Sustainable Forest Holdings Limited

永保林業控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 723)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2012 AND PENDING FOR ISSUE OF INTERIM RESULTS FOR SIX MONTHS ENDED 30 SEPTEMBER 2012 BEFORE RESUMPTION OF TRADING

The board (the "Board") of directors (the "Directors") of Sustainable Forest Holdings Limited (the "Company") hereby present the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 March 2012 together with the comparative figures for the corresponding period in 2011 as follows:

* *For identification purpose only*

CONSOLIDATED INCOME STATEMENT
For the year ended 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
CONTINUING OPERATIONS			
REVENUE	5	**115,616**	866,655
Cost of sales		**(118,423)**	(362,156)
GROSS (LOSS)/PROFIT		**(2,807)**	504,499
Other income	6	**4,124**	501
Other net loss	6	**(274,484)**	(145,927)
Selling and distribution costs		**(18,543)**	(3,352)
Administrative expenses		**(107,175)**	(88,003)
Loss on business disruption	7	**(335,641)**	—
Other operating expenses	8	**(1,519,271)**	(179)
Change in fair value of biological assets less costs to sell	14	**(150,419)**	250,243
(LOSS)/PROFIT FROM OPERATIONS		**(2,404,216)**	517,782
Finance income		**486**	63
Finance costs		**(15,790)**	(10,831)
Net finance costs	9(a)	**(15,304)**	(10,768)
(LOSS)/PROFIT BEFORE TAXATION	9	**(2,419,520)**	507,014
Income tax	10	**87,105**	(150,482)
(LOSS)/PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**(2,332,415)**	356,532
DISCONTINUED OPERATIONS			
Gain/(loss) for the year from discontinued operations	11	**4,503**	(15,039)
(LOSS)/PROFIT FOR THE YEAR		**(2,327,912)**	341,493

CONSOLIDATED INCOME STATEMENT *(cont'd)*
For the year ended 31 March 2012

	Notes	**2012** **HK$'000**	2011 HK$'000
ATTRIBUTABLE TO:			
Owners of the Company		**(2,327,909)**	341,486
Non-controlling interests		**(3)**	7
		(2,327,912)	341,493
(Loss)/earnings per share			
From continuing and discontinued operations	*13*		
— Basic		**(41.19) cents**	9.86 cents
— Diluted		**(41.19) cents**	5.30 cents
From continuing operations	*13*		
— Basic		**(41.27) cents**	10.30 cents
— Diluted		**(41.27) cents**	5.53 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2012

	2012	2011
	HK$'000	*HK$'000*
(Loss)/profit for the year	**(2,327,912)**	341,493
Other comprehensive (loss)/income		
Exchange differences on translation of financial statements of overseas subsidiaries	**(68,659)**	86,014
Reclassification adjustment for exchange differences relating to disposal of overseas subsidiaries	**(6,364)**	—
	(75,023)	86,014
Income tax relating to components of other comprehensive income	**—**	—
Other comprehensive (loss)/income for the year, net of tax	**(75,023)**	86,014
Total comprehensive (loss)/income for the year	**(2,402,935)**	427,507
Total comprehensive (loss)/income attributable to:		
Owners of the Company	**(2,402,945)**	427,493
Non-controlling interests	**10**	14
	(2,402,935)	427,507

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2012

	Notes	**2012** **HK$'000**	2011 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**213,306**	231,846
Intangible assets		**—**	—
Biological assets	*14*	**913,049**	1,173,150
Goodwill	*15*	**302,118**	1,686,883
Deposit for purchase of property, plant and equipment	*16*	**—**	30,336
		1,428,473	3,122,215
CURRENT ASSETS			
Inventories	*17*	**65,628**	241,980
Trade and other receivables	*18*	**17,972**	519,289
Consideration receivable	*22*	**208,000**	—
Cash and cash equivalents		**7,760**	23,679
		299,360	784,948
Assets classified as held for sale	*19*	**—**	279,828
		299,360	1,064,776
CURRENT LIABILITIES			
Trade and other payables	*20*	**212,310**	199,286
Loans and borrowings		**25,289**	18,230
Consideration payables		**—**	—
Finance leases payables		**100**	100
Provision for taxation		**49,456**	49,456
Financial liabilities		**6,030**	—
		293,185	267,072
Liabilities associated with assets classified as held for sale	*19*	**—**	70,856
		293,185	337,928
NET CURRENT ASSETS		**6,175**	726,848
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,434,648**	3,849,063

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(cont'd)*
At 31 March 2012

	2012	2011
	HK$'000	*HK$'000*
NON-CURRENT LIABILITIES		
Loans and borrowings	**—**	88
Amounts due to shareholders	**210,874**	131,527
Amount due to a related company	**2,048**	—
Finance leases payables	**250**	350
Promissory notes	**6,517**	6,388
Deferred tax liabilities	**339,564**	454,341
	559,253	592,694
NET ASSETS	**875,395**	3,256,369
CAPITAL AND RESERVES		
Share capital	**384,328**	359,324
Reserves	**490,981**	2,896,969
Total equity attributable to the owners of the Company	**875,309**	3,256,293
Non-controlling interests	**86**	76
TOTAL EQUITY	**875,395**	3,256,369

Notes:

1. CORPORATE INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda and its ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company comprise tree felling service; sustainable forest management and investment; trading and sales of forestry and timber products; manufacturing and sales of timber products.

2. STATEMENT OF COMPLIANCE

These consolidated financial statements had been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and interpretations issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements also comply with the applicable disclosure provision of the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs which are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised Standards, Amendments and Interpretations ("new and revised IFRSs") that are first effective for the current accounting period.

IFRS 1 (Amendments)	Amendment to IFRS 1 First-time Adoption of IFRS
IAS 24 (Revised)	Related party disclosures
Amendments to IFRIC–Int 14	Prepayments of a Minimum Funding Requirement
IFRIC–Int 19	Extinguishing Financial Liabilities with Equity Instruments
Amendments to IFRSs	Improvements to IFRSs issued in 2010

Except as described below, the application of new and revised IFRSs in the current year has had no material effect on the Group's financial performance and positions for the current or prior accounting period and/or on the disclosures set out in these financial statements.

IAS 24 Related Party Disclosures (as revised in 2009)

IAS 24 (as revised in 2009) has revised the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous periods. IAS 24 (as revised in 2009) also introduces modified disclosure requirements for government-related entities. The disclosure about the Group's related parties have been conformed to the amended disclosure requirement.

Improvements to IFRSs issued in 2010

Improvements to IFRSs issued in 2010 omnibus standard introduces a number of amendments to the disclosure requirements in IFRS 7 Financial instruments: Disclosures. These disclosures about the Group's and the Company's financial instruments have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

4. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the Board of the Company for the purposes of resource allocation and performance assessment, the Group has presented the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

Continuing operations

Tree felling service: provision of tree felling and clearing services.

Sustainable forest management: sustainable management of and investment in natural forests; timber and wood processing; trading and sales of forestry and timber products.

Zhongshan operations: manufacturing and sales of timber products including but not limited to wooden doors, furniture and wooden flooring.

Discontinued operations

Chita forests operations: logging, timber and wood processing, timber trading and timber sales and marketing.

In accordance with IFRS 8, segment information disclosed in this consolidated financial statements has been prepared in a manner consistent with the information used by the Board of the Company for the purposes of assessing segment performance and allocating resources among segments. In this regard, the Board of the Company monitors the results and assets attributable to each reportable segment on the following bases:

Segment assets include all non-current assets and current assets with the exception of certain unallocated corporate assets to an individual reportable segment.

All liabilities are allocated to reportable segments other than current, deferred tax liabilities and unallocated corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or, which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

(a) **Segment results, assets and liabilities**

An analysis of the Group's reportable segment is reported below:

		2012					
		Continuing operations				Discontinued operations	
	Notes	**Tree felling service** *HK$'000*	**Sustainable forest management** *HK$'000*	**Zhongshan operations** *HK$'000*	**Sub-total** *HK$'000*	**Chita forests operation** *HK$'000*	**Total** *HK$'000*
Revenue from external customers		5,396	30,702	79,518	115,616	—	115,616
Inter-segment revenue		—	58,389	—	58,389	—	58,389
Reportable segment revenue		5,396	89,091	79,518	174,005	—	174,005
Reportable segment loss before taxation		(223,220)	(2,080,650)	(72,004)	(2,375,874)	(4,316)	(2,380,190)
Change in fair value of biological assets less costs to sell		—	(150,419)	—	(150,419)	—	(150,419)
Amortisation		—	—	(2,389)	(2,389)	—	(2,389)
Depreciation		—	(1,332)	(91)	(1,423)	—	(1,423)
Write off of other receivables		—	(7,434)	—	(7,434)	—	(7,434)
Write off of timber logs	*7*	(233,572)	—	—	(233,572)	—	(233,572)
Write down of timber logs		—	(1,781)	—	(1,781)	—	(1,781)
Rental expenses	*6*	—	(13,745)	—	(13,745)	—	(13,745)
Loss on disposal of property, plant and equipment		—	(296)	—	(296)	—	(296)
Impairment loss of intangible assets		—	—	(45,205)	(45,205)	—	(45,205)
Write off of trade receivables	*6,7*	—	(413,360)	—	(413,360)	—	(413,360)
Waiver of service fee payables	*7*	12,205	—	—	12,205	—	12,205
Impairment loss of goodwill		—	(1,384,765)	(77,353)	(1,462,118)	—	(1,462,118)
Interest income		—	485	1	486	—	486
Interest expense		—	(9,780)	—	(9,780)	—	(9,780)
Reportable segment assets		—	1,449,834	64,686	1,514,520	—	1,514,520
Additions to non-current segment assets		—	3,847	2,881	6,728	—	6,728
Reportable segment liabilities		—	(390,465)	(27,138)	(417,603)	—	(417,603)

An analysis of the Group's reportable segment is reported below (cont'd):

	2011				
	Continuing operations			Discontinued operations	
	Tree felling service	Sustainable forest management	Sub-total	Chita forests operation	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customers	343,671	522,984	866,655	—	866,655
Inter-segment revenue	52,542	—	52,542	—	52,542
Reportable segment revenue	396,213	522,984	919,197	—	919,197
Reportable segment profit/(loss) before taxation	32,253	503,896	536,149	(15,634)	520,515
Change in fair value of biological assets less costs to sell	—	250,243	250,243	—	250,243
Depreciation	(5)	(1,119)	(1,124)	—	(1,124)
Write off of other receivables	—	(28)	(28)	(396)	(424)
Write off of timber logs	(272,482)	—	(272,482)	—	(272,482)
Write down of timber logs	—	—	—	(1,000)	(1,000)
Loss on disposal of property, plant and equipment	—	(45)	(45)	—	(45)
Write off of intangible assets	—	—	—	(9,926)	(9,926)
Waiver of liabilities by creditors	108,274	—	108,274	—	108,274
Interest income	1	62	63	—	63
Interest expense	—	(9,985)	(9,985)	—	(9,985)
Reportable segment assets	240,841	3,662,618	3,903,459	279,828	4,183,287
Additions to non-current segment assets	116	21,323	21,439	—	21,439
Reportable segment liabilities	50,546	297,106	347,652	70,856	418,508

(b) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities:

(i) Revenue

	2012	2011
	HK$'000	*HK$'000*
Reportable segment revenue	**174,005**	919,197
Elimination of inter-segment revenue	**(58,389)**	(52,542)
Consolidated revenue	**115,616**	866,655

(ii) (Loss)/profit

	2012	2011
	HK$'000	*HK$'000*
Reportable segment (loss)/profit before taxation (continuing operations)	**(2,375,874)**	536,149
Unallocated corporate income	**2,703**	—
Depreciation	**(231)**	(326)
Unallocated corporate expenses	**(40,108)**	(27,963)
Unallocated interest expense	**(6,010)**	(846)
(Loss)/profit before taxation (continuing operations)	**(2,419,520)**	507,014

(iii) Assets

	2012	2011
	HK$'000	*HK$'000*
Segment assets for reportable segments from continuing operations	**1,514,520**	3,903,459
Segment assets for reportable segment from discontinued operations *(Note 19)*	**—**	279,828
Reportable segment assets	**1,514,520**	4,183,287
Unallocated:		
— Unallocated corporate assets	**213,313**	3,704
Total assets per consolidated statement of financial position	**1,727,833**	4,186,991

(iv) Liabilities

	2012 *HK$'000*	2011 *HK$'000*
Segment liabilities for reportable segments from continuing operations	**417,603**	347,652
Segment liabilities for reportable segments from discontinued operations *(Note 19)*	**—**	70,856
Reportable segment liabilities	**417,603**	418,508
Unallocated:		
— Provision for taxation	**49,456**	49,456
— Deferred tax liabilities	**339,564**	454,341
— Unallocated corporate liabilities	**45,815**	8,317
Total liabilities per consolidated statement of financial position	**852,438**	930,622

(v) Other items

	2012								
	Continuing operations					**Discontinued operations**			
	Tree felling service *HK$'000*	**Sustainable forest management** *HK$'000*	**Zhongshan operations** *HK$'000*	**Unallocated** *HK$'000*	**Sub-total** *HK$'000*	**Chita forests operation** *HK$'000*	**Unallocated** *HK$'000*	**Sub-total** *HK$'000*	**Total** *HK$'000*
Depreciation	**—**	**(1,332)**	**(91)**	**(231)**	**(1,654)**	**—**	**—**	**—**	**(1,654)**
Interest expense	**—**	**(9,780)**	**—**	**(6,010)**	**(15,790)**	**—**	**—**	**—**	**(15,790)**
Write off of other receivables	**—**	**(7,434)**	**—**	**(2,000)**	**(9,434)**	**—**	**—**	**—**	**(9,434)**
Loss on disposal of property, plant and equipment	**—**	**(296)**	**—**	**(437)**	**(733)**	**—**	**—**	**—**	**(733)**

	2011								
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation	(5)	(1,119)	—	(326)	(1,450)	—	—	—	(1,450)
Interest expense	—	(9,985)	—	(846)	(10,831)	—	—	—	(10,831)
Loss on disposal of property, plant and equipment	—	(45)	—	(106)	(151)	—	—	—	(151)

(c) Revenue from major products and services:

	Continuing operations		**Discontinued operations**		**Consolidated**	
	2012 *HK$'000*	2011 *HK$'000*	**2012** *HK$'000*	2011 *HK$'000*	**2012** *HK$'000*	2011 *HK$'000*
Tree felling service income	**5,396**	343,671	**—**	—	**5,396**	343,671
Sales of forestry and timber products	**110,220**	522,984	**—**	—	**110,220**	522,984
	115,616	866,655	**—**	—	**115,616**	866,655

Geographical information

The following is an analysis of geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current assets. The geographical locations of customers refers to the locations at which the customers reside. The Group's non-current assets include property, plant and equipment, biological assets, intangible assets and goodwill. The geographical locations of property, plant and equipment and biological assets is based on the physical locations of the asset under consideration. In the case of intangible assets and goodwill, the allocation is based on the location of the operation.

	Revenue from external customers		**Non-current assets**	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Continuing operations				
Europe	**—**	1,756	**—**	—
North America	**111**	2,562	**—**	—
South America	**5,921**	346,314	**1,422,778**	3,119,965
Asia Pacific (other than Hong Kong)	**109,584**	516,023	**3,049**	101
Hong Kong (place of domicile)	**—**	—	**2,646**	2,149
	115,616	866,655	**1,428,473**	3,122,215
Discontinued operations				
Asia Pacific (other than Hong Kong)	**—**	—	**—**	—
Hong Kong (place of domicile)	**—**	—	**—**	—
	—	—	**—**	—
	115,616	866,655	**1,428,473**	3,122,215

Information about major customers

Revenue from customers contributing 10% or more of the total revenue of the Group are as follows:

	2012	2011
	HK$'000	*HK$'000*
Continuing operations		
Customer A — revenue from tree felling service — Brazil	**—**	343,671
Customer B — revenue from sales of forestry and timber products — China	**—**	174,634
Customer C — revenue from sales of forestry and timber products — China	**—**	170,653
Customer D — revenue from sales of forestry and timber products — China	**—**	165,407
Customer E — revenue from sales of forestry and timber products — China	**27,910**	—

5. **REVENUE**

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts and revenue from tree felling service.

An analysis of revenue is as follows:

	Continuing operations		Discontinued operations		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Tree felling service income	**5,396**	343,671	**—**	—	**5,396**	343,671
Sales of forestry and timber products	**110,220**	522,984	**—**	—	**110,220**	522,984
	115,616	866,655	**—**	—	**115,616**	866,655

6. **OTHER INCOME AND OTHER NET LOSS**

	Continuing operations		Discontinued operations		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other income						
Rental income	**29**	23	**451**	529	**480**	552
Others	**4,095**	478	**—**	783	**4,095**	1,261
	4,124	501	**451**	1,312	**4,575**	1,813
Other net loss						
Net exchange (loss)/gain	**(35,536)**	18,281	**(1,284)**	671	**(36,820)**	18,952
Write off of trade receivables *(Note i)*	**(299,086)**	—	**—**	—	**(299,086)**	—
Write off of timber logs *(Note ii)*	**—**	(272,482)	**—**	—	**—**	(272,482)
Waiver of liabilities by creditors *(Note iii)*	**—**	108,274	**—**	—	**—**	108,274
Rental expenses *(Note iv)*	**(13,745)**	—	**—**	—	**(13,745)**	—
Waiver of consideration payable *(Note v)*	**71,183**	—	**—**	—	**71,183**	—
Change in fair value of financial liabilities	**2,700**	—	**—**	—	**2,700**	—
	(274,484)	(145,927)	**(1,284)**	671	**(275,768)**	(145,256)

Notes:

(i) In March 2011, the Group purchased logs and timber from independent suppliers in Democratic Republic of Congo ("DRC") and Virginia, USA and sold them at a total sale prices of approximately HK$396 million to some PRC customers who are independent to the Group and its directors on an ex-yard basis. Ex-yard means the seller was required to deliver the goods to its yard. All other transportation costs and risks are assumed by the buyers. The customers inspected and accepted the goods sold at the respective designated yards in DRC and USA. The sales contracts were signed under Hong Kong laws. According to the terms and conditions of the sales contracts, the customers were responsible for arranging transportation after inspection and acceptance of delivery.

In April 2011, China placed a ban on importation of logs from Virginia, USA. No one could move any logs origined from Virginia to China. The ban was only lifted, on a test basis, beginning 1 June 2012.

The Group understood that Chinese customs places ban on importation of products and goods from time to time. These bans may be politically motivated as retaliations to discriminatory policies against Chinese goods by foreign countries. Bans based on such motivations may be difficult for market participants to predict the duration. The Group was not aware of any similar rationale behind the April 2011 ban which stemmed from pests being found in some shipments from those selected states involved. Pest problems in general should be easily addressed by proper fumigation. Based on public information, the US government from those states involved seemed to be working actively and immediately to resolve the problem with the Chinese customs. In addition, the views of the Group's sales in the PRC and market views collected by them indicated that the concerns could be resolved quickly. As such, the Group believed that the ban would be short-lived.

Concurrently, the customers began looking for vessels to transport the African logs and timber from DRC to China since signing of the sales contracts. It proved to be very difficult to secure vessels as there are limited choice of shipping lines due to the perceived security risks associated with DRC, the limiting conditions of the port and the lack of proper port facilities for loading. The Group tried to assist the customers out of courtesy but was also not successful.

Timber prices in China began to soften in the second half of 2011 and continued with a downward trend for the rest of the year. Demand and prices dropped significantly after Chinese New Year in February 2012 generally due to poor housing market and negative economic outlook in China.

The sales contracts required payments be made in five installments by the customers with the last of the installments paid by 31 August 2011. Up to 20 December 2012, only a total of approximately HK$84 million was collected from the customers. No further payments were received from the PRC customers since July 2011. The Group requested the customers to settle the outstanding payments due to it numerous times while understanding the unusual circumstances surrounding the delays in shipment of the goods sold both from the USA and DRC to China. When considering to allow the customers to make deposit payments slower than the original plan, the Company took into consideration amongst other factors that it may physically block the movement of the logs and timber if payments received were not adequate to cover the quantity of logs and timber that the buyers ship. The physical block would be feasible as the Brazilian logs sold were stored inside the hydropower plant at our log yards; and the African logs and timber sold were stored at our supplier's warehouse at the port which we helped to arrange.

Timber prices began decreasing during the last quarter of 2011 and dropped significantly and suddenly during the first quarter of 2012 due to slow down in the Chinese housing market and economy. The customers notified the Group its intention to default on the contracts in May 2012. After repeated unsuccessful attempts in collecting the outstanding receivables from the PRC customers, the Group agreed with the African and US suppliers to terminate its purchase agreements with them on 31 May 2012. The African and US suppliers took back the logs and timber with no further liabilities due from the Group. The Group understood that the supplier sold the logs in the domestic market with some profit after taking back the logs.

The Group is consulting legal advice from its Hong Kong lawyer and is preparing to take legal actions against the PRC customers for breach of contract and loss of profit. At present, it is uncertain as to the amount that may be recovered from the PRC customers and whether the courts of Hong Kong will be the convenient forum to handle the claims against these PRC companies. As such, the Group considers that the value of the total receivable outstanding with these PRC customers of HK$299 million is impaired and the amount should be written off.

In hindsight, the customers may have underestimated the difficulties in sourcing transportation for such volume of timber and logs. Also, the slowdown of the housing market and the drop in timber prices in China that began in the fourth quarter of 2011 was not anticipated by the customers or the Group. These factors together contributed to the default by the customers eventually.

At the time of publishing the 31 March 2011 results on 29 June 2011, the intention to default by the customers was not known to the Group and as mentioned previously, there was no objective evidence of impairment. In June/July 2011, while it might have been difficult, the Group did not consider that it was impossible to secure vessels. The Group's senior logistic manager went to DRC in July 2011. After his trip, for the Group's other purchases, he was able to arrange one vessel that departed in July 2011 and one vessel for departure in September 2011. Accordingly, the Company did not consider the business of the Group at the time would be adversely affected, and on disclosure, impairment or announcement was considered necessary.

(ii) In December 2009, a decree was issued by the state government of Rondonia, Brazil, allowing round logs relating to the tree felling service contract for the construction of hydropower plant in Rondonia to be exported overseas without any processing. The Group planned to export the round logs overseas. Contrary to the decree by the Rondonia state government, during the year ended 31 March 2011, Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renovaveis ("IBAMA"), the Brazilian Ministry of the Environment's Enforcement Agency, notified the Group that logs of all sizes obtained from the abovementioned tree felling service contract must be processed before export citing forestry laws in connection with restrictions on exportation of logs from sustainably managed forests. The Group disagreed with IBAMA's position and contested. However, after numerous attempts and negotiations, IBAMA maintained its position. After the assessment of the higher processing costs, management believes that the estimated net realizable value of certain logs should be zero and therefore, the Group decided and wrote off those logs with a total carrying amount of approximately HK$272 million in the year ended 31 March 2011.

(iii) During the year ended 31 March 2011, upon notification by IBAMA of the export restriction described in note (ii) above, the Group negotiated with the contractor and the subcontractor which carried out tree felling services for the Group to waive the accrued related fees. The total accrued fees waived were HK$108 million.

(iv) On 1 January 2012, Universal Timber Resources Do Brasil Participacao LTDA ("UTRB"), a wholly owned subsidiary of the Company in Brazil, entered into an agreement with Berena Business Corp ("Berena") to terminate an acquisition memorandum of understanding dated 1 June 2009 and its related supplemental agreement dated 28 March 2011 (please refer to Note 16 for details).

(v) On 2 August 2011, the Group acquired the entire issued share capital of Originate Tech Global Investments Limited ("Originate Tech") for a total consideration of 769,230,769 shares. Originate Tech is an investment holding company and its Hong Kong and PRC subsidiaries are collectively referred to as "Zhongshan Operations". Consideration shares are payable in three tranches with the second and third tranches contingent upon meeting net profit guarantee. Consideration payable represented the fair value of tranche 2 and 3 shares valued at the time of acquisition, and the amount is extinguished at the end of the financial year ended 31 March 2012 as the net profit guarantee was not met. Details of the acquisition and the net profit guarantee are outlined in Note 21.

7. LOSS ON BUSINESS DISRUPTION

	2012	2011
	HK$'000	*HK$'000*
Write off of trade receivables	**114,274**	—
Write off of timber logs	**233,572**	—
Waiver of service fee payables	**(12,205)**	—
	335,641	—

In November 2009, UTRB and a main contractor being an independent third party of the Group ("Main Contractor") entered into a service agreement, pursuant to which the Main Contractor engaged UTRB to provide tree felling services in the hydropower plant in Rondonia, Brazil. The main contract was signed between the operator of the hydropower plant and the Main Contractor.

In May 2010, the alleged agent ("Alleged Agent") of the Main Contractor's owner started negotiation with UTRB for the proposed sale of the equity interest of the Main Contractor to UTRB (the "Proposed Deal"). UTRB was not satisfied with the results of due diligence exercise on the Main Contractor and the Alleged Agent failed to provide proper authorization document from the equity-owner of the Main Contractor to proceed with the Proposed Deal. As such, the Proposed Deal did not materialize.

Since around February 2011, UTRB and some of the senior officers of the Company have been receiving threatening emails and phone calls from the Alleged Agent extorting money including that payable under the Proposed Deal. It is also believed that the Alleged Agent has published or procured the publication on internet and articles posing serious accusations against the Group on its integrity and manner of doing business. The Alleged Agent has also harassed the Group's staff with constant emails, phone calls, sms and numerous personal visits to UTRB's office premises.

As a result of the above events ("Events"), UTRB made a police report with the Sao Paulo State Police Department on 10 October 2011. The alleged accusations against the Group and its business have adversely affected the reputation, business and operations of the Group in Rondonia. Further, since the occurrence of the above Events, the relationship between the Group and the Main Contractor deteriorated. In August 2011, unrelated to the Events and the operation of the Group in the power plant, hydropower plant operator terminated the main contract with the Main Contractor. Thereafter, UTRB was rejected access to the hydropower plant. During the year, inventories amounting to R$51 million (or approximately HK$234 million translated at the relevant average exchange rate for the year ended 31 March 2012) kept inside the hydropower plant.

In March 2011, the Group sold logs located inside the hydropower plant at total sale prices of approximately HK$114 million to some PRC customers who are independent to the Group and its directors. The customers inspected and accepted the goods sold at the respective designated yards in DRC and USA. The sales contracts were signed under Hong Kong laws. According to the terms and conditions of the sales contracts, the customers were responsible for arranging transportation after inspection and acceptance of delivery. The abovementioned sold logs at the hydropower plant were part of the goods sold under sales contracts that also included other timber products from Africa and USA. The sold logs remained inside the hydropower plant up to the time when UTRB was denied access to the hydropower plant in September 2011. For goodwill with these PRC customers, the Group negotiated and agreed with PRC customers that it will not demand for payment of the outstanding trade receivables in the sum of HK$114 million relating to the logs kept at the hydropower plant. The Group arrived at the decision to write off the trade receivables of approximately HK$114 million after considering: (1) that the denial of access to the hydropower plant where the sold logs were kept was completely unrelated to the buyers and not their fault. After all, the Group, as seller, was not able to enter into the hydropower plant site itself; (2) approximately HK$396,420,524 was still outstanding on the sales contracts relating to African and US logs and timber; (3) that Group believes there would be continued and additional businesses with these customers; and (4) that the Group did not believe it could collect the sum of HK$114 million from the customers without jeopardizing the remaining portion of the contracts particularly under the circumstances of the denial of access to the hydropower plant.

The Group is consulting legal counsels for the possible civil legal actions against the Alleged Agent and/ or the Main Contractor in relations to the above Events and the blockage on the Group to operate in the hydropower plant. In light of the above matters which may adversely affect the Group's operations and prospects in Rondonia, the Group decided to write off R$51 million (or approximately HK$234 million translated at the relevant average exchange rate for the year ended 31 March 2012) for the full carrying value of the logs and the trade receivables with PRC customers of HK$114 million during the year.

The Group has also retained criminal lawyer to assist UTRB and its staff (including its departed staff) with the ongoing investigations by police in Brazil into the Events and various filings by our staff against the Alleged Agent.

8. OTHER OPERATING EXPENSES

	Continuing operations		**Discontinued operations**		**Consolidated**	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Loss on disposal of property, plant and equipment	**733**	151	**—**	—	**733**	151
Write off of intangible assets *(Note 19a)*	**—**	—	**—**	9,926	**—**	9,926
Write down of timber logs *(Note i)*	**1,781**	—	**—**	1,000	**1,781**	1,000
Write off of other receivables *(Note ii)*	**9,434**	28	**—**	396	**9,434**	424
Impairment loss of intangible assets	**45,205**	—	**—**	—	**45,205**	—
Impairment loss of goodwill *(Note iii)*	**1,462,118**	—	**—**	—	**1,462,118**	—
	1,519,271	179	**—**	11,322	**1,519,271**	11,501

Notes:

(i) After the financial year ended 31 March 2012, UTRB entered into a sales agreement with a third party to purchase its logs inventory located at the yard inside the Brazil forest. The amount represented the estimated net loss on sale of logs inventory. The access road to the yard was destroyed during the rainy season and is being repaired as of the date of this announcement. Once completed, the Group will begin delivering the logs inventory to the buyer and receiving sales proceeds.

(ii) Write off of other receivables included primarily prepaid service fees paid to vendors, advanced deposits paid to suppliers and other miscellaneous receivables that the suppliers, vendors defaulted on or were unable to return upon termination. Particularly, included in the amount is the write off of an advanced deposit of R$840,000 (or approximately HK$3,869,000) paid to a third party under a Partnership Harvesting Agreement in Brazil. Please refer to Note 23(d) for more details.

(iii) Impairment loss on goodwill is a non-cash item resulting from the annual revaluation of the cash-generating unit of the segments of sustainable forest management and Zhongshan Operations. Please refer to Note 15 for details.

9. (LOSS)/PROFIT BEFORE TAXATION

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

	Continuing operations		Discontinued operations		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
(a) Net finance costs						
Finance income on financial assets not at fair value through profit or loss	**(486)**	(63)	**—**	—	**(486)**	(63)
Finance costs						
Interest on loans and other borrowings wholly repayable within five years	**5,973**	4,338	**—**	—	**5,973**	4,338
Interest on promissory notes	**129**	847	**—**	—	**129**	847
Interest on amounts due to shareholders	**8,463**	4,937	**—**	—	**8,463**	4,937
Interest on amount due to a related company	**48**	703	**—**	—	**48**	703
Interest on loan to a related company	**1,164**	—	**—**	—	**1,164**	—
Finance charges on obligations under finance leases	**13**	6	**—**	—	**13**	6
Total interest expenses on financial liabilities not at fair value through profit or loss	**15,790**	10,831	**—**	—	**15,790**	10,831
	15,304	10,768	**—**	—	**15,304**	10,768

	Notes	Continuing operations		Discontinued operations		Consolidated	
		2012	2011	**2012**	2011	**2012**	2011
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
(b) Staff costs (including directors' remuneration)							
Salaries, wages and other benefits		**51,260**	29,570	**—**	—	**51,260**	29,570
Pension scheme contributions		**1,444**	360	**—**	—	**1,444**	360
Equity-settled share-based payment		**(2,426)**	23,319	**—**	—	**(2,426)**	23,319
		50,278	53,249	**—**	—	**50,278**	53,249

	Notes	Continuing operations 2012 HK$'000	Continuing operations 2011 HK$'000	Discontinued operations 2012 HK$'000	Discontinued operations 2011 HK$'000	Consolidated 2012 HK$'000	Consolidated 2011 HK$'000
(c) Other items							
Cost of inventories*	17	**347,436**	521,384	**—**	1,000	**347,436**	522,384
Amortisation		**2,389**	—	**—**	—	**2,389**	—
Depreciation		**1,654**	1,450	**—**	—	**1,654**	1,450
Minimum lease payments under operating leases for land and buildings (including directors' quarters)		**4,483**	3,170	**27**	72	**4,510**	3,242
Auditor's remuneration							
— audit services		**1,072**	1,203	**254**	315	**1,326**	1,518
— other services		**600**	485	**—**	—	**600**	485
		1,672	1,688	**254**	315	**1,926**	2,003
Write off of deposit paid to a supplier		**—**	44	**—**	—	**—**	44
Equity-settled share-based payment for consultants		**(587)**	7,835	**—**	—	**(587)**	7,835

* *Cost of inventories includes depreciation of HK$306,000 (2011: HK$412,000), and staff costs of HK$Nil (2011: HK$4,605,000), the amount of which is also included in the respective total amounts disclosed separately above.*

10. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Income tax in the consolidated income statement represents:

	Continuing operations 2012 HK$'000	Continuing operations 2011 HK$'000	Discontinued operations 2012 HK$'000	Discontinued operations 2011 HK$'000	Consolidated 2012 HK$'000	Consolidated 2011 HK$'000
Current tax						
— Hong Kong Profits Tax						
— Provision for the year	**—**	42,102	**—**	—	**—**	42,102
Current tax						
— PRC Enterprise Income Tax						
— Provision for the year	**20**	—	**—**	—	**20**	—
Deferred tax						
— (Reversal) and origination of temporary differences	**(87,125)**	108,380	**—**	(595)	**(87,125)**	107,785
	(87,105)	150,482	**—**	(595)	**(87,105)**	149,887

No Hong Kong Profits Tax has been provided for in the financial statements as the Group has no assessable profit for the year.

Hong Kong Profits Tax has been provided at the rate of 16.5% (2011: 16.5%) of the estimated assessable profits arising in Hong Kong for the year ended 31 March 2012.

Brazil income tax has been provided at the rate of 34% (2011: 34%) of the estimated assessable profits arising in Brazil.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2011: 25%).

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

11. DISCONTINUED OPERATIONS

In February 2010, the Group commenced negotiations to dispose of the Chita forests operation in Russia as part of its ongoing strategy to seek forest assets or operations with better return on investments, hence improving the return to shareholders.

On 6 October 2011, the Group entered into a disposal agreement ("Disposal Agreement") with Source Bright Limited ("Buyer") to dispose of the Group's entire equity interest in issued share capital of Ally Rise Limited, which held 100% equity interest in OOO Zabaikalskaya Lesnaya Kompaniya ("ZLK") (and which in turn held 99.95% equity interests in OOO Novoles ("Novoles") (collectively referred to as "Ally Rise Group").

In January 2012, Novoles was declared bankrupt and one concession right previously held by it expired without renewal. In the same month, one concession right previously held by ZLK with carrying amount on 30 March 2012 of HK$144,231,000 was expropriated by the State Forest Agency due to concession fees in arrears. The Company is assisting the Buyer to get back the two concessions and obtain additional concessions from the relevant State Forest Agencies. The parties mutually agreed to proceed with the completion of the sale and purchase of Ally Rise Limited.

On 30 March 2012, in light that it will require some time for the Buyer to get back the two concessions from the State Forest Agency and restructure the assets of the Ally Rise Group from the bankruptcy, the Company agreed to extend the payment term of the consideration. The total consideration of HK$208,000,000 shall be paid in one lump sum within nine months upon Completion (see below for definition). All conditions precedent outlined in the Disposal Agreement (including all of its supplemental agreements) were fully satisfied and the disposal was completed on 30 March 2012 ("Completion") pursuant to the Disposal Agreement and its supplemental agreements.

On 18 December 2012, the board approved a further extension of the due date for the Consideration upon the request by the Buyer as more time is required to complete the procedures to get back the two concessions. In granting the extension, the board has consulted Russian lawyer. Based on the legal opinion obtained, it is common that such investment application may take up to a year and in the opinion of the Russian legal counsel, the three-month extension period is adequate to obtain the final approval from the forest agency for the above two concessions. After the extension, the total consideration of HK$208,000,000 shall be paid no later than 30 March 2013. In consideration of further extending the payment date, the Buyer will pay interests equivalent to 9.25% p.a. to the Company on the consideration outstanding from the above date until the amount is fully settled.

The Company has obtained two separate legal opinions in Russia regarding the feasibility and legality of the steps proposed by the Company and the Buyer in obtaining the two concessions back. The legal counsels had also met with the relevant State Forest Agency to confirm that those concessions were reserved for the Buyer and that such arrangement is within normal industry practices for forestry sector in Siberia. Based on their independent analyzes, they both concluded that the plan proposed by the Company and the Buyer to obtain the two concessions back are legal, reasonable and feasible.

While the Company is confident in its ability to assist the Buyer in obtaining the two concessions back, it is not possible to predict the future or outcome of its assistance relating to the concessions with hundred percent precision. The deferred nature of the consideration payable under the above disposal may cast some uncertainties in the collectability of the amount in the future. At Completion, the parties executed a charge on the entire shareholdings of Ally Rise Limited in favor of the Company. In the event of default of payment by the Buyer, the Company may exercise its right and repossess Ally Rise Group.

The operations of Chita forests were classified as discontinued operations and the gain/(loss) arising from discontinued operations are analysed as follows:

	2012 *HK$'000*	2011 *HK$'000*
Loss after tax	**(4,316)**	(15,039)
Gain on disposal of discontinued operations *(Note 22)*	**8,819**	—
Profit/(loss) from discontinued operations	**4,503**	(15,039)

The results of the discontinued operations which have been included in the consolidated income statement up to the date of disposals are as follows:

		Chita forests operation	
	Notes	**2012** ***HK$'000***	2011 *HK$'000*
Revenue	*5*	**—**	—
Cost of sales		**—**	—
Gross profit		**—**	—
Other income	*6*	**451**	1,312
Other net (loss)/gain	*6*	**(1,284)**	671
Selling and distribution costs		**—**	—
Administration expenses		**(3,483)**	(6,295)
Other operating expenses	*8*	**—**	(11,322)
		(3,483)	(17,617)
Loss from operations		**(4,316)**	(15,634)
Finance income		**—**	—
Finance costs		**—**	—
Net finance costs	*9(a)*	**—**	—
Loss before tax		**(4,316)**	(15,634)
Income tax	*10*	**—**	595
Loss after tax		**(4,316)**	(15,039)
Gain on disposal of discontinued operations before tax		**8,819**	—
Income tax		**—**	—
Gain on disposal of discontinued operations, net of tax		**8,819**	—
Profit/(loss) from discontinued operations	*22*	**4,503**	(15,039)
Attributable to:			
Owners of the Company		**4,506**	(15,029)
Non-controlling interests		**(3)**	(10)
		4,503	(15,039)

	Notes	Chita forests operation 2012 HK$'000	2011 HK$'000
Cash flow from discontinued operations			
Net cash used in operating activities		**(536)**	(6,408)
Net cash generated from investing activities		**—**	—
Net cash generated from financing activities		**535**	6,407
		(1)	(1)

The carrying amounts of the assets and liabilities of the discontinued operations at the date of disposal are disclosed in Note 22.

12. DIVIDENDS

Dividends payable to the owners of the Company attributable to the year:

	2012 HK$'000	2011 HK$'000
Final dividend proposed after the end of the reporting period of Nil per ordinary share (2011: HK0.45 cent per ordinary share)	**—**	22,804
Final dividend proposed after the end of the reporting period of Nil per convertible preferred share (2011: HK0.084 cent per convertible preferred share)	**—**	7,481
	—	30,285#

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

The calculation of dividends payable was based on the number of ordinary shares and convertible preferred shares on 28 June 2011.

Dividends payable to owners of the Company attributable to the previous financial year, approved during the year:

	2012 HK$'000	2011 HK$'000
Final dividend in respect of the previous financial year, approved during the year, of HK0.45 cent per ordinary shares (2011: Nil)	**24,683**	—
Final dividend in respect of the previous financial year, approved during the year, of HK0.084 cent per convertible preferred share (2011: Nil)	**7,313**	—
	31,996	—

The final dividend relating to year ended 31 March 2011 amounted to HK$22,691,000 was paid in September 2011. Dividend payable of HK$1,710,000 and HK$7,595,000 were included in other payable and amount due to shareholders respectively.

13. (LOSS)/EARNINGS PER SHARE

(a) For continuing and discontinued operations

The calculation of basic and diluted (loss)/earnings per share is based on the (loss)/profit attributable to the owners of the Company as follow and the reconciliation of the weighted average number of shares as shown in Note (d):

	2012	2011
	HK$'000	*HK$'000*
(Loss)/earnings		
(Loss)/earnings for the purpose of basic and diluted (loss)/earnings per share		
— (Loss)/profit attributable to the owners of the Company	**(2,327,909)**	341,486

Diluted loss per share equals to the basic loss per share for the year ended 31 March 2012 because the outstanding convertible preferred shares and share options and other potential ordinary shares in issue had an anti-dilutive effect on the basic loss per share.

(b) For continuing operations

The calculation of basic and diluted (loss)/earnings per share from continuing operations is based on the (loss)/profit attributable to the owners of the Company as follow and the reconciliation of the weighted average number of shares as shown in Note (d):

	2012	2011
	HK$'000	*HK$'000*
(Loss)/earnings		
(Loss)/earnings for the purpose of basic and diluted (loss)/earnings per share		
— (Loss)/profit attributable to the owners of the Company	**(2,332,415)**	356,515

Diluted loss per share equals to the basic loss per share for the year ended 31 March 2012 because the outstanding convertible preferred shares and share options and other potential ordinary shares in issue had an anti-dilutive effect on the basic loss per share.

(c) For discontinued operations

Basic earnings/(loss) per share

Basic earnings per share for the discontinued operations is HK0.08 cent per share (2011: basic loss per share of HK0.44 cents) which is based on the profit from the discontinued operations of HK$4,506,000 (2011: loss of HK$15,029,000) and the denominators used are shown in Note (d).

Diluted earnings per share is equal to the basic earnings per share because the outstanding convertible preferred shares and share options and other potential ordinary share in issue had an anti-dilutive effect on the basic earnings per share for continuing operations for the year ended 31 March 2012.

Diluted loss per share is equal to the basic loss per share for the year ended 31 March 2011 because the outstanding convertible preferred shares and share options had an anti-dilutive effect on the basic loss per share.

(d) Weighted average number of shares

	2012	2011
	'000	*'000*
Number of Shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,651,619**	3,462,624

	2011
	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	3,462,624
Effect of dilutive potential ordinary shares arising from conversion of convertible preferred shares	2,977,901
Effect of dilutive potential ordinary shares arising from share options	6,499
Weighted average number of ordinary shares for the purpose of diluted earnings per share	6,447,024

14. BIOLOGICAL ASSETS

	2012	2011
	HK$'000	*HK$'000*
At beginning of the year	**1,173,150**	833,323
Transfer to inventories	**(2,951)**	—
Changes in fair value less costs to sell	**(150,419)**	250,243
Exchange movement	**(106,731)**	89,584
At end of the year	**913,049**	1,173,150

The Group's forest assets, acquired through the business combination of Amplewell Holdings Limited ("Amplewell") and its subsidiaries ("Amplewell Group"), are located in the Northwest of Brazil, the State of Acre, Amazon Region (the "Brazil Forest"). At 31 March 2012 and 2011, the biological assets represent natural tropical forests. The total area of the Brazil Forest is approximately 44,500 hectares. Under the environmental laws in Brazil, 20% (2011: 15%) or 8,939 hectares (2011: 6,675 hectares) of the Brazil Forest area is the permanent preservation area and therefore is restricted from logging. At least 80% of the remaining area is designated as the sustainable forest management area and the balance is the permissible clear cut area that has no restriction on felling under the environmental laws of Brazil. In the sustainable forest management area, minimum impact logging techniques are used and forests are managed in a sustainable manner which means that the harvesting rate is below the overall natural growth of the forest. The main objective in sustainable forest management program is to ensure the substance of the forests be preserved. The maximum logging rate allowed under relevant regulations governing sustainable forest management is 30 cubic meters per hectare, an average, over a 25 to 30 year harvesting cycle.

Harvesting in Acre commenced in 2011 after a longer than expected rainy season in 2010 and the roads into the harvesting area were repaired. However, on 27 March 2012, the board decided to suspend harvesting operations in Acre for 1 year until the operating environment for UTRB is improved. As disclosed in Note 7, UTRB and its staff had been harassed by the Alleged Agent of the Main Contractor in the tree felling service project in Rondonia. Not only was the tree felling service project adversely affected by the Alleged Agent, he has also created a difficult and hostile environment for UTRB and its staff in Brazil. Since the harassments began in February 2011, the Alleged Agent harassed UTRB's staff and their family with death threats in numerous instances. The Group's employees especially in Brazil were scared and UTRB had experienced high turnover of personnel. As such, it was decided to suspend harvesting operations in Acre to address the concerns of its staff. For the year ended 31 March 2012, the Group recorded a revaluation loss on biological assets of HK$150.4 million. The loss was primarily attributable to decrease in log prices; decrease in remeasurement of allowable harvesting area; depreciation of Brazilian Real against Hong Kong dollars; and increase in costs to sell.

The forest engineer adopted a new methodology in determining the harvestable area of the Brazil forests in the technical report used for the current year's valuation. This new methodology or standard (Modeflora — Digital Model of Forest Exploration) was developed locally in Brazil by Embrapa (Brazilian Enterprise for Agricultural Research). Adoption is not mandatory by the state but recommended to the forest engineer professionals.

During the valuation process, GCA referenced to a technical report on estimation of quality and quantity of commercial and potentially commercial wood species and residues resulting from the forest exploitation issued by CAAP FORESTAL ("CAAP"). CAAP performs only once diagnostic sampling for the whole farm area under current State regulation. 100% census of the inventory will be performed to obtain a new operating license for a UPA area. In general, it is common practice by forest engineers to assume there is no change in the forest inventory as the tropical natural forestry asset is very stable within five to ten years, so there is not necessary to perform detailed sampling every year. Rain forest is a long lasting asset if without human intervention (Amazon forest is estimated to have existed for some 10 million years). Temporary hostile climate, e.g. strong wind, heavy rain and flooding do not change the natural habitat of the forest. Disease and fire might affect the forestry assets, but to the best knowledge of the Company, no known fire and abnormal wood disease were reported during the periods covered under the valuation. Temperature might affect the quality/volume of the forestry asset, but in a long term prospective (which usually over decades) instead of affecting within a short period of time.

Notwithstanding the above, CAAP obtains satellite image of the farms in August every year with spatial resolution of 15 m (49 ft). This is to recognize if there is any abnormal situation (e.g., sudden large scale clearing/disappearing of trees) in the farms. It indicated that any object or abnormality with 15 m in size will be shown on the satellite image. CAAP also monitors the daily updates on burns and fires in Brazil forest area: http://www.inpe.br/queimadas/.

The Brazil Forest was independently valued by Greater China Appraisal Limited ("GCA"), an independent qualified professional valuers not connected with the Group. GCA has experience in valuing similar forestry assets. GCA has adopted a discounted cash flow methodology in valuing the Brazil Forest. The following are the major assumptions used in the valuation:

- a logging volume of 21.5 m^3 (2011: 21.5 m^3) per hectare in the sustainable forest management program area.

- a discount rate of 15.8% (2011: 16.6%) based on the data and factors relevant to the economy of Brazil, the industry of forest business and the harvestable resources in the Brazil Forest, and the weighted average cost of capital.

- harvesting activities for the first 30-year cycle will resume from the calendar year of 2013 and complete in 7 years (2011: 8 years). Revenue or costs from subsequent harvesting cycle are not taken into account.

- average logs price growth at a rate of 3% per annum (2011: 3% per annum) in the next 7 years (2011: 7 years) which is the expected long term growth rate was estimated by reference to the Consumer Price Index in USA.

- the Group will obtain Forest Stewardship Council (the "FSC") certification in 2014. FSC certification demonstrates fulfillment of social and ecological criteria, while increasing the prices achievable for timber products. Based on current market practices, the Directors estimate that the Group can enjoy a price premium of 15% over non FSC timber products from 2014 when the Group obtains the FSC certification.

The Group is exposed to a number of risks related to its natural forest.

(i) Regulatory and environmental risks

The Group is subject to laws and regulations in Brazil in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks. The Directors are not aware of any environmental liabilities as at 31 March 2012.

(ii) Supply and demand risk

The Group is exposed to risks arising from fluctuations in the price and sales volume of logs. When possible the Group manages this risk by controlling its harvest volume, according to market conditions. Management performs regular industry trend analysis to ensure the Group's pricing policy is comparable to the market and the projected harvesting volumes are consistent with the expected demand.

15. GOODWILL

	Sustainable forest management *(note i)* *HK$'000*	**Zhongshan Operations** *(note ii)* *HK$'000*	**Total** *HK$'000*
Cost			
At 1 April 2010, 31 March 2011 and 1 April 2011	1,686,883	—	1,686,883
Arising from acquisition of subsidiaries	—	77,353	77,353
At 31 March 2012	1,686,883	77,353	1,764,236
Accumulated impairment losses			
At 1 April 2010, 31 March 2011 and 1 April 2011	—	—	—
Impairment losses recognised during the year	1,384,765	77,353	1,462,118
At 31 March 2012	1,384,765	77,353	1,462,118
Carrying amount			
At 31 March 2012	302,118	—	302,118
At 31 March 2011	1,686,883	—	1,686,883

Notes:

(i) Sustainable forest management

Goodwill was allocated to the Group's cash-generating unit identified according to the operating segment. Goodwill as at 31 March 2012 and 2011 was attributable to the cash-generating unit that comprises the sustainable forest management segment.

For the year ended 31 March 2012, goodwill relating to sustainable forest management segment suffered an impairment loss of HK$1,385 million primarily as a result of the deferral of harvesting plan; drop in timber prices and decrease in remeasurement of allowable forest area.

The forest engineer adopted a new methodology in determining the harvestable area of the Brazil forests in the technical report used for the current year's valuation. This new methodology or standard (Modeflora — Digital Model of Forest Exploration) was developed locally in Brazil by Embrapa (Brazilian Enterprise for Agricultural Research). Adoption is not mandatory by the state but recommended to the forest engineer professionals.

The recoverable amount of the sustainable forest management segment cash-generating unit was based on value in use and was determined with the assistance of an independent valuer.

Value in use was determined by discounting the future cash flows generated from the continuing use of the unit. The calculation of the value in use was based on the following key assumptions:

— Cash flows were projected based on past experience and financial budget approved by management. Management estimated that the cash flows after 9 years (2011: 9 years) are immaterial to the overall recoverable amount of the unit because the management planned to complete the harvesting and selling activities for the first 30-year cycle of the Brazil Forest within 8 years. Therefore, cash flows after 9 years (2011: 9 years) are not included in the value in use calculations. Cash flows from year 5 to year 9 are extrapolated using an estimated weighted average growth rate of 3%, which is consistent with the expected long term growth rate of Consumer Price Index in USA. Management estimated that there would be a negative growth of 63% in year 9 as a result of the completion of harvesting and selling activities for the first 30-year cycle of the Brazil forest.

— Revenue was projected based on management's past experience and their expectations for market development and the harvesting plan.

— Timber product average price growth at 3% per annum (2011: 3% per annum). The expected long term growth rate was estimated by reference to the Consumer Price Index in USA.

— A pre-tax discount rate of 27.84% (2011: 21.2%) based on the data and factors relevant to the economy of Brazil, the forest industry, the timber products in the Brazil Forest, and the weighted average cost of capital.

— The Group will obtain FSC certification in 2014. FSC certification demonstrates fulfillment of social and ecological criteria, while increasing the prices achievable for timber products. Based on current market practices, the Directors estimate that the Group can enjoy a price premium of 15% over non FSC timer products from 2014 when the Group obtains the FSC certification.

(ii) Zhongshan Operations

The goodwill of HK$77,353,000 arising from the acquisition of Zhongshan Operations represented the future economic benefits from the synergy effect of the business combination.

The entire value of Zhongshan operations segment was considered impaired as of 31 March 2012, and an impairment loss on goodwill of HK$77 million was recorded. Details of the impairment are disclosed in Note 21.

The recoverable amount of Zhongshan operations segment cash-generating unit was based on value in use and was determined with the assistance of GCA.

The value in use was determined by discounting the future cash flows generated from the continuing use of the unit. The calculation of the value in use was based on the following key assumptions:

— Cash flows for Zhongshan operations segment were projected based on past experience and financial budget approved by management. Management estimated that the cash flows after 5 years are immaterial to the overall recoverable amount of the unit.

— Revenue for Zhongshan operations segment was projected based on management's expectation for market development and the existing agreement with customers.

— The expected long term growth rate is 3% per annum was estimated by reference to the Consumer Price Index in USA.

— A pre-tax discount rate of 22.70% based on the data and factors relevant to the economy of China, and the weighted average cost of capital.

For the year ended 31 March 2012, goodwill relating to Zhongshan operations segment suffered an impairment loss of HK$77 million. Zhongshan Operations incurred a net loss of approximately HK$18 million in its first year of operations since consolidation into the Group. The net loss was mainly due to rapid slow down of the PRC property market and falling property prices in the PRC. As a result of the uncertainties in the PRC economy and continued depressed timber demand and prices, the Group considers that the value of the goodwill related to Zhongshan Operations suffered impairment. Please refer to Note 21 for more details on the acquisition of Zhongshan Operations.

16. DEPOSIT FOR PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

Pursuant to a memorandum of understanding and its extension agreement (collectively "MOUs") entered into between UTRB and Berena on 1 June 2009 and 28 March 2011, respectively, UTRB paid a total advanced deposit of R$6,400,000 (or approximately HK$30,336,000 as of 31 March 2011) to acquire a factory, machinery and equipment. UTRB occupied the factory and used the machinery and equipment from July 2009 to January 2012. Pursuant to the MOUs, the advanced deposit shall be used to offset against the purchase price in the event that a definitive agreement shall be entered into for the purchase of the factory, machinery and equipment on or before 31 March 2012 (the "Expiry Date"), or as rental payments if no such acquisition agreement is reached.

On 27 July 2010, Berena entered into a loan agreement lending R$3,000,000 (or approximately HK$14,220,000 as of 31 March 2011) to UTRB with maturity on 27 January 2011. The loan agreement was subsequently renewed on 28 March 2011 extending maturity to 27 January 2012.

No definitive acquisition agreement for the purchase of the factory was reached between the parties on or before the Expiry Date. On 1 January 2012, Berena and UTRB entered into an agreement ("Termination Agreement") to offset the loan and its accrued interests payables of R$3,416,000 (or approximately HK$15,732,000 as of 14 February 2012) against the advanced deposit of R$6,400,000 (or approximately HK$29,477,000 as of 14 February 2012). The net difference of R$2,984,000 (or approximately HK$13,745,000) would have been rental expenses for the usage of the factory from July 2009 to January 2012. In addition, UTRB entered into an agreement on 30 December 2011 and paid R$320,000 (or approximately HK$1,364,000) to purchase some machinery and equipment from Berena.

On 7 April 2011, Berena became a related company to the Group as the ultimate beneficial owner of Berena joined the Group as part of the senior management team.

17. INVENTORIES

	Notes	2012 HK$'000	2011 HK$'000
Timber logs	*(a)*	**1,425**	240,383
Sawn timber	*(b)*	**48,126**	—
Raw materials	*(c)*	**3,212**	865
Work in progress	*(c)*	**83**	490
Finished goods	*(c)*	**12,782**	242
		65,628	241,980

Notes:

(a) The timber logs were harvested from the biological assets (2011: harvested during the provision of tree felling services).

(b) The sawn timber was purchased for trading purpose.

(c) These inventories were held for further processing or sale.

(d) The analysis of the amount of inventories recognised as an expense is as follows:

	2012 HK$'000	2011 HK$'000
Carrying amount of inventories sold	**112,083**	248,902
Write down of timber logs *(Note 8)*	**1,781**	1,000
Write off of timber logs *(2012: Note 7 and 2011: Note 6(ii))*	**233,572**	272,482
	347,436	522,384

18. TRADE AND OTHER RECEIVABLES

	2012 HK$'000	2011 HK$'000
Trade receivables	**955**	513,693
Other receivables	**10,279**	1,480
Amount due from a director	**456**	—
Prepayments and deposits	**6,282**	4,116
	17,972	519,289

All of the trade and other receivables are expected to be recovered within one year.

The trade receivables as of 31 March 2011 related primarily to sales to customers completed in March 2011 for logs and sawn timber from Brazil, Africa and United States on ex-yard basis. Due to the size of the orders, goods were planned to be shipped in multiple shipments. While the Group was not responsible for arranging or the costs of transportation, the Group agreed to defer part of the payment according to the anticipated shipment dates. Please refer to Note 6(i) and 7 for details regarding the write off of the trade receivables relating to the sales of timber logs and sawn timber from Brazil, Africa and the United States.

(a) Trade receivables

The aging analysis of the trade receivables as of the reporting date, based on invoice date, was as follows:

	2012	2011
	HK$'000	*HK$'000*
0 to 30 days	**922**	512,845
31 to 60 days	**18**	—
61 to 90 days	**—**	827
Over 90 days	**15**	21
	955	513,693

The Group's trading terms with its customers are mainly on credit and letters of credit, except for new customers where payment in advance and cash on delivery are normally required. Invoices are normally payable between 30 and 180 days after issuance. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

Trade receivables over 90 days as of 31 March 2012 were fully settled in April 2012 after year end.

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

(c) Trade receivables that are not impaired

The aging analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2012	2011
	HK$'000	*HK$'000*
Neither past due nor impaired	**28**	513,678
Less than 1 month past due	**894**	3
1 to 3 months past due	**18**	4
Over 3 months past due	**15**	8
	927	15
	955	513,693

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group for whom there was no recent history of default. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

19. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

In February 2010, the Group commenced negotiations to dispose of the Chita forests operations in Russia as part of its ongoing strategy to seek forest assets or operations with better return on investments, hence improving the return to shareholders. As at 31 March 2011, the assets and liabilities attributable to the Chita forests operations have not been sold but were expected to be sold within twelve months. As such, the assets and liabilities of Chita forest operations were classified as assets and liabilities held for sale and presented separately in the consolidated statement of financial position.

The sale of the assets and liabilities of Chita forests operations was completed on 30 March 2012. Details are disclosed in Note 22.

As at 31 March 2011, the major classes of assets and liabilities of Chita forests operations in Russia, which have been classified as held for sale are as follows:

	Notes	**2012** **HK$'000**	2011 *HK$'000*
Property, plant and equipment		—	74,019
Intangible assets	*(a)*	—	152,506
Trade and other receivables		—	505
Amount due from a non-controlling shareholder	*(b)*	—	52,797
Cash and bank balances		—	1
Assets classified as held for sale		—	279,828
Trade and other payables		—	26,639
Other loans, secured	*(c)*	—	4,131
Other loans, unsecured	*(d)*	—	2,517
Deferred tax liabilities		—	37,569
Liabilities associated with assets classified as held for sale		—	70,856

Notes:

(a) Intangible assets

The Group acquired seven timber concession licences through acquisition of Amplewell Group on 31 July 2009. These timber concession rights cover approximately 242,745 hectares of forests situated within the Chita region in Russia.

The timber concession licences have finite life which will expire in 2012 to 2032. Under the terms of the timber concession licences, the Group has the right to carry out harvesting activities. In addition, the Group is required to pay royalties to the respective forestry services departments in Russia at a pre-determined fixed sum calculated based on the volume by species allowed to be harvested each year.

The timber concession rights were independently valued by GCA, with a fair value of HK$168,182,000 at the date of acquisition. GCA adopted a direct market data method to value the timber concession rights which was based on the official price data published by the Federal Forestry Agency of the Ministry of Agriculture of the Russian Federation.

During the year ended 31 March 2011, two timber concession rights covering approximately 23,893 hectares of forest were expropriated by respective forestry services departments in Russia due to defaults of payments of royalties during the year. As a result, these two timber concession rights were written off by the Group with the carrying amount of approximately HK$9,926,000 recognised as other operating expenses of discontinued operations.

(b) Amount due from a non-controlling shareholder

The amount was unsecured and interest-free. In the opinion of the Directors, the amount was expected to be realised within twelve months from the end of the reporting period.

Under the repayment agreement entered between the non-controlling shareholder and Amplewell, the non-controlling shareholder agreed to dispose part of his shares in Winner Global Holdings Limited ("Winner Global"), a substantial shareholder of the Company, and ordinary shares in the Company for repayment of the amount due to the Group. The amount was also guaranteed by a shareholder, Assure Gain International Limited ("Assure Gain") which owned 43.38% interests in Winner Global. Under the guarantee agreement, the shareholder agreed to dispose sufficient shares in the Company to repay the outstanding amount in the event of default by the non-controlling shareholder.

(c) Other loans, secured

As at 31 March 2011 the loans were secured by the subsidiary's building with carrying amount of HK$3,139,000 and the personal assets given by a non-controlling shareholder. The loans were bearing fixed interest rate at 3% to 5% per annum. During the year ended 31 March 2010, the Ally Rise Group failed to repay the loans on maturity dates and the amounts of loans became due as at 31 March 2011.

(d) Other loans, unsecured

As at 31 March 2011, out of the amount of HK$2,517,000, HK$1,368,000 ("Loan A") was bearing fixed interest rate at 5% per annum, HK$164,000 ("Loan B") was interest free and the remaining HK$985,000 ("Loan C") was bearing fixed interest rate at 16% per annum.

During the year ended 31 March 2010, the Ally Rise Group failed to repay the Loan A, Loan B and Loan C on maturity dates and became due as at 31 March 2011.

(e) Litigations

(i) On 9 August 2010, the Arbitration Court of Zabaykalsky region of Russia (the "Court") initiated a procedure of observation (bankruptcy) (the "Observation") for ZLK. Within the period for the Observation, the Court received certain claims from the several creditors against ZLK to repay approximately 24 million Russian rubles (approximately HK$6.5 million) of liabilities. These liabilities were included in the liabilities associated with assets held for sale as of 31 March 2011. During the year ended 31 March 2011, ZLK settled certain parts of these liabilities. ZLK as part of Chita forest operations was sold before 31 March 2012 and all liabilities related to the claims were transferred to the Buyer. Therefore no such amounts are included in the consolidated statement of financial position of the Group as of 31 March 2012. Please refer to note (iii) for details on Completion.

(ii) On 11 February 2011, a lender (the "Lender") of loans submitted a claim to the Court against ZLK to repay the alleged defaulted loan principal, interests with penalties of approximately 40 million Russian rubles (approximately HK$11 million) (the "Claim"), which was different from the balance of approximately 21 million Russian rubles (approximately HK$5.8 million) in the records of the Company. According to the legal opinion issued by a legal advisor, the Court would probably validate the total loan principal with interests of approximately 21 million Russian rubles (approximately HK$5.8 million) which was the same as the records of the Company. These amounts were included in the liabilities associated with assets held for sale as of 31 March 2011. ZLK as part of Chita forest operations was sold before 31 March 2012 and all liabilities related to the claims were transferred to the Buyer. Therefore no such amounts are included in the consolidated statement of financial position of the Group as of 31 March 2012. Please refer to note (iii) for details on Completion.

(iii) The Completion of the disposal took place on 30 March 2012. Upon Completion, as a security for payment of the Considerations and other obligations on the part of the purchaser under the disposal agreement, the purchaser has executed a share charge in relation to the charge of the entire issued share capital of Ally Rise.

20. TRADE AND OTHER PAYABLES

	Notes	**2012** **HK$'000**	2011 *HK$'000*
Trade payables	*(a)*	**177,997**	180,231
Other payables and accruals		**22,049**	19,055
Amounts due to related companies	*(c)*	**12,264**	—
Financial liabilities measured at amortised costs		**212,310**	199,286

All of the trade and other payables are expected to be repaid or recognised as income within one year or had no fixed terms of repayment.

(a) Trade payables

An aging analysis of the Group's trade payables as at the end of the reporting period, based on invoice date, was as follows:

	2012 **HK$'000**	2011 *HK$'000*
0 to 30 days	**5,200**	130,566
31 to 60 days	**2,717**	—
Over 90 days *(note (i))*	**170,080**	49,665
	177,997	180,231

Note:

(i) Trade payables as of 31 March 2012 included HK dollars equivalent amounts of HK$114 million and HK$10 million payable to two suppliers for African timber and logs, and North American logs, respectively. The logs were purchased and sold to PRC customers during the financial year ended 31 March 2011. Please refer to Note 6(i) for details of the purchases and the related sales.

In addition, trade payables also included equivalent R$10 million (equivalent to approximately HK$45 million at 31 March 2012 and HK$50 million at 31 March 2011). This sum represented service fees payable to a subcontractor for a tree felling service project in Rondonia, Brazil. UTRB had disputes with the subcontractor and it abandoned the site. No further work was subcontracted to them after the year ended 31 March 2011 as UTRB was not assigned any area for clearing by the hydropower plant of this project in the financial year ended 31 March 2012, and no amount was paid by UTRB either. UTRB is not aware of any claims or lawsuits filed by the subcontractor at the relevant courts.

(b) Cash consideration payable for acquisition of biological assets

	2012	2011
	HK$'000	*HK$'000*
At beginning of the year	**—**	26,598
Less: Settlement	**—**	(29,071)
Exchange movement	**—**	2,473
At end of the year	**—**	—

(c) Amounts due to related companies

The amounts were unsecured, interest free and had no fixed terms of repayment.

21. ACQUISITION OF SUBSIDIARIES

On 2 August 2011, the Group obtained control of Originate Tech and its subsidiaries (collectively "Zhongshan Operations") by acquiring 100% equity interest and voting rights in Originate Tech from Mr. LI Zhixiong ("Mr. Li"). Zhongshan Operations are engaged in manufacturing and sales of timber products including but not limited to wooden floor panels, doors and furniture. Mr. Li was appointed as an executive director of the Company on 2 September 2011.

Net Profit Guarantee and Contingent Consideration

The total consideration for the acquisition of the Zhongshan Operations was 769,230,769 shares of the Company and was divided into three tranches. The first tranche of 100,000,000 shares was issued at closing to Mr. Li. The second tranche of 280,000,000 shares (also issued at closing but held by the Company) and the third tranche (remaining balance) are contingent upon meeting net profit guarantee. Mr. Li guaranteed that audited net profit after tax on IFRS basis will not be less than HK$300,000,000 for the three years after completion, and that Susfor-Oasis must not incur any net losses for each of three financial years immediate after completion.

Rationale for the Acquisition

As a veteran in the PRC timber industry, Mr. Li had more than 20 years of experiences in sales and manufacturing. He was the president of Zhongshan New Oasis, a PRC company specializing in manufacturing and selling wooden flooring products to property developers in the PRC prior to the acquisition of the Zhongshan Operations. He is also the registered holder of a patent for "curve flooring". Under his management, New Oasis (a brand under which Zhongshan New Oasis manufactured its flooring products) was ranked 3rd, in flooring category, by "Top Ten Brands in China" in May 2011 and was awarded "China's 500 Most Valuable Brands" of the year 2010 by the World Brand Laboratory. Also, Zhongshan New Oasis had an extensive network of distributors and an experienced team in sales, manufacturing and quality control in the PRC.

The board believed the acquisition was a perfect marriage where the companies complemented each other well. The Group had its own forest resources and specialized in sourcing logs and timber products from different parts of the globe, but had no significant presence in the PRC, the largest timber consumption market in the world. Mr. Li had little overseas access or experience in direct sourcing of timber raw materials. The acquisition allowed the Group to buy into a ready platform of local expertise, distribution network and customer base in the PRC, matching its own overseas sourcing expertise.

The Board was optimistic about the prospect of the timber and wood processing and timber sales in the PRC having taking into account the continuous growth of gross domestic product and sales of floor panels (which is one of the major products of the Zhongshan New Oasis) in the PRC in recent years.

The following summarises the acquisition-date fair value of consideration transferred and the acquisition-date fair value of each major class of consideration:

	HK$'000
Fair value of first tranche ordinary consideration shares issued	41,400
Fair value of second tranche ordinary consideration shares issued	30,898
Fair value of third tranche ordinary consideration shares to be issued	40,285
	112,583

The fair value of ordinary consideration shares are based on the published share price of HK$0.414 per share as at 2 August 2011.

The following summarized the recognised amounts of identifiable assets acquired and liabilities assumed as at 2 August 2011.

	Acquiree's carrying amount before combination *HK$'000*	**Fair value adjustments** *HK$'000*	**Fair value** *HK$'000*
Property, plant and equipment	165	—	165
Intangible assets	—	47,594	47,594
Cash and cash equivalents	897	—	897
Inventories	567	—	567
Other receivables	179	—	179
Trade and other payables	(2,273)	—	(2,273)
Deferred tax liabilities	—	(11,899)	(11,899)
Total net identifiable assets	(465)	35,695	35,230
Goodwill			77,353
Total consideration			112,583

Goodwill arising on acquisition

	HK$'000
Consideration transferred	112,583
Less: fair value of identifiable net assets acquired	(35,230)
Goodwill arising on acquisition	77,353
Cash and bank balances acquired of	897

The goodwill of HK$77,353,000 arising from the acquisition of Zhongshan Operations represented the future economic benefits from the synergy effect of the business combination. The acquisition allowed the Group to buy into a ready platform of local expertise, distribution network and customer base in the PRC, matching its own overseas sourcing expertise.

None of the goodwill recognised is expected to be deductible for income tax purposes.

The Group incurred acquisition related costs of HK$330,000 relating to legal and professional fees and other charges which have been excluded from the cost of acquisition. The acquisition related costs have been recognised as expenses during the year ended 31 March 2012, within the 'administrative expenses' line item in the consolidated income statement.

Zhongshan Operations contributed revenue of HK$79,518,000 and loss of HK$18,262,000 for the year. Had the acquisition occurred on 1 April 2011, the revenue and loss of the Group for the year ended 31 March 2012 would have been HK$115,616,000 and HK$2,328,365,000 respectively. The Directors consider these pro-forma numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference results for comparison in future periods.

After the completion of the acquisition, the vendor has the responsibility to report and pay the tax for the gain on disposal of shares in PRC and the buyer has the responsibility to withhold the tax. If the tax authority cannot recover the tax from the vendor, it may lodge an assessment on the buyer to pay the tax. The estimated tax liability amounted to approximately HK$9,900,000.

Impairment of Zhongshan Operations and Acquisition Goodwill

Subsequent to the acquisition, Zhongshan Operations carried out the business, which was previously carried out by Zhongshan New Oasis, of selling wooden flooring and products to property developers in the PRC. In addition, according to the business plan, Zhongshan Operations was to operate two new lines of business, namely timber wholesale market; and franchise retail network selling its wooden flooring and other products.

Unfortunately, the results of Zhongshan Operations was disappointing and incurred a net loss of approximately HK$18 million during the financial year ended 31 March 2012. The net loss was primarily attributable to the rapid slow down of the property market and falling property prices in the PRC. Home prices began declining in and around September 2011 and many developers in the PRC began offering significant discounts in order to raise cash. The above created a difficult environment for all of our three business lines.

Project Sales

Many of the contracts for sales of flooring products to the developers were delayed or put on hold without definite time when they will come on line again. In addition, as home prices declined, many developers are demanding prices to be discounted from all of their vendors. The profit margin for many potential projects became too thin or simply vanished and therefore could not materialize.

Franchise Operations

The Company planned to turn approximately 70 of the traditional distributors of flooring for Zhongshan New Oasis into franchisees with standardized shop front, unified prices and selling only our products. While preparing for such change, Zhongshan Operations opened 4 directly operated shops in Shenzhen and Zhongshan. Performances for all of the 4 shops were poor and sales were dismal and all incurred net losses. The shops were closed subsequently. The macro environment of sluggish property market and general poor market sentiment affected this "start up" business greatly.

Timber Wholesale Market

Timber Wholesale Market aimed to take advantage of the Group's overseas sourcing ability and network and Zhongshan Operations' geographical advantage. Zhongshan and its neighboring Shunde formed one of the largest wooden furniture and flooring centers in the PRC. As general economy and housing market was turning south in 2011 and 2012, wholesale timber prices were also declining. The shrinking margin could not bear the additional cost of transportation of logs and timber to one central location at our facility in Zhongshan. Zhongshan Operations had to store and sell the logs and timber at the ports in the PRC. Also, Zhongshan Operations was facing resistance from potential renters as the centralized inventory concept was not able to materialize. Those distributors that had originally agreed to relocate to our premises now reneged on their commitment and adopted a wait-and-see attitude. As such, the timber wholesale market did not commence operation.

As a result of the uncertainties in the PRC economy and continued depressed timber demand and prices, the Group considers that the value of the assets related to Zhongshan Operations suffered impairment and recorded net loss of HK$42 million (comprising waiver of contingent consideration payable of HK$71 million, reversal of deferred tax liabilities of HK$12 million, recognition of impairment loss on goodwill of HK$77 million, and recognition of impairment loss and amortization on intangible assets totalling HK$48 million).

On 27 June 2012, Mr. Li entered into an agreement with the Group confirming that the net profit guarantee under the acquisition was not met. It was further confirmed that the Group does not owe any further amounts to Mr. Li. 280,000,000 ordinary shares of the Company issued under Tranche 2 are being held by the Company pending disposal in the market at its discretion. The Company plans to sell these shares in due course subject to the market conditions. All net proceeds from the disposals of the above shares shall be retained by the Company.

22. DISPOSAL OF SUBSIDIARIES

The Group discontinued its Chita forest operations at the time of disposal of its subsidiaries during the year ended 31 March 2012. The net assets at the date of the disposals were as follows:

	HK$'000
Net assets disposed of	
Property, plant and equipment	71,597
Intangible assets	152,099
Trade and other receivables	1,020
Amount due from a non-controlling shareholder	53,176
Cash and bank balances	1
Trade and other payables	(28,475)
Other loans, secured	(3,989)
Other loans, unsecured	(2,431)
Deferred tax liabilities	(37,453)
	205,545
Non-controlling interests	13
	205,558
Exchange reserve	(6,377)
	199,181
Disposal costs	—
Gain on disposal of subsidiaries *(note 11)*	8,819
Total consideration	208,000
Satisfied by:	
Promissory Note *(note i)*	208,000
Total consideration	208,000
Cash and bank balances disposed of	(1)
	207,999
Cash consideration receivable	(208,000)
Net cash outflow arising on the disposal	(1)

Note:

(i) A promissory note was issued by the Buyer of Chita forests operations on 30 March 2012 in lieu of cash payment. The note is interest free and matures nine months after Completion.

23. CONTINGENT LIABILITIES

(a) Litigations in relation to Ally Rise Group

As at 31 March 2011, Ally Rise Group had two outstanding litigations and the details are disclosed in note 19(e). On 30 March 2012, Ally Rise Group was sold and the contingent liabilities transferred to the buyer of the Ally Rise Group. The details of the sale is outlined in Note 22.

(b) Claims against the Company

A third party (the "Plaintiff") asserted claims against the Company for salaries in amounts equivalent in the aggregate to US$901,539 (approximately HK$7,022,000), together with certain other employment benefits, by reason of the alleged breach by the Company of two separate but concurrent contracts of employment that the Plaintiff asserted were entered into between the Plaintiff and the Company in April 2009. The Company disputed the existence of any contracts, whether of employment or otherwise, between itself and the Plaintiff. Arbitration proceedings commenced on 30 October 2009 and hearing was scheduled for the week of 19 September 2011. The Company defended itself vigorously in those proceedings. In the opinion of the Directors of the Company, the claims were at a preliminary stage and no provision has been made in respect of such claims as of 31 March 2011. The above matters were dealt with under arbitration proceedings which hearings were held at the Hong Kong International Arbitration Centre ("HKIAC") from 19 to 21 September 2011.

The Company received a final award from the HKIAC on 5 March 2012. The arbitral tribunal made an order that the Claimant's claims against the Company are dismissed and that each party will bear its own legal costs and the costs of the arbitration.

(c) Corporate guarantee

As at 31 March 2012, the Company had given unconditional guarantee to a financial institution to secure finance leases payables granted to a subsidiary to the extent of HK$500,000 (2011: HK$500,000). The extent of the finance leases payables utilised by the subsidiary at the end of the reporting period amounted to approximately HK$350,000 (2011: HK$450,000).

In the opinion of the Directors of the Company, the fair value of the financial guarantee contract of the Company is insignificant at initial recognition and, the Directors of the Company consider that the possibility of default by the subsidiary is remote and, in case of default in payments, the net realisable value of the net assets of the subsidiary can recover the repayment of the outstanding principals of the finance leases payables together with the accrued interest and penalty. Accordingly, no provision has been made in respect of such guarantee.

(d) Partnership harvesting agreement

On 18 July 2011, UTRB entered into an agreement (the "Partnership Harvesting Agreement" or the "Agreement") with R2R Indústria e Comércio de Produtos Florestais Ltda. ("R2R"). Under the Agreement, UTRB will harvest logs on forest area supposedly owned by R2R under a Sustainable Forest Management Plan and pay R2R Florestal a total of R$9,602,000 (or approximately HK$41 million) by installments. R2R was responsible to obtain the necessary harvesting permit ("AUTEF") within 30 days of the Agreement. R2R was late in presenting the AUTEF to UTRB and failed to produce documentations that support its ownership of the subject forest area. In addition, UTRB's harvesting team discovered various environmental crimes in the subject forest area during its preparatory inspection. A total sum of R$840,000 (or approximately HK$3,869,000) was paid by UTRB under the Agreement while the remaining balance was withheld due to the above breach and irregularities. In the meantime, R2R sent various notices demanding for performance under the Agreement. On 17 January 2012, UTRB served a termination notice to R2R and demanded for the return of the deposits paid. On 23 February 2012, R2R sent UTRB an amicable settlement offer where reducing the outstanding balance to R$1,621,000 (or approximately HK$6,910,000) as final settlement for the immediate termination of the Agreement. According to the opinion of inhouse and external legal counsels, UTRB has adequate legal ground to terminate the Agreement, demand for the return of the deposit and ask for penalties.

(e) Class action case in connection with the hydropower plant in Rondonia, Brazil

On 19 October 2010, Procurador do Trabalho, Procuradoria Regional do Trabalho da 14ª Região (the "Ministry") began a class action investigation into potential misconducts or breach of relevant labor laws by all companies that operated in the hydropower plant in Rondonia State, Brazil. UTRB was one of the many companies that provided services directly or indirectly to the hydropower plant in Rondonia. In February 2012, UTRB voluntarily requested a review of its operations by the Ministry in connection with its provision of clear cutting services at the hydropower plant. There was no wrong doings or breach of law discovered under the review by the Ministry. In order to avoid being held liable for potential liabilities or labor claims as a result of other companies' wrong doings under Brazil labor laws, UTRB is negotiating to enter into a Term of Adjustment of Conduct Agreement ("TOC") with the Ministry. Under the proposed terms of TOC, UTRB will agree to abide by the labor laws of Brazil in Rondonia. In exchange, it will not be responsible for any claims or breach of labor laws by other companies involved with the hydropower plant in Rondonia. On 23 July 2012, a final TOC was signed by UTRB and delivered to the Ministry. The TOC was accepted and signed by the Ministry on 19 September 2012. It should be noted that there is no active operations by UTRB or any of the Companies' subsidiaries at the hydropower plant in Rondonia.

24. SUBSEQUENT EVENTS

(a) On 7 June 2012, the Company together with Amplewell Holdings Limited, Acenergy Limited and Great Path Limited, all wholly owned subsidiaries of the Company, (collectively the "Borrowers") entered into a loan agreement (the "Loan Agreement") with Risso Investments Limited (the "Lender"), an independent third party. Under the Loan Agreement, the Borrowers may borrow up to HK$50 million within a 12-month period commencing the date of the Loan Agreement. Interest rate is 18% per annum and maturity in one lump sum 18 months after the first draw down under the Loan Agreement. Notwithstanding the above, the Borrowers may prepay any loan amount outstanding after 12 months from the first draw down without penalties. The loan is secured by share charge in favor of the Lender over the entire issued share capital of Acenergy Limited. As of 20 December 2012, the Borrowers have drawn down HK$30 million under the Loan Agreement, of which HK$15 million is still in escrow.

(b) On 26 June 2012, the Borrowers entered into a supplementary agreement ("Further Loan Facility") providing further loan facility of HK$40 million in the event if a trade creditor in Brazil lodge any official claims against UTRB for payment of fees accrued. This Further Loan Facility is valid and effective for a period of 18 months from the agreement date above and is subject to formal loan agreement similar to the Loan Agreement in (a).

(c) During the financial year ended 31 March 2011, the Group entered into purchase agreements to procure African logs and timber, and North American logs from two independent suppliers separately for sums of Euro10,980,000 (equivalent to HK$113,729,000) and US$1,282,000 (equivalent to HK$9,953,000). On 31 May 2012, the Group entered into agreements with two suppliers separately terminating their respective purchase agreements amicably. The suppliers took back the logs and timber with no further liabilities due from the Group. Please refer to Note 6(i) for details of the terminations.

EXTRACTS FROM INDEPENDENT AUDITORS' REPORT

BASIS FOR QUALIFIED OPINION

(a) Scope limitation — Disposal of the subsidiaries

As set out in notes 15 and 43 to the consolidated financial statements, the Group disposed of its entire shares in Ally Rise Limited ("Ally Rise") on 30 March 2012 for a total consideration of HK$208,000,000. The major assets of Ally Rise and its subsidiaries (the "Ally Rise Group") were concession rights of Chita forest in Russia.

On the date of disposal, one of the subsidiaries of Ally Rise in Russia had already declared bankrupt and a concession right previously held by that subsidiary expired without renewal and another concession right had been expropriated by the State Forest Agency due to concession fees not being paid for on due date. The other subsidiary of Ally Rise in Russia declared bankrupt after the date of disposal.

The directors of the Group represented that as at the date of disposal, the Russian Government has already agreed to reserve the concession rights for the buyer and will grant the rights to buyer as soon as the applications for resumption of the concession rights are submitted. The Group is assisting the buyer to get back the two concession rights. On this basis, both sides mutually agreed to complete the disposal on 30 March 2012 and incidentally, the Group recorded a receivable of HK$208,000,000 from the buyer and a gain on disposal of Ally Rise of approximately HK$8,819,000. The Group also agreed to extend the payment term of the consideration which shall be paid for one lump sum no later than 30 March 2013. As a security for the payment, the buyer executed a share charge of the entire issued share capital of Ally Rise in favor of the Group. With the assistance of the Group, the buyer is currently preparing the documents necessary for the applications to resume the concession rights.

According to the regulation, the Russian State Forestry Agency can conduct an auction to sell the abovementioned concession rights or to grant them to other entities meeting certain criteria and we are not provided with documents corroborating the reservation of the abovementioned concession rights to the buyer. Due to lack of sufficient appropriate audit evidence, we were unable to satisfy ourselves as to whether the consideration receivable of approximately HK$208,000,000 and the gain on disposal of Ally Rise of approximately HK$8,819,000 should be recognised in the consolidated financial statements. If the transaction was not completed, then the carrying amounts of the net assets value of the subsidiaries that declared bankrupt amounting to approximately HK$199,181,000 should be fully impaired and charged to the income statement of the Group for the year ended 31 March 2012. In addition, in the absence of sufficient information to assess the financial position of the buyer, we were unable to ascertain that the consideration receivable amounting to HK$208,000,000 can be collected.

We were not able to carry out alternative audit procedures to satisfy ourselves as to the matters set out above.

(b) Scope limitation — Inventory

Included in inventories of approximately HK$65,628,000 in the consolidated statement of financial position as at 31 March 2012 was a sum of inventories amounted to HK$29,989,000 which do not have subsequent sales up to the date of this report, and no reliable information about the net realizable value of these inventories was available. We were therefore unable to satisfy ourselves as to whether the carrying amount of these inventories amounting to HK$29,989,000 was fairly stated in the consolidated statement of financial position and free from material misstatement as at 31 March 2012.

Due to the severe climate condition in Acre State, Brazil, we did not observe the counting of physical inventories amounting to approximately HK$1,425,000 at the end of the year. For the part of the stock held by the third parties of HK$2,946,000, direct confirmation from consignee has not been obtained. There were no other alternative audit procedures that we could carry out to obtain sufficient appropriate audit evidence regarding the existence and conditions of these inventories.

In addition, since we did not observe the counting of physical inventories, we were unable to obtain sufficient appropriate audit evidence to verify the existence, accuracy and completeness of the amount of approximately HK$2,951,000 transferred from the biological assets to inventory during the year and the amounts of inventory HK$1,781,000 being written down in the consolidated income statement and included in other operating expenses during the year.

Accordingly, we were unable to satisfy ourselves as to whether these amounts were fairly stated in the financial statements.

(c) Scope limitation — Trade and other payables

Included in the trade and other payables of approximately HK$212,310,000 in the consolidated statement of financial position as at 31 March 2012 was trade payable of approximately HK$44,663,000 which was subject to an interest of 1% per month for overdue payment. During the audit of the consolidated financial statements for the year ended 31 March 2011, the related trade creditor confirmed that no interest was billed to the Group. Therefore, the Group did not accrue interest for overdue payment. For current year audit, the Group represented that the trade creditor did not bill any interest for the overdue payment. However, due to the non-reply to our confirmation requested, absence of new information of the trade creditor, and no sufficient supporting document to prove that no interest was required to be accrued. There were no other alternative audit procedures that we could carry out to obtain sufficient appropriate audit evidence to verify the existence, completeness and valuation of the trade payable. Accordingly, we were unable to satisfy ourselves as to whether these amounts were fairly stated in the financial statements.

QUALIFIED OPINION

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2012, and of the Group's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

For the year ended 31 March 2012, revenue and net (loss)/profit after tax decreased to HK$115.6 million and HK$2,327.9 million from HK$866.7 million and HK$341.5 million, respectively from the year before. The total revenue consisted primarily of sales of forestry and timber products.

BUSINESS REVIEW

Brazil

Rondonia

The Group provided tree felling services to hydropower plant under construction in Rondonia, Brazil since the second half of the financial year ended 31 March 2010. On 20 October 2011 and 7 November 2011, the Group made public announcements that it had reported to Policia Civil do Estado de Sao Paulo (Sao Paulo State Police Department) and to Hong Kong Police Force that it and its employees had been receiving extortion threats in Brazil from a working party. The working party also published and/or procured the publication on the internet and other media serious accusations regarding its integrity. The disputes with the working party escalated to the denial of access to the sites of the hydropower plant in September 2011. As a result, we wrote off HK$335.6 million of inventory and accounts receivables related to the sales of logs kept at the hydropower plant.

The working party continued his extortions through constant threats and harassments to our employees and local business partners. On 19 April 2012, articles again containing serious accusations against the Group regarding its operation and transactions in Brazil were printed by some newspapers and the internet. These articles were subsequently circulated via emails by the working party to the Group's employees as well as outside third parties. Essentially, the threats and harassments spread beyond Rondonia to all of our operations in Brazil.

Acre

The continued extortion threats, publication of articles and constant disturbances to our staff made the operating environment in Brazil difficult, adverse and hostile for the Group and our staff. As a result, the board decided to defer its forest operations in Acre State until it is appropriate and safe for our staff and us.

As a result of deferral, decline in market prices of timber and remeasurement of allowable area, we recorded an impairment to the goodwill HK$1,384.8 million. In addition, there was a non-cash loss on revaluation of the biological asset in Acre of HK$150.4 million.

China

China is the world's largest consumer and importer of timber and logs and it continues to be the primary market for our forestry and timber products. During the year ended 31 March 2012, 95% of the total revenue was derived from sales to customers in China.

Susfor-Oasis Timber (Zhongshan) Company Limited ("Susfor-Oasis"), is a wholly owned subsidiary acquired in 2011 with contingent consideration of 769,230,769 shares of the Company. The consideration was divided into three tranches with the first tranche of 100,000,000 shares issued at closing, 280,000,000 shares also issued at closing but held by the Company and to be released to the vendor upon meeting a net profit guarantee. The remaining balance or third tranche of the consideration shares will be issued when the net profit guarantee is met also. The vendor guaranteed that audited net profit after tax on IFRS basis will not be less than HK$300,000,000 for the three years after completion, and that Susfor-Oasis must not incur any net losses for each of three financial years immediately after completion. For the financial year ended 31 March 2012, Susfor-Oasis had a net loss of HK$18.2 million. As such, the net profit guarantee by the vendor was not met.

Amongst other factors, the Group was interested in Susfor-Oasis primarily due to its extensive experience and portfolio of developers as clients. The Group also saw potential in developing a retail franchise network selling flooring products in China and the operation of a wholesale timber exchange in Zhongshan. The slow down of the economy and the sharp drop in demand for timber products in China caused Susfor-Oasis to substantially underperform than expectations. The Group considers that the value of the assets related to Susfor-Oasis suffered impairment and recorded net loss of HK$41.9 million (comprising waiver of contingent consideration payable of HK$71.2 million, reversal of deferred tax liabilities of HK$11.9 million, recognition of impairment loss on goodwill of HK$77.4 million, and recognition of impairment loss and amortization on intangible assets totalling HK$47.6 million) related to this acquisition.

OUTLOOK

Uncertain market conditions and further slow down of major economies overlay the Group's outlook for the near future. Market demand and timber prices dropped significantly since the beginning of the year in 2012. In the capital market, plagued by a number of listed forestry companies that have undergone regulatory investigations or reviews recently, forestry companies are facing increasing challenges in raising capital.

In light of the above, the Group is carrying out aggressive cost cutting measures and focusing on turning around its operations.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2012, the Group had cash and cash equivalents that amounted to HK$7.8 million (2011: HK$23.7 million).

The Group's gearing ratio expressed as a percentage of total interest bearing borrowings (including all interest bearing borrowings from shareholders and/or related companies), excluding the interest bearing borrowings classified under liabilities held for sale, over equity attributable to the owners of the Company, increased from 4.8% as at 31 March 2011 to 28.0% as at 31 March 2012.

As at 31 March 2012, the Group had HK$25.6 million (2011: HK$18.8 million) in interest bearing borrowings from independent third parties, of which HK$25.4 million were repayable within one year and the remaining HK$0.2 million were repayable after one year. The total interest bearing borrowings from independent third parties consisted of HK$25.2 million in bank and other borrowings and HK$0.4 million in finance leases payable. As at 31 March 2012, the Group's working capital was approximately HK$6.2 million (2011: HK$726.8 million). In addition, interest bearing borrowings from shareholders and related companies totaled HK$219.4 million and HK$137.9 million for the years ended 31 March 2012 and 2011, respectively.

CHARGE ON ASSETS

As at 31 March 2012, general banking facilities granted to the Group which were secured by property, plant and equipment of the Group with a carrying value of HK$0.7 million.

CONTINGENT LIABILITIES

The Group's contingent liabilities at 31 March 2012 are disclosed in Note 23 to the consolidated financial statements.

FOREIGN EXCHANGE RISK

The Group's continuing operation mainly operates in Brazil, China and Hong Kong.

During the year ended 31 March 2012, revenue from continuing operations was denominated mainly in Renminbi while its costs and expenses were primarily in Renminbi, Hong Kong dollars and Brazilian Reais where the Group's continuing operations are based. The Group is exposed to potential foreign exchange risk as a result of fluctuations between those currencies that are not pegged.

In addition, the main operational assets of the Group are located and denominated in local currencies in Brazil and China while the Group's reporting currency is in Hong Kong dollars. This also exposes the Group to potential foreign exchange risk upon translation of those assets on each reporting date.

The Group did not enter into any arrangements or financial instruments for the purpose of hedging against the potential foreign exchange risks during the year under review. Management believes that the Group's exposure to foreign exchange risks are minimal since Renminbi has been in strength while Reais have been weakening somewhat against US dollars during the current period. In the event that Reais were to rise substantially against US dollars, the risk can be mitigated by increasing local sales denominated in Reais. As for the operational assets of the Group, any foreign exchange gain or losses due to translation of the carrying value of the assets to the Group's reporting currency on reporting dates are unrealised and non-cash in nature. As such, active hedging activities are not considered warranted. Nonetheless, management will monitor closely its foreign currency exposure to ensure appropriate measures are taken promptly against any significant potential adverse impact.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 31 March 2012, the Group had approximately 450 employees (2011: 100) mainly in Hong Kong, China, Brazil, Russia and USA. The total remuneration paid by the Group to its employees (including directors) for the year was approximately HK$50.3 million (2011: HK$53.2 million).

The Group rewards its employees according to prevailing market practices, individual experience, performance and requirements under applicable labor laws in the Group's operational locations. In addition to the provision of annual bonus, provident fund scheme and medical insurance coverage, discretionary bonuses and share options are also available to employees.

FINAL DIVIDEND

The Board does not recommend payment of final dividend for the year ended 31 March 2012 (2011: HK0.45 cent per ordinary share and HK0.084 cent per convertible preferred share).

CORPORATE GOVERNANCE PRACTICES

During the year ended 31 March 2012, the Company has applied the principles of, and complied with, the applicable code provisions of the Code on Corporate Governance Practices (the "Former Code Provisions") as set out in Appendix 14 to the Listing Rules (prior to its amendments effective from 1 April 2012), except for the deviations mentioned below:

Former Code Provision A.2.1

Under the Former Code Provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of the chairman (the "Chairman") and the chief executive officer (the "CEO") of the Company are segregated and are clearly defined to ensure their respective independence, accountability and responsibilities. The Chairman is responsible for the formulation of the Group's overall business development policies while the CEO is responsible for the implementation of major decisions of the Board and overall management of the Group's businesses.

On 6 April 2011, Mr. LEUNG Chau Ping, Paul was re-designated from the position as an executive director of the Company to a non-executive director and resigned as the CEO. Since then and to up the date of this announcement, the position of the CEO has not been appointed. Since the beginning of the current financial year and up to 27 March 2012, Ms. LOH Jiah Yee, Katherine acted as the Chairman. On 27 March 2012, Ms. LOH Jiah Yee, Katherine resigned as the Chairman and Mr. John Tewksbury BANIGAN was appointed as the Chairman. During the current financial year when no CEO was appointed, the functions of the CEO have been performed by the executive Directors with the assistance of the management of the Company. The Board considers that such structure does not impair the balance of power and authority between the Board and the management of the Company. The Board will however regularly review the effectiveness of this structure to ensure that such structure is appropriate in view of the Group's prevailing circumstances.

Former Code Provision E.1.2

Former Code Provision E.1.2 stipulates, among others, that the Chairman should attend the annual general meeting.

Due to another business engagement, Ms. LOH Jiah Yee, Katherine, the then Chairman was unable to attend the annual general meeting of the Company held on 25 August 2011. However, Ms. FLETCHER Yurk Nam, Sandy, an executive Director, took the chair of that meeting. The then non-executive director, namely Mr. LEUNG Chau Ping, Paul and one of the then independent non-executive directors, namely, Mr. LEUNG Siu Hung, Joel (who was also the then chairman of audit committee (the "Audit Committee") and a member of the remuneration committee of the Board) were also present at the meeting who were available to answer any questions from the shareholders of the Company (the "Shareholders").

Further information on the Company's corporate governance practices during the year under review will be set out in the section headed "Corporate Governance Report" to be contained in the Company's Annual Report for the year ended 31 March 2012 which will be despatched to the Shareholders on or before 31 December 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code (the "Model Code") for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 March 2012.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2012.

AUDIT COMMITTEE

The Audit Committee comprised three members, namely Mr. John Tewksbury BANIGAN (chairman of the Audit Committee), Mr. KEUNG Paul Hinsum and Mr. Donald Smith WORTHLEY and all of them are independent non-executive directors. The Audit Committee has reviewed the accounting principles and practice adopted by the Group, reviewed the annual results for the year ended 31 March 2012 and discussed the internal controls together with the management.

REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in respect of the announcement of the Group's results for the year ended 31 March 2012 have been agreed by the Group's auditor, Crowe Horwath (HK) CPA Limited ("Crowe Horwath"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Crowe Horwath in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Crowe Horwath on the announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement is published on the websites of the Company (www.susfor.com) and the Stock Exchange (www.hkexnews.hk). The Company's annual report for 2011/12 will be published on the above websites and despatched to the Shareholders on or before 31 December 2012.

RESUMPTION OF TRADING

At the request of the Company, trading of the Shares was suspended with effect from 9:00 a.m. on 3 July 2012 pending the issue of this announcement.

Shares remain suspended pending release of the interim results announcement for the period ended 30 September 2012.

By order of the Board
Sustainable Forest Holdings Limited
FLETCHER Yurk Nam, Sandy
Executive Director

Hong Kong, 20 December 2012

As at the date of this announcement, the Board comprises Ms. LOH Jiah Yee, Katherine, Ms. FLETCHER Yurk Nam, Sandy, Mr. LI Zhixiong, Mr. LEUNG Siu Hung, Joel and Mr. SHIH Chiu, David as executive Directors; and Mr. John Tewksbury BANIGAN, Mr. KEUNG Paul Hinsum and Mr. Donald Smith WORTHLEY as independent non-executive Directors.