chiyu Banking Corporation Ltd.
42–44 Mut Wah Street
Kwun Tong
Kowloon
Hong Kong

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

The Bank of East Asia Limited
10 Des Voeux Road Central
Hong Kong

## PRINCIPAL REGISTRARS AND TRANSFER OFFICE

HSBC Securities Services (Bermuda) Limited
(formerly The Bank of Bermuda Limited)
Bank of Bermuda Building
6 Front Street
Hamilton HM 11
Bermuda

## BRANCH REGISTRARS AND TRANSFER OFFICE

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

# Chairman's Statement

Dear Shareholders,

On behalf of China Grand Forestry Green Resources Group Limited (the "Company"), I would like to express our heartfelt gratitude for your support and confidence in the Company. I hereby report to our shareholders the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 March 2011 together with comparative figures for the year ended 31 March 2010.

For the year, the Group recorded a loss attributable to shareholders of HK$1,204 million, representing a loss of HK13.07 cents per share. During the year, there was no substantial acquisition or disposal transaction made, the Group had entered into a memorandum of understanding in relation to an acquisition of coking coal mine business but due to the Group and the potential seller cannot enter into final agreement within the agreed period, the proposed transaction has not been completed. During the year, the Group temporarily closed two biological assets projects, namely paper mulberry trees and liquorices to minimize the business risk. The Group would actively seek new investment opportunities which will improve the Group's performance and increase shareholders' value. The cash and bank balance as at year end date was HK$581 million which can support the Group to seek new business opportunities.

## STATUS OF INDUSTRY DEVELOPMENT AND MARKET REVIEW

In the year, the business environment of the ecological business in China was adversely affected by various factors such as environmental issues and government policies. The turnover of the Group decreased continuously due to decrease in wood flow and this trend is expected to continue in the coming years. Ecological business is labour intensive and it requires a long investment period to generate return.

## TEMPORARY CLOSURE OF TWO BIOLOGICAL ASSETS

In previous years, the Group planted Paper Mulberry Tree in various provinces in China and Liquorices in Inner Mongolia. Unfortunately, there were consecutive climate disasters (such as drought, heavy snow rain, and heavy rain etc.) that caused a serious blow to the paper mulberry trees and a terribly low survival rate to the planted paper mulberry trees. The survival rate of young Liquorices was also terribly low caused by extreme cold and drought climate in Inner Mongolia. The Group made a large loss in previous years. These plantation estates need to be replanted again but plantation is labour intensive. Obviously, labour cost is much higher than previous years which make the plantation expenditures and maintenance cost much higher than previous years. In addition, the Group did not have any downstream production plants, the Group has been seeking appropriate business partner since year 2007 but has not be successful. The Group also considered that the increasingly unpredictable weather situation increase the business risk significantly. Therefore, due to commercial consideration to balance the investment expenditure, the business risk and return, the Group temporarily closed Paper Mulberry Trees and Liquorices projects and relevant provision or write-off was made during the year. The Group may restart these two biological assets projects when there is/are appropriate business partner(s) and the yield of plantation can be increased.

# Chairman's Statement

## BUSINESS DEVELOPMENT STRATEGIES AND PROSPECTS

The Group had restructured its management team in September 2009. Since then the new management has the view that focus on a few biological assets projects are beneficial to the Group so that the Group can concentrate the resources to develop business and reduce the business risks. Thus, the Group temporarily closed two biological assets projects during the year, namely paper mulberry tree and liquorices projects. In addition, the Group is seeking appropriate local business partners to develop together the remaining biological assets to enhance the management efficiency and broaden the sales channel. The Group may also restructure existing forestry portfolio and may dispose non-core forest estate to improve the management efficiency.

The Group is continuously looking for new investment opportunities to broaden the revenue sources. During the year, the Group had entered a memorandum of understanding in relation to acquisition of coking coal mine business in Mongolia but due to the Group and the potential seller cannot enter final agreement within the agreed period, the proposed transaction has not been completed.

The Group will continue working on broadening  revenue source in order to increase the shareholders' return, the Group would consider any appropriate business opportunities which can generate appropriate cash inflow with appropriate business risk.

## 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.

**Pang Chun Kit**
*Chairman*

Hong Kong, 30 June 2011

# Management Discussion and Analysis

## FINANCIAL HIGHLIGHTS

For the year, the Group recorded a turnover of approximately HK$3 million (2010: HK$8 million), representing a decrease of 64% compared with the year ended 31 March 2010. The Group's loss attributable to shareholders was approximately HK$1,204 million, representing a basic loss per share of HK13.07 cents (2010: loss of HK$2,481 million, representing a basic loss per share of HK39.07 cents).

The loss is mainly attributable to a non-cash revaluation loss of biological assets of HK$720 million and a write-off of biological assets of HK$279 million.

## DIVIDEND

The Board does not recommend any final dividend for the year (2010: HK$Nil).

## REVIEW OF THE ECOLOGICAL FORESTRY BUSINESS

The ecological forestry business has been identified as the single operating segment for the year ended 31 March 2011.

### (i) Forest land and timber business

During the year, there was no significant acquisition or disposal of forest land. As at 31 March 2011, the total area of forest land use right owned by the Group amounted to approximately 5 million Chinese Mu. Such forest land is mainly located in Hunan, Chongqing, Yunnan and Guizhou.

It would be difficult to yield a reasonable return from the production and sales of traditional timber products under the current market conditions where production cost increases greatly, high capital expenditure of road construction in forest farms and environmental protection situation. Therefore, the Group scaled down traditional logging business and turnover dropped during the Year. Most of the revenue is arising from sale of standing timbers. Since the expected future wood flow adjusted downward, the fair value of biological assets decreased during the year.

### (ii) Biomass energy

Biomass energy is providing a business opportunity for the forestry industry in China which is a clean burning alternative fuel, produced from renewable and sustainable resources. As at 31 March 2011, the Group owned Jatropha estate of approximately 300,000 Chinese Mu in Yunnan Province.

A trial processing plant of Jatropha based bio-diesel started operation in August 2010. Due to insufficient supply of raw materials and high fluctuation of energy price, the biomass energy project is slowing down. The Group is evaluating the business opportunities and the relevant business risk in order to determine the appropriate development strategy.

## PROSPECTS

PRC Government highlighted, to proactively address climate change, additional afforestation for boosting 'greening' efforts and improving forest carbon sequestration. In order to increase forest coverage, the Group expects that domestic harvesting in the plantations and domestic timber supply would be tightened. Thus, the Group has to seek other business opportunities.

Looking forward, the Group is optimistic about the resources business growth in the coming years to capture business opportunities arising from the surging demand on resources in PRC. The Group aimed to strengthen its competitive edge by optimizing its forest portfolios, seek appropriate business partner to assist the Group to increase revenue and at the same time actively sourcing any appropriate high-quality resources investment opportunities or projects to maximise our shareholders' returns.

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Revenue

The decrease in sales for the year is mainly attributable to the difficult business environment arising from logging costs kept rising which was contributable to the increase of costs in labour, overhead, road construction, transportation, plantation expenditure etc. Traditional logging business was hard to obtain a reasonable return to compensate business risk. The sales in current year mainly was sales of standing timbers.

### Loss arising from changes in fair value less costs to sell of biological assets and write-off of biological assets

The details of the losses of each biological assets are as follow:

| | **Loss arising from changes in fair value** HK$'000 | **Write-off** HK$'000 |
|---|---|---|
| Other trees | 679,294 | 237,848 |
| Paper mulberry trees | — | 18,813 |
| Liquorices | — | 22,702 |
| Jatropha | 40,506 | — |
| | 719,800 | 279,363 |

***(i) Loss arising from changes in fair value less costs to sell of biological assets***

The loss is non-cash in nature and the loss of HK$720 million represented the decrease in fair value of other trees of HK$680 million and Jatropha of HK$41 million from that of last year.

The reason for the decrease in fair value of other trees of HK$680 million mainly arising from the increase in Harvest Related Costs (Logging, Roading and Harvesting Overheads), increase in cartage cost and downward adjustments of future projected wood flow production mainly in Yunnan Province, Hunnan Province and Guizhou Province. The increase in various direct costs reflects greater increase of inflation expectation by the independent valuer. In addition, the independent valuer considered that existing poor roading infrastructure and lack of wood processing plants in some forest farms would affect the harvestable volume in coming five years. Since the valuation methodology is discounted cash flow, increase in costs and downward adjustments of future projected wood flow would reduce the fair value.

In respect of the fair value loss of Jatropha which is solely caused by change of valuation methodology adopted by independent valuer. In previous years, the cost (replacement) approach using the compound cost methodology was adopted for the valuation of Jatropha. However, compound cost may not be appropriate when the calculated value is higher than Net Present Value ("NPV") methodology from the consideration of investor. This year, based on the calculation of independent valuer Pöyry (Beijing) Consulting Co, Ltd, Shanghai Branch ("Pöyry"), the compound cost is greater than NPV result of Jatropha and Pöyry concluded that NPV estimate is a better indicator of market value for the Group as at 31 March 2011. NPV is calculated based on a discount rate of 11.5%. According to the valuation report, a fair value loss of HK$41 million has been recorded for year 2011. The Group would like to state that the independent valuer remains the same as previous years.

# Management Discussion and Analysis

## FINANCIAL REVIEW *(continued)*

### Loss arising from changes in fair value less costs to sell of biological assets and write-off of biological assets *(continued)*

***(ii) Write-off of biological assets***

Write-off of biological assets included other trees, Paper Mulberry Trees and Liquorices amounted to approximately HK$238 million, HK$19 million and HK$22 million respectively.

As the ownership certificate for several forest farms of total area of approximately 600,000 Chinese Mu are yet to be issued by the local authorities within a reasonable application period, the related future wood flow become uncertain. Thus, the Group has performed impairment assessment on other trees of these forest farms and HK$238 million of biological assets and HK$57 million of prepaid lease payments has been written off to reflect the uncertainty of the free transfer of such prepaid lease payments.

Write-off of biological assets value of Paper Mulberry Trees and Liquorices arising from the temporarily closure of these two projects and the value of such young injured biological assets were low.

The revaluation loss of other trees mainly arising from decrease of future's projected woodflow and adjust upward in direct costs such as silvicultural cost, transportation cost, harvesting cost, roading cost and overhead.

In addition, in the past few years, extreme instable climate which led to serious harm to newly planted biological assets which cause the survival rate dropped significantly and no significant economic commercial value of those injured biological assets, fair value loss and write-off incurred accordingly.

### Impairment loss on long-term prepayments and other receivables

During the year, the Group temporarily closed various biological assets projects, appropriate amount of impairment loss on long-term prepayments were made. In addition, the Group had made appropriate amount of impairment loss on long aged other receivables.

***(i) Impairment loss on long term prepayments***

Such long term prepayments were paid in year 2007 to 2008 which mainly included operating rights of wild herbs amounted to HK$28 million and various infrastructure amount paid to relevant PRC local authorities for the construction of forest farms of HK$65 million. Due to global financial crisis occurred in 2008, original potential business partners suffered financial difficulties and co-operation may not be proceeding. After considering the further significant investment expenditure would be incurred, uncertainty of the recoverability and utilization of such long aged long term prepayment, impairment loss was provided accordingly.

***(ii) Impairment loss of others receivables***

Related other receivables mainly included HK$52 million arising from long outstanding receivables from the disposal of several forest farms to the third party in year 2008 and HK$5 million paid in year 2007 in relation to a Jatropha project. As the financial position of debtors was adversely affected by the global financial crisis and it is unlikely for the collection of the net receivables in the coming years. As such, the Group impaired this net receivable and impairment loss of HK$52 million was made for the year. In addition, the related Jatropha projects would not be proceeding and related HK$5 million paid is unlikely can be received.

### Cost of inventories and forestry products sold

The amount decreased in line with the significant drop of sales. The cost mainly the timber cost incurred during the year.

# Management Discussion and Analysis

## FINANCIAL REVIEW *(continued)*

### Other operating expenses

The Group's other operating expenses represent various administrative expenses, such as rental, maintenance cost on various biological assets and professional fees.

During the year, the Group adopted a tighter cost control in order to reduce the operating loss.

### Gains on Disposal of assets

During year ended 31 March 2010, the Company entered into a Disposal Agreement with the Purchaser to dispose substantial standing trees, Jatropha estates and a hotel development project in Yunnan Province.

The transaction was completed on 31 March 2010 and there was a gain of HK$949 million.

### Staff costs

Staff cost included non-cash share-based payments expenses of HK$11 million (2010: HK$33 million). The Group adopted a tighter cost control and no new share option was granted during the year, thus staff costs decreased accordingly.

### Finance costs

Financial costs, included approximately HK$9 million of non-cash imputed interest expenses on payables for acquisitions of certain forest farms and HK$0.6 million of interest on convertible notes.

### Biological assets

The biological assets of the Group included other forest assets, Jatropha, paper mulberry trees and Liquorice.

During the year, Pöyry valued the Group's other forest assets and Jatropha.

The net decrease in value was mainly arising from loss arising from changes in fair value of HK$720 million and write-off of HK$279 million. The movements of biological assets were as follows:

| | Liquorices HK$'000 | Paper mulberry trees HK$'000 | Jatropha HK$'000 | Other forest assets HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| As at 1 April 2010 | 22,230 | 18,420 | 379,340 | 2,952,263 | 3,372,253 |
| Disposal | — | — | — | (22,339) | (22,339) |
| Plantation expenditure incurred | — | — | 7,927 | 2,261 | 10,188 |
| Harvest as agricultural produce | — | — | — | (664) | (664) |
| Exchange adjustment | 472 | 393 | 16,159 | 110,127 | 127,151 |
| Loss arising from changes in fair value less costs to sell | — | — | (40,506) | (679,294) | (719,800) |
| Write-off | (22,702) | (18,813) | — | (237,848) | (279,363) |
| As at 31 March 2011 | — | — | 362,920 | 2,124,506 | 2,487,426 |

# Management Discussion and Analysis

## FINANCIAL REVIEW *(continued)*

### Biological assets *(continued)*

Due to uncertainty of the business development of liquorices and paper mulberry trees, and most of these biological assets were injured by extreme instable climate, these two biological assets projects were temporarily closed during the year.

### Prepaid lease payments

Prepaid lease payments are the prepayments of land use rights located in the PRC. The amount decreased was mainly due to the amortisation and write-off amounted to HK$28 million and HK$58 million respectively.

Movements of prepaid lease payments during the year were as follows:

| | 2011<br>HK$'000 |
|---|---|
| As at 1 April 2010 | 1,279,838 |
| Exchange adjustment | 55,034 |
| Disposals | (1,167) |
| Write-off | (57,741) |
| Amount released to profit or loss | (28,469) |
| As at 31 March 2011 | 1,247,495 |
| Classified as current assets | 29,545 |
| Classified as non-current assets | 1,217,950 |

### Other payables, accruals and long term payables

The balances mainly included payables of forest farms and plantation expenditures.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 March 2011, the Group's cash and bank balances amounted to approximately HK$581 million (2010: HK$606 million), which were principally denominated in Renminbi and Hong Kong dollar. 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 the PRC and did not use any financial instruments for hedging purpose.

As at 31 March 2011, the Group had no borrowing.

The Group generally finances its operation using internally generated resources and proceed raised from issue of new shares in previous years. As at 31 March 2011, the Group's net current assets amounted to approximately HK$588 million (2010: HK$440 million). The Group's current ratio, being its current assets as a percentage of its current liabilities, amounted to 268% (2010: 209%).

As at 31 March 2011, the share capital of the Company consisted of 9,741,048,933 ordinary shares of HK$0.10 each. Apart from the ordinary shares in issue, the Company issued convertible notes as alternative financing instruments.

As at 31 March 2011, the Group's gearing ratio was zero, measured on the basis of total borrowings as a percentage of total shareholders' funds (2010: 2.1%).

# Management Discussion and Analysis

## SIGNIFICANT EVENT

On 3 August 2010, the Group entered into the memorandum of understanding ("MOU") in relation to the proposed acquisition of equity interests in (i) Mingxin Enterprises Limited ("target company 1") incorporated in British Virgin Islands and/or (ii) Hai Hua Holdings Limited ("target company 2") incorporated in British Virgin Islands. Both target companies are the registered holders of exploration licence in respect of the coking coal mine in Mongolia. The proposed acquisition is subject to the preliminary valuation of target company 1 by an independent valuer of international standing acceptable to indicate a value of asset of target company 1 not less than HK$8 billion, and/or the preliminary valuation of target company 2 by an independent valuer of international standing acceptable to indicate a value of asset of target company 2 not less than HK$8 billion. Any acquisition of target company 1 will not need to be conditional upon the acquisition of the target company 2 or vice-versa. On 17 August 2010, the Company has deposited the sum of HK$100 million as a refundable deposit for the Proposed Acquisition pursuant to the MOU. On 2 February 2011, being the end of the exclusivity period of MOU, there was no definitive agreement being entered into, and accordingly, the Company has issued a written notice to the Proposed Vendor to terminate the MOU on 2 February 2011. The deposit had been received before the year ended 31 March 2011.

## CHARGE ON THE GROUP'S ASSETS

The Group did not have any pledged assets as at 31 March 2011 and 2010 to secure general banking facilities.

## CONTINGENT LIABILITIES

As at 31 March 2011, the Group did not have any contingent liabilities of material amounts.

## CAPITAL COMMITMENTS

As at 31 March 2011, capital commitments in respect of construction costs which had been contracted but not provided for by the Group amounted to approximately HK$33 million.

## 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 expenditure in the PRC and does not use any financial instruments for hedging purpose.

## EMPLOYEES

As at 31 March 2011, the Group employed a total of approximately 200 employees, of which 12 employees are employed in Hong Kong. In addition to competitive packages 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 as incentives for their contribution to the growth of the Group.

# Corporate Governance Report

## CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance. The Board of the Company believes that sound and reasonable corporate governance practices are essential for the growth of the Group and for safeguarding and maximizing shareholders' interests. During the year, Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited.

The objectives of the management structures within the Group, headed by the Board and led by the Chairman, are to deliver sustainable value to shareholders.

The Chairman provides leadership to and oversees the effective functioning of the Board. With support of the Chief Executive Officer (i.e. Executive Director), Chief Financial Officer and the Company Secretary, the Chairman approves Board meeting agenda, and ensures Directors have proper briefing, and timely receive adequate and reliable information, on all Board matters.

The role of the Chairman is separated from that of the Chief Executive Officer, and different persons hold the separate offices. The Chief Executive Officer heads the management and focuses on the day-to-day operations of the Group.

## RESPONSIBILITIES OF THE BOARD

The Board's primary responsibilities include the formulation of long-term corporate strategies, policy decisions and overseeing the management of the Group's operations. In addition, the Board evaluates the performance of the Group and assesses the achievement of targets periodically set by the Board. In carrying out its duties and projects, the Board delegates certain specific considerations to designated board committees and management task forces. The daily management, administration and operations of the Company are delegated to the Chief Executive Officer, executive Directors and senior management and divisional heads. The delegated functions and work tasks are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

All Directors have full and timely access to all relevant information in discharging their duties, and in appropriate circumstances are normally granted rights to seek independent professional advices at the Company's expense.

## COMPOSITION OF THE BOARD

The composition of the Board reflects the necessary balance of skills and experience for effective leadership and independence in decision making. As at the date of this report, the Board comprises 6 directors, whose biographical details are set out in the "Biographical Details of the Directors of the Company and Senior Management of the Group" on pages 20 to 21 of the Report of the Directors. There are three executive Directors, namely, Mr. Pang Chun Kit, Mr. Lau Man Tak and Mr. Chi Chi Hung Kenneth and three independent non-executive Directors, namely Dr. Wong Yun Kuen, Mr. Chan Chi Yuen and Mr. Yu Pak Yan Peter.

The Company has complied with Rules 3.10(1) and 3.12(2) of the Listing Rules relating to the appointment of a sufficient number of independent non-executive Directors and at least one of the independent non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise throughout the year ended 31 March 2011.

The Company has received confirmations from all independent non-executive Directors that they did not have any businesses or financial interests with the Group and were independent as at 31 March 2011 in accordance with Rule 3.13 of the Listing Rules.

# Corporate Governance Report

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officer (i.e. Executive Director) are segregated and not exercised by the same individual. The Board appointed Mr. Pang Chun Kit as Chairman of the Company. The Chairman is responsible for the corporate strategic planning and formulation of corporate policies for the Group, while the Chief Executive Officer is responsible for overseeing day-to-day management of the Group's business. The board is of the opinion that the segregation of the two roles enhances the balance of power within the Company's corporate governance structure.

## APPOINTMENT AND SUCCESSION PLANNING OF DIRECTORS

The Board as a whole is responsible for reviewing its composition, developing and formulating the relevant procedures for the nomination and appointment of Directors; and monitoring their succession. The Board's established policies include procedures for the appointment of Directors nominated by the Company's shareholders. The existing Bye-laws of the Company empower the Board to appoint any person as Director either as an additional member or to fill a casual vacancy.

The term of office for each of the executive Directors and the non-executive Director is three years. The existing Bye-laws of the Company provide that at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. A retiring Director shall be eligible for re-election. The Company at the general meeting at which a Director retire may fill the vacated office. In addition, all Directors appointed to fill a casual vacancy or as an additional Director shall retire in the next annual general meeting but eligible for re-election.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as a code of conduct regarding directors' securities transactions in 2004. All the members of the Board have confirmed, following specific enquiry by the Company that they have complied with the required standard as set out in the Model Code throughout the year ended 31 March 2011. The Model Code also applies to other specified senior management of the Group.

## REMUNERATION OF DIRECTORS

The Company has established a Remuneration Committee with terms of reference in accordance with the Code. The Remuneration Committee comprises the three independent non-executive Directors of the Company and chaired by Mr. Yu Pak Yan Peter. The principal responsibilities of the Remuneration Committee include making recommendation on the policy and structure for the remuneration of Directors and senior management of the Company, the establishment of a formal and transparent procedure for developing such policy, and the review of 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.

# Corporate Governance Report

## REMUNERATION OF DIRECTORS *(continued)*

The principal elements of the executive Directors' remuneration package include basic salary, benefits in kind, discretionary bonus, retirement benefits and participation in the share option scheme adopted by the shareholders of the Company in November 2001. The remuneration packages of the executive Directors will be proposed by the Chairman of the Group annually for the review and approval of the Remuneration Committee based on the following factors:

a) the executive Director's responsibilities and contribution;

b) the executive Director's individual performance;

c) performance of the business unit(s) headed by the executive Director; and

d) performance of the Group as a whole.

The non-executive Director and independent non-executive Directors' remuneration includes Directors' fee and participation in the share option scheme, and subject to annual assessment and recommendation by the Remuneration Committee. The Board's authority to fix Directors' remuneration was granted by the Company's shareholders at the Annual General Meeting.

The Remuneration Committee held one meeting during the year ended 31 March 2011 and reviewed the existing remuneration policy and structure of the Company and remuneration packages of the Directors and senior management. Attendance of each member at the Remuneration Committee meeting is set out in the table under section "Meeting Attendance" of this report.

## NOMINATION COMMITTEE

The Company has established an Nomination Committee. The existing Nomination Committee comprises the three independent non-executive Directors, Dr. Wong Yun Kuen is the Chairman of the Nomination Committee. The Nomination Committee is responsible for all matters relating to the appointment of Directors either to fill a casual vacancy or as an addition to the existing Board. Any Director appointed to fill a casual vacancy or as an addition to the existing Board shall hold office only until the next annual general meeting and shall be eligible for re-election at such meeting. Every Director shall be subject to retirement by rotation at least once every three years and shall be eligible for re-election in accordance with the Bye-laws of the Company.

The Nomination Committee is responsible for identifying suitable qualified candidates and making recommendations to the Board for consideration. The process of selecting and recommending candidates for directorship includes the consideration of referrals and the engagement of external recruitment professionals. The selection criteria is based mainly on the assessment of their professional qualifications and experience relevant to the Company's businesses.

The Nomination Committee held 5 meetings during the year ended 31 March 2011. Attendance of each member at the Nomination Committee meeting is set out in the table under section "Meeting Attendance" of this report.

# Corporate Governance Report

## AUDIT COMMITTEE

The Company has established an Audit Committee, the terms of which are consistent with the provisions set out in the relevant section of the Code. The Audit Committee of the Company presently comprises the three independent non-executive Directors, Mr. Chan Chi Yuen is the Chairman of the Audit Committee and possesses the appropriate professional qualification or accounting or related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditors. The primary responsibilities of the Audit Committee include the followings:

a) To review the Company's financial information including annual report and half-yearly report and the appropriateness of any significant financial reporting judgments contained therein;

b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors; and

c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Company's results for the year ended 31 March 2011 and interim results for the six months ended 30 September 2010 have been reviewed by the Audit Committee.

During the year ended 31 March 2011, two meetings have been held by the Audit Committee. Attendance of each member at the Audit Committee meeting is set out in the table under section "Meeting Attendance" of this report.

## MEETING ATTENDANCE

During the year ended 31 March 2011, fifteen board meetings had been held for reviewing business performance, considering and approving the overall strategies and policies of the Company, and other business matters. Attendance of each member, on a named basis, during the year ended 31 March 2011 is set out in the table below.

| | Board Meetings | Remuneration Committee Meetings | Nomination Committee Meetings | Audit Committee Meetings |
|---|---|---|---|---|
| Number of meetings | 15 | 1 | 5 | 2 |
| Mr. Pang Chun Kit *(Chairman)* | 15/15 | N/A | N/A | N/A |
| Mr. Lau Man Tak | 4/14* | N/A | N/A | N/A |
| Mr. Chi Chi Hung Kenneth | 9/10** | N/A | N/A | N/A |
| Mr. Tse On Kin *(Chairman)* | 13/13**** | N/A | N/A | N/A |
| Dr. Wong Yun Kuen | 8/15 | 1/1 | 5/5 | 2/2 |
| Mr. Chan Chi Yuen | 6/15 | 1/1 | 5/5 | 2/2 |
| Mr. Yu Pak Yan Peter | 0/2*** | N/A | N/A | 1/1 |
| Ms. Xu Lei | 6/13**** | 1/1 | 3/5 | 1/1 |

* Mr. Lau Man Tak was appointed on 7 April 2010.
** Mr. Chi Chi Hung Kenneth was appointed on 19 May 2010.
*** Mr. Yu Pak Yan Peter was appointed on 31 December 2010.
**** Mr. Tse On Kin and Ms. Xu Lei were resigned on 31 December 2010.

# Corporate Governance Report

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORTING

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other financial disclosures required under the Listing Rules and other regulatory requirements.

The Directors acknowledged that they are responsible for the preparation of the financial statements of the Group. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

The Statement of the external auditors of the Company about their responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 28 and 29.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

## AUDITOR'S REMUNERATION

The remuneration in respect of audit and non-audit services provided by the external auditors for the year ended 31 March 2011 are HK$880,000 and HK$387,000 respectively.

## INTERNAL CONTROL

The Board acknowledged that they are responsible for maintaining effective internal control system of the Group. Notwithstanding the Audit Committee reviews financial results and the overall internal control environment periodically, the Directors design well defined management structure with limit of authority and segregation of duties, and ensure the whole operation system is in compliance with the relevant regulation and legislation. The Directors regularly review the management and financial reports to ensure that the Company maintains a healthy financial position all the time.

During the year ended 31 March 2011, the Board conducted a review on the effectiveness of the Group's material internal controls, covering financial, operational, compliance and risk management functions. Based on the review undertaken, the Board is of the view that present internal control system of the Group is considered adequate. However, the Board shall remain open to suggestion for further improvement, including recommendation from the external auditors of any potential areas for improvement noted during the audit process.

# Corporate Governance Report

## COMMUNICATION WITH SHAREHOLDERS

The Company recognises the importance of the communication with shareholders. In order to maintain and further enhance the investors' relationship with the Company's shareholders, the Company established various channels of communication with its shareholders:

1) The annual general meeting provides a platform for shareholders to exchange views with the Board. The members of the Board and external auditors will attend the meeting. The Group encourages all shareholders to attend and raise any comment on performance of the Group. The Board is welcome to exchange views with its shareholders at the meeting.

2) The Company has regularly met with financial analysts, fund managers and potential investors during year ended 31 March 2011, in order to enhance the understanding the Group's operations and developments.

3) Information relating to the Company's financial information is provided through publications of annual reports, announcements, circulars and press release.

4) The Company has established a corporate website which provides regularly updated Company financial information and other corporate information.

Separate resolutions are proposed at shareholders' meeting of the Company on each substantial issue, including the election of individual director. Poll results will be published on the business day following the shareholders' meeting and posted on the websites of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and at www.capitalfp.com.hk/eng/index.jsp?co=910.

# Report of the Directors

The Directors of the Company herein present their report and the audited consolidated financial statements of the Company and the Group for the year ended 31 March 2011.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in Note 23 to the financial statements.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be temporarily closed from Wednesday, 14 September 2011 to Friday, 16 September 2011, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the attendance at the Company's annual general meeting to be held on Friday, 16 September 2011, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 12 September 2011.

## SEGMENTAL INFORMATION

An analysis of the Group's revenue and results by principal activity and geographical location of markets for the year ended 31 March 2011 is set out in Note 9 to the financial statements.

## RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 March 2011 are set out in the consolidated statement of comprehensive income on page 30.

The Board has resolved not to recommend any dividend for the year ended 31 March 2011.

## SUMMARY OF FINANCIAL INFORMATION

A summary of the consolidated results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is set out below. The amounts for the year ended 31 March 2011 are those set out in the accompanying financial statements on pages 30 to 92. The amounts for the year ended 31 March 2010 and before are extracted from previously published audited financial statements of the Company as appropriate.

### Results

| | Year ended 31 March | | | Nine months ended 31 March | Year ended 30 June |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| REVENUE | **2,761** | 7,684 | 685,465 | 1,105,078 | 828,918 |
| PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS | **(1,203,652)** | (2,481,488) | (453,204) | 2,743,860 | 1,319,310 |

# Report of the Directors

## SUMMARY OF FINANCIAL INFORMATION *(continued)*

**Assets, liabilities and non-controlling interests**

| | As at 31 March | | | | As at 30 June |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| NON-CURRENT ASSETS | **3,812,351** | 4,860,650 | 9,107,891 | 6,879,468 | 2,449,540 |
| CURRENT ASSETS | **938,563** | 844,618 | 803,624 | 1,314,328 | 876,864 |
| TOTAL ASSETS | **4,750,914** | 5,705,268 | 9,911,515 | 8,193,796 | 3,326,404 |
| CURRENT LIABILITIES | **350,265** | 405,074 | 497,709 | 1,182,516 | 524,882 |
| NON-CURRENT LIABILITIES | **297,611** | 477,463 | 2,833,241 | 89,788 | 210,934 |
| TOTAL LIABILITIES | **647,876** | 882,537 | 3,330,950 | 1,272,304 | 735,816 |
| NON-CONTROLLING INTERESTS | **67** | 67 | 67 | — | — |
| NET ASSETS | **4,103,038** | 4,822,731 | 6,580,565 | 6,921,492 | 2,590,588 |

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in Note 19 to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital during the year ended 31 March 2011 and subsequent thereto are set out in Note 32 to the financial statements.

Details of movements in the Company's share options during the year ended 31 March 2011 are set out in Note 33 to the financial statements.

## CONVERTIBLE NOTES

Details of movements in the Company's convertible notes during the year ended 31 March 2011 are set out in Note 36 to the financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a prorata basis to existing shareholders.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in Note 34 to the financial statements and the consolidated statement of changes in equity, respectively.

# Report of the Directors

## DISTRIBUTABLE RESERVES

At 31 March 2011, the Company has no reserves available for cash distribution and/or distribution in specie as computed in accordance with the Companies Act 1981 of Bermuda. In addition, under the laws of Bermuda, the Company's share premium account, with a balance of approximately HK$2,176,284,000 as at 31 March 2011, may be distributed in the form of fully paid bonus shares.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the sales to the Group's five largest customers accounted for approximately 100% of the total sales for the year and the sales to the largest customer included therein amounted to 83%.

During the year, there was no purchase of materials from suppliers. All the cost of products sold represented amortisation of self-owned biological assets, transportation costs, direct labor costs and local harvest tax.

None of the directors of the Company, any of their associates or any substantial shareholders (which, to the best knowledge of the directors of the Company, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

## DIRECTORS

The directors of the Company during the year and up to the date of this report are as follows:

### Executive Directors

| | |
|---|---|
| Mr. Pang Chun Kit *(Chairman)* | |
| Mr. Lau Man Tak | (appointed on 7 April 2010) |
| Mr. Chi Chi Hung Kenneth | (appointed on 19 May 2010) |
| Mr. Tse On Kin *(Chairman)* | (resigned on 31 December 2010) |

### Independent non-executive Directors

| | |
|---|---|
| Dr. Wong Yun Kuen | |
| Mr. Chan Chi Yuen | |
| Mr. Yu Pak Yan Peter | (appointed on 31 December 2010) |
| Ms. Xu Lei | (resigned on 31 December 2010) |

In accordance with the Bye-laws 111(A) and 111(B) of the Company, Mr. Chi Chi Hung Kenneth and Dr. Wong Yun Kuen shall retire from office by rotation at the forthcoming annual general meeting and being eligible, offer themselves for re-election at the forthcoming annual general meeting. Pursuant to Bye-law 115 of the Company, Mr. Yu Pak Yan Peter, being newly appointed Director, shall retire from office at the forthcoming annual general meeting and being eligible, offer himself for re-election at the annual general meeting.

# Report of the Directors

## BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP

### Executive Directors

**Mr. Pang Chun Kit**, aged 38, is currently the chairman and executive Director of the Company. Mr. Pang has over ten years' experience in auditing, financial, merger and acquisition, corporate restructure, fund raising and investor relationship work. Mr. Pang graduated from the Hong Kong Polytechnic University with a Bachelor degree in Accounting. He is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, having over ten year's experience in various kinds of auditing, financial, merger and acquisition, fund raising and investor relationship work. Mr. Pang was the former chief financial officer and joint company secretary of Lingbao Gold Company Ltd. (Stock code: 3330), the shares of which are listed on The Stock Exchange of Hong Kong Limited, and the former audit manager of Deloitte Touche Tohmatsu.

**Mr. Lau Man Tak**, aged 41, Mr. Lau is currently an executive Director and Chief Financial Officer of the Company. Mr. Lau graduated from Hong Kong Polytechnic University with a Bachelor degree in Accountancy. Mr. Lau has more than 15 years of finance, accounting and auditing experiences. Mr. Lau is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and an associate member of the Hong Kong Institute of Certified Public Accountants. He is also a member of the Hong Kong Securities Institute.

Mr. Lau is currently an independent non-executive Director of Climax International Company Limited (Stock code: 439), Kingston Financial Group Limited (stock code: 1031), Kong Sun Holdings Limited (stock code: 295) and Guojin Resources Holdings Limited (stock code: 630). Mr. Lau was an executive director of Warderly International Holdings Limited (stock code: 607) from December 2007 to January 2010.

**Mr. Chi Chi Hung Kenneth**, aged 42, is currently an executive Director, Chief Executive Officer and company secretary of the Company. He has over 19 years of experience in accounting and financial control. He holds a Bachelor of Accountancy Degree from the Hong Kong Polytechnic University and is a fellow member of the Association of Chartered Certified Accountants in the United Kingdom, an associate member of the Hong Kong Institute of Certified Public Accountants, an associate member of the Hong Kong Institute of Chartered Secretaries and an associate member of the Institute of Chartered Secretaries and Administrators in the United Kingdom.

Mr. Chi is currently an executive Director of Morning Star Resources Limited (stock code: 542), Hua Yi Copper Holdings Limited (stock code: 559) and M Dream Inworld Limited (stock code: 8100), and an independent non-executive Director of Sam Woo Holdings Limited (stock code: 2322), ZMAY Holdings Limited (stock code: 8085) and Aurum Pacific (China) Group Limited (stock code: 8148). Save as disclosed, Mr. Chi did not hold any directorships in other public company listed in Hong Kong or overseas in the last three years or any other position with the Company or any of its subsidiaries.

# Report of the Directors

## BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP *(continued)*

### Independent non-executive Directors

**Dr. Wong Yun Kuen**, aged 53, received a Ph.D. Degree from Harvard University, and was "Distinguished Visiting Scholar" at Wharton School of the University of Pennsylvania. Dr. Wong has worked in financial industries in the United States and Hong Kong for many years, and has considerable experience in corporate finance, investment and derivative products. He is a member of Hong Kong Securities Institute.

Dr. Wong is currently an executive Director of UBA Investments Limited (stock code: 768) and the independent non-executive Director of Bauhaus International (Holdings) Limited (stock code: 483), Climax International Company Limited (stock code: 439), Kingston Financial Group Limited (stock code: 1031), Harmony Asset Limited (stock code: 428), Hua Yi Copper Holdings Limited (stock code: 559), Kaisun Energy Group Limited (stock code: 8203), Kong Sun Holdings Limited (stock code: 295), China Yunnan Tin Minerals Group Company Limited (stock code: 263), New Island Printing Holdings Limited (stock code: 377) and ZMAY Holdings Limited (stock code: 8085). Dr. Wong was also an independent non-executive Director of Grand Field Group Holdings Limited (stock code: 115) from September 2004 to September 2009, China E-Learning Group Limited (stock code: 8055) from August 2007 to June 2010, and Superb Summit International Timber Company Limited (stock code: 1228) from April 2007 to June 2010, and the chairman and executive Director of Green Energy Group Limited (stock code: 979) from December 2009 to May 2010. All the companies mentioned above are listed companies in Hong Kong.

**Mr. Chan Chi Yuen**, aged 44, holds a bachelor degree with honours in Business Administration and a master of science degree in Corporate Governance and Directorship. He is a fellow of The Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants and is an associate of The Institute of Chartered Accountants in England and Wales. Mr. Chan is a practicing certified public accountant and has extensive experience in financial management, corporate finance and corporate governance.

Mr. Chan is currently an executive Director of Sam Woo Holdings Limited (Stock code: 2322), an non-executive Director of New Times Energy Corporation Limited (Stock code: 166) and is also an independent non-executive Director of Asia Energy Logistics Group Holdings Limited (Stock code: 351), China Gamma Group Limited (Stock code: 164), China Gogreen Assets Investment Limited (Stock code: 397), Rojam Entertainment Holdings Limited (Stock Code: 8075) and U-RIGHT International Holdings Limited (Stock code: 627). Mr. Chan was also an executive Director of Kong Sun Holdings Limited (Stock code: 295) from February 2007 to November 2009, Amax Holdings Limited (Stock code: 959) from August 2005 to January 2009 and China E-Learning Group Limited (Stock code: 8055) from July 2007 to September 2008 and an independent non-executive Director of The Hong Kong Building and Loan Agency Limited (Stock code: 145) from October 2009 to February 2011, Richly Field China Development Limited (Stock code: 313) from February 2009 to August 2010 and Superb Summit International Timber Company Limited (Stock code: 1228) from April 2007 to June 2010.

**Mr. Yu Pak Yan Peter**, aged 60, has over 28 years of experience in real estate and financial services industries. Mr. Yu has a Bachelor Degree in Management from Youngstown State University in Ohio, USA and a Master of Science Degree in Financial Services from American College in Pennsylvania, USA. Mr. Yu is a member of the Certified Commercial Investment Member Institute and was the first Chinese-American elected to the board of the San Francisco Association of Realtors. Mr. Yu worked in Pacific Union Real Estate Company in the United States from 1980–1995 and held senior positions in MetLife and New York Life Insurance Company in managing Asian customers in North America.

Mr. Yu is currently an executive Director of Kong Sun Holdings Limited (Stock code: 295), an independent non-executive Director of Kingston Financial Group Limited (Stock code: 1031) and also independent non-executive Director of M Dream Inworld Limited (Stock code: 8100).

# Report of the Directors

## DIRECTORS' SERVICE CONTRACTS

Mr. Pang Chun Kit, being an executive Director, has entered into a service contract with the Company for a term of three years commencing on 1 January 2009.

Each of Dr. Wong Yun Kuen and Mr. Chan Chi Yuen, being an independent non-executive Director, has each entered into a service contract with the Company for a term of three years commencing on 18 September 2009.

Mr. Lau Man Tak , being an executive Director, has entered into service contract with the Company for a term of three years commencing on 7 April 2010.

Mr. Chi Chi Hung Kenneth, being an executive Director, has entered into service contract with the Company for a term of three years commencing on 19 May 2010.

Mr. Yu Pak Yan Peter, being an independent non-executive Director, has entered into service contract with the Company for a term of three years commencing on 31 December 2011.

In addition, all Directors of the Company shall be subject to retirement by rotation in accordance with the Bye-laws of the Company. The term of office of each executive Director may also be terminated with three months' notice served by either party on the other.

The emoluments of the independent non-executive Directors will be determined by the Board (as to be authorised by the shareholders of the Company at the forthcoming annual general meeting) at its discretion with reference to their duties and responsibilities.

Save as disclosed above, none of the Directors proposed for re-election at the forthcoming annual general meeting has entered into a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the year.

# Report of the Directors

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES OR SHORT POSITION IN SHARES AND UNDERLYING SHARES

As at 31 March 2011, the interests or short positions of Directors or chief executives of the Company or their respective associates in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO were as follows:

| | Personal interests | Family interests | Corporate interests | Total interests | Total interests as % of the issued share capital | Interest in underlying shares (share option) | Total interests (including underlying shares) as % of issued share capital | Note |
|---|---|---|---|---|---|---|---|---|
| Mr. Pang Chun Kit | 500,000 | 3,450,000 | – | 3,950,000 | 0.04% | 22,000,000 | 0.23% | 1 |
| Mr. Chi Chi Hung Kenneth | – | – | – | – | – | 26,900,000 | 0.28% | 2 |

*Notes:*

1. The interests in underlying shares attributed to Mr. Pang Chun Kit includes:

   (i) share options to subscribe for 6,000,000 new shares in the Company, exercisable at a price of HK$0.98 per share and granted pursuant to the Company's existing share option scheme, as adopted by the Company's shareholders in the Company's annual general meeting held on 23 November 2001;

   (ii) share options to subscribe for 6,000,000 new shares in the Company, exercisable at a price of HK$0.39 per share and granted pursuant to the Company's existing share option scheme, as adopted by the Company's shareholders in the Company's annual general meeting held on 23 November 2001; and

   (iii) share options to subscribe for 10,000,000 new shares in the Company, exercisable at a price of HK$0.295 per share and granted pursuant to the Company's existing share option scheme, as adopted by the Company's shareholders in the Company's annual general meeting held on 23 November 2001.

2. The interests in underlying shares attributed to Mr. Chi Chi Hung Kenneth represents share options to subscribe for 26,900,000 new shares in the Company, exercisable at a price of HK$0.29 per share and granted pursuant to the Company's existing share option scheme, as adopted by the Company's shareholders in the Company's annual general meeting held on 23 November 2001.

Save as disclosed above, none of the Directors and chief executives of the Company or their associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be maintained under section 352 of the SFO or as otherwise notified to the Company or the Stock Exchange pursuant to the Model Code for Securities transaction by Directors of Listed Companies.

# Report of the Directors

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

## SHARE OPTION SCHEME

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

### The New Scheme

The documented purpose of the New Scheme is to recognise the contribution of the executives and employees to the Group by granting share options to them as incentives or rewards. The major terms of the New Scheme are summarised as follows:

1. Eligible participants of the New Scheme include executive, employee, executive Director and/or non-executive Director (including independent non-executive Director) of the Company and its subsidiaries who is in employment at the time when the option is granted to such person.

2. The total number of shares available for issue upon exercise of all options to be granted under the New Scheme and other share option schemes of the Company must not in aggregate exceed 10% of the issued share capital of the Company at the date of approval of the New Scheme and such limit may be refreshed by the shareholders of the Company in general meeting. The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company must not exceed 30% of the shares of the Company from time to time.

3. The total number of shares to be issued upon exercise of the options granted and to be granted to each eligible person (including both exercised and outstanding options) in any 12-month period up to and including the date of grant is limited to 1% of the shares of the Company in issue. Any further grant of options in excess of this limit is subject to separate shareholders' approval in a general meeting of the Company.

4. Any grant of share options to a Director, chief executive or substantial shareholders of the Company or any of their associates are subject to approval in advance by the independent non-executive Directors of the Company.

5. Any grant of share options to a substantial shareholder or an independent non-executive Director of the Company, or any of their associates, which would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person within the 12-month period up to the date of grant of options representing in aggregate in excess of 0.1% of the shares of the Company in issue and having an aggregate value (based on closing price of the Company's shares at the date of the grant) in excess of HK$5 million, is subject to prior approval by shareholders in a general meeting.

6. Unless otherwise determined by the board of Directors in its absolute discretion, there is no general requirement in respect of the minimum period for which an option must be held before it can be exercised.

7. The exercise period of the share options granted is not later than 10 years from the date of the grant of the share options.

# Report of the Directors

## SHARE OPTION SCHEME *(continued)*

### The New Scheme *(continued)*

8. The offer of a grant of option, if accepted, may be accepted within the date specified in the offer, upon payment of a nominal consideration of HK$1 in total by the grantee.

9. The exercise price of the share options is determinable by the directors of the Company, but may not be less than the higher of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company's shares.

10. The New Scheme will, unless otherwise cancelled or amended, remain in force for 10 years commencing from the date of adoption on 23 November 2001.

Particulars of options granted under the New Scheme during the year ended 31 March 2011 and remained outstanding up to 31 March 2011 are as follows:

| | Number of shares options | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Beginning of the year | Granted of the year | Exercised of the year | Cancelled of the year | End of of the year | Subscription per share | Date of grant of share option | Exercisable period |
| **Directors** | | | | | | | | |
| Mr. Tse On Kin* | 78,900,000 | – | – | – | 78,900,000 | HK$0.290 | 2 March 2010 | 2 March 2010 to 1 March 2013 |
| Mr. Pang Chun Kit | 6,000,000 | – | – | – | 6,000,000 | HK$0.980 | 27 March 2007 | 1 April 2007 to 31 March 2017 |
| | 6,000,000 | – | – | – | 6,000,000 | HK$0.390 | 30 September 2008 | 30 September 2008 to 29 September 2018 |
| | 10,000,000 | – | – | – | 10,000,000 | HK$0.295 | 9 February 2009 | 9 February 2009 to 8 February 2019 |
| Mr. Chi Chi Hung Kenneth | 26,900,000 | – | – | – | 26,900,000 | HK$0.290 | 2 March 2010 | 2 March 2010 to 1 March 2013 |
| Sub–total | 127,800,000 | – | – | – | 127,800,000 | | | |
| **Employees and consultants** | 30,600,000 | – | – | (10,000,000) | 20,600,000 | HK$0.980 | 27 March 2007 | 1 April 2007 to 31 March 2017 |
| | 6,000,000 | – | – | – | 6,000,000 | HK$2.610 | 2 October 2007 | 3 October 2007 to 2 October 2017 |
| | 119,000,000 | – | – | (16,000,000) | 103,000,000 | HK$0.390 | 30 September 2008 | 30 September 2008 to 29 September 2018 |
| | 10,000,000 | – | – | – | 10,000,000 | HK$0.242 | 30 October 2008 | 30 October 2008 to 29 October 2018 |
| | 20,000,000 | – | – | – | 20,000,000 | HK$0.286 | 23 January 2009 | 23 January 2009 to 22 January 2019 |
| | 163,600,000 | – | – | (40,000,000) | 123,600,000 | HK$0.295 | 9 February 2009 | 9 February 2009 to 8 February 2019 |
| | 552,300,000 | – | – | – | 552,300,000 | HK$0.290 | 2 March 2010 | 2 March 2010 to 1 March 2013 |
| Sub-total | 901,500,000 | – | – | (66,000,000) | 835,500,000 | | | |
| Total | 1,029,300,000 | – | – | (66,000,000) | 963,300,000 | | | |

* Mr. Tse On Kin resigned as executive director of the Company on 30 September 2009.

# Report of the Directors

## RETIREMENT BENEFITS SCHEME

Details of the Group's retirement benefit scheme in operation for the year ended 31 March 2011 are set out in Note 4m(i) to the financial statements.

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2011, so far as was known to the Directors or chief executive of the Company, the following interests of which fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who were deemed to be directly or indirectly interested in 5% or more of the issued share capital of the Company, or which were recorded in the register of interests required to be kept under Section 336 of the SFO or have notified to the Company were as follows:

| Name of Shareholder | Capacity/Nature of Interest | Number of shares or underlying shares | | Approximate % of existing issued share capital in the Company | Approximate % of issued share capital after the exercise in full of the Repurchase Mandate |
|---|---|---|---|---|---|
| | | Long Position | Short Position | | |
| Mrs. Chu Yuet Wah (Note 1) | Interest of Controlled Corporation | 860,000,000 | — | 8.83% | 9.81% |
| Best China Limited (Note 2) | Beneficial Owner | 850,000,000 | — | 8.73% | — |
| Leader Asia Holdings Limited (Note 3) | Beneficial Owner | 500,000,000 | — | 5.13% | 5.70% |
| Atlantis Investment Management (Hong Kong) Limited (Note 4) | Beneficial Owner | 494,698,000 | — | 5.08% | 5.64% |

*Notes:*

1. The beneficial interests of Mrs. Chu Yuet Wah in 860,000,000 Shares comprise corporate interest in 850,000,000 Shares, held through Best China Limited, and 10,000,000 Share Options held through Kingston Corporate Finance Limited.

2. The entire issued share capital of Best China Limited is beneficially owned by Mrs. Chu Yuet Wah.

3. Leader Asia Holdings Limited is beneficially owned by 首鋼控股有限責任公司 (Capital Steel Holdings Limited) which is in turn ultimately owned as to approximately 91.51% by 首鋼總公司 (Shougang Group). 首鋼總公司 (Shougang Group) is incorporated in the People's Republic of China (the "PRC").

4. The entire issued share capital of Atlantis Investment Management (Hong Kong) Limited is beneficially owned by Yang Liu.

Saved as disclosed above, as at 31 March 2011, the Company had not notified by any persons (other than the Directors of the Company and the chief executive of the Group) who had interests or short positions in the Shares or underlying shares of the Company which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or who were interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any options in respect of such capital.

# Report of the Directors

## DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, no Directors of the Company are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, pursuant to the Listing Rules, other than those businesses for which the directors of the Company were appointed as directors to represent the interest of the Company and/or the Group.

## CORPORATE GOVERNANCE

Information on the Company's corporate governance practices is set out in the Corporate Governance Report accompanying the annual report.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares at the latest practicable date prior to the issue of the annual report.

## INDEPENDENCE CONFIRMATION

The Company has received, from each independent non-executive Director, an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Company considers all the independent non-executive Directors are independent.

## AUDIT COMMITTEE

The Company has established an audit committee for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. It also reviews the effectiveness of the audit process and risk evaluation. The audit committee currently comprises the three independent non-executive Directors of the Company, namely, Mr. Chan Chi Yuen, Dr. Wong Yun Kuen, Mr. Yu Pak Yan Peter. The audit committee has reviewed the accompanying financial statements prior to their publication.

## AUDITOR

The financial statements have been audited by BDO Limited.

On behalf of the Board

**Mr. Pang Chun Kit**
*Chairman*

Hong Kong, 30 June 2011

# Independent Auditor's Report

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**TO THE SHAREHOLDERS OF**
**CHINA GRAND FORESTRY GREEN RESOURCES GROUP LIMITED**
*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of China Grand Forestry Green Resources Group Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 30 to 92, which comprise the consolidated and company statements of financial position as at 31 March 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

# Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 March 2011 and of the loss and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**BDO LIMITED**
*Certified Public Accountants*

**Lam Pik Wah**
Practising Certificate number P05325

Hong Kong, 30 June 2011

# Consolidated Statement of Comprehensive Income

for the year ended 31 March 2011

| | Notes | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| Revenue | 8 | **2,761** | 7,684 |
| Loss arising from changes in fair value less costs to sell of biological assets | 25 | **(719,800)** | (1,841,665) |
| Other income | 8 | **11,330** | 3,866 |
| Other net (losses)/gains | 10 | **(24,647)** | 573 |
| Write-off of patent | 22 | **(13,762)** | (411,362) |
| Write-off of goodwill | 22 | **—** | (189,607) |
| Cost of inventories and forestry products sold | | **(1,626)** | (7,800) |
| Impairment loss on other receivables | 26 | **(66,154)** | — |
| Impairment loss on long-term prepayments | 24 | **(96,547)** | (17,189) |
| Impairment loss on available-for-sale investments | | **(12,416)** | (25,146) |
| Gain on disposal of assets | 41 | **—** | 949,351 |
| Write-off of biological assets | 25 | **(279,363)** | (262,608) |
| Write-off of prepaid lease payments | 21 | **(57,741)** | (56,924) |
| Staff costs | 13 | **(28,281)** | (66,911) |
| Depreciation of property, plant and equipment | 19 | **(12,587)** | (14,172) |
| Amortisation of biological assets | 25 | **—** | (20,033) |
| Amortisation of patent | 22 | **(928)** | (26,803) |
| Release of prepaid lease payments | 21 | **(28,469)** | (30,152) |
| Other operating expenses | | **(36,959)** | (63,748) |
| Finance costs | 11 | **(9,660)** | (35,164) |
| Loss before income tax | 13 | **(1,374,849)** | (2,107,810) |
| Income tax credit/(expense) | 12 | **171,197** | (373,678) |
| Loss for the year | | **(1,203,652)** | (2,481,488) |
| **Other comprehensive income, after tax:** | 15 | | |
| Exchange differences on translating foreign operations | | **168,528** | 20,443 |
| Change in fair value of available-for-sale investments | | **—** | 20,115 |
| Release of exchange reserve on disposal of interests in overseas subsidiaries | | **—** | (8,510) |
| Other comprehensive income for the year, after tax | | **168,528** | 32,048 |
| **Total comprehensive income for the year** | | **(1,035,124)** | (2,449,440) |
| **Loss attributable to:** | | | |
| Owners of the Company | 14 | **(1,203,652)** | (2,481,488) |
| Non-controlling interests | | **—** | — |
| | | **(1,203,652)** | (2,481,488) |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Company | | **(1,035,124)** | (2,449,440) |
| Non-controlling interests | | **—** | — |
| | | **(1,035,124)** | (2,449,440) |
| Loss per share | 16 | | |
| — Basic | | **HK(13.07) cents** | HK(39.07) cents |
| — Diluted | | **HK(13.07) cents** | HK(39.07) cents |

# Consolidated Statement of Financial Position

at 31 March 2011

| | Notes | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Biological assets | 25 | 2,487,426 | 3,372,253 |
| Property, plant and equipment | 19 | 65,693 | 88,036 |
| Construction in progress | 20 | 39,857 | 30,566 |
| Prepaid lease payments | 21 | 1,217,950 | 1,248,472 |
| Long-term prepayments | 24 | — | 93,398 |
| Intangible assets | 22 | — | 14,083 |
| Available-for-sale investments | 30 | 1,425 | 13,842 |
| | | 3,812,351 | 4,860,650 |
| **Current assets** | | | |
| Inventories | 27 | 816 | 384 |
| Trade receivables | 28 | 373 | 1,306 |
| Prepaid lease payments | 21 | 29,545 | 31,366 |
| Other receivables, deposits and prepayments | 26 | 13,625 | 90,840 |
| Financial assets at fair value through profit or loss | 29 | 313,266 | 114,770 |
| Cash and cash equivalents | 31 | 580,938 | 605,952 |
| | | 938,563 | 844,618 |
| **Total assets** | | 4,750,914 | 5,705,268 |
| **Current liabilities** | | | |
| Trade payables | 38 | 18,007 | 17,239 |
| Other payables and accruals | 35 | 251,684 | 211,519 |
| Convertible notes payable | 36 | — | 99,125 |
| Tax payable | | 80,574 | 77,191 |
| | | 350,265 | 405,074 |
| **Net current assets** | | 588,298 | 439,544 |
| **Total assets less current liabilities** | | 4,400,649 | 5,300,194 |

# Consolidated Statement of Financial Position

at 31 March 2011

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Long term payables | 39 | **162,085** | 179,691 |
| Deferred taxation | 37 | **135,526** | 297,772 |
| | | **297,611** | 477,463 |
| **Net assets** | | **4,103,038** | 4,822,731 |
| **Capital and reserves attributable to owners of the Company** | | | |
| Share capital | 32 | **974,105** | 790,772 |
| Reserves | | **3,128,866** | 4,031,892 |
| **Equity attributable to owners of the Company** | | **4,102,971** | 4,822,664 |
| Non-controlling interests | | **67** | 67 |
| **Total equity** | | **4,103,038** | 4,822,731 |

On behalf of the Board

**Mr. Pang Chun Kit**
*Director*

**Mr. Chi Chi Hung Kenneth**
*Director*

# Statement of Financial Position

at 31 March 2011

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Interests in subsidiaries | 23 | 2,490,104 | 2,255,413 |
| Property, plant and equipment | 19 | 5,561 | 3,110 |
| Available-for-sale investments | 30 | 1,425 | 13,842 |
| | | 2,497,090 | 2,272,365 |
| **Current assets** | | | |
| Other receivables, deposits and prepayments | | 529 | 12,523 |
| Cash and cash equivalents | 31 | 512,208 | 518,504 |
| | | 512,737 | 531,027 |
| **Total assets** | | 3,009,827 | 2,803,392 |
| **Current liabilities** | | | |
| Other payables and accruals | 35 | 40,083 | 5,963 |
| Convertible notes payable | 36 | — | 99,125 |
| **Net current assets** | | 40,083 | 105,088 |
| **Total assets less current liabilities** | | 472,654 | 425,939 |
| | | 2,969,744 | 2,698,304 |
| **Non-current liability** | | | |
| Deferred taxation | 37 | — | 144 |
| **Net assets** | | 2,969,744 | 2,698,160 |
| **Capital and reserves** | | | |
| Share capital | 32 | 974,105 | 790,772 |
| Reserves | 34 | 1,995,639 | 1,907,388 |
| **Total equity** | | 2,969,744 | 2,698,160 |

On behalf of the Board

**Mr. Pang Chun Kit**
*Director*

**Mr. Chi Chi Hung Kenneth**
*Director*

# Consolidated Statement of Changes in Equity

for the year ended 31 March 2011

| | Share capital HK$'000 (note 32) | Share premium account HK$'000 | Share-based compensation reserve HK$'000 | Subscription right reserve HK$'000 (note i) | Investment revaluation reserve HK$'000 | Statutory reserve fund HK$'000 (note ii) | Capital reserve HK$'000 | Exchange fluctuation reserve HK$'000 | Conversion option reserve HK$'000 (note iii) | (Accumulated losses)/ retained profits HK$'000 | Equity attributable to owners of the Company HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| At 1 April 2009 | 547,172 | 1,655,454 | 59,705 | 24,543 | (20,115) | 136,981 | 3,751 | 549,314 | 19,039 | 3,604,654 | 6,580,498 | 67 | 6,580,565 |
| Loss for the year | — | — | — | — | — | — | — | — | — | (2,481,488) | (2,481,488) | — | (2,481,488) |
| Other comprehensive income | — | — | — | — | 20,115 | — | — | 11,933 | — | — | 32,048 | — | 32,048 |
| Total comprehensive income | — | — | — | — | 20,115 | — | — | 11,933 | — | (2,481,488) | (2,449,440) | — | (2,449,440) |
| Lapse of share option | — | — | (28,539) | — | — | — | — | — | — | 28,539 | — | — | — |
| Transfer of reserves | — | — | — | — | — | 160 | — | — | — | (160) | — | — | — |
| Equity-settled share-based transactions | — | — | 68,454 | — | — | — | — | — | — | — | 68,454 | — | 68,454 |
| Top-up placement | 242,600 | 377,602 | — | — | — | — | — | — | — | — | 620,202 | — | 620,202 |
| Issue of new shares from exercise of share options | 1,000 | 3,243 | (1,293) | — | — | — | — | — | — | — | 2,950 | — | 2,950 |
| Transfer upon disposal of subsidiaries | — | — | — | — | — | — | 318 | — | — | (318) | — | — | — |
| At 31 March 2010 | 790,772 | 2,036,299 | 98,327 | 24,543 | — | 137,141 | 4,069 | 561,247 | 19,039 | 1,151,227 | 4,822,664 | 67 | 4,822,731 |
| Loss for the year | — | — | — | — | — | — | — | — | — | (1,203,652) | (1,203,652) | — | (1,203,652) |
| Other comprehensive income | — | — | — | — | — | — | — | 168,528 | — | — | 168,528 | — | 168.528 |
| Total comprehensive income | — | — | — | — | — | — | — | 168,528 | — | (1,203,652) | (1,035,124) | — | (1,035,124) |
| Lapse of share option | — | — | (10,323) | — | — | — | — | — | — | 10,323 | — | — | — |
| Transfer of reserves | — | — | — | — | — | 149 | — | — | — | (149) | — | — | — |
| Equity-settled share-based transactions | — | — | 11,152 | — | — | — | — | — | — | — | 11,152 | — | 11,152 |
| Top-up placement | 100,000 | 104,650 | — | — | — | — | — | — | — | — | 204,650 | — | 204,650 |
| Issue of new shares from conversion of convertible notes | 83,333 | 35,335 | — | — | — | — | — | — | (19,039) | — | 99,629 | — | 99,629 |
| At 31 March 2011 | 974,105 | 2,176,284 | 99,156 | 24,543 | — | 137,290 | 4,069 | 729,775 | — | (42,251) | 4,102,971 | 67 | 4,103,038 |

*Notes:*

(i) Subscription right reserve represents net proceeds received from issue of warrants.

(ii) In accordance with the relevant People's Republic of China ("PRC") regulations, the subsidiaries of the Group established in the PRC are required to transfer not less than 10% of the profit after income tax to a statutory reserve fund until the fund aggregate to 50% of their respective registered capital. The statutory reserve fund can be converted into share capital of the subsidiaries, and subject to certain restrictions as set out in the relevant PRC regulations, the statutory reserve fund may be used to offset the accumulated losses of the subsidiaries.

(iii) Conversion option reserve represents equity portion of convertible notes issued by the Company and are transferred to the share premium account upon exercise of the conversion rights vested with the convertible note instruments; or directly released to retained profits/accumulated losses when the convertible notes are redeemed.

# Consolidated Statement of Cash Flows

for the year ended 31 March 2011

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before income tax | | (1,374,849) | (2,107,810) |
| Bank interest income | | (4,062) | (445) |
| Imputed interest income | | (1,332) | (3,372) |
| Dividend income from listed investments | | (369) | (49) |
| Equity-settled share-based payment | | 11,152 | 68,454 |
| Finance costs | 11 | 9,660 | 35,164 |
| Amortisation of patent | | 928 | 26,803 |
| Amortisation of biological assets | | — | 20,033 |
| Depreciation on property, plant and equipment | | 12,587 | 14,172 |
| Net realised gain on disposal of financial assets at fair value through profit or loss | | (32) | (5,553) |
| Fair value (gain)/loss on financial assets at fair value through profit or loss | | (7,782) | 23,978 |
| Gain on disposal of assets | 41 | — | (949,351) |
| Reversal of impairment losses on amount due from jointly-controlled entities | | — | (13,542) |
| Release of prepaid lease payments | | 28,469 | 30,152 |
| Gain on disposal of subsidiaries | 40 | — | (9,910) |
| Loss on disposal of forest farms | | 18,159 | — |
| Impairment loss on trade receivables | | 985 | 6,008 |
| Impairment loss on other receivables | | 66,154 | — |
| Impairment loss on long-term prepayments | | 96,547 | 17,189 |
| Write-off of biological assets | | 279,363 | 262,608 |
| Write-off of prepaid lease payments | | 57,741 | 56,924 |
| Impairment loss on available-for-sale investments | | 12,416 | 25,146 |
| Write-off of goodwill | | — | 189,607 |
| Write-off of patent | | 13,762 | 411,362 |
| Loss on changes in fair value less costs to sell of biological assets | | 719,800 | 1,841,665 |
| Loss on disposal of property, plant and equipment | | 17,492 | 119 |
| Effect of foreign exchange differences | | (1,024) | (1,207) |
| Operating loss before working capital changes | | (44,235) | (61,855) |
| Increase in inventories | | (432) | (90) |
| (Increase)/decrease in trade receivables | | (52) | 117,230 |
| Decrease/(increase) in other receivables, deposits and prepayments | | 12,393 | (5,171) |
| Increase/(decrease) in trade payables | | 768 | (43,719) |
| Increase in other payables and accruals | | 9,754 | 331 |
| Decrease in amounts due from directors | | — | 240 |
| Cash (used in)/generated from operations | | (21,804) | 6,966 |
| PRC profits tax paid | | (450) | (495) |
| **Net cash (used in)/generated from operating activities** | | (22,254) | 6,471 |

# Consolidated Statement of Cash Flows

for the year ended 31 March 2011

| | Note | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Interest received | | 4,062 | 445 |
| Dividend income received from listed investments | | 369 | 49 |
| Increase of biological assets due to plantation | | (10,188) | (15,865) |
| Decrease of biological assets due to harvest | | 664 | 5,596 |
| Purchases of property, plant and equipment | | (3,556) | (149) |
| Settlement of payable of acquisition of biological assets (including prepaid lease payments) | | (7,868) | (114,753) |
| Increase in construction in progress | | (9,112) | (7,303) |
| Net cash inflow arising on disposal of subsidiaries | 40 | — | 14,979 |
| Proceeds from disposal of financial assets at fair value through profit or loss | | 510 | 35,570 |
| Purchases of financial assets at fair value through profit or loss | | (191,192) | (128,132) |
| Proceeds from disposal of property, plant and equipment | | 217 | 211 |
| Proceeds from disposal of forest farms | | 5,347 | — |
| **Net cash used in investing activities** | | (210,747) | (209,352) |
| **Cash flows from financing activities** | | | |
| Decrease in amounts due from related companies | | — | 72,823 |
| Decrease in amounts due to related companies | | — | (89,001) |
| Proceeds from exercise of share option | | — | 2,950 |
| Expense on issue of shares | | (5,350) | (16,108) |
| Proceeds from placing and subscription of shares | | 210,000 | 636,310 |
| **Net cash generated from financing activities** | | 204,650 | 606,974 |
| **Net (decrease)/increase in cash and cash equivalents** | | (28,351) | 404,093 |
| **Cash and cash equivalents at beginning of year** | | 605,952 | 201,116 |
| **Effect of foreign exchange rate changes** | | 3,337 | 743 |
| **Cash and cash equivalents at end of year** | | 580,938 | 605,952 |
| **Analysis of balances of cash and cash equivalents at end of year** | | | |
| Bank and cash balances | | 580,938 | 605,952 |

# Notes to the Financial Statements

for the year ended 31 March 2011

## 1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. The address of registered office and principal place of business of the Company are disclosed in corporate information to the annual report.

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in Note 23 to the financial statements.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### (a) Adoption of new/revised HKFRSs — effective 1 April 2010

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs |
| Amendments to HKAS 32 | Classification of Rights Issues |
| Amendments to HKAS 39 | Eligible Hedged Items |
| Amendments to HKFRS 2 | Share-based Payment — Group Cash-settled Share-based Payment Transactions |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements |
| HKFRS 3 (Revised) | Business Combinations |
| HK(IFRIC)-Interpretation 17 | Distributions of Non-cash Assets to Owners |
| HK Interpretation 5 | Presentation of Financial Statements — Classification by Borrower of a Term Loan that Contains a Repayment on Demand Clause |

Excepts as explained below, the adoption of these new/revised standards and interpretations has no material effect on the Group's financial statements.

***HKFRS 3 (Revised) — Business Combinations and HKAS 27 (Revised) — Consolidated and Separate Financial Statements***

The revised accounting policies are described in Note 4 to the financial statements, which are effective prospectively for business combinations effected in financial periods beginning on or after 1 July 2009. Changes in HKFRS 3 include the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill and the results in the period that an acquisition occurs and future results. The adoption of revised HKFRS 3 has had no impact to the consolidated financial statements as there has been no business combination transaction during the year.

The revised HKAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners, accordingly, such transactions are recognised within equity. When control is lost and any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The adoption of revised HKAS 27 has had no impact on the current year.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

### (a) Adoption of new/revised HKFRSs — effective 1 April 2010 *(continued)*

***HKAS 17 (Amendments) — Leases***

As part of Improvements to HKFRSs issued in 2009, HKAS 17 has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the statement of financial position. The amendment to HKAS 17 has removed such a requirement and requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

The Group concluded that the classification of such leases as operating leases continues to be appropriate and therefore the adoption of revised HKAS 17 has had no impact on the consolidated financial statements.

### (b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2010 [1&2] |
| HK(IFRIC)-Interpretation 19 | Extinguishing Financial Liabilities with Equity Instruments[1] |
| HKAS 24 (Revised) | Related Party Disclosures[2] |
| Amendments to HKFRS 7 | Disclosure — Transfers of Financial Assets[3] |
| HKFRS 9 | Financial Instruments[4] |

*Effective date*

1 Effective for annual periods beginning on or after 1 July 2010
2 Effective for annual periods beginning on or after 1 January 2011
3 Effective for annual periods beginning on or after 1 July 2011
4 Effective for annual periods beginning on or after 1 January 2013

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government.

The amendments to HKFRS 7 improve the derecognition disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

### (b) New/revised HKFRSs that have been issued but are not yet effective *(continued)*

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material impact on the Group's consolidated financial statements.

## 3. BASIS OF PREPARATION

### (a) Statement of compliance

The financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### (b) Basis of measurement

The financial statements have been prepared under the historical cost basis except for certain financial instruments and certain biological assets which are measured at fair value or fair value less costs to sell as explained in the accounting policies set out below.

### (c) Functional and presentation currency

These financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

## 4. SIGNIFICANT ACCOUNTING POLICIES

### (a) Business combination and basis of consolidation

The consolidated financial statements comprise of the financial statements of the Company and its subsidiaries ("the Group"). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (a) Business combination and basis of consolidation *(continued)*

***Business combination from 1 April 2010***

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interests and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

***Business combination prior to 1 April 2010***

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connected with business combinations were capitalised as part of the cost of the acquisition.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (b) Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights presently exercisable are taken into account.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### (c) Intangible assets

***Patent***

Patent is stated in the consolidated statement of financial position at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and impairment losses. Amortisation of patent is charged to profit or loss on a straight line basis over its estimated useful life unless such life is indefinite. The patent is amortised from the date they are available for use and its estimated useful life is 20 years. Both the period and method of amortisation and any conclusion drawn about the useful life of the patent are reviewed annually.

### (d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the asset or a separate asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment other than construction-in-progress are depreciated so as to write-off their cost or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

| | |
|---|---|
| Leasehold improvements | 5 years |
| Turnpike | 10 years |
| Building and construction | 5 years |
| Plant and machinery | 10 years |
| Furniture, office equipment and motor vehicles | 5–10 years |

# Notes to the Financial Statements

for the year ended 31 March 2011

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (d) Property, plant and equipment *(continued)*

Construction-in-progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress in transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction-in-progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

### (e) Prepaid lease payments

Prepaid lease payments represent upfront premium paid for use of land. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

### (f) Biological assets

Biological assets are living plants involved in the agricultural activities of the transformation of biological assets into agricultural produce for sale or into additional biological assets. Biological assets and agricultural produce, other than paper mulberry saplings and paper mulberry tree stumps, are measured at fair value less costs to sell at initial recognition and at the end of each reporting period. The fair value less costs to sell at the time of harvest is deemed as the cost of agricultural produce for further processing, if applicable.

If an active market exists for a biological asset or agricultural produce with reference to comparable species, growing condition and expected yield of the crops, the quoted price in that market is adopted for determining the fair value of that asset. If an active market does not exist, the Group uses the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the transaction date and the end of reporting period, or the market prices for similar assets adjusted to reflect differences to determine fair values or as determined by independent professional valuers. The gain or loss arising on initial recognition and subsequent changes in fair values less costs to sell of biological assets is recognised in profit or loss in the period in which it arise. Upon the sale of the agricultural produce as forestry products, the carrying amount is transferred to cost of forestry products sold in the statement of comprehensive income.

Paper mulberry saplings in the absence of an active open market in which they are traded are stated at their initial cost of acquisition and transferred to the carrying value of stumps upon commencement of plantation.

Plantation expenditure on paper mulberry trees and the purchase cost of saplings for plantation are capitalised as costs for cultivation of stumps. Stumps are stated at cost less accumulated amortisation and impairment in the absence of an active open market in which they are traded. Stumps are amortised on the straight line basis over their estimated useful lives of 8 years.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (g) Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### (h) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

***The Group as lessor***

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (h) Leasing *(continued)*

***The Group as lessee***

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

### (i) Financial instruments

***(i) Financial assets***

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

*Financial assets at fair value through profit or loss*

These assets include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

*Loans and receivables*

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary assets. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

*Available-for-sale financial assets*

These assets are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (i) Financial instruments *(continued)*

#### *(ii) Impairment loss on financial assets*

The Group assesses, at the end of each reporting period, whether there is any objective evidence that a financial asset is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— granting concession to a debtor because of debtor's financial difficulty;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

*For loan and receivables*

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of the financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*For available-for-sale financial assets*

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in profit or loss.

Any impairment losses on available-for-sale debt investments are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investment, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (i) Financial instruments *(continued)*

#### *(iii) Financial liabilities*

The Group has one category of financial liabilities being financial liabilities at amortised costs. These liabilities, including trade and other payables, are initially measured at fair value, net of directly attributable transaction costs incurred and are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

#### *(iv) Convertible notes*

Convertible notes issued by the Group that contain both the liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the notes into equity, is included in equity (conversion option reserve).

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in conversion option reserve until the embedded option is exercised (in which case the balance stated in conversion option reserve will be transferred to share premium. Where the option remains unexercised at the expiry dates, the balance stated in conversion option reserve will be released to the retained earnings. No gain or loss is recognised upon conversion or expiration of the option.

When the loans are converted, the carrying amount of the liability portion together with the fair value of the conversion derivative at the time of conversion are transferred to share capital and share premium as consideration for the share issued. When the notes are redeemed, the difference between the redemption amount and the carrying amounts of both components is recognised in profit or loss.

Transaction costs that relate to the issue of a convertible note are allocated to the liability and conversion option components in proportion to the allocation of the proceeds. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method. The portion relating to the equity component is charged directly to equity.

#### *(v) Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (i) Financial instruments *(continued)*

#### *(vi) Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

#### *(vii) Derecognition*

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

### (j) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

### (k) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customers returns and other similar allowances:

(i) Revenue from the sale of goods and forestry products, on the transfer of risks and rewards of ownership, which generally coincides with the time the goods and forestry products are delivered to customers and title has passed;

(ii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable; and

(iii) Dividend income is recognised when the shareholders' rights to receive payment is established.

### (l) Foreign currencies

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which it/they operate(s) (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (l) Foreign currencies *(continued)*

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to non-controlling interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign exchange reserve.

### (m) Employee benefits

#### *(i) Defined contribution retirement plan*

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

#### *(ii) Share-based payments*

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in the employee share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Fair value is measured using the Option Pricing Model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (m) Employee benefits *(continued)*

#### *(ii) Share-based payments* *(continued)*

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised. For cash-settled share-based payments, a liability is recognised at the fair value of the goods or services received.

### (n) Research and development costs

Research costs are charged to profit or loss in the period in which they are incurred. Development costs are expensed as incurred, except where a specific project is undertaken, the technical feasibility of the product under development has been demonstrated, costs are identifiable and a market exists for the product such that the development costs are expected to be recoverable from related future economic benefit. Such development costs are recognised as deferred development costs in the statement of financial position and amortised on a straight-line basis over period over which the deferred development costs is expected to confer economic benefits, commencing from the date the product is available-for-sale. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

### (o) Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### (p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (q) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (q) Income taxes *(continued)*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these 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 the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below.

### (a) Impairment of patent

Management assesses periodically whether the patent has suffered any impairment due to change of technologies. As at the end of reporting period, management has fully impaired the patent. Details of assessments are set out in Note 22 to the financial statements.

### (b) Fair values of biological assets

Management estimates the current market prices less costs to sell of biological assets of other forest assets and Jatropha at the end of reporting period with reference to market prices and professional valuations. Management considers that there are presently an absence of effective financial instruments for hedging against the pricing risks with the underlying biological assets and agricultural produce. Un-anticipated volatile changes in market prices of the underlying biological assets and agricultural produce could significantly affect the fair values of these biological assets and result in fair value re-measurement losses in future accounting periods.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

### (b) Fair values of biological assets *(continued)*

The Group's forestry business is subject to the usual agricultural hazards from fire, wind and insects. Forces of nature such as temperature and rainfall may also affect harvest efficiency. Management considers adequate preventive measures are in place and the relevant legislation under forestry laws in the PRC will assist in minimizing exposure. Nevertheless, to the extent that un-anticipated factors affecting harvestable agricultural produce may result in re-measurement or harvest losses in future accounting periods.

### (c) Accounting policy and estimated useful lives of paper mulberry stumps

Management estimates the expected live-hood for the stumps of paper mulberry trees and determines the related amortisation policy. Management concluded that the estimation would not be significantly affected in the foreseeable future under conditions of maintenance with appropriate rearing faculties.

In ascertaining the accounting policy suitable for the stumps of paper mulberry trees, management have taken into consideration the currently absence of an active open market in which these biological assets are traded and decided that the adoption of an amortisation policy is appropriate.

### (d) Useful lives of property, plant and equipment

Management estimates the expected useful lives for its property, plant and equipment and determines the related depreciation policy. The estimated useful life of the property, plant and equipment and the residual value reflects management's estimates of the number of years that the Group intends to derive future economic benefits from the use of property, plant and equipment. It could change significantly as a result of technological innovations in response to industry cycles. The depreciation expenses in future accounting periods may be adjusted if there are significant changes in those estimates.

### (e) Recoverability of trade and other receivables

Recoverability of the trade and other receivable are reviewed by management based on the receivables' aging characteristics, management evaluation of the current creditworthiness and past collection history of each customer and debtor. Judgement is required in assessing the ultimate realisation of these receivables, and the financial conditions of the customers and debtors may undergo adverse changes since the last management evaluation. If the financial conditions of the customers and debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional provision may be required in future accounting periods.

### (f) Income taxes

Determining income tax provisions and deferred taxation involves judgement on the current and future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 6. CAPITAL RISK MANAGEMENT

The Group's objective of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The capital structure of the Group consists of equity attributable to owners of the Company only, comprising share capital and reserves.

The gearing ratio at the year end was as follows:

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Debts/Total borrowing | — | 99,125 |
| Total equity | **4,103,038** | 4,822,731 |
| Net debts to equity ratio | **Nil** | 2.1% |

## 7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Exposure to credit risk, liquidity risk, interest rate risk and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities.

These risks are limited by the Group's financial management policies and practices described below.

### (a) Credit risk

The carrying amounts of cash and cash equivalents, trade and other receivables except for prepayments, present the Group with credit risk regarding its financial assets. The maximum exposure is the carrying amounts of the respective financial assets at the end of reporting period. The Group has a concentration of credit risk in relation to certain of its major customers.

The Group has a credit policy in place and the exposure to credit risk is managed through the application of credit approvals, credit limits and monitoring procedures. In addition, the Group reviews the recoverable amount of each individual trade and other receivables at the end of each reporting period to ensure that adequate impairment losses are made for balances with recoverability problem.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and debtor. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the end of reporting period, the Group has a certain concentration of credit risk as 30% (2010: 31%) and 99% (2010: 100%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within the ecological forestry business segment.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in Note 28.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### (b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and maintains sufficient reserves of cash to meet its liquidity requirement in the short and longer term.

The following table details the remaining contractual maturities at the end of reporting period of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on current rates at the end of reporting period) and the earliest date the Group and the Company can be required to pay.

| The Group | Carrying amount HK$'000 | Total contractual undiscounted cash flow HK$'000 | Within 1 year or on demand HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years but less than 5 years HK$'000 | More than 5 years HK$'000 |
|---|---|---|---|---|---|---|
| **2011** | | | | | | |
| Trade payables | **18,007** | **18,007** | **18,007** | **—** | **—** | **—** |
| Other payables and accruals | **207,276** | **207,276** | **207,276** | **—** | **—** | **—** |
| Long term payables | **162,085** | **282,458** | **—** | **15,798** | **52,884** | **213,776** |
| | **387,368** | **507,741** | **225,283** | **15,798** | **52,884** | **213,776** |
| 2010 | | | | | | |
| Trade payables | 17,239 | 17,239 | 17,239 | — | — | — |
| Other payables and accruals | 180,080 | 180,080 | 180,080 | — | — | — |
| Long term payables | 179,691 | 303,762 | — | 29,685 | 60,930 | 213,147 |
| Convertible notes payable | 99,125 | 100,214 | 100,214 | — | — | — |
| | 476,135 | 601,295 | 297,533 | 29,685 | 60,930 | 213,147 |

| The Company | Carrying amount HK$'000 | Total contractual undiscounted cash flow HK$'000 | Within 1 year or on demand HK$'000 | More than 1 year but less than 2 years HK$'000 | More than 2 years but less than 5 years HK$'000 | More than 5 years HK$'000 |
|---|---|---|---|---|---|---|
| **2011** | | | | | | |
| Other payables and accruals | **40,083** | **40,083** | **40,083** | **—** | **—** | **—** |
| 2010 | | | | | | |
| Other payables and accruals | 5,963 | 5,963 | 5,963 | — | — | — |
| Convertible notes payable | 99,125 | 100,214 | 100,214 | — | — | — |
| | 105,088 | 106,177 | 106,177 | — | — | — |

# Notes to the Financial Statements

for the year ended 31 March 2011

## 7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### (c) Interest rate risk

The Group's financial instruments issued at fixed interest rate terms include principally convertible notes as disclosed in Note 36. These financial instruments expose the Group to fair value interest rate risk. The Group has no cash flow interest rate risk as there are no borrowings which bear floating interests rates. The Group currently does not have a policy to hedge against the interest rate risk, as management considers that the changes in interest rate will not have a significant impact on the carrying amounts of these financial instruments having regard to their maturity profile and share conversion option.

### (d) Currency risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in Renminbi (the "RMB") which is not freely convertible into other foreign currencies. Conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. The PRC subsidiaries of the Company transact in their functional currency and therefore no currency risk is expected to arise in respect of these subsidiaries. The Company's financial statements are presented in Hong Kong dollar ("HKD") and fluctuations of RMB against HKD will result in adjustment to financial amounts. The Group currently does not utilise any forward contracts, currency borrowings or other means to hedge against its foreign currency exposure.

### (e) Equity price risk

The Group is exposed to equity price changes arising from equity instruments classified as financial assets at fair value through profit or loss and available-for-sale equity securities. All of these investments are listed.

The Group's listed investments are listed on the Stock Exchange of Hong Kong and are included in the Hang Seng Index except for the equity securities listed in London held in the available-for-sales investments. Decisions to buy and sell securities are based on daily monitoring of the performance of individual securities compared to that of the Index and other industry indicators, as well as the Group's liquidity needs. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

***Sensitivity analysis***

The sensitivity analysis on equity price risk includes the Group's financial instruments, which fair value or future cash flows will fluctuate because of changes in their corresponding or underlying asset's equity price. If the prices of the available-for-sale investments had been 10% higher/lower, the Group's reserves would increase/decrease by HK$143,000. If the price of the financial assets at fair value through profit or loss had been 10% higher/lower, loss for the year would decrease/increase by HK$31,323,000 and reserves would increase/decrease by HK$31,323,000.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 8. REVENUE AND OTHER INCOME

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

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Revenue/Turnover | | |
| Sale of forestry products | 2,761 | 7,684 |
| Other income | | |
| Bank interest income | 4,062 | 445 |
| Imputed interest arising from the discounting of the consideration receivable for the disposal of certain forest farms | 1,332 | 3,372 |
| Dividend income from listed investments | 369 | 49 |
| Income arising from transfer of research and development project to third parties | 3,294 | — |
| Income arising from granting of patent use rights | 2,273 | — |
| | 11,330 | 3,866 |
| | 14,091 | 11,550 |

## 9. SEGMENTAL INFORMATION

### (a) Reportable segment

On adoption of HKFRS 8, the Group has identified and prepared segment information based on the regular internal financial information reported to the Group's executive directors for their assessment of performance and resources allocation. Accordingly, the business of ecological forestry operation has been identified as the single reportable operating segment for the Group for the current and prior reporting periods.

### (b) Geographical information

During 2011 and 2010, the Group's operations and assets are situated in the PRC in which all of its revenue was derived.

### (c) Major customers

During the current year, revenues from two customers contributed to more than 10% of the Group's revenue approximately HK$2,305,000 and HK$456,000 respectively. During the year ended 31 March 2010, revenue from a customer contributed to more than 10% of the Group's revenue approximately HK$3,150,000.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 10. OTHER NET (LOSSES)/GAINS

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| Fair value gain/(loss) on financial assets at fair value through profit or loss | | 7,782 | (23,978) |
| Net realised gain on disposal of financial assets at fair value through profit or loss | | 32 | 5,553 |
| Net gain/(loss) on financial assets at fair value through profit or loss | | 7,814 | (18,425) |
| Loss on disposal of forest farms* | | (18,159) | — |
| Impairment loss on trade receivables | 28 | (985) | (6,008) |
| Reversal of impairment loss on amount due from jointly-controlled entities | | — | 13,542 |
| Loss on disposal of property, plant and equipment | | (17,492) | (119) |
| Gain on disposal of subsidiaries | 40 | — | 9,910 |
| Rental income | | 3,816 | 2,171 |
| Others | | 359 | (498) |
| | | (24,647) | 573 |

* It represents loss on disposal of biological assets and prepaid lease payments as follows:

| | Biological assets HK$'000 | Prepaid lease prepayments HK$'000 | Total HK$'000 |
|---|---|---|---|
| Sales proceeds | 4,140 | 1,207 | 5,347 |
| Carrying amounts | (22,339) | (1,167) | (23,506) |
| | (18,199) | 40 | (18,159) |

## 11. FINANCE COSTS

| | Note | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| Imputed interest arising from the discounting of the consideration payables for the acquisitions of certain forest farms | | 9,033 | 27,735 |
| Interest on convertible notes | 36 | 627 | 7,429 |
| | | 9,660 | 35,164 |

# Notes to the Financial Statements

for the year ended 31 March 2011

## 12. INCOME TAX

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| Hong Kong profits tax | | | |
| — deferred tax credit | 37 | 144 | 979 |
| Overseas tax | | | |
| — current | | | |
| — deferred tax | | (394) | — |
| — deferred tax credit | 37 | 171,447 | 432,016 |
| — resulting from a change in tax status | 37 | — | (729,122) |
| — underprovision of in respect of prior years | | — | (77,551) |
| | | 171,197 | (373,678) |

Hong Kong profits tax has been provided at 16.5% based on the estimated assessable profit for the current and prior years. No provision of Hong Kong profits tax was made as there was no assessable profits derived for both years.

The Group's subsidiaries in the PRC are subject to the PRC income tax.

The State Council released the Implementation Rules to the Corporate Income Tax Law on 6 December 2007 (the "Implementation Rules"). According to the Implementation Rules, an entity engaged in forestry business is entitled to full exemption from the PRC enterprise income tax commencing from 1 January 2008. Chongqing Wan Fu Chun Forestry Development Company Limited ("Chongqing WFC"), a wholly-owned subsidiary of the Group, is engaged in the forestry operation enterprise in the PRC. Chongqing WFC does not apply for tax exemption at present as it sustained loss for the year. The directors are confident that full exemption will be granted from the PRC tax authority when the application is lodged. No deferred tax has been provided for the year.

Wan Fu Chun Forest Resources Development Company Limited ("WFC"), a wholly-owned subsidiary of the Group, was certified as a High and New Tech Enterprise for three years from 1 January 2008 to 31 December 2010, which is subject to annual review. According to the preferential regulations specified by State Council, WFC had entitled to a favourable enterprise income tax rate of 15%. Due to the low level of research and development activities took place during the calendar years ended 31 December 2009 and 2010, the management considered WFC does not qualify as a High and New Tech Enterprise after the annual review and thus unable to enjoy the favourable enterprise income tax. Pursuant to the Implementation Rules, WFC should be entitled to full exemption from the PRC enterprise income tax as it is operating in forestry business. During the year ended 31 March 2010, WFC lodged an application, however, as of the date of this report, the PRC tax authority has not yet granted the exemption approval to WFC. Due to the unexpected prolonged application process, management was not confident that the exemption will be granted from the tax authority, and so it did not qualify for tax exemption for the calendar years ended 31 December 2009 and 2010. Accordingly, WFC is subject to enterprise income tax rate of 25% and provision for enterprise income tax and deferred taxation has been provided for the years ended 31 March 2010 and 2011.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 12. INCOME TAX *(continued)*

Yunnan Shenyu New Energy Company Limited ("Yunnan Shenyu"), a wholly owned subsidiary of the Group, is also operating in forestry business during the year. Pursuant to the approval obtained from the relevant PRC tax authority, Yunnan Shenyu is entitled to a tax concession period whereby it is fully exempted from PRC enterprise income tax for the calendar year ended 31 December 2010. Yunnan Shenyu did not apply for tax exemption at present as it sustained loss for the year. The directors are confident that full exemption will be granted from the PRC tax authority when the application is lodged. No deferred tax has been provided for the year.

The applicable PRC enterprise income tax is 25% for 2010 and 2011 for other PRC subsidiaries.

The income tax (credit)/expense on the Group's loss before income tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Loss before income tax | **(1,374,849)** | (2,107,810) |
| Tax credit calculated at Hong Kong profits tax rate of 16.5% (2010: 16.5%) | **(226,850)** | (347,789) |
| Tax effect of income that is not taxable in determining taxable profit | **(4,043)** | (132,196) |
| Tax effect of expense that are not deductible in determining taxable profit | **105,799** | 207,934 |
| Utilisation of previously unrecognised tax losses | **(3,563)** | — |
| Unrecognised temporary differences and tax losses | **15,762** | 32,951 |
| Under-provision of tax in previous year | **—** | 77,551 |
| Effect of change in tax status | **—** | 729,122 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(58,302)** | (193,895) |
| Income tax (credit)/expense | **(171,197)** | 373,678 |

# Notes to the Financial Statements

for the year ended 31 March 2011

## 13. LOSS BEFORE INCOME TAX

The Group's loss before income tax is arrived at after charging/(crediting):

| | The Group 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Auditor's remuneration | 1,267 | 1,439 |
| Minimum lease payments under operating leases on leasehold properties | 8,468 | 11,344 |
| Research and development costs | 900 | 2,846 |
| Staff costs (including directors' remuneration): | | |
| Wages and salaries | 16,239 | 33,184 |
| Share-based payment | 11,152 | 32,582 |
| Retirement benefits scheme contribution | 890 | 1,145 |
| | 28,281 | 66,911 |
| Net exchange losses/(gains) | 1,627 | (19,267) |

## 14. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY AND DIVIDEND

The loss for the year attributable to owners of the Company for the year ended 31 March 2011 dealt with in the financial statements of the Company was approximately HK$43,847,000 (2010: HK$151,388,000) (Note 34).

No dividend was paid or proposed during the year (2010: nil), nor has any dividend been proposed since 31 March 2011.

## 15. OTHER COMPREHENSIVE INCOME, AFTER TAX

| | 2011 Before-tax-amount HK$'000 | 2011 Tax expense/(benefits) HK$'000 | 2011 Net-of-tax amount HK$'000 | 2010 Before-tax-amount HK$'000 | 2010 Tax expense/(benefits) HK$'000 | 2010 Net-of-tax amount HK$'000 |
|---|---|---|---|---|---|---|
| Exchange differences on translating foreign operations | 168,528 | — | 168,528 | 20,443 | — | 20,443 |
| Change in fair value of available-for-sale investments | — | — | — | 20,115 | — | 20,115 |
| Release of exchange reserve on disposal of interests in overseas subsidiaries | — | — | — | (8,510) | — | (8,510) |
| | 168,528 | — | 168,528 | 32,048 | — | 32,048 |

# Notes to the Financial Statements

for the year ended 31 March 2011

## 16. LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to owners of the Company is based on the following data:

### (i) Loss attributable to owners of the Company

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Loss for the year attributable to owners of the Company | (1,203,652) | (2,481,488) |
| Interest on convertible notes | — | — |
| Loss for the year attributable to owners of the Company used in the diluted loss per share calculation | (1,203,652) | (2,481,488) |

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

| | Number of shares<br>2011<br>'000 | <br>2010<br>'000 |
|---|---|---|
| Weighted average number of ordinary shares at 31 March for the purpose of calculation of basic loss per share | 9,206,117 | 6,352,187 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | — | — |
| Convertible notes | — | — |
| Weighted average number of ordinary shares at 31 March for the purpose of calculation of diluted loss per share | 9,206,117 | 6,352,187 |

The computation of diluted loss per share for the years ended 31 March 2011 and 2010 did not assume the exercise of share options and conversion of convertible notes since their exercise would result in a decrease in loss per share.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 17. DIRECTORS' REMUNERATION

Remuneration paid and payable to the Company's directors for years ended 31 March 2011 and 2010 were as follows:

| | Year ended 31 March 2011 | | | | |
|---|---|---|---|---|---|
| | Fees HK$'000 | Basic allowances and bonuses HK$'000 | Retirement benefit schemes contributions HK$'000 | Share-based payments HK$'000 | Total HK$'000 |
| **Executive directors:** | | | | | |
| Tse On Kin (i) | — | 2,500 | 9 | — | 2,509 |
| Pang Chun Kit | — | 952 | 12 | 395 | 1,359 |
| Lau Man Tak (ii) | — | — | — | — | — |
| Chi Chi Hung Kenneth (iii) | — | 100 | — | — | 100 |
| **Independent non-executive directors:** | | | | | |
| Wong Yun Kuen | 60 | — | — | — | 60 |
| Chan Chi Yuen | 60 | — | — | — | 60 |
| Xu Lei (i) | 45 | — | — | — | 45 |
| Yu Pak Yan Peter (iv) | 15 | — | — | — | 15 |
| | 180 | 3,552 | 21 | 395 | 4,148 |

(i) Resigned on 31 December 2010
(ii) Appointed on 7 April 2010
(iii) Appointed on 19 May 2010
(iv) Appointed on 31 December 2010

# Notes to the Financial Statements

for the year ended 31 March 2011

## 17. DIRECTORS' REMUNERATION *(continued)*

| | Year ended 31 March 2010 | | | | |
|---|---|---|---|---|---|
| | Fees HK$'000 | Basic allowances and bonuses HK$'000 | Retirement benefit schemes contributions HK$'000 | Share-based payments HK$'000 | Total HK$'000 |
| **Executive directors:** | | | | | |
| Tse On Kin (iii) | — | 1,323 | 5 | 5,657 | 6,985 |
| Pang Chun Kit | — | 925 | 12 | 835 | 1,772 |
| Ng Leung Ho (i) | — | 2,700 | 6 | — | 2,706 |
| Cao Chuan (i) | — | 450 | — | 527 | 977 |
| Lee Ming Hin (i) | — | 760 | 6 | 659 | 1,425 |
| Cheung Wai Tak (i) | — | 605 | 6 | 1,179 | 1,790 |
| Cheng Shouheng (i) | — | 450 | — | 527 | 977 |
| Sun Yan (i) | — | 2,405 | — | 470 | 2,875 |
| **Independent non-executive directors:** | | | | | |
| Wong Yun Kuen (iii) | 32 | — | — | — | 32 |
| Chan Chi Yuen (iii) | 32 | — | — | — | 32 |
| Xu Lei (iv) | 15 | — | — | — | 15 |
| Lo Cheung Kin (i) | 30 | 15 | — | 79 | 124 |
| Zou Zi Ping (i) | 30 | 15 | — | 79 | 124 |
| Zhu Jian Hong (ii) | 51 | 15 | — | 132 | 198 |
| | 190 | 9,663 | 35 | 10,144 | 20,032 |

(i) Resigned on 30 September 2009
(ii) Resigned on 5 February 2010
(iii) Appointed on 18 September 2009
(iv) Appointed on 1 January 2010

There was no arrangement under which a director of the Company waived or agreed to waive any remuneration during the year.

During the year, no emoluments were paid by the Group to the directors of the Company as an inducement to join, or upon joining the Group, or as compensation for loss of office.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 18. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

The emoluments of the five individuals with highest emoluments in the Group for the year included two (2010: four) directors, details of whose emoluments have been disclosed above.

Details of the emoluments of the remaining three (2010: one) non-directors, highest paid individuals for the year are as follows:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Salaries, allowances and benefits in kinds | 1,907 | 3,491 |
| Retirement benefits scheme contributions | 21 | — |
| | 1,928 | 3,491 |

The emoluments fell within the following bands:

| | Number of individuals<br>2011 | 2010 |
|---|---|---|
| HK$ | | |
| Nil to 1,500,000 | 3 | — |
| 1,500,001–2,000,000 | — | — |
| 2,000,001–2,500,000 | — | — |
| 2,500,001–3,500,000 | — | 1 |
| 3,500,001–4,000,000 | — | — |
| Over 4,000,000 | — | — |

# Notes to the Financial Statements

for the year ended 31 March 2011

## 19. PROPERTY, PLANT AND EQUIPMENT

| The Group | Leasehold improvements HK$'000 | Building and construction HK$'000 | Turnpike HK$'000 | Plant and machinery HK$'000 | Furniture, office equipment and motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 April 2009 | 10,460 | 645 | 55,028 | 16,803 | 24,677 | 107,613 |
| Exchange adjustment | 69 | 5 | 291 | 92 | 93 | 550 |
| Transfer from construction in progress (Note 20) | 9,605 | — | — | — | — | 9,605 |
| Additions | 9 | — | — | 67 | 73 | 149 |
| Disposals/write-off | — | — | — | (58) | (595) | (653) |
| At 31 March 2010 | 20,143 | 650 | 55,319 | 16,904 | 24,248 | 117,264 |
| Exchange adjustment | 420 | 29 | 2,465 | 753 | 814 | 4,481 |
| Transfer from construction in process (Note 20) | 1,361 | — | — | — | — | 1,361 |
| Additions | — | — | — | — | 3,556 | 3,556 |
| Disposals/write-off | (18,339) | — | — | — | (2,095) | (20,434) |
| At 31 March 2011 | 3,585 | 679 | 57,784 | 17,657 | 26,523 | 106,228 |
| **Accumulated depreciation** | | | | | | |
| At 1 April 2009 | 577 | 151 | 3,552 | 3,852 | 7,143 | 15,275 |
| Exchange adjustment | 13 | 3 | 28 | 28 | 32 | 104 |
| Provided during the year | 1,998 | 211 | 5,246 | 2,647 | 4,070 | 14,172 |
| Write back on disposal/write-off | — | — | — | — | (323) | (323) |
| At 31 March 2010 | 2,588 | 365 | 8,826 | 6,527 | 10,922 | 29,228 |
| Exchange adjustment | 76 | 21 | 516 | 352 | 480 | 1,445 |
| Provided during the year | 465 | 215 | 5,367 | 2,682 | 3,858 | 12,587 |
| Write back on disposal/write-off | (1,359) | — | — | — | (1,366) | (2,725) |
| At 31 March 2011 | 1,770 | 601 | 14,709 | 9,561 | 13,894 | 40,535 |
| **Net book value** | | | | | | |
| 31 March 2011 | 1,815 | 78 | 43,075 | 8,096 | 12,629 | 65,693 |
| 31 March 2010 | 17,555 | 285 | 46,493 | 10,377 | 13,326 | 88,036 |

# Notes to the Financial Statements

for the year ended 31 March 2011

## 19. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Group has reviewed the residual values used for the purposes of depreciation calculations in the light of the definition of residual value in the accounting standard. The review did not highlight any requirement for an adjustment to the residual values used in the current or prior periods. These residual values will be reviewed and updated annually in the future.

| The Company | Leasehold improvements<br>HK$'000 | Furniture, office equipment and motor vehicles<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2009 | 1,999 | 1,735 | 3,734 |
| Additions | 9 | 35 | 44 |
| Disposals/write-off | — | (48) | (48) |
| At 31 March 2010 | 2,008 | 1,722 | 3,730 |
| Additions | — | 2,830 | 2,830 |
| Disposals/write-off | — | (4) | (4) |
| At 31 March 2011 | 2,008 | 4,548 | 6,556 |
| **Accumulated depreciation** | | | |
| At 1 April 2009 | 117 | 131 | 248 |
| Provided for the year | 200 | 179 | 379 |
| Disposals/write-off | — | (7) | (7) |
| At 31 March 2010 | 317 | 303 | 620 |
| Provided for the year | 200 | 176 | 376 |
| Disposals/write-off | — | (1) | (1) |
| At 31 March 2011 | 517 | 478 | 995 |
| **Net book value** | | | |
| At 31 March 2011 | 1,491 | 4,070 | 5,561 |
| At 31 March 2010 | 1,691 | 1,419 | 3,110 |

# Notes to the Financial Statements

for the year ended 31 March 2011

## 20. CONSTRUCTION IN PROGRESS

| | | The Group | |
|---|---|---|---|
| | | **2011** | 2010 |
| | Notes | **HK$'000** | HK$'000 |
| At 1 April | | **30,566** | 64,888 |
| Additions | | **9,112** | 7,303 |
| Transferred to property, plant and equipment | 19 | **(1,361)** | (9,605) |
| Exchange adjustment | | **1,540** | 339 |
| Disposal of assets | 41 | **—** | (32,359) |
| At 31 March | | **39,857** | 30,566 |

The construction in progress mainly represents a production factory development project in Shuangbai county of Yunnan province. They were measured at cost less amortisation.

## 21. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represent land use rights in the PRC under a medium term lease. Movements during the year are as follows:

| | | The Group | |
|---|---|---|---|
| | | **2011** | 2010 |
| | Notes | **HK$'000** | HK$'000 |
| At 1 April | | **1,279,838** | 1,395,238 |
| Exchange Adjustment | | **55,034** | 7,222 |
| Additions | | **—** | 101 |
| Adjustment # | | **—** | (4,269) |
| Disposals of assets | 41 | **—** | (31,378) |
| Disposals | | **(1,167)** | — |
| Write-off | 25 | **(57,741)** | (56,924) |
| Amount released to profit or loss | | **(28,469)** | (30,152) |
| At 31 March | | **1,247,495** | 1,279,838 |
| Classified as current assets | | **29,545** | 31,366 |
| Classified as non-current assets | | **1,217,950** | 1,248,472 |

# It represented the adjustments to the final consideration paid in respect of acquisition of forest farms in prior years.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 22. INTANGIBLE ASSETS

| | The Group | | |
|---|---|---|---|
| | Goodwill<br>HK$'000 | Patent<br>HK$'000 | Total<br>HK$'000 |
| **Cost:** | | | |
| At 1 April 2009 | 189,607 | 533,790 | 723,397 |
| Exchange adjustment | — | 2,101 | 2,101 |
| At 31 March 2010 | 189,607 | 535,891 | 725,498 |
| Exchange adjustment | — | 5,550 | 5,550 |
| At 31 March 2011 | 189,607 | 541,441 | 731,048 |
| **Accumulated amortisation and impairment:** | | | |
| At 1 April 2009 | — | 83,176 | 83,176 |
| Charge for the year | — | 26,803 | 26,803 |
| Write-off | 189,607 | 411,362 | 600,969 |
| Exchange adjustment | — | 467 | 467 |
| At 31 March 2010 | 189,607 | 521,808 | 711,415 |
| Charge for the year | — | 928 | 928 |
| Write-off | — | 13,762 | 13,762 |
| Exchange adjustment | — | 4,943 | 4,943 |
| At 31 March 2011 | 189,607 | 541,441 | 731,048 |
| **Net carrying amount:** | | | |
| At 31 March 2011 | — | — | — |
| At 31 March 2010 | — | 14,083 | 14,083 |

### Goodwill

Goodwill acquired in a business combination was allocated, at acquisition, to the following cash-generating units at their carrying amounts, in ecological forestry business segment:

| | The Group | |
|---|---|---|
| | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
| Paper mulberry trees and other forest assets (note a) | **85,511** | 85,511 |
| Jatropha plantation and bio-diesel production (note b) | **104,096** | 104,096 |
| | **189,607** | 189,607 |
| Less: write-off | **(189,607)** | (189,607) |
| | **—** | — |

# Notes to the Financial Statements

for the year ended 31 March 2011

## 22. INTANGIBLE ASSETS *(continued)*

**Goodwill** *(continued)*

*Notes:*

**(a) Paper mulberry trees and other forest assets**

The recoverable amount from paper mulberry trees and other forest assets was determined from value in use calculations. During the year ended 31 March 2010, the Group prepared cash flow forecasts derived from the most recent available financial budgets and extrapolates over the following 5 years. In preparing the forecasts, management made reference to the projected wood flows and log prices adopted for the valuation of the Group's other forest assets, the land reserve presently available for plantation of paper mulberry trees, the anticipated increase in available land reserve as contracted for, and the growth data per unit of plantation area complied by research institutes. The key assumptions for the value in use calculations were those regarding discount rates, projected wood flows and anticipated changes to future selling prices, as follows:

— For the estimation of projected wood flows, management made reference to the existing timber resources, the historical growth rate of forestry industry and the economy in the PRC, and adopted a growth rate of approximately 25% for the first two years.

— Management uses discount rate which was adopted for the valuation of the Group's other forest assets, and assigned a discount rate of 11.5%.

— Future selling prices were estimated with reference to existing and past quoted commodity prices with the forestry industry. In view of the general soar of timber prices over the past few years, management assumed the existing price level would prevail in the future and did not concede with an anticipated price drop with the calculation.

**(b) Jatropha plantation and bio-diesel production**

The recoverable amount from Jatropha plantation and bio-diesel production was determined from value in use calculations. During the year ended 31 March 2010, the Group prepared cash flow forecasts derived from the most recent available financial budgets and extrapolates over the following 5 years. In preparing the forecasts, management made reference to the land reserve presently available for plantation, the anticipated increase in available land reserve as contracted for, and the production capacity for bio-diesel. The key assumptions for the value in use calculations were those regarding discount rates, production capacity and anticipated changes to future selling prices, as follows:

— For the estimation of production capacity of bio-diesel, management made reference to production plant building in progress with a planned production capacity of 100,000 tonnes per annum.

— Management used discount rate which was adopted for the valuation of the Group's jatropha, and assigned a discount rate of 11.5%.

— Future selling prices are estimated with reference to existing and past quoted commodity prices with the biomass energy industry. In view of the general soar of biodiesel demand over the past few years, management assumes the existing price level will prevail in the future and does not concede with an anticipated price drop with the calculation.

During the year ended 31 March 2010, with reference to an independent valuation performed by LCH (Asia Pacific) Surveyors Limited on the recoverable amount of both cash-generating units, which had taken into account of the reduction in the development size of both paper mulberry trees business and Jatropha based bio-diesel business, the Group's latest business development strategies and current economic environment. As a result, the entire carrying amount of goodwill of HK$189,607,000 was impaired for the year ended 31 March 2010.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 22. INTANGIBLE ASSETS *(continued)*

### Patent

The Group's patent is in relation to the technology in the coding protein and application of a Broussonetia Papyrifera Dehydration-Responsive Element Binding transcription factor gene to regulate and enhance the tolerance of Broussonetia Papyrifera to stress conditions such as drought, low temperature and high salt, and was assessed as having a finite useful live of 10 years in prior years. Upon the receipt of the patent certificate issued by the State Intellectual Property Office of the PRC, the patent was amortised over a finite useful live of 20 years according to the patent certificate.

Patent amortisation is provided on a straight-line basis over the estimated useful live of 20 years.

The directors have performed impairment assessment of patent at 31 March 2011 and a write-off of HK$13,762,000 (2010: HK$411,362,000) was made as the Group decided to terminate the paper mulberry trees business in view of the Group's latest business development strategies and current economic environment.

## 23. INTERESTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **700,689** | 700,689 |
| Due from subsidiaries | **1,789,415** | 1,554,724 |
| | **2,490,104** | 2,255,413 |

At 31 March 2011 and 2010, the amounts due from subsidiaries principally represent advances which are unsecured and interest-free. These advances are considered as quasi-equity loans to the subsidiaries of which the repayment/settlement is neither planned nor likely to happen in the foreseeable future.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 23. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the Company's principal subsidiaries as at 31 March 2011 were as follows:

| Name | Place of incorporation/ establishment and operation | Paid-up share/ registered capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| *Indirectly held* | | | | |
| Wan Fu Chun Forest Resource Development Company Limited | The PRC | Registered RMB487,181,000 | 100% | Tree plantation and management, manufacture and distribution of forestry products |
| Yunnan Shenyu New Energy Company Limited | The PRC | Registered RMB16,000,000 | 100% | Tree plantation and management, manufacture and distribution of forestry products |
| Chongqing Wan Fu Chun Forestry Development Company Limited | The PRC | Registered RMB20,000,000 | 100% | Tree plantation and management, manufacture and distribution of forestry products |
| Qing Hai Hua Zhan Eco-Development Company Limited | The PRC | Registered HK$100,000,000 | 100% | Ecological activity |

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 24. LONG-TERM PREPAYMENTS

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Long-term prepayments | 116,740 | 110,617 |
| Less: Impairment loss | (116,740) | (17,219) |
| | — | 93,398 |

Long-term prepayments represents deposits paid to relevant PRC local authorities for the construction of forest farms infrastructure in the PRC for the Group.

Movements in the provision for impairment of long-term prepayments are as follows:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| At 1 April | 17,219 | — |
| Impairment losses recognised | 96,547 | 17,189 |
| Exchange adjustment | 2,974 | 30 |
| At 31 March | 116,740 | 17,219 |

In view of the target for proactively addressing climate change and the additional afforestation for boosting "greening" efforts and improving forest carbon sequestration highlighted by the PRC Government, the Group had to minimise its logging operation and reduce its plantation activities and suspend the construction of infrastructure. As a result, the Group suspended the infrastructure work and an impairment loss of HK$96,547,000 (2010: HK$17,189,000) was recognised in the current year.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 25. BIOLOGICAL ASSETS

| | Liquorices HK$'000 (note (a)) | Paper mulberry trees HK$'000 (note (b)) | Jatropha HK$'000 (note (c)) | Other forest assets HK$'000 (note (d)) | Total HK$'000 |
|---|---|---|---|---|---|
| As at 31 March 2009 | — | 237,497 | 712,162 | 5,869,622 | 6,819,281 |
| Purchase | — | — | — | 182 | 182 |
| Amortisation of stumps | — | (20,033) | — | — | (20,033) |
| Disposal of assets (Note 41) | — | — | (338,640) | (1,018,103) | (1,356,743) |
| Transfer from deposit paid | 34,258 | — | — | — | 34,258 |
| Plantation expenditure incurred | — | 378 | 8,396 | 7,091 | 15,865 |
| Harvest as agricultural produce | — | (2,271) | — | (3,325) | (5,596) |
| Exchange adjustment | 39 | 870 | 3,772 | 27,670 | 32,351 |
| Loss arising from changes in fair value less costs to sell | (12,067) | (50,820) | (6,350) | (1,772,428) | (1,841,665) |
| Adjustment# | — | — | — | (43,039) | (43,039) |
| Write-off | — | (147,201) | — | (115,407) | (262,608) |
| As at 31 March 2010 | 22,230 | 18,420 | 379,340 | 2,952,263 | 3,372,253 |
| Disposals | — | — | — | (22,339) | (22,339) |
| Plantation expenditure incurred | — | — | 7,927 | 2,261 | 10,188 |
| Harvest as agricultural produce | — | — | — | (664) | (664) |
| Exchange adjustment | 472 | 393 | 16,159 | 110,127 | 127,151 |
| Loss arising from changes in fair value less costs to sell | — | — | (40,506) | (679,294) | (719,800) |
| Write-off | (22,702) | (18,813) | — | (237,848) | (279,363) |
| As at 31 March 2011 | — | — | 362,920 | 2,124,506 | 2,487,426 |

# It represented the adjustments to the final consideration paid in respect of acquisition of forest farms in prior years.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 25. BIOLOGICAL ASSETS *(continued)*

*Notes:*

**(a) Liquorices**

Liquorices are planted in Inner Mongolia, the PRC.

The directors have performed impairment assessment of liquorices at 31 March 2011 and a write-off of HK$22,702,000 was made as liquorices were still young and injured due to extreme instable climate led to serious harm to liquorices and cannot be sold currently. The Group has the view that liquorices business in Inner Mongolia is high risk under current economic environment. The management is considering to close the business and has obtained approval for capital reduction from Inner Mongolia government authority subsequent to year end.

**(b) Paper mulberry trees**

The Group's paper mulberry trees represent the modified tree species Broussonetia Papyriferalvent which is a Moraceae plant under the category of Deciduous Trees. The plantation is carried out in various leasehold lands in the PRC. A one-time plantation of Broussonetia Papyriferalvent can offer consecutive annual loggings for 8 to 10 years.

Plantation expenditure on paper mulberry trees and the purchase cost of paper mulberry saplings transferred for plantation are capitalised as costs for cultivation of stumps. Stumps, in the absence of an active open market in which they are traded, are stated at cost less accumulated amortisation and impairment. Stumps are amortised on the straight line basis over their estimated useful lives of 8 years.

An analysis of the net carrying amount of the stumps after impairment loss as at 31 March 2011 and 2010 is as follows:

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| At cost less accumulated amortisation and impairment: | | |
| Historical cost of procurement | **133,572** | 127,874 |
| Less: Accumulated amortisation and impairment | **(133,572)** | (111,620) |
| Net carrying amount | **—** | 16,254 |

The directors have performed impairment assessment of paper mulberry trees as at 31 March 2011 and a write-off of HK$18,813,000 (2010: HK$147,201,000) was made after considering the following factors. First, majority of the paper mulberry trees faded for the years 2010 and 2011 as the extreme instable climate had seriously harmed the paper mulberry trees and caused a large drop in survival rate. Secondly, huge resources are required for remedying the plantation of paper mulberry trees and management considered the high plantation cost and lack of marketing channels has made GMPM a high risk and an uncertain business. Thirdly, Ms. Cao, an ex-executive director and one of the inventors of GMPM trees, left the Group in the year 2010. In view of the above, the Group has no plan to further financially support the development of the GMPM business in the foreseeable future.

**(c) Jatropha**

The Group's Jatropha, acquired through the business combination of Shenyu New Energy Group, are located in the PRC. They were independently valued by Pöyry (Beijing) Consulting Co., Ltd., Shanghai Branch ("Pöyry") as at 31 March 2011 under the income expectation approach or "NPV" approach.

In previous years, Pöyry had adopted replacement cost approach by using the compound cost methodology for the valuation of Jatropha. Pöyry explained that the comparison of the compounded cost and NPV results indicated that compounded cost representation of 'value' was greater than the present value of the forecast net cash flow. Where the NPV is less than compounded cost, it is unlikely that the investing market would pay for more than the NPV. In Pöyry's opinion, with a relatively new and unproven investment, as is the case with jatropha in China, it is likely that prospective buyers of an asset will look towards the lower of cost or NPV in their assessment of market value. It is concluded that NPV estimate is a better indicator of market value for the Group's Jatropha. However, Pöyry points out that the development of commercial jatropha plantations and the associated oil extractions as a feedstock for biodiesel production has not developed as rapidly as was anticipated several years ago. As a result, there is a lack of substantial yield and price information to reliably forecast future cash flows from jatropha plantations and the sale of seeds.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 25. BIOLOGICAL ASSETS *(continued)*

*Notes: (continued)*

**(c) Jatropha** *(continued)*

In valuing the Group's Jatropha, Pöyry employed NPV approach by using a discount rate of 11.5% and the following major assumptions:

— The cash flows are those arising from the current rotation of Jatropha only. No account is taken of revenues or costs from re-establishment following harvest, or of land not yet planted.

— The estimated jatropha seed yield at maturity for the jatropha plantations are 288kg/mu which is estimated to be achieved in 5 years.

**(d) Other forest assets**

Other forest assets are standing trees in the natural, man-made and mixed forest farms located in various locations in the PRC.

The Group's other forest assets in the PRC were independently valued by Pöyry as at 31 March 2011. In valuing the Group's other forest assets, Pöyry applied the income expectation approach based on projected wood flows of the Group's forest assets, the projected future pre-tax cash flows, based on their assessment of current timber log price, and a discounted rate of 11.5%.

The discount rate used in the valuation of the forest assets in the PRC was determined by reference to published discount rates, weighted average cost of capital analysis, surveyed opinion of forest valuers practice and the implied discount rate of forest sales transactions in the Asia Pacific region over a period of time, with more weight given to the weighted average cost of capital.

The principal valuation methodology and assumptions adopted are as follows:

- A forest estate approach is employed whereby all stands are modelled collectively to achieve some desired result from the total forest resources.
- The cash flows are those arising from the current rotation of trees only. No account is taken of revenues or costs from re-establishment following harvest, or of land not yet planted.
- The cash flows do not take into account income tax and finance costs.
- The cash flows have been prepared in real terms and have not therefore included inflationary effects.
- The impact of any planned future activity of the business that may impact the pricing of the logs harvested from the forest is not taken into account.
- Costs are current average cost. No allowances has been made for cost improvements in future operations.

Biological assets included certain other forest assets situated in forest farms of which the Group is in the process of obtaining their ownership certificates. Having considered the unexpected prolonged application process, together with the time and costs to be incurred, which would have consequential effects on their recoverable amounts, the Group recognised a further write-off of biological assets and prepaid lease payments of HK$237,848,000 (2010: HK$115,407,000) and HK$57,741,000 (2010: HK$56,924,000) respectively during the year.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 26. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Other receivables | 79,566 | 86,132 |
| Deposits | 93 | 1,087 |
| Prepayments | 1,631 | 3,621 |
| | 81,290 | 90,840 |
| Less: Impairment loss | (67,665) | — |
| | 13,625 | 90,840 |

Included in the Group's other receivables as at 31 March 2011 are receivables of HK$52,182,000 (2010: HK$49,973,000) arising from the disposal of several forest farms to the third parties in prior years. As at 31 March 2011, other receivables, deposits and prepayments included an amount of HK$Nil (2010: HK$15,508,000) which was expected to be recoverable after one year.

Movements in the provision for impairment of other receivables are as follows:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| At 1 April | — | — |
| Impairment losses recognised | 66,154 | — |
| Exchange adjustment | 1,511 | — |
| At 31 March | 67,665 | — |

Included in the above impairment loss is a full provision for individually impaired other receivables of approximately HK$67,665,000 (2010: HK$Nil). The individually impaired other receivables relate to other debtors that were in financial difficulties or in default of payments. The Group does not hold any collateral or other credit enhancements over these balances.

The carrying amounts of the remaining other receivables that were neither past due nor impaired relate to other debtors for whom there was no recent history of default.

## 27. INVENTORIES

| | The Group<br>2011<br>HK$'000 | <br>2010<br>HK$'000 |
|---|---|---|
| Seeds | 816 | 384 |

At 31 March 2011 and 2010, no inventories were carried at net realisable value.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 28. TRADE RECEIVABLES

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Trade receivables | 69,589 | 66,605 |
| Less: Impairment loss | (69,216) | (65,299) |
| | 373 | 1,306 |

The Group normally allows credit terms to established customers ranging from 90 to 120 days (2010: 90 to 120 days). The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk, with overdue balances regularly reviewed by senior management. Trade receivables are generally non-interest bearing and their carrying amounts approximate their fair values.

(i) The ageing analysis of the trade receivables as at the end of reporting period, based on the date of recognition of the sales, was as follows:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Over 90 days | 69,589 | 66,605 |
| | 69,589 | 66,605 |
| Less: Impairment loss | (69,216) | (65,299) |
| | 373 | 1,306 |

(ii) The movement in the impairment loss of trade receivables during the year, including both specific and collective loss components, is as follows:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| As at 1 April | 65,299 | 58,969 |
| Impairment loss recognised for the year (Note 10) | 985 | 6,008 |
| Exchange adjustment | 2,932 | 322 |
| As at 31 March | 69,216 | 65,299 |

At 31 March 2011, the Group's trade receivables of HK$69,589,000 (2010: HK$65,915,000) were individually determined to be impaired. The individually impaired trade receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, an accumulative impairment loss of HK$69,216,000 (2010: HK$65,299,000) is made. The Group does not hold any collateral over these balances.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 28. TRADE RECEIVABLES *(continued)*

(iii) The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows.

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Not yet past due | — | — | — | — |
| Less than 1 month past due | — | — | — | — |
| 1 to 3 months past due | — | 399 | — | — |
| Over 3 months | — | 291 | — | — |
| | — | 690 | — | — |
| | — | 690 | — | — |

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group.

## 29. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Equity securities listed in Hong Kong, at fair value | **313,266** | 114,770 |

The above equity securities were designated as financial assets at fair value through profit or loss on initial recognition by the directors of the Company. Changes in fair values of financial assets at fair value through profit or loss are recorded in profit or loss as other net losses/gains (Note 10).

## 30. AVAILABLE-FOR-SALE INVESTMENTS

| | The Group and the Company | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Equity securities listed in London, at fair value | **1,425** | 13,842 |

The above investments represent investments in listed equity securities which are designated as available-for-sale investments by the directors. They offer the Group and Company the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate. The fair value of these securities is based on quoted market prices as at the end of reporting period.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 31. CASH AND CASH EQUIVALENTS

At 31 March 2011, the cash and cash equivalents of the denominated in Renminbi ("RMB") amounted to approximately HK$21 million (2010: HK$36 million). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations. The remaining balance of the cash and cash equivalents of the Company was denominated in Hong Kong dollar.

## 32. SHARE CAPITAL

| | Number of shares | | Ordinary share capital | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **'000** | '000 | **HK$'000** | HK$'000 |
| Ordinary shares of HK$0.10 each | | | | |
| Authorised: | **20,000,000** | 20,000,000 | **2,000,000** | 2,000,000 |
| Issued and fully paid: | | | | |
| As at 1 April | **7,907,715** | 5,471,715 | **790,772** | 547,172 |
| Placement of new shares (note i) | **1,000,000** | 2,426,000 | **100,000** | 242,600 |
| Shares issued on exercise of share options (note ii) | **—** | 10,000 | **—** | 1,000 |
| Shares issued from conversion of convertible notes (note iii) | **833,333** | — | **83,333** | — |
| As at 31 March | **9,741,048** | 7,907,715 | **974,105** | 790,772 |

*Notes:*

(i) During the year ended 31 March 2011, the Company received proceeds of issues of shares, net of related expenses, of approximately HK$204,650,000 from placing and subscription agreement whereby an aggregate of 1,000,000,000 new ordinary shares of the Company were issued and allotted at a price of HK$0.21 per share to independent third parties. The proceeds were used for general working capital purposes.

During the year ended 31 March 2010, the Company received proceeds of issues of shares, net of related expenses, of approximately HK$620,202,000 from a placing and subscription arrangement whereby 1,316,000,000 and 1,110,000,000 new ordinary shares of the Company were issued and allotted at price of HK$0.26 and HK$0.265 per share to independent third parties of the Company respectively. The proceeds were used for general working capital purposes.

(ii) During the year ended 31 March 2010, options were exercised to subscribe for 10,000,000 shares in the Company. The option exercise price was HK$0.295 per share. The total consideration received by the Company of HK$2,950,000 was credited as to HK$1,000,000 to the share capital and as to HK$1,950,000 to the share premium account. In addition, the amount attributable to the related share options of HK$1,293,000 has been transferred from share-based compensation reserve to the share premium account.

(iii) On 30 April and 7 May 2010, 250,000,000 and 583,333,333 new ordinary shares of par value HK$0.1 each were issued respectively, both at a conversion price of HK$0.12 each, resulting in release of the liability component and equity component in aggregate, at the date of conversion of HK$100,000,000. The conversion gave rise to a credit to share capital of HK$83,333,000 and the remaining balance of HK$16,296,000 was credited to the share premium account. In addition, an amount of HK$19,039,000 has been transferred from conversion option reserve to the share premium account.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 33. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

The Company operates an equity-settled, share-based compensation plan for the purpose of providing incentives and rewards to eligible participants for their contribution to the success of the Group's operations. Pursuant to this objective, on 25 October 1998, the Company adopted a share option scheme (the "Old SO Scheme") whose eligible participants include directors and employees of the Company and its subsidiaries as determined by the directors of the Company.

In compliance with the amendments to the Listing Rules, the directors of the Company consider that it is in the interest of the Company to terminate the Old SO Scheme and to adopt a new share option scheme (the "New SO Scheme"). An ordinary resolution was passed at the annual general meeting of the Company held on 23 November 2001 for the approval of the said adoption of the New SO Scheme and termination of the Old SO Scheme. Pursuant to the amendments to the Listing Rules, no further options would be granted under the Old SO Scheme thereunder but in other respects, the provisions of the Old SO Scheme remain in force and all outstanding options granted continue to be valid and exercisable in accordance therewith.

Eligible participants of the New SO Scheme include directors and employees of the Company and its subsidiaries. The New SO Scheme will, unless otherwise cancelled or amended, remain in force for 10 years from 23 November 2001.

The maximum number of unexercised share options currently permitted to be granted under the New SO Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the New SO Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within the date specified in the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors of the Company, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant of the share options or the expiry date of the New SO Scheme, if earlier.

On 27 March 2007, a total of 185,100,000 share options were granted to the directors and employees of the Group at a cash consideration of HK$1.00 per grantee which entitle the grantees to subscribe for new ordinary shares of the Company at an exercise price of HK$0.98 per share. The option shall be exercisable in the following manner:

| | | |
|---|---|---|
| Starting from | 1 April 2007 to 31 March 2008 | Not more than 40% |
| | 1 April 2008 to 31 March 2009 | Not more than 70% |
| | 1 April 2009 to 31 March 2010 | The outstanding balance |

# Notes to the Financial Statements

for the year ended 31 March 2011

## 33. EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(continued)*

On 2 October 2007, a total of 9,000,000 shares options were granted to the directors of the Group at a cash consideration of HK$1.00 per grantee which entitle the grantees to subscribe for new ordinary shares of the Company at an exercise price of HK$2.61 per share. The option shall be exercisable in the following manner:

| | | |
|---|---|---|
| Starting from | 3 October 2007 to 2 October 2008 | Not more than 40% |
| | 3 October 2008 to 2 October 2009 | Not more than 70% |
| | 3 October 2009 to 2 October 2010 | The outstanding balance |

On 30 September 2008, a total of 149,000,000 shares options were granted to the directors and employees of the Group at a cash consideration of HK$1.00 per grantee which entitle the grantees to subscribe for new ordinary shares of the Company at an exercise price of HK$0.39 per share. The option shall be exercisable in the following manner:

| | | |
|---|---|---|
| Starting from | 30 September 2008 | 100% |

On 30 October 2008, a total of 12,000,000 shares options were granted to the employees of the Group at a cash consideration of HK$1.00 per grantee which entitle the grantees to subscribe for new ordinary shares of the Company at an exercise price of HK$0.242 per share. The option shall be exercisable in the following manner:

| | | |
|---|---|---|
| Starting from | 30 October 2008 to 29 October 2009 | Not more than 40% |
| | 30 October 2009 to 29 October 2010 | Not more than 70% |
| | 30 October 2010 to 29 October 2011 | The outstanding balance |

On 23 January 2009, a total of 20,000,000 shares options were granted to the directors of the Group at a cash consideration of HK$1.00 per grantee which entitle the grantees to subscribe for new ordinary shares of the Company at an exercise price of HK$0.286 per share. The option shall be exercisable in the following manner:

| | | |
|---|---|---|
| Starting from | 23 January 2009 to 22 January 2010 | Not more than 40% |
| | 23 January 2010 to 22 January 2011 | Not more than 70% |
| | 23 January 2011 to 22 January 2012 | The outstanding balance |

On 9 February 2009, a total of 306,600,000 shares options were granted to the directors and employees of the Group at a cash consideration of HK$1.00 per grantee which entitle the grantees to subscribe for new ordinary shares of the Company at an exercise price of HK$0.295 per share. The option shall be exercisable in the following manner:

| | | |
|---|---|---|
| Starting from | 10 February 2009 to 9 February 2010 | Not more than 40% |
| | 10 February 2010 to 9 February 2011 | Not more than 70% |
| | 10 February 2011 to 9 February 2012 | The outstanding balance |

# Notes to the Financial Statements

for the year ended 31 March 2011

## 33. EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(continued)*

On 2 March 2010, a total of 658,100,000 shares options were granted to the directors, consultants and employees of the Group at a cash consideration of HK$1.00 per grantee which entitle the grantees to subscribe for new ordinary shares of the Company at an exercise price of HK$0.29 per share. The option shall be exercisable in the following manner:

**For director**

| | | |
|---|---|---|
| Starting from | 2 March 2010 | 100% |

**For employee and consultants**

| | | |
|---|---|---|
| Starting from | 2 March 2010 to 1 March 2011 | Not more than 42% |
| | 2 March 2011 | The outstanding balance |

**(a)** The terms and conditions of the share options that existed at 31 March 2011 and 2010 is as follows:

| Date of grant | Vesting period | Exercise period | Contractual exercise price | Contractual life of options | Number of options 2011 | Number of options 2010 |
|---|---|---|---|---|---|---|
| **Options granted to directors:** | | | | | | |
| 27 March 2007 | 3 years from the date of grant | 1 April 2007 to 31 March 2017 | HK$0.980 | 10 years | 6,000,000 | 16,000,000 |
| 2 October 2007 | 3 years from the date of grant | 3 October 2007 to 2 October 2017 | HK$2.610 | 10 years | — | 6,000,000 |
| 30 September 2008 | Immediately | 30 September 2008 to 29 September 2018 | HK$0.390 | 10 years | 6,000,000 | 37,000,000 |
| 23 January 2009 | 3 years from the date of grant | 23 January 2009 to 22 January 2019 | HK$0.286 | 10 years | — | 20,000,000 |
| 9 February 2009 | 3 years from the date of grant | 9 February 2009 to 8 February 2019 | HK$0.295 | 10 years | 10,000,000 | 75,000,000 |
| 2 March 2010 | 3 years from the date of grant | 2 March 2010 to 1 March 2013 | HK$0.29 | 3 years | 26,900,000 | 78,900,000 |
| **Options granted to employees and consultants:** | | | | | | |
| 27 March 2007 | 3 years from the date of grant | 1 April 2007 to 31 March 2017 | HK$0.980 | 10 years | 20,600,000 | 20,600,000 |
| 2 October 2007 | 3 years from the date of grant | 3 October 2007 to 2 October 2017 | HK$2.610 | 10 years | 6,000,000 | — |
| 30 September 2008 | Immediately | 30 September 2008 to 29 September 2018 | HK$0.390 | 10 years | 103,000,000 | 88,000,000 |
| 30 October 2008 | 3 years from the date of grant | 30 October 2008 to 29 October 2018 | HK$0.242 | 10 years | 10,000,000 | 10,000,000 |
| 23 January 2009 | 3 years from the date of grant | 23 January 2009 to 22 January 2019 | HK$0.286 | 10 years | 20,000,000 | — |
| 9 February 2009 | 3 years from the date of grant | 9 February 2009 to 8 February 2019 | HK$0.295 | 10 years | 123,600,000 | 98,600,000 |
| 2 March 2010 | 3 years from the date of grant | 2 March 2010 to 1 March 2013 | HK$0.29 | 3 years | 631,200,000 | 579,200,000 |
| | | | | | 963,300,000 | 1,029,300,000 |

# Notes to the Financial Statements

for the year ended 31 March 2011

## 33. EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(continued)*

**(a)** *(continued)*

At the end of reporting period, the Company had 963,300,000 share options outstanding under the Scheme, which represented approximately 10% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 963,300,000 additional ordinary shares of the Company and additional share capital of HK$96,330,000 and share premium of HK$226,309,000 (before issue expenses).

**(b)** The number and weighted average exercise prices of share options are as follows:

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **Weighted average exercise price HK$** | **Number of options** | Weighted average exercise price HK$ | Number of options |
| Outstanding at beginning of year | **0.341** | **1,029,300,000** | 0.458 | 595,700,000 |
| Granted during the year | **—** | **—** | 0.29 | 658,100,000 |
| Exercised during the year | **—** | **—** | 0.295 | (10,000,000) |
| Forfeited during the year | **0.422** | **(66,000,000)** | 0.514 | (214,500,000) |
| Outstanding at end of year | **0.335** | **963,300,000** | 0.341 | 1,029,300,000 |
| Exercisable at end of year | **0.335** | **963,300,000** | 0.346 | 922,220,000 |

The exercise price of the share options is determinable by the directors of the Company, but may not be less than the highest of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company's shares.

The weighted average share price at the date of exercise for share options exercised during the year was HK$Nil (2010: HK$0.295). The options outstanding at the end of the year have a weighted average remaining contractual life of 8.4 years (2010: 9.4 years).

**(c)** Fair value of share options and assumptions

There was no grant of equity-settled share options during the year.

The Group amortises the fair value of the share options calculated above over the relevant vesting period. Accordingly, an amount of HK$11,152,000 was charged as an equity-settled share-based payment (2010: HK$68,454,000) to profit or loss for the year.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 34. RESERVES

### The Company

| | Share premium account HK$'000 | Subscription right reserve HK$'000 (note i) | Conversion option reserve HK$'000 (note ii) | Share-based compensation reserve HK$'000 (note iii) | Investment-revaluation reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 April 2009 | 1,655,454 | 24,543 | 19,039 | 59,705 | (20,115) | (147,971) | 1,590,655 |
| Loss for the year | — | — | — | — | — | (151,388) | (151,388) |
| Other comprehensive income | — | — | — | — | 20,115 | — | 20,115 |
| Total comprehensive income | — | — | — | — | 20,115 | (151,388) | (131,273) |
| Lapse of share options | — | — | — | (28,539) | — | 28,539 | — |
| Equity-settled share-based transaction | — | — | — | 68,454 | — | — | 68,454 |
| Top-up placement | 377,602 | — | — | — | — | — | 377,602 |
| Issue of new shares from exercise of share options | 3,243 | — | — | (1,293) | — | — | 1,950 |
| At 31 March 2010 | 2,036,299 | 24,543 | 19,039 | 98,327 | — | (270,820) | 1,907,388 |
| Total comprehensive income | — | — | — | — | — | (43,847) | (43,847) |
| Lapse of share options | — | — | — | (10,323) | — | 10,323 | — |
| Equity-settled share-based transaction | — | — | — | 11,152 | — | — | 11,152 |
| Top-up placement | 104,650 | — | — | — | — | — | 104,650 |
| Issue of shares from conversion of convertible notes | 35,335 | — | (19,039) | — | — | — | 16,296 |
| At 31 March 2011 | 2,176,284 | 24,543 | — | 99,156 | — | (304,344) | 1,995,639 |

*Notes:*

(i) Subscription right reserve represents net proceeds received from issue of warrants.

(ii) Conversion option reserve represents equity portion of convertible notes issued by the Company and are transferred to the share premium account upon exercise of the conversion rights vested with the convertible note instruments; or directly released to accumulated losses when the notes are redeemed.

(iii) Share-based compensation reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees, directors and consultants of the Company recognised in accordance with the accounting policy adopted for share-based payments.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 35. OTHER PAYABLES AND ACCRUALS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Deferred income | **44,408** | 31,439 | **—** | — |
| Other payables and accruals | **63,744** | 62,851 | **10,295** | 5,963 |
| Consideration payables for the acquisition of subsidiaries | **49,788** | 49,788 | **29,788** | — |
| Consideration payables for the acquisition of forest farms | **93,744** | 67,441 | **—** | — |
| | **251,684** | 211,519 | **40,083** | 5,963 |

## 36. CONVERTIBLE NOTES PAYABLE

The movements of the liability component of the convertible notes is as follows:

| | | The Group and the Company | |
|---|---|---|---|
| | | **2011** | 2010 |
| | Note | **HK$'000** | HK$'000 |
| At 1 April | | **99,125** | 93,196 |
| Interest expenses | 11 | **627** | 7,429 |
| Conversion into ordinary shares of the Company | | **(99,629)** | — |
| Liability at end of year | | **123** | 100,625 |
| Amount due within one year (interest payable included in other payables and accruals) | | **(123)** | (1,500) |
| At 31 March | | **—** | 99,125 |

During the year ended 30 June 2006, pursuant to the business combination of Strong Lead and its subsidiary, WFC, the Company issued convertible notes (the "Convertible Notes") as partial settlement of the acquisition consideration. 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 adjustments |
| Maturity date | 4 years from the date of issue |

# Notes to the Financial Statements

for the year ended 31 March 2011

## 36. CONVERTIBLE NOTES PAYABLE *(continued)*

### (a) Conversion period

Apart from the portion of Restricted Convertible Notes (as described below), the holders of the Convertible Notes had the rights at any time and from time to time, following the date of issue of the Convertible Notes, to convert the whole or any part of the outstanding principal amount into new ordinary shares in the Company. The shares issued and allotted upon conversion ranked pari passu in all respects among themselves and with all other ordinary shares in issue by the Company on the date of such allotment and issue.

### (b) Restricted Convertible Notes

Part of the Convertible Notes in principal amount of HK$100 million (the "Restricted Convertible Notes") was put under security to the Company for performance by the vendors of the Strong Lead shares of the Profit Guarantee (as described below). The vendors of the Strong Lead shares undertook not to exercise the rights attaching to the portion of denomination in the balance of HK$100 million on the Convertible Notes up to end of the period of the Profit Guarantee (as described below).

### (c) Profit Guarantee

The vendors of the Strong Lead shares undertook to the Company that the total audited consolidated net profit after tax of WFC prepared in accordance with HKFRSs for the two financial years ended 31 December 2006 and 31 December 2007 would not be less than HK$200 million (the "Profit Guarantee"), and would compensate the Company in cash for any shortfall between the Profit Guarantee and the audited consolidated net profit after tax of WFC prepared in accordance with HKFRSs. As the actual net profit after tax of WFC exceeded HK$200 million for the two financial years ended 31 December 2006 and 2007, no compensation to the Company was required.

On 30 April and 7 May 2010, holders of convertible notes converted the entire convertible notes with principal amount of HK$100,000,000 into 833,333,333 new ordinary shares of the Company. The enlarged issued share capital of the Company immediately after the above conversion was HK$874,105,000.

Interest expense on the convertible notes was calculated using the effective interest method by applying the effective interest rate of 8% (2010: 8%) to the liability component.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 37. DEFERRED TAXATION

(a) The following are the deferred tax liabilities recognised by the Group and the Company and movements thereon during the current and prior years:

**The Group**

| | Notes | Fair value of biological assets over procurement cost HK$'000 | Principal denomination over fair value of convertible notes HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 April 2009 | | — | 1,123 | 1,123 |
| Deferred tax credited to profit or loss | 12 | (432,016) | (979) | (432,995) |
| Effect of change in tax status | 12 | 729,122 | — | 729,122 |
| Exchange adjustment | | 522 | — | 522 |
| At 31 March 2010 | | 297,628 | 144 | 297,772 |
| Deferred tax credited to profit or loss | 12 | (171,447) | (144) | (171,591) |
| Exchange adjustment | | 9,345 | — | 9,345 |
| At 31 March 2011 | | 135,526 | — | 135,526 |

**The Company**

| | Principal denomination over fair value of convertible notes HK$'000 |
|---|---|
| At 1 April 2009 | 1,123 |
| Deferred tax credited to profit or loss | (979) |
| At 31 March 2010 | 144 |
| Deferred tax credited to profit or loss | (144) |
| At 31 March 2011 | — |

(b) At the end of reporting period, the Group has unused tax losses of approximately HK$369,586,000 (2010: HK$341,189,000) available for offset against future profits. No deferred tax asset in relation to tax losses has been recognised due to the unpredictability of future taxable profit streams. These tax losses may be carried forward indefinitely.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 38. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 120 days from its suppliers. An ageing analysis of the trade payables as at the end of reporting date, based on the receipt of goods purchased, was as follows:

**The Group**

| | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
|---|---|---|
| Over 90 days | **18,007** | 17,239 |

The directors consider that the carrying amount of the Group's trade payables at 31 March 2011 and 2010 approximates their fair values.

## 39. LONG TERM PAYABLES

Long term payables represent the present value of the consideration payables for the acquisition of certain forest farms of the Group, including biological assets and prepaid lease payments, and their related imputed interest arisen from the discounting of such consideration payables. Movements in year represent repayment, imputed interest, exchange adjustment and reduction due to partial disposal of forest farms. During the year ended 31 March 2010, the Group had settled long term payables amounting to HK$334,027,000 of which HK$114,753,000 was satisfied in cash and HK$219,274,000 was satisfied by the debt restructuring arrangement. Details of arrangement are set out in Note 46 to the financial statements.

## 40. DISPOSAL OF SUBSIDIARIES

On 30 November 2009, the Group disposed of its 100% equity interest in a subsidiary, Charming World Investment Limited and its jointly controlled entities, for a consideration of HK$15,000,000.

The net assets of the subsidiaries disposed of at the date of disposal were as follows:

| | Note | HK$'000 |
|---|---|---|
| Other receivables, deposits and prepayments | | 84 |
| Bank balances and cash | | 21 |
| Net assets disposed of | | 105 |
| Release of exchange reserve | | (8,510) |
| Assignment of amount due from jointly-controlled entities | | 13,495 |
| Gain on disposal of subsidiaries | 10 | 9,910 |
| Total consideration | | 15,000 |
| Net cash inflow arising on disposal: | | |
| Cash consideration received | | 15,000 |
| Bank balances and cash disposed of | | (21) |
| | | 14,979 |

# Notes to the Financial Statements

for the year ended 31 March 2011

## 41. DISPOSAL OF ASSETS

During the year ended 31 March 2009, the Company entered into the supplemental agreement to the sale and purchase agreement (the "Supplemental Agreement") for the acquisition of the entire shareholdings of Shenyu New Energy Group Limited, a company incorporated in the British Virgin Islands and held as its principal assets a 100 per cent equity interest in Beijing Shenhao New Energy Technology Company Limited (the "Acquisition"). Beijing Shenhao New Energy Technology 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 Company completed the acquisition on 12 September 2008.

On 12 February 2010, the Company entered into a disposal agreement (the "Disposal Agreement") with the vendor of Shenyu New Energy Group (the "Purchaser"). Pursuant to the Disposal Agreement, the Company agreed to sell and the Purchaser agreed to purchase certain assets of Yunnan Shenyu New Energy Company Limited (the "Disposal"). Details of the transaction were disclosed in the Company's circular dated 12 March 2010. The transaction was completed on 31 March 2010. Upon the completion of the Disposal, the Purchase Consideration Payable arising from the Acquisition was completely cancelled out and no outstanding amount under the Acquisition was due to or owing to the Purchaser from the Group.

Details of the assets disposed of and the financial effect was illustrated as follows:

| | Notes | **Carrying amount**<br>HK$'000 |
|---|---|---|
| Purchase consideration payables cancelled | 46 | 2,369,831 |
| Assets disposed of: | | |
| Construction in progress of a hotel development project | 20 | 32,359 |
| Prepaid lease payments | 21 | 31,378 |
| Biological assets | 25 | 1,356,743 |
| | | 1,420,480 |
| Gain on disposal of assets | | 949,351 |

# Notes to the Financial Statements

for the year ended 31 March 2011

## 41. DISPOSAL OF ASSETS *(continued)*

The carrying amount of the above assets were determined at the following bases:

(a) Biological assets comprised (i) other trees located in certain counties in the province of Yunnan, the PRC; and (ii) Jatropha estate in the counties of Huize and Shuangjiang in the province of Yunnan. They were measured at fair value at the date of disposal based on the valuation performed by Pöyry . Other trees were valued with the same valuation methodology and assumptions described in Note 25(d) whilst Jatropha were valued at the replacement cost approach by using the compound cost methodology.

(b) Construction in progress and prepaid lease payments represented a hotel development project in Shuangbai county of Yunnan province. They were measured at cost less amortisation.

At the date of approval of these financial statements, the transfer of legal titles of the above assets have not yet been completed. According to the Disposal Agreement, whether the legal titles of the assets have been transferred to the Purchaser or its nominee or not, the actual and economic benefits of these assets should be transferred to the Purchaser or its nominee on the completion date. As all costs incurred for the assets before the transfer of legal titles would be borne by the Purchaser, the directors of the Company considered that it is appropriate to record the disposal of assets and derecognition of purchase consideration payable in the year ended 31 March 2010.

## 42. CONTINGENT LIABILITIES

At 31 March 2011 and 2010, the Company and the Group did not have any contingent liabilities.

## 43. LEASES

The Group leases its office properties and nursery gardens under operating leases arrangements. Leases for office properties are negotiated for term for one year. Leases for nursery gardens are negotiated for terms for five years.

### The Group as lessee

The lease payment recognised as an expenses are as follows:

| | Notes | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|---|
| Minimum lease payments | | **4,652** | 9,173 |
| Sub-lease payment | 10 | **3,816** | 2,171 |
| Total lease payments | 13 | **8,468** | 11,344 |

At 31 March 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Within one year | **920** | 9,430 |
| In the second to fifth years, inclusive | **535** | 2,710 |
| More than five years | **—** | 90 |
| | **1,455** | 12,230 |

# Notes to the Financial Statements

for the year ended 31 March 2011

## 44. CAPITAL COMMITMENTS

At 31 March 2011 and 2010, the Group had the following commitments:

| | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|
| Capital commitments contracted but not provided for: | | |
| Construction in progress | **33,479** | 31,370 |

## 45. RELATED PARTY TRANSACTIONS

### (a) Key management personnel compensation

The remuneration of directors and other members of key management personnel during the year was as follows:

| | **Year ended 31 March 2011 HK$'000** | Year ended 31 March 2010 HK$'000 |
|---|---|---|
| Salaries and other short-term employee benefits | **3,732** | 9,853 |
| Post-employment benefits | **21** | 35 |
| Share-based payments | **395** | 10,144 |
| | **4,148** | 20,032 |

### (b) Amounts due from/(to) related companies

The amounts due were unsecured, non-interest bearing and had no fixed repayment terms. An ex-director, Mr. Ng Leung Ho was beneficially interested in these related companies. No guarantees had been given or received. No expenses had been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties. During the year ended 31 March 2010, the maximum outstanding balance of amounts due from related companies was HK$72,823,000. The amounts were fully paid during the year ended 31 March 2010.

### (c) Amounts due from directors

The amounts were due from ex-directors, Ms. Cao Chuan and Mr. Cheng Shouheng. The balances were unsecured, interest free and with no fixed repayment terms. The maximum amount outstanding during the year ended 31 March 2010 was HK$240,000. The amounts were fully paid during the year ended 31 March 2010.

# Notes to the Financial Statements

for the year ended 31 March 2011

## 46. MAJOR NON-CASH TRANSACTIONS

(i) During the year ended 31 March 2010, two subsidiaries of the Group, Chongqing WFC and WFC, entered into several debt restructuring agreements with certain customers and vendors of forest farms. As a result, trade receivables and other receivables of HK$180,135,000 and HK$39,139,000 respectively were offset against other payables of HK$219,274,000.

(ii) As disclosed in Note 41 to the financial Statements, the purchase consideration payable of HK$2,369,831,000 was cancelled during the year ended 31 March 2010.

## 47. NATURAL RISK

The Group's revenue depends significantly on its ability to harvest wood at adequate levels. The ability to harvest wood may be affected by unfavourable local weather conditions and natural disasters. Weather conditions such as floods, droughts, cyclones and windstorms and natural disasters such as earthquakes, fire, disease, insect infestation and pests are examples of such events. The occurrence of severe weather conditions or natural disasters may diminish the supply of trees available for harvesting in the concessions, or otherwise impede the Group's logging operations or the growth of the trees in the plantations, which in turn may have a material adverse effect on the Group's ability to produce the products in sufficient quantities and in a timely manner.

Moreover, bad weather may adversely affect the condition of the Group's transportation infrastructure, which is critical for the Group to supply timber to the Group's customers. The Group has developed a strategy for utilising different transportation modes and stockpiling, but its daily operations may be unfavourably affect by interruption of transportation due to bad weather or other reason.

## 48. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 March 2011 and 2010 are categorised as follows:

| | The Group | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| **Financial Assets** | | |
| At fair value through profit or loss | | |
| — held for trading | **313,266** | 114,770 |
| Available-for-sale investment measured at fair value | **1,425** | 13,842 |
| Loan and receivable (including cash and bank balances) | **593,305** | 787,875 |
| **Financial Liabilities** | | |
| Financial liabilities measured at amortised cost | **387,368** | 476,135 |

# Notes to the Financial Statements

for the year ended 31 March 2011

## 48. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY *(continued)*

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market price; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

HKFRS 7 requires disclosures for financial instruments that are measured at fair value by level of the following fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: Inputs for the asset or liability that are not based on observable market data. This level includes the unlisted investment fund with quote issued by respective fund administrator.

**31 March 2011**

| | **Group** | | | |
|---|---|---|---|---|
| | **Level 1 HK$'000** | **Level 2 HK$'000** | **Level 3 HK$'000** | **Total HK$'000** |
| Financial assets at fair value through profit or loss — listed | **313,266** | **—** | **—** | **313,266** |
| Available-for-sale investments — listed | **1,425** | **—** | **—** | **1,425** |

31 March 2010

| | Group | | | |
|---|---|---|---|---|
| | Level 1 HK$'000 | Level 2 HK$'000 | Level 3 HK$'000 | Total HK$'000 |
| Financial assets at fair value through profit or loss — listed | 114,770 | — | — | 114,770 |
| Available-for-sale investments — listed | 13,842 | — | — | 13,842 |

During both years, there was no significant transfer between Level 1 and Level 2.