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## **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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010**

The board of directors (the “Board” or “Directors”) of Sustainable Forest Holdings Limited (the “Company”) hereby present the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2010 together with the comparative figures for the corresponding period in 2009 as follows:

#### **CONDENSED CONSOLIDATED INCOME STATEMENT**

*For the six months ended 30 September 2010*

		<b>For the six months ended 30 September</b>	
	<i>Note</i>	<b>2010</b>	<b>2009</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Unaudited)</b>	<b>(Unaudited and restated)</b>
<b>CONTINUING OPERATIONS</b>			
Revenue	5	<b>340,778</b>	102
Cost of sales		<b>(101,933)</b>	(74)
<b>Gross profit</b>		<b>238,845</b>	28
Other income	6	<b>3,065</b>	192
Selling and distribution costs		<b>(8,914)</b>	–
Administrative expenses		<b>(48,563)</b>	(11,401)
Other operating expenses	7	<b>(105)</b>	(5,946)
Change in fair value of biological assets less estimated point-of-sale costs	13	<b>71,049</b>	–

\* *For identification purposes only*

	<i>Note</i>	<b>For the six months ended 30 September</b>	
		<b>2010 HK\$'000 (Unaudited)</b>	<b>2009 HK\$'000 (Unaudited and restated)</b>
<b>Profit/(loss) from operations</b>		<b>255,377</b>	(17,127)
Finance income		<b>793</b>	31
Finance costs		<b>(4,506)</b>	(5,732)
<b>Net finance costs</b>	<i>8(a)</i>	<b>(3,713)</b>	(5,701)
<b>Profit/(loss) before taxation</b>	<i>8</i>	<b>251,664</b>	(22,828)
Income tax	<i>9</i>	<b>(56,886)</b>	267
<b>Profit/(loss) for the period from continuing operations</b>		<b>194,778</b>	(22,561)
<b>DISCONTINUED OPERATIONS</b>			
Loss from discontinued operations	<i>10</i>	<b>(11,319)</b>	(18,299)
<b>PROFIT/(LOSS) FOR THE PERIOD</b>		<b>183,459</b>	(40,860)
<b>Attributable to:</b>			
Owners of the Company		<b>183,442</b>	(40,265)
Non-controlling interests		<b>17</b>	(595)
		<b>183,459</b>	(40,860)
<b>Earnings/(loss) per share</b>			
<b>From continuing and discontinued operations</b>			
– Basic	<i>12</i>	<b>6.32 cents</b>	(5.21 cents)
– Diluted		<b>2.90 cents</b>	(5.21 cents)
<b>From continuing operations</b>			
– Basic		<b>6.71 cents</b>	(2.92 cents)
– Diluted		<b>3.08 cents</b>	(2.92 cents)

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 September 2010*

		At 30 September 2010 <i>HK\$'000</i> (Unaudited)	At 31 March 2010 <i>HK\$'000</i> (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		201,624	201,293
Biological assets	13	948,673	833,323
Goodwill	14	1,686,883	1,686,883
Deposit for purchase of property, plant and equipment		29,153	9,541
		2,866,333	2,731,040
<b>CURRENT ASSETS</b>			
Inventories	15	583,736	253,050
Trade and other receivables	16	16,211	14,290
Cash and cash equivalents		25,745	36,820
		625,692	304,160
Assets classified as held for sale	17	286,702	303,036
		912,394	607,196
<b>CURRENT LIABILITIES</b>			
Trade and other payables	18	156,279	125,059
Bank overdrafts, bank and other loans		15,094	209
Finance lease payable		100	–
Consideration payable		93,933	93,933
Provision for taxation		39,872	7,354
Promissory notes		–	24,617
		305,278	251,172
Liabilities associated with assets classified as held for sale	17	84,760	98,923
		390,038	350,095
<b>NET CURRENT ASSETS</b>		522,356	257,101
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		3,388,689	2,988,141

	<b>At 30 September 2010</b>	<b>At 31 March 2010</b>
<i>Note</i>	<i>HK\$'000</i> <b>(Unaudited)</b>	<i>HK\$'000</i> <b>(Audited)</b>
<b>NON-CURRENT LIABILITIES</b>		
Bank loans	<b>118</b>	297
Amounts due to shareholders	<b>88,849</b>	117,936
Amounts due to related companies	<b>2,087</b>	54,091
Finance lease payable	<b>400</b>	–
Promissory notes	<b>6,061</b>	–
Deferred tax liabilities	<b>346,521</b>	309,187
	<b>444,036</b>	481,511
<b>NET ASSETS</b>	<b>2,944,653</b>	2,506,630
<b>CAPITAL AND RESERVES</b>		
Share capital	<b>344,828</b>	322,855
Reserves	<b>2,599,742</b>	2,183,713
<b>Total equity attributable to the owners of the Company</b>	<b>2,944,570</b>	2,506,568
<b>Non-controlling interests</b>	<b>83</b>	62
<b>TOTAL EQUITY</b>	<b>2,944,653</b>	2,506,630

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. CORPORATE INFORMATION

Sustainable Forest Holdings Limited (the “Company”) was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda and its shares are listed on 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 comprised tree felling service, sustainable forest management, Chita forests operation, building materials supply and installation and real estate development.

### 2. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30 September 2010 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (“IASB”).

These condensed consolidated financial statements should be read in conjunction with the Group’s annual financial statements for the year ended 31 March 2010.

The condensed consolidated financial statements are denominated in Hong Kong Dollar (“HK\$”). Unless otherwise specifically stated, all amounts are presented in thousand.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated financial statements have been prepared under the historical cost convention except for biological assets which are measured at fair values.

The accounting policies and basis of preparation adopted in preparation of these condensed consolidated financial statements are consistent with those used in the Group’s annual financial statements for the year ended 31 March 2010, except as described below.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (“new and revised IFRSs”) issued by the IASB.

IFRSs (Amendments)	Amendment to IFRS 5 as part of Improvements to IFRSs 2008
IFRSs (Amendments)	Improvements to IFRSs 2009
IAS 32 (Amendment)	Classifications of Rights Issues
IAS 39 (Amendment)	Eligible Hedged Items
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
IFRIC 17	Distributions of Non-cash Assets to Owners

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

In accordance with the transitional provisions set out in the amendment to IAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 April 2010 based on information that existed at the inception of the leases.

The application of amendment to IAS 17 has had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The application of the other new and revised IFRSs had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective:

IFRSs (Amendments)	Improvement to IFRSs 2010 <sup>1</sup>
IAS 24 (Revised)	Related Party Disclosures <sup>3</sup>
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS7 Disclosure for First-Time Adopters <sup>2</sup>
IFRS 7 (Amendments)	Transfers of Financial Assets <sup>4</sup>
IFRS 9	Financial Instruments <sup>5</sup>
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement <sup>3</sup>
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2013

IFRS 9 “Financial Instruments” introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of IFRS 9 might affect the classification and measurement of the Group’s financial assets.

IFRS 9 was revised in October 2010. The revised version adds the requirements for the classification and measurement of financial liabilities. One major change on the classification and measurement of financial liabilities relates to the accounting for change in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The application of IFRS 9 may affect the classification and measurement of the Group’s financial assets and financial liabilities.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

#### 4. SEGMENT REPORTING

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified 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, timber trading and timber sales and marketing.

##### **Discontinued operations**

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

Building materials: the construction work of building and construction project of building material.

Real estate: the development and sale of commercial premises and residential properties.

In accordance with IFRS 8, segment information disclosed in this interim financial report has been prepared in a manner consistent with the information used by the Group's most senior executive management for the purposes of assessing segment performance and allocating resources among segments. In this regard, the Group's senior executive management monitors the results and assets attributable to each reportable segment on the following bases:

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

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments.

The reportable segment profit represents the profit from each segment which excluded those items not specifically attributed to an individual reportable segment, such as corporate administrative expenses. To arrive at reportable segment profit, the management additionally provided the segment information concerning interest income, finance costs and major non-cash items such as depreciation, amortisation and impairment losses derived from reportable segments.

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

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

	For the six months ended 30 September 2010 (Unaudited)				
	Continuing operations			Discontinued operation	Total HK\$'000
	Sustainable forest management HK\$'000	Tree felling service HK\$'000	Sub-total HK\$'000	Chita forests operation HK\$'000	
<b>Segment revenue</b>					
Revenue from external customers	<u>10,502</u>	<u>330,276</u>	<u>340,778</u>	<u>-</u>	<u>340,778</u>
Reportable segment profit/(loss) before taxation	39,655	244,235	283,890	(11,913)	271,977
Change in fair value of biological assets less estimated point-on-sales costs	71,049	-	71,049	-	71,049
Depreciation	(437)	-	(437)	-	(437)
Written off of intangible assets	-	-	-	(9,887)	(9,887)
Interest expenses	(3,986)	-	(3,986)	(113)	(4,099)
Interest income	<u>793</u>	<u>-</u>	<u>793</u>	<u>-</u>	<u>793</u>
<b>Reportable segment assets</b>	<u>2,999,344</u>	<u>490,639</u>	<u>3,489,983</u>	<u>286,702</u>	<u>3,776,685</u>
<b>Additions to non-current segment assets</b>	<u>930</u>	<u>-</u>	<u>930</u>	<u>-</u>	<u>930</u>
<b>Reportable segment liabilities</b>	<u>232,891</u>	<u>122,300</u>	<u>355,191</u>	<u>84,760</u>	<u>439,951</u>



For the six months ended 30 September 2009 (Unaudited and restated)

	Continuing operations			Discontinued operations				Total HK\$'000
	Sustainable forest management HK\$'000	Tree felling service HK\$'000	Sub-total HK\$'000	Building materials HK\$'000	Real estate HK\$'000	Chita forests operation HK\$'000	Sub-total HK\$'000	
<b>Segment revenue</b>								
Revenue from external customers	102	–	102	57,206	123	1,280	58,609	58,711
Reportable segment loss								
before tax	(11,316)	–	(11,316)	(6,006)	(442)	(2,699)	(9,147)	(20,463)
Depreciation and amortisation	(49)	–	(49)	(24)	(49)	(2,152)	(2,225)	(2,274)
Impairment of								
– inventories	–	–	–	–	(206)	–	(206)	(206)
– trade and other receivables	(24)	–	(24)	–	–	–	–	(24)
Interest expenses	(986)	–	(986)	(41)	–	(216)	(257)	(1,243)
Interest income	–	–	–	–	5	–	5	5

As at 31 March 2010 (Audited)

	Continuing operations			Discontinued operations				Total HK\$'000
	Sustainable forest management HK\$'000	Tree felling service HK\$'000	Sub-total HK\$'000	Building materials HK\$'000	Real estate HK\$'000	Chita forests operation HK\$'000	Sub-total HK\$'000	
<b>Reportable segment assets</b>	2,776,116	235,441	3,011,557	–	–	303,036	303,036	3,314,593
<b>Addition to non-current segment assets</b>	4,951	–	4,951	15	–	1,881	1,896	6,847
<b>Reportable segment liabilities</b>	299,692	90,272	389,964	–	–	98,923	98,923	488,887

(b) **Reconciliation of reportable segment revenue, profit or loss, assets and liabilities**

	For the six months ended 30 September	
	2010 HK\$'000	2009 HK\$'000
	(Unaudited)	(Unaudited and restated)

(i) **Profit/(loss)**

Reportable segment profit/(loss) before tax	283,890	(11,316)
Unallocated corporate income	–	192
Unallocated depreciation and amortisation	(166)	(172)
Unallocated interest income	–	31
Unallocated interest expenses	(520)	(4,746)
Unallocated corporate expenses	(31,540)	(6,817)
Profit/(loss) before taxation (continuing operations)	251,664	(22,828)

	At 30 September 2010 <i>HK\$'000</i> (Unaudited)	At 31 March 2010 <i>HK\$'000</i> (Audited)
<b>(ii) Assets</b>		
Segment assets for reportable segments from continuing operations	3,489,983	3,011,557
Segment assets for reportable segments from discontinued operations	<u>286,702</u>	<u>303,036</u>
	3,776,685	3,314,593
Unallocated corporate assets	<u>2,042</u>	<u>23,643</u>
Total assets as per condensed consolidated statement of financial position	<u><b>3,778,727</b></u>	<u><b>3,338,236</b></u>
<b>Liabilities</b>		
Segment liabilities for reportable segments from continuing operations	355,191	389,964
Segment liabilities for reportable segments from discontinued operations	<u>84,760</u>	<u>98,923</u>
	439,951	488,887
Unallocated:		
– Provision for taxation	39,872	7,354
– Deferred tax liabilities	346,521	309,187
– Unallocated corporate liabilities	<u>7,730</u>	<u>26,178</u>
Total liabilities per condensed consolidated statement of financial position	<u><b>834,074</b></u>	<u><b>831,606</b></u>

(iii) Other material items

	For the six months ended 30 September 2010 (Unaudited)									
	Continuing operations				Discontinued operations					
	Sustainable forest management	Tree felling service	Unallocated	Sub-total	Building materials	Real estate	Chita forests operation	Unallocated	Sub-total	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation	437	-	166	603	-	-	-	-	-	603
Interest expenses	3,986	-	520	4,506	-	-	113	-	113	4,619
Interest income	793	-	-	793	-	-	-	-	-	793

	For the six months ended 30 September 2009 (Unaudited and restated)									
	Continuing operations				Discontinued operations					
	Sustainable forest management	Tree felling service	Unallocated	Sub-total	Building materials	Real estate	Chita forests operation	Unallocated	Sub-total	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation and amortisation	49	-	172	221	24	49	2,152	-	2,225	2,446
Interest expenses	986	-	4,746	5,732	41	-	216	-	257	5,989
Interest income	-	-	31	31	-	5	-	-	5	36

(c) Revenue from major products and services:

	For the six months ended 30 September					
	Continuing operations		Discontinued operations		Consolidated	
	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited and restated)	(Unaudited)	(Unaudited and restated)	(Unaudited)	(Unaudited and restated)
Tree felling service income	330,276	-	-	-	330,276	-
Sales of timber and wood products	10,502	102	-	1,280	10,502	1,382
Revenue from construction contracts	-	-	-	57,206	-	57,206
Sales of properties	-	-	-	123	-	123
	<b>340,778</b>	<b>102</b>	<b>-</b>	<b>58,609</b>	<b>340,778</b>	<b>58,711</b>

## 5. REVENUE

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts and revenue from tree felling service, sales of timber and wood products, construction contracts and sales of properties.

An analysis of revenue is as follows:

	For the six months ended 30 September					
	Continuing operations		Discontinued operations		Consolidated	
	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited and restated)	(Unaudited)	(Unaudited and restated)	(Unaudited)	(Unaudited and restated)
Tree felling service income	330,276	–	–	–	330,276	–
Sales of timber and wood products	10,502	102	–	1,280	10,502	1,382
Revenue from construction contracts	–	–	–	57,206	–	57,206
Sales of properties	–	–	–	123	–	123
	<b>340,778</b>	<b>102</b>	<b>–</b>	<b>58,609</b>	<b>340,778</b>	<b>58,711</b>

## 6. OTHER INCOME AND OTHER NET GAIN

	For the six months ended 30 September					
	Continuing operations		Discontinued operations		Consolidated	
	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited and restated)	(Unaudited)	(Unaudited and restated)	(Unaudited)	(Unaudited and restated)
Other income						
Rental income	9	180	307	59	316	239
Others	3,056	12	–	2,022	3,056	2,034
	<b>3,065</b>	<b>192</b>	<b>307</b>	<b>2,081</b>	<b>3,372</b>	<b>2,273</b>
Other net gain						
Net exchange gain	–	–	–	1,048	–	1,048
	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,048</b>	<b>–</b>	<b>1,048</b>

## 7. OTHER OPERATING EXPENSES

	For the six months ended 30 September					
	Continuing operations		Discontinued operations		Consolidated	
	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited and restated)	(Unaudited)	(Unaudited and restated)	(Unaudited)	(Unaudited and restated)
Loss on disposal of property, plant and equipment	105	–	–	3	105	3
Write-down of inventories	–	–	–	206	–	206
Written off of other receivables	–	24	–	–	–	24
Acquisition of subsidiaries related costs	–	5,922	–	–	–	5,922
	<b>105</b>	<b>5,946</b>	<b>–</b>	<b>209</b>	<b>105</b>	<b>6,155</b>

## 8. PROFIT/(LOSS) BEFORE TAXATION

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

	For the six months ended 30 September					
	Continuing operations		Discontinued operations		Consolidated	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited and restated)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited and restated)	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited and restated)
<b>a) Net finance costs</b>						
Finance income	(793)	(31)	–	(5)	(793)	(36)
Finance costs						
Interest on bank and other borrowings wholly repayable within five years	1,120	–	113	257	1,233	257
Interest on promissory notes	520	4,746	–	–	520	4,746
Interest on amounts due to shareholders	2,176	486	–	–	2,176	486
Interest on amounts due to related parties	690	500	–	–	690	500
Total interest expenses on financial liabilities not at fair value through profit or loss	4,506	5,732	113	257	4,619	5,989
	<b>3,713</b>	<b>5,701</b>	<b>113</b>	<b>252</b>	<b>3,826</b>	<b>5,953</b>
<b>b) Staff costs (including directors)</b>						
Salaries, wages and other benefits	16,054	5,349	–	614	16,054	5,963
Pension scheme contributions	159	48	–	13	159	61
Equity-settled share-based payment expenses	20,588	–	–	–	20,588	–
	<b>36,801</b>	<b>5,397</b>	<b>–</b>	<b>627</b>	<b>36,801</b>	<b>6,024</b>
<b>c) Other items</b>						
Cost of inventories sold*	18,065	74	–	4,728	18,065	4,802
Depreciation	603	221	–	588	603	809
Amortisation of land lease premium	–	–	–	3	–	3
Amortisation of intangible assets	–	–	–	1,634	–	1,634
Written off of intangible assets	–	–	9,887	–	9,887	–
Minimum lease payments under operating leases for land and buildings (including directors' quarters)	1,510	960	–	287	1,510	1,247
Auditor's remuneration						
– audit services	–	–	–	–	–	–
– other services	407	457	–	255	407	712

\* Cost of inventories sold includes depreciation of HK\$116,000 (2009: HK\$464,000) and staff costs of HK\$3,505,000 (2009: HK\$122,000), the amount of which is also included in the respective total amounts disclosed separately above.

## 9. INCOME TAX

Income tax in the condensed consolidated income statement represents:

	For the six months ended 30 September					
	Continuing operations		Discontinued operations		Consolidated	
	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited and restated)	(Unaudited)	(Unaudited and restated)	(Unaudited)	(Unaudited and restated)
Current tax						
– Hong Kong Profits Tax	32,518	–	–	–	32,518	–
Deferred tax						
– Origination and (reversal) of temporary differences	24,368	(267)	(594)	(70)	23,774	(337)
	<u>56,886</u>	<u>(267)</u>	<u>(594)</u>	<u>(70)</u>	<u>56,292</u>	<u>(337)</u>

Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits arising in Hong Kong. Brazil income tax has been provided at the rate of 34% of the estimated assessable profits arising in Brazil. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

## 10. DISCONTINUED OPERATIONS

### (a) For the six months ended 30 September 2010

In February 2010, the management of the Group have commenced negotiations to dispose of the Chita forests operation in Russia. On 1 March 2010, Amplewell Holding Limited, a wholly owned subsidiary, entered into a letter of intent with an independent third party to dispose of the Group's entire equity interest in issued share capital of a subsidiary, namely OOO "Zabaikalskaya lesnaya kompaniya" ("ZLK") which held 99.9% equity interest in OOO "Novoles" ("Novoles") (collectively "ZLK Group"). ZLK Group was principally engaged in the forestry business in Russia. The result of operations of ZLK Group for the six months ended 30 September 2009 were restated as discontinued operation.

### (b) For the six months ended 30 September 2009

- (i) On 1 August 2009, Anex Properties Holdings Limited, a wholly owned subsidiary of the Company, entered into an agreement with Mr. Tse Chun Fai, and independent third party, to dispose of its entire interest in Joyful Rise Investments Limited and Beijing Joyful Rise Investment Consulting Company Limited (collectively "Joyful Rise Group") for a consideration of HK\$1. Joyful Rise Group was principally engaged in the real estate business. The disposal was completed on 1 August 2009.
- (ii) On 22 September 2009, the Company entered into a sale and purchase agreement with Mr. Goh Ee Bin, an independent third party, to dispose of the entire equity interest in Leadprime Limited and its subsidiaries, Anex Properties Holdings Limited and Anex Properties Limited (collectively "Leadprime Group") for a consideration of HK\$18,182,000. Leadprime Group was principally engaged in the real estate business. The disposal was completed on 30 September 2009.

The operations of ZLK Group, Joyful Rise Group and Leadprime Group are classified as discontinued operations and the losses arising from discontinued operations are analysed as follows:

	Note	For the six months ended 30 September (Unaudited)				Total HK\$'000 (Unaudited)
		2010 Chita forests operation HK\$'000 (Unaudited)	Building materials HK\$'000 (Unaudited)	Real estate HK\$'000 (Unaudited)	2009 (Restated) Chita forests operation HK\$'000 (Unaudited)	
Revenue	5	–	57,206	123	1,280	58,609
Cost of sales		–	(62,654)	(10)	(4,718)	(67,382)
Gross (loss)/profit		–	(5,448)	113	(3,438)	(8,773)
Other income	6	307	994	29	1,058	2,081
Other net gain	6	–	–	–	1,048	1,048
Selling and distribution costs		–	–	–	(60)	(60)
Administrative expenses		(12,107)	(1,511)	(383)	(1,088)	(2,982)
Other operating expenses	7	–	–	(206)	(3)	(209)
Loss from operations		<b>(11,800)</b>	(5,965)	(447)	(2,483)	(8,895)
Finance income		–	–	5	–	5
Finance costs		(113)	(41)	–	(216)	(257)
Net finance (costs)/income	8(a)	<b>(113)</b>	(41)	5	(216)	(252)
Loss before taxation	8	<b>(11,913)</b>	(6,006)	(442)	(2,699)	(9,147)
Income tax	9	594	–	52	18	70
		<b>(11,319)</b>	(6,006)	(390)	(2,681)	(9,077)
Loss on disposal of discontinued operations		–	–	(9,222)	–	(9,222)
Income tax		–	–	–	–	–
Loss from disposal of discontinued operations, net of tax		–	–	(9,222)	–	(9,222)
Loss from discontinued operations		<b>(11,319)</b>	(6,006)	(9,612)	(2,681)	(18,299)
Attributable to:						
Owners of the Company		<b>(11,309)</b>	(5,523)	(9,500)	(2,681)	(17,704)
Non-controlling interests		(10)	(483)	(112)	–	(595)
		<b>(11,319)</b>	(6,006)	(9,612)	(2,681)	(18,299)

## 11. DIVIDENDS

The directors do not recommend the payment or declaration of any dividend for both periods.

## 12. EARNINGS/(LOSS) PER SHARE

### (a) From continuing and discontinued operations

The calculation of the basic and diluted earnings/(loss) per share is based on the following data:

	<b>For the six months ended 30 September</b>	
	<b>2010</b> <i>HK\$'000</i> <b>(Unaudited)</b>	2009 <i>HK\$'000</i> (Unaudited)
<b>Earnings/(loss)</b>		
Earnings/(loss) for the purpose of basic and diluted earnings/(loss) per share		
– Profit/(loss) attributable to the owners of the Company	<b>183,442</b>	(40,265)
	<i>'000</i>	<i>'000</i>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share	<b>2,901,729</b>	4,121,443
Effect of share consolidation	–	(3,348,672)
Adjusted weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share	<b>2,901,729</b>	772,771
Effect of dilutive potential ordinary shares arising from convertible preference shares	<b>3,424,211</b>	1,490,148
Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share	<b>6,325,940</b>	2,262,919

The share options had no dilutive effect on the basic earnings per share for the six months ended 30 September 2010. Diluted loss per share is equal to the basic loss per share for the six months ended 30 September 2009 because the outstanding bonus warrants and convertible note had an anti-dilutive effect on the basic loss per share for the six months ended 30 September 2009.

### (b) For continuing operations

The calculation of basic and diluted earnings/(loss) per share from continuing operations attributable to the owners of the Company is based on the following data:

	<b>For the six months ended 30 September</b>	
	<b>2010</b> <i>HK\$'000</i> <b>(Unaudited)</b>	2009 <i>HK\$'000</i> (Unaudited and restated)
<b>Earnings/(loss)</b>		
Profit/(loss) attributable to the owners of the Company	<b>194,751</b>	(22,561)

The denominators used are the same as those detailed above for basic and diluted earnings/(loss) per share from continuing and discontinued operations.



(c) **For discontinued operations**

(i) *Basic loss per share*

Basic loss per share for the discontinued operations is HK0.39 cents per share (2009: HK2.29 cents per share) which is based on the loss from the discontinued operations of HK\$11,309,000 (2009: HK\$17,704,000) and the denominators used are the same as those detailed above for basic and diluted earnings/(loss) per share from continuing and discontinued operations.

(ii) *Diluted loss per share*

Diluted loss per share is equal to the basic loss per share for the six months ended 30 September 2010 because the outstanding convertible preference shares and the share options had an anti-dilutive effect on the basic loss per share.

Diluted loss per share is equal to the basic loss per share for the six months ended 30 September 2009 because the outstanding convertible preference shares had an anti-dilutive effect on the basic loss per share for the six months ended 30 September 2009.

**13. BIOLOGICAL ASSETS**

	<i>HK\$'000</i>
At 1 April 2009 (Audited)	–
Acquisition of subsidiaries	461,747
Changes in fair value less estimated point-of-sale costs	369,980
Exchange movement	1,596
	<hr/>
At 31 March 2010 (Audited)	833,323
Changes in fair value less estimated point-of-sale costs	71,049
Exchange movement	44,301
	<hr/>
At 30 September 2010 (Unaudited)	<u>948,673</u>

The Group's forest assets are located in the Northwest of Brazil, the State of Acre, Amazon Region (the "Brazil Forest"). As at 30 September 2010, the biological assets represented natural tropical forests. The total area of the Brazil Forest is approximately 44,500 hectares. Under the environmental laws in Brazil, 15% or 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 30m<sup>3</sup> per hectare, on average, over a 25 to 30-year harvesting cycle.

The Group did not carry out any harvesting activities during the period.

The Brazil Forest was independently valued by Greater China Appraisal Limited (“GCA”). GCA has experience in valuating similar forestry assets. GCA has adopted a discounted cash flow methodology in valuating the Brazil Forest. The following are the major assumptions used in the valuation:

- (i) a logging volume of 21.5m<sup>3</sup> per hectare in the sustainable forest management program area.
- (ii) a discount rate of 14.6% 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.
- (iii) for the first 30-year cycle, harvesting activities will begin from the calendar year 2011 and complete in 4 years. Revenue or costs from subsequent harvesting cycles are not taken into account.
- (iv) average log price growth at 3% per annum in the next 5 years. The expected long-term growth rate was estimated by reference to the GDP in Brazil.
- (v) the Group will obtain Forest Stewardship Council (“FSC”) certification in 2012. 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 2012 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 environment liabilities as at 30 September 2010.

**(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 harvesting 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.

**14. GOODWILL**

	<i>HK\$’000</i>
Cost	
At 1 April 2009 (Audited)	–
Arising from acquisition of subsidiaries	1,686,883
At 31 March 2010 (Audited) and 30 September 2010 (Unaudited)	1,686,883

Goodwill was allocated to the Group’s cash-generating unit identified according to the operating segment. The goodwill as at 30 September 2010 was attributable to the cash-generating unit that comprises the sustainable forest management segment.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The Group engaged a professional independent valuer to conduct valuations to test goodwill for impairment. The recoverable amount of the sustainable forest management segment was determined to be higher than its carrying value, therefore there was no impairment loss.

## 15. INVENTORIES

	At 30 September 2010 <i>HK\$'000</i> (Unaudited)	At 31 March 2010 <i>HK\$'000</i> (Audited)
Timber logs	576,819	235,424
Raw materials	1,592	1,603
Work in progress	–	11,391
Finished goods	5,325	4,632
	<u>583,736</u>	<u>253,050</u>

## 16. TRADE AND OTHER RECEIVABLES

Customers are generally not given any credit terms. Letter of credit or advance deposits are required from customers, except for some where sales terms are based on cash on delivery.

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.

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

	At 30 September 2010 <i>HK\$'000</i> (Unaudited)	At 31 March 2010 <i>HK\$'000</i> (Audited)
0 to 30 days	364	1,974
31 to 60 days	–	975
90 to 180 days	1,087	486
181 to 365 days	486	–
Trade receivables, net	1,937	3,435
Other receivables	9,733	4,788
Prepayment and deposits	4,541	6,067
	<u>16,211</u>	<u>14,290</u>

## 17. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

In February 2010, the directors of 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 value they bring to shareholders. On 1 March 2010, Amplewell entered into a letter of intent with an independent third party to dispose of the Group's entire equity interest in issued share capital of ZLK Group. ZLK Group was principally engaged in forestry operations in Russia. The assets and liabilities attributable to the forestry operation in Russia which are expected to be sold within twelve months, have been classified as assets held for sale and are presented separately in the condensed consolidated statement of financial position. Pursuant to the letter of intent, the selling price of the disposal shall be not less than the book value, as such the directors expected that the proceeds of the disposal will be greater than the net carrying amount of the relevant assets and liabilities and therefore no impairment is necessary.

The major classes of assets and liabilities of Chita forests operation in Russia, which have been classified as held for sale at the end of the respective reporting period, are as follows:

	At 30 September 2010 <i>HK\$'000</i> (Unaudited)	At 31 March 2010 <i>HK\$'000</i> (Audited)
Property, plant and equipment	69,226	71,498
Intangible assets – timber concession rights	151,935	161,947
Inventories	989	1,022
Trade and other receivables	1,847	1,907
Amount due from a non-controlling shareholder	62,704	66,660
Cash and cash equivalents	<u>1</u>	<u>2</u>
Assets classified as held for sale	<u>286,702</u>	<u>303,036</u>
Trade and other payables	23,877	26,391
Bank loans, secured	–	10,416
Other loans, secured	6,341	6,550
Other loans, unsecured	2,347	2,424
Consideration payable	5,000	5,000
Finance lease payables	9,773	10,095
Deferred tax liabilities	<u>37,422</u>	<u>38,047</u>
Liabilities associated with assets classified as held for sale	<u>84,760</u>	<u>98,923</u>

## 18. TRADE AND OTHER PAYABLES

		At 30 September 2010 <i>HK\$'000</i> (Unaudited)	At 31 March 2010 <i>HK\$'000</i> (Audited)
Trade payables	<i>a</i>	147,307	91,054
Cash consideration payable for acquisition of biological assets		–	26,598
Other payables and accruals		8,739	7,315
Deposits from customers		233	–
Amount due to a director	<i>b</i>	–	92
		<u>156,279</u>	<u>125,059</u>

### (a) Trade payables

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

	At 30 September 2010 <i>HK\$'000</i> (Unaudited)	At 31 March 2010 <i>HK\$'000</i> (Audited)
0 to 30 days	32,593	90,545
31 to 60 days	17,600	–
61 to 90 days	19,266	–
Over 90 days	77,848	509
	<u>147,307</u>	<u>91,054</u>

### (b) Amount due to a director

The amount was unsecured, interest free and had no fixed terms of repayment.

## 19. COMMITMENTS

### (a) Commitments in respect of capital expenditure

At the end of reporting period, the Group had commitments in respect of capital expenditure outstanding but not provided for in the condensed consolidated financial statements were as follows:

	<i>Note</i>	At 30 September 2010 <i>HK\$'000</i> (Unaudited)	At 31 March 2010 <i>HK\$'000</i> (Audited)
Contracted, but not provided for			
– Acquisition of forest, forest concession rights, a wood processing plant, investment in a flooring company and exclusive production rights	<i>(i)</i>	<b>318,857</b>	294,896
– Acquisition of forest, sawmill and fibreboard processing facilities	<i>(ii)</i>	<b>364,408</b>	363,844
		<b><u>683,265</u></b>	<b><u>658,740</u></b>

- (i) On 12 February 2010, the Group entered into a term sheet (the “Term Sheet”) to acquire the entire equity interests in a company (an independent third party) incorporated in Brazil holding among others approximately 98,000 hectares of forest are in Brazil, up to 800,000 hectares of forest concession rights in Bolivia, a wood processing plant, investment interests in a flooring company and exclusive production rights. The Term Sheet is legally binding and pursuant to its terms, the consideration of the acquisition shall be R\$70,000,000 (equivalent to approximately HK\$318,857,000 (31 March 2010: HK\$294,896,000)). The consideration shall be payable by instalments as follows: (i) R\$45,000,000 (equivalent to approximately HK\$204,979,500 (31 March 2010: HK\$189,576,000)) to be satisfied upon completion of the acquisition and (ii) R\$25,000,000 (equivalent to approximately HK\$113,877,500 (31 March 2010: HK\$105,320,000)) to be satisfied by payment in cash in United State dollars on a date falling within three years after completion. According to the terms of the Term Sheet, the consideration may be reduced, if the net profit after tax for each of the three years after completion shall be less than R\$10,000,000.
- (ii) On 1 November 2009, the Group entered into a legally binding Memorandum of Intent (“MOU”) to acquire the entire equity interests in a company (an independent third party) incorporated in Brazil holding freehold forest area of approximately 137,000 hectares in Brazil, a sawmill and a fibreboard processing facility. Pursuant to the terms of the MOU, the consideration of the acquisition should be R\$80,000,000 (equivalent to approximately HK\$364,408,000 (31 March 2010: HK\$363,843,757).) The consideration shall be payable as follows: (i) R\$27,000,000 (equivalent to approximately HK\$122,987,700 (31 March 2010: HK\$122,797,268)) to be satisfied by cash on the completion date of the acquisition; (ii) R\$26,000,000 (equivalent to approximately HK\$118,432,600 (31 March 2010: HK\$118,249,221)) to be satisfied by the allotment and issue of new shares of the Company on the completion date of the acquisition and (iii) R\$27,000,000 (equivalent to approximately HK\$122,987,700 (31 March 2010: HK\$122,797,268)) to be paid in 6 instalments, falling due on a half-yearly basis, with the first instalment falling due after 12 months form the completion date of the acquisition.

**(b) Operating lease commitment**

The Group leases certain of its office premises under operating leases. Leases for these properties are negotiated for terms ranging one to two years. At the end of reporting period, the Group had total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At <b>30 September</b> <b>2010</b> <i>HK\$'000</i> <b>(Unaudited)</b>	At 31 March 2010 <i>HK\$'000</i> (Audited)
Within one year	<b>3,226</b>	2,575
In the second to fifth years, inclusive	<b>1,694</b>	2,298
	<b>4,920</b>	4,873

**(c) Minimum royalty payments**

The total future minimum royalty payments payable under the terms of the timber concession licenses are as follows:

	At <b>30 September</b> <b>2010</b> <i>HK\$'000</i> <b>(Unaudited)</b>	At 31 March 2010 <i>HK\$'000</i> (Audited)
Within one year	<b>2,794</b>	3,317
In the second to fifth years, inclusive	<b>10,765</b>	12,910
After five years	<b>29,839</b>	38,067
	<b>43,398</b>	54,294

The terms of the timber concession licences ranging from 3 to 22 years.

**20. SEASONALITY OF OPERATIONS**

The Group's forest operations in Brazil is located in the Amazon region and is subject to weather conditions during the rainy season ranging roughly from December to April each year. Forest logging activities in the Amazon region are substantially scaled down or stopped completely in some areas. Log prices usually increase during the rainy season due to diminished supplies. This affects many sawmill operators that have to stock up logs and tie up significant working capital, but benefits forest owners who can plan ahead to reserve stock pile prior to the start of the rainy season. The Group incorporates this seasonality in its forest management plan to avoid supply shortage as well as to take advantage of seasonal price differentials in logs.

**21. CONTINGENT LIABILITIES**

The Group and the Company had no contingent liabilities as at 30 September 2010 and 31 March 2010.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

For the six months ended 30 September 2010 and 2009, the Group had 5 business segments including tree felling service, sustainable forest management, Chita forests operation, building materials and real estate. An analysis of turnover for the six months ended 30 September is as follows:

	For the six months ended 30 September (unaudited)					
	2010		2009		Increase (Decrease)	
	HK\$'000	%	HK\$'000 (Restated)	%	HK\$'000	%
<b>Continuing operations</b>						
Tree felling service	330,276	96.9%	–	–	330,276	100.0%
Sustainable forest management	10,502	3.1%	102	100.0%	10,400	10,196.1%
	<u>340,778</u>	<u>100.0%</u>	<u>102</u>	<u>100.0%</u>	<u>340,676</u>	<u>333,996.1%</u>
<b>Discontinued operations</b>						
Building materials	–	–	57,206	97.6%	(57,206)	(100.0%)
Chita forests operation	–	–	1,280	2.2%	(1,280)	(100.0%)
Real estate	–	–	123	0.2%	(123)	(100.0%)
	<u>–</u>	<u>–</u>	<u>58,609</u>	<u>100.0%</u>	<u>(58,609)</u>	<u>(100.0%)</u>

Turnover from continuing operations for the period ended 30 September 2010 increased to HK\$340.8 million from HK\$0.1 million for the period ended 30 September 2009. The increase is mainly because there were only two months operational results for forestry operations were included in last interim period since the acquisition date on 31 July 2009 while a full six-month of operational results from forestry operations was included in the results for the period ended 30 September 2010. Also, the tree felling service business segment only began operation in mid January 2010.

Building materials and real estate business segments were disposed of during the year ended 31 March 2010.

Net profit after tax of the Group for the period ended 30 September 2010 amounted to HK\$183.5 million. This represented a 548.7% and 210.7% increase from the net losses of HK\$40.9 million and HK\$165.7 million reported for the periods ended 30 September 2009 and 2008, respectively.



## **BUSINESS REVIEW**

### **Profitability**

Gross profit margin for the six months ended 30 September 2010 increased to 70.1% from 45.2% for the year ended 31 March 2010. The improvement in gross margin was primarily attributable to significant harvesting costs reduction achieved in the tree felling operations relating to the hydropower plants in Rondonia, Brazil. Since April 2010, we increased competition amongst our subcontractors by introducing additional harvesters, and engaged in aggressive price reduction negotiations with the harvesters. On average, unit harvesting costs decreased by 46% after negotiations. In addition, we were able to achieve a retroactive application of the reduced rates since the beginning of the project. As a result, we enjoyed a windfall and recorded a reduction of the costs of sales of HK\$9.7 million in current interim period for reductions related to previous financial year.

Pre-tax Profit from operations for the six months ended 30 September 2010 was HK\$255.4 million, comparing to a loss from operations of HK\$17.1 million in the same period last fiscal year. Included in pre-tax profit for the current interim period was a pre-tax gain arising from increase in fair value of biological assets of HK\$71.0 million. The modest gain was mainly due to a slight increase in average log prices during the months from April to September 2010.

Operational pre-tax profit, if the gain from increase in fair value of biological assets was excluded, was HK\$184.4 million for the six months ended 30 September 2010. Operational pre-tax profit, excluding the gain from fair value increase of biological assets, for the full year ended 31 March 2010 totaled HK\$71.2 million. This represents a 159.0% increase from the full year results of our last financial year without annualization.

### **Sustainability**

We continue to be committed to creating long-term value and sustainable growth through responsible, sustainable practices throughout our operations. During the interim period, we began working closely with local governments in the Amazon region to develop various programs to promote the local timber industry and create employment. Some of the programs under development include looking at using home grown technology to produce environmentally friendly charcoal and pellets from wood waste for use in the steel industry in Brazil and as alternatives to coal in industrial power plants for export, respectively.

### **Social Responsibility**

Our special executive task force responsible for design, evaluate and implement social programs lay down the following objectives for our social programs:

- To promote sustainable development within the communities we work in
- To help improve the living standards and quality of life for the local communities
- To prevent deforestation (slash-and-burn) by indigenous communities

Our task force believes education is a crucial tool to ensure we achieve a balance between sustainability as well as social and economic development. We started from both our own executives and with the communities we are in. Internally, our executives were sent periodically to training for new practices and methodologies in sustainable forest management. Externally, our executives were actively giving talks and seminars in local schools to educate school children our impact to the environment and the importance of sustainably managing our invaluable forest resources.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 September 2010, the Group had cash and cash equivalents amounted to 25.8 million (31 March 2010: HK\$36.8 million).

The Group gearing ratio expressed as a percentage of total interest bearing borrowings, excluding the interest bearing borrowings classified under liabilities held for sale, over equity attributable to the owners of the Company, decreased from 1.0% as at 31 March 2010 to 0.7% as at 30 September 2010.

As at 30 September 2010, the Group had HK\$21.8 million (31 March 2010: HK\$25.1 million) interest bearing borrowings, in which of HK\$15.2 million are repayable within one year and the remaining of HK\$6.6 million were repayable after one year. The total interest bearing borrowings consisted of HK\$15.2 million in bank overdrafts, bank and other loans, HK\$0.5 million in finance lease payable and HK\$6.1 million in promissory notes. As at 30 September 2010, the Group's working capital was approximately HK\$522.4 million (31 March 2010: HK\$257.1 million).

On 26 May 2010, the Company entered into a subscription agreement with NWS Holdings Limited (the "Subscriber") who is an independent third party to the Group, pursuant to which the Company has agreed to allot and issue to the Subscriber, the subscription shares of 412,000,000 new shares at HK\$0.50 per subscription share. The Company completed the subscription of 412,000,000 shares on 2 June 2010. The net proceeds raised from the subscription were approximately HK\$190.6 million.

## **CHARGE ON ASSETS**

As at 30 September 2010, general banking facilities granted to the Group were secured by property, plant and equipment with a carry value of HK\$0.6 million.

## **CONTINGENT LIABILITIES**

The Group and the Company had no contingent liabilities as at 30 September 2010 and 31 March 2010.

## **FOREIGN EXCHANGE RISK**

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

During the period ended 30 September 2010, the revenue from continuing operations was denominated mainly in United States dollars and the Euro while its costs and expenses were primarily in Brazilian Reals 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.

In addition, the main operational assets of the Group are located and denominated in local currencies in Brazil 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 for 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 can be mitigated by increasing local sales denominated in Reals to pay for the operating costs and expenses were those currencies to rise substantially against US dollars or the Euro. 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 unrealized 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 30 September 2010, the Group has approximately 203 employees (30 September 2009: 272) mainly in Hong Kong, PRC, Brazil and Russia. The total remuneration paid by the Group to its employees (including directors) for the period was approximately HK\$36.8 million (2009: HK\$5.4 million).

The Group rewards its employees according to prevailing market practices, individual experience and 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.

## **INTERIM DIVIDENDS**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2010 (2009: Nil).

## **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 six months ended 30 September 2010.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 of the Listing Rules as its own code for dealing in securities of the Company by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard as set out in the Model Code during the six months ended 30 September 2010.

## **CORPORATE GOVERNANCE PRACTICES**

The Company has complied throughout the six months ended 30 September 2010 with all the code provisions (the “Code Provisions”) and, where applicable, the recommended best practices as set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules, except Code Provisions A.2.1 and A.4.1.

Under the Code Provision A.2.1, the roles of chairman and chief executive officer should be separate and performed by different individuals. The roles of the chairman and the chief executive officer of the Company are segregated and are clearly defined to ensure their respective independence, accountability and responsibilities. The chairman of the Company is responsible for the formulation of the Group’s overall business development policies while the chief executive officer of the Company is responsible for the implementation of major decision of the Board and overall management of the Group’s business.

During the period, the position of chairman has not been appointed by the Board. The functions of the chairman of the Company are performed by Mr LEUNG Chau Ping, Paul, the Chief Executive Officer of the Company, with support from other Executive Directors and senior management of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company, and has been effective in discharging its responsibilities satisfactorily and facilitating the Company’s operation and business development. The Board will review the current situation from time to time and will make the necessary appointment if a candidate with suitable leadership, knowledge, skills and experience can be identified outside the Group.

Under the Code Provision A.4.1, non-executive directors should be appointed for specific term and subject to re-election. According to the bye-laws of the Company, each director appointed to fill a causal vacancy shall be subject to re-election at the next following general meeting or until the next following annual general meeting in the case of an addition to the Board and shall then be eligible for re-election at such meeting. Moreover, one-third of the Directors (including the independent non-executive directors) shall retire from office by rotation at least once every three years.

## **AUDIT COMMITTEE**

The audit committee of the Company (the “Audit Committee”) comprises three members, namely Mr LEUNG Siu Hung, Joel, Mr John Tewksbury BANIGAN and Mr KEUNG Paul Hinsum and all of them are Independent Non-executive Directors. The principal activities of the Audit Committee include the review and supervision of the Group’s financial reporting process and internal controls. The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements of the Group and the interim report for the six months ended 30 September 2010. After review and discussions, the Audit Committee recommended the Board’s approval of the unaudited condensed consolidated interim financial statements for the six months ended 30 September 2010.

## **PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT**

This results announcement is published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.susfor.com](http://www.susfor.com)). The Company’s 2010 interim report containing all the information required by the Listing Rules will be published on the above websites and dispatched to the shareholders of the Company in due course.

By order of the Board  
**Sustainable Forest Holdings Limited**  
**Leung Chau Ping, Paul**  
*Executive Director*

Hong Kong, 29 November 2010

*As at the date of this announcement, the Board comprises Mr LEUNG Chau Ping, Paul, and Mr Leandro Dos Martires GUERRA as Executive Directors; Mr NG Tik Hong as Non-executive Director; and Mr LEUNG Siu Hung, Joel, Mr John Tewksbury BANIGAN and Mr KEUNG Paul Hinsum as Independent Non-executive Directors.*