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 2012 AND RESUMPTION OF TRADING

The board ("**Board**") of directors ("**Directors**") of Sustainable Forest Holdings Limited ("**Company**") hereby present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively "**Group**") for the six months ended 30 September 2012 together with the comparative figures for the corresponding period in 2011 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 September 2012

	Note	For the six months ended 30 September 2012 HK$'000 (Unaudited)	2011 HK$'000 (Unaudited)
CONTINUING OPERATIONS			
Revenue	5	**47,526**	88,455
Cost of sales		**(45,904)**	(78,326)
Gross profit		**1,622**	10,129
Other income	6	**124,498**	3,715
Other net gain/(loss)	6	**5,919**	(31,466)
Selling and distribution costs		**(1,613)**	(7,861)
Administrative expenses		**(54,365)**	(47,753)
Loss on business disruption	7	**–**	(347,118)
Change in fair value of biological assets less costs to sell	13	**(90,594)**	244,192

* *For identification purposes only*

	Note	For the six months ended 30 September 2012 HK$'000 (Unaudited)	2011 HK$'000 (Unaudited)
Loss from operations		**(14,533)**	(176,162)
Finance income		**6**	313
Finance costs		**(6,221)**	(3,998)
Net finance costs	*8(a)*	**(6,215)**	(3,685)
Loss before taxation	*8*	**(20,748)**	(179,847)
Income tax	*9*	**30,802**	(59,277)
Profit/(Loss) for the period from continuing operations		**10,054**	(239,124)
DISCONTINUED OPERATION			
Loss from discontinued operation	*10*	**–**	(5,368)
PROFIT/(LOSS) FOR THE PERIOD		**10,054**	(244,492)
Attributable to:			
Owners of the Company		**10,054**	(244,492)
Non-controlling interests		**–**	–
		10,054	(244,492)
Earnings/(Loss) per share			
From continuing and discontinued operations			
— Basic	*12*	**0.144 cents**	(4.698 cents)
— Diluted		**0.138 cents**	(4.698 cents)
From continuing operations			
— Basic		**0.144 cents**	(4.594 cents)
— Diluted		**0.138 cents**	(4.594 cents)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 September 2012

	For the six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit/(Loss) for the period	**10,054**	(244,492)
Other comprehensive loss		
Exchange differences on translation of financial statement of overseas subsidiaries	**(50,058)**	(81,424)
Other comprehensive loss for the period, net of tax	**(50,058)**	(81,424)
Total comprehensive loss for the period	**(40,004)**	(325,916)
Total comprehensive loss attributable to:		
Owners of the Company	**(40,004)**	(325,916)
Non-controlling interests	**–**	–
	(40,004)	(325,916)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2012

	Note	At 30 September 2012 *HK$'000* (Unaudited)	At 31 March 2012 *HK$'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**192,345**	213,306
Biological assets	*13*	**732,313**	913,049
Goodwill	*14*	**302,118**	302,118
		1,226,776	1,428,473
CURRENT ASSETS			
Inventories	*15*	**49,733**	65,628
Trade and other receivables	*16*	**12,382**	17,972
Consideration receivable	*10*	**208,000**	208,000
Amount due from a related company		**4,426**	–
Cash and cash equivalents		**2,466**	7,760
		277,007	299,360
CURRENT LIABILITIES			
Trade and other payables	*17*	**79,265**	212,310
Loans and borrowings		**15,000**	25,289
Finance leases payable		**–**	100
Promissory notes		**6,582**	–
Provision for taxation		**49,456**	49,456
Financial liabilities		**127**	6,030
		150,430	293,185
NET CURRENT ASSETS		**126,577**	6,175
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,353,353**	1,434,648

	At 30 September 2012 *HK$'000* (Unaudited)	At 31 March 2012 *HK$'000* (Audited)
NON-CURRENT LIABILITIES		
Amounts due to shareholders	**203,961**	210,874
Amount due to related companies	**22,115**	2,048
Finance leases payable	**–**	250
Promissory notes	**–**	6,517
Deferred tax liabilities	**275,186**	339,564
	501,262	559,253
NET ASSETS	**852,091**	875,395
CAPITAL AND RESERVES		
Share capital	**390,341**	384,328
Reserves	**461,664**	490,981
Total equity attributable to the owners of the Company	**852,005**	875,309
Non-controlling interests	**86**	86
TOTAL EQUITY	**852,091**	875,395

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 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 (for the six-month period ended 30 September 2011 only and no tree felling service was provided during the six-months ended 30 September 2012), sustainable forest management and manufacturing and sale of timber products including but not limited to wooden door, furniture and wooden floor panels ("**Zhongshan operation**").

2. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30 September 2012 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 2012.

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 that the biological assets and financial liabilities are stated 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 2012, 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.

IFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
IFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets
IFRS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets

The adoption of the above new and revised IFRSs had no significant financial impact on these condensed consolidated interim financial statements.

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRSs	Annual Improvements to IFRSs 2009–2011 Cycle[2]
Amendments to IFRS 1	Government Loans[2]
Amendments to IFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
Amendments to IFRS 7 and IFRS 9	Mandatory Effective Date of IFRS 9 and Transition Disclosures[4]
Amendments to IFRS 10, 11, 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2]
IFRS 9	Financial Instruments[4]
IFRS 10	Consolidated Financial Statements[2]
IFRS 11	Joint Arrangements[2]
IFRS 12	Disclosure of Interests in Other Entities[2]
IFRS 13	Fair Value Measurement[2]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[1]
IAS 19 (as revised in 2011)	Employee Benefits[2]
IAS 27 (as revised in 2011)	Separate Financial Statements[2]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to IAS 32	Offsetting Finance Assets and Financial Liabilities[3]
IFRIC-Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2012.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 January 2014.
[4] Effective for annual periods beginning on or after 1 January 2015.

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

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 operation

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

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 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 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 segments is reported below:

	For the six months ended 30 September 2012 (Unaudited)				
	Continuing operations				
	Sustainable forest management *HK$'000*	Tree felling service *HK$'000*	Zhongshan operations *HK$'000*	Sub-total *HK$'000*	Total *HK$'000*
Segment revenue					
Revenue from external customers	193	–	47,333	47,526	47,526
Reportable segment revenue	193	–	47,333	47,526	47,526
Reportable segment loss before taxation	(5,256)	–	(10,153)	(15,409)	(15,409)
Change in fair value of biological assets less costs to sell	(90,594)	–	–	(90,594)	(90,594)
Depreciation	(621)	–	(137)	(758)	(758)
Waiver of liabilities by trade creditors	123,684	–	–	123,684	123,684
Interest expenses	(5,591)	–	–	(5,591)	(5,591)
Interest income	6	–	–	6	6
Reportable segment assets	1,240,891	–	50,672	1,291,563	1,291,563
Additions to non-current segment assets	450	–	1,195	1,645	1,645
Reportable segment liabilities	(291,586)	–	(20,212)	(311,798)	(311,798)

	For the six months ended 30 September 2011 (Unaudited)					
	Continuing operations				Discontinued operation	
	Sustainable forest management *HK$'000*	Tree felling service *HK$'000*	Zhongshan operations *HK$'000*	Sub-total *HK$'000*	Chita forests operation *HK$'000*	Total *HK$'000*
Segment revenue						
Revenue from external customers	7,862	–	80,593	88,455	–	88,455
Inter-segment revenue	–	–	45,570	45,570	–	45,570
Reportable segment revenue	7,862	–	126,163	134,025	–	134,025
Reportable segment profit/(loss) before taxation	51,350	(232,846)	24,112	(157,384)	(5,368)	(162,752)
Change in fair value of biological assets less costs to sell	244,192	–	–	244,192	–	244,192
Depreciation	(639)	(2)	(7)	(648)	–	(648)
Write off of trade receivables	(114,274)	–	–	(114,274)	–	(114,274)
Write down of inventories	–	(245,682)	–	(245,682)	–	(245,682)
Reversal of service fee payables	–	12,838	–	12,838	–	12,838
Interest expenses	(633)	–	–	(633)	–	(633)
Interest income	312	–	–	312	–	312

	As at 31 March 2012 (Audited)					
	Continuing operations				Discontinued operation	
	Sustainable forest management *HK$'000*	Tree felling service *HK$'000*	Zhongshan operations *HK$'000*	Sub-total *HK$'000*	Chita forests operation *HK$'000*	Total *HK$'000*
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)

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

	For the six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(i) Revenue		
Reportable segment revenue	**47,526**	134,025
Elimination of inter-segment revenue	**–**	(45,570)
Consolidated revenue	**47,526**	88,455

	For the six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(ii) Loss		
Reportable segment loss before taxation	**(15,409)**	(157,384)
Unallocated corporate income	**6,423**	–
Unallocated depreciation	**(9)**	(139)
Unallocated interest income	**–**	1
Unallocated interest expenses	**(630)**	(3,365)
Unallocated corporate expenses	**(11,123)**	(18,960)
Loss before taxation (continuing operations)	**(20,748)**	(179,847)

	At 30 September 2012 *HK$'000* (Unaudited)	At 31 March 2012 *HK$'000* (Audited)
(iii) Assets		
Segment assets for reportable segments from continuing operations	**1,291,563**	1,514,520
Unallocated corporate assets	**212,220**	213,313
Total assets per condensed consolidated statement of financial position	**1,503,783**	1,727,833
Liabilities		
Segment liabilities for reportable segments from continuing operations	**311,798**	417,603
Unallocated:		
— Provision for taxation	**49,456**	49,456
— Deferred tax liabilities	**275,186**	339,564
— Corporate liabilities	**15,252**	45,815
Total liabilities per condensed consolidated statement of financial position	**651,692**	852,438

(iv) Other items

	For the six months ended 30 September 2012 (Unaudited)								
	Continuing operations					Discontinued operation			
	Sustainable forest management HK$'000	Tree felling service HK$'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	**621**	**–**	**137**	**9**	**767**	**–**	**–**	**–**	**767**
Interest expenses	**5,591**	**–**	**–**	**630**	**6,221**	**–**	**–**	**–**	**6,221**
Interest income	**6**	**–**	**–**	**–**	**6**	**–**	**–**	**–**	**6**

	For the six months ended 30 September 2011 (Unaudited)								
	Continuing operations					Discontinued operation			
	Sustainable forest management HK$'000	Tree felling service HK$'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	639	2	7	139	787	–	–	–	787
Interest expenses	633	–	–	3,365	3,998	–	–	–	3,998
Interest income	312	–	–	1	313	–	–	–	313

(c) Revenue from major products and services:

	For the six months ended 30 September					
	Continuing operations		Discontinued operation		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Sales of forestry and timber products	**47,526**	88,455	**–**	–	**47,526**	88,455

5. REVENUE

Revenue represents the invoiced value of goods sold, net of allowances for returns and trade discounts and revenue.

An analysis of revenue is as follows:

	For the six months ended 30 September					
	Continuing operations		Discontinued operation		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Sales of forestry and timber products	**47,526**	88,455	**–**	–	**47,526**	88,455

6. OTHER INCOME AND OTHER NET GAIN/(LOSS)

	For the six months ended 30 September					
	Continuing operations		Discontinued operation		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Other income						
Rental income	**15**	14	**–**	234	**15**	248
Waiver of liabilities by trade creditors *(Note i)*	**123,684**	–	**–**	–	**123,684**	–
Others	**799**	3,701	**–**	–	**799**	3,701
	124,498	3,715	**–**	234	**124,498**	3,949
Other net gain/(loss)						
Change in fair value of financial liabilities *(Note ii)*	**5,903**	–	**–**	–	**5,903**	–
Net exchange gain/(loss)	**16**	(31,466)	**–**	(4,050)	**16**	(35,516)
	5,919	(31,466)	**–**	(4,050)	**5,919**	(35,516)

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 originated 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 28 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 amicably. The Group recognised the waiver of liabilities by trade creditors as other income of HK$124 million during the interim period ended 30 September 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.

Trade receivable of HK$299 million for the sale of the above logs and timber were written off during the year ended 31 March 2012.

(ii) On 19 December 2011, the Company issued 300,000,000 non-listed warrants to a strategic investor. The 300,000,000 non-listed warrants carry the rights to subscribe for 300,000,000 ordinary shares of the Company at an exercise price of HK$0.25 per each ordinary share for a term of twelve months from the completion date of the subscription. The warrants are classified as financial liabilities and are measured at fair value at each end of the reporting period. For the six months ended 30 September 2012, the valuation was carried out by Grant Sherman Appraisal Limited independently based on Binomial Option Pricing Model. The fair value of the warrants decreased from HK$6,030,000 at 31 March 2012 to HK$127,000 at 30 September 2012 mainly due to the elapse of time closer to maturity of time and decrease in the value of the underlying shares. Accordingly, a gain from change in fair value of financial liabilities of HK$5,903,000 was recognized during the six months ended 30 September 2012.

7. LOSS ON BUSINESS DISRUPTION

	2012 ***HK$'000*** **(Unaudited)**	2011 *HK$'000* (Unaudited)
Write off of trade receivables	**–**	114,274
Write down of inventories	**–**	245,682
Reversal of service fee payables	**–**	(12,838)
	–	347,118

In November 2009, Universal Timber Resources Do Brasil Participacao LTDA ("**UTRB**"), a wholly-owned subsidiary of the Company 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 operation 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. As at 30 September 2011, inventories amounting to R$51 million (or approximately HK$246 million translated at the relevant average exchange rate for the period ended 30 September 2011) 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 PRC and USA. The sales contracts were signed under Hong Kong laws. According to the terms and conditions of the sale 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 which 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 might adversely affect the Group's operations and prospects in Rondonia, the Group decided to write off R$51 million (or approximately HK$246 million translated at the relevant average exchange rate for the period ended 30 September 2011) for the full carrying value of the logs and the trade receivables with PRC customers of HK$114 million during the year ended 31 March 2012.

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 operation		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
a) Net finance costs						
Finance income on financial assets not at fair value through profit or loss	**(6)**	(313)	**–**	–	**(6)**	(313)
Finance costs						
Interest on bank and other borrowings wholly repayable within five years	**573**	627	**–**	–	**573**	627
Interest on promissory notes	**65**	64	**–**	–	**65**	64
Interest on amounts due to shareholders	**5,252**	3,301	**–**	–	**5,252**	3,301
Interest on amounts due to related parties	**283**	–	**–**	–	**283**	–
Finance charges on obligations under finance leases	**48**	6	**–**	–	**48**	6
Total interest expenses on financial liabilities not at fair value through profit or loss	**6,221**	3,998	**–**	–	**6,221**	3,998
	6,215	3,685	**–**	–	**6,215**	3,685
b) Staff costs (including directors' remuneration)						
Salaries, wages and other benefits	**22,055**	21,114	**–**	–	**22,055**	21,114
Pension scheme contributions	**791**	233	**–**	–	**791**	233
Equity-settled share-based payment expenses	**(98)**	4,076	**–**	–	**(98)**	4,076
	22,748	25,423	**–**	–	**22,748**	25,423
c) Other items						
Cost of inventories sold*	**45,904**	71,718	**–**	–	**45,904**	71,718
Depreciation	**767**	787	**–**	–	**767**	787
Minimum lease payments under operating leases for land and buildings (including directors' quarters)	**2,267**	2,108	**–**	–	**2,267**	2,108
Auditor's remuneration						
— audit services	**–**	5	**–**	–	**–**	5
— other services	**764**	550	**–**	–	**764**	550

* Cost of inventories sold includes depreciation of HK$8,000 (2011: HK$212,000) and staff costs of HK$1,655,000 (2011: HK$2,188,000), 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 operation		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Current tax						
— Hong Kong Profits Tax	**–**	–	**–**	–	**–**	–
Deferred tax						
— (Reversal) and origination of temporary differences	**(30,802)**	59,277	**–**	–	**(30,802)**	59,277
	(30,802)	59,277	**–**	–	**(30,802)**	59,277

Hong Kong Profits Tax is calculated at 16.5% (2011: 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 OPERATION

(a) For the six months ended 30 September 2011 and 2012

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. In October 2010, the Group set up Ally Rise Limited, a wholly-owned subsidiary of the Company incorporated in British Virgin Islands, as an immediate holding company of the Russian subsidiary, namely OOO "Zabaikalskaya lesnaya kompaniya" ("**ZLK**") which held 99.95% equity interest in OOO "Novoles" ("**Novoles**") (collectively "**ZLK Group**"). ZLK Group was principally engaged in the forestry business in Russia.

On 6 October 2011, Amplewell Holdings Limited ("**Amplewell**"), a wholly-owned subsidiary of the Company, entered into a disposal agreement with Source Bright Limited, an independent third party, to dispose of the Group's entire equity interest in the issued share capital of Ally Rise Limited which held 100% equity interest in ZLK (collectively "**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 Ally Rise Group were classified as discontinued operation and the losses arising from discontinued operation are analysed as follows:

		For the six months ended 30 September	
		2012	2011
		Chita forests operation	
	Note	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*5*	**–**	–
Cost of sales		**–**	–
Gross profit		**–**	–
Other income	*6*	**–**	234
Other net loss	*6*	**–**	(4,050)
Administrative expenses		**–**	(1,552)
Loss from operations		**–**	(5,368)
Finance costs		**–**	–
Loss before taxation	*8*	**–**	(5,368)
Income tax	*9*	**–**	–
Loss from discontinued operation		**–**	(5,368)
Attributable to:			
Owners of the Company		**–**	(5,368)
Non-controlling interests		**–**	–
		–	(5,368)

11. DIVIDENDS

The Directors do not recommend the payment or declaration of any dividend for both six-month periods ended 30 September 2011 and 30 September 2012 respectively.

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:

	For the six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings/(loss)		
Earnings/(loss) for the purpose of basic and diluted earnings/(loss) per share — Profits/(loss) attributable to the owners of the Company	**10,054**	(244,492)
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings/(loss) per share	**6,965,662**	5,204,640
Effect of dilutive potential ordinary shares arising from conversion of convertible preference shares	**329,960**	1,657,430
Effect of dilutive potential ordinary shares arising from exercise of share options	**–**	7,691
Weighted average number of ordinary shares for the purposes of diluted earnings/(loss) per share	**7,295,622**	6,869,761

The share options had no dilutive effect on the basic earnings per share for the six months ended 30 September 2012.

(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:

	For the six months ended 30 September	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings/(loss)		
Profits/(loss) attributable to the owners of the Company	**10,054**	(239,124)

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 operation

No basic earnings per share and diluted earnings per share is presented for the six months ended 30 September 2012 as the discontinued operations were disposed of during the year ended 31 March 2012. Basic and diluted loss per share from the discontinued operation for the six months ended 30 September 2011 is HK0.11 cents per share which is based on the loss from the discontinued operation of HK$5,368,000 and the denominators used are the same as those detailed above for basic and diluted earnings/(loss) per share from continuing and discontinued operations.

(d) Diluted loss per share

Diluted loss per share is equal to the basic loss per share for the six months ended 30 September 2011 because the outstanding convertible preference shares and the share options had an anti-dilutive effect on the basic loss per share.

13. BIOLOGICAL ASSETS

	HK$'000
At 1 April 2011 (Audited)	1,173,150
Transfer to inventories	(2,951)
Changes in fair value less costs to sell	(150,419)
Exchange movement	(106,731)
At 31 March 2012 (Audited)	913,049
Changes in fair value less costs to sell *(Note a)*	(90,594)
Exchange movement	(90,142)
At 30 September 2012 (Unaudited)	732,313

The Group's forest assets, acquired through the business combination of Amplewell and its subsidiaries, are located in the Northwest of Brazil, the State of Acre, Amazon Region (the "**Brazil Forest**"). As at 31 March 2012 and 30 September 2012, 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, 20% or 8,939 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 $30m^3$ 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 period ended 30 September 2012, the Group recorded a decrease in fair value less cost to sell on biological assets of HK$90.6 million (2012: 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.

The Brazil Forest was independently valued by Greater China Appraisal Limited ("**GCA**"), an independent qualified professional valuers not connected with the Group. GCA has experienced in valuing similar forestry assets. 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 15m (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 15m 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/.

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^3 per hectare in the sustainable forest management program area.

(ii) a discount rate of 16.1% 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) harvesting activities for the first 30-year cycle will resume from the calendar year of 2013 and complete in 7 years. Revenue or costs from subsequent harvesting cycles are not taken into account.

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

(v) the Group will obtain Forest Stewardship Council ("**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 30 September 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 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

	Sustainable forest management *HK$'000*	Zhongshan Operations *HK$'000*	Total *HK$'000*
Cost			
At 1 April 2011 (Audited)	1,686,883	–	1,686,883
Arising from acquisition of subsidiaries	–	77,353	77,353
At 31 March 2012 (Audited), at 1 April 2012 and 30 September 2012 (Unaudited)	1,686,883	77,353	1,764,236
Accumulated impairment losses			
At 1 April 2011 (Audited)	–	–	–
Impairment losses recognised during the year	1,384,765	77,353	1,462,118
At 31 March 2012 (Audited), at 1 April 2012 and 30 September 2012 (Unaudited)	1,384,765	77,353	1,462,118
Carrying amount			
At 30 September 2012 (Unaudited)	302,118	–	302,118
At 31 March 2012 (Audited)	302,118	–	302,118

Sustainable forest management

Goodwill was allocated to the Group's cash-generating unit identified according to the operating segment. Goodwill as at 30 September 2012 and 31 March 2012 was attributable to the cash-generating unit that comprises the sustainable forest management segment.

For the period ended 30 September 2012, the recoverable amount of the sustainable forest management segment was determined to be higher than its carrying amount, therefore, there was no impairment.

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 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 for sustainable forest management segment were projected based on past experience and financial budget approved by management. Management estimated that the cash flows after 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 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. The expected long term growth rate was estimated by reference to the Consumer Price Index in USA.

— A pre-tax discount rate of 29.89% (31 March 2012: 27.84%) 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 timber products from 2014 when the Group obtains the FSC certification.

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 recoverable amount of Zhongshan operations segment cash-generating unit was based on value in use. The value in use was determined by discounting the future cash flows generated from the continuing use of the unit.

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 and HK$10 million in its first year of operations since consolidation into the Group and for the six months ended 30 September 2012 respectively. 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.

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.

15. INVENTORIES

	At 30 September 2012 *HK$'000* **(Unaudited)**	At 31 March 2012 *HK$'000* (Audited)
Timber logs	**1,282**	1,425
Sawn timber	**43,399**	48,126
Raw materials	**513**	3,212
Work in progress	**485**	83
Finished goods	**4,054**	12,782
	49,733	65,628

16. TRADE AND OTHER RECEIVABLES

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.

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

	At 30 September 2012 *HK$'000* **(Unaudited)**	At 31 March 2012 *HK$'000* (Audited)
0 to 30 days	**2**	922
31 to 60 days	**312**	18
61 to 90 days	**69**	–
Over 90 days	**640**	15
Trade receivables, net	**1,023**	955
Other receivables	**6,909**	10,279
Amount due from a director	**–**	456
Prepayment and deposits	**4,450**	6,282
	12,382	17,972

17. TRADE AND OTHER PAYABLES

	Note	At 30 September 2012 *HK$'000* (Unaudited)	At 31 March 2012 *HK$'000* (Audited)
Trade payables	*(a)*	**58,550**	177,997
Other payables and accruals		**20,715**	22,049
Amounts due to related companies		**–**	12,264
		79,265	212,310

(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 2012 *HK$'000* (Unaudited)	At 31 March 2012 *HK$'000* (Audited)
0 to 30 days	**14,068**	5,200
31 to 60 days	**145**	2,717
61 to 90 days	**8**	–
Over 90 days	**44,329**	170,080
Total trade payables	**58,550**	177,997

18. CONTINGENT LIABILITIES

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.

EXTRACTS FROM REPORT ON REVIEW OF INTERIM FINANCIAL REPORT

BASIS FOR QUALIFIED CONCLUSION

(a) Scope limitation — Disposal of the subsidiaries

The Company disposed of its entire shares in Ally Rise Limited (the "**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 the 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. Another 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 as at 30 September 2012. The Group also agreed to extend the payment term of the consideration which shall be paid in one lump sum within nine months after completion of the disposal. As a security for the payment, the buyer executed a share charge of the entire issued share capital of Ally Rise Limited in favor of the Company. 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 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 statements of the Group for the year ended 30 September 2012. In addition, in the absence of sufficient information to assess the financial position of the buyer, we were unable to ascertain the consideration receivable amounting to HK$208,000,000 can be collected.

As a result, there were no other satisfactory review procedures that we could adopt and therefore we were unable to express a conclusion as to whether anything had come to our attention that caused us to believe that the carrying amount of the other receivable as included in the Group's interim financial report as at 30 September 2012 were not prepared, in all material respects in accordance with IAS 34. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

(b) Scope limitation — Inventory

Included in inventories of approximately HK$49,733,000 of the consolidated statement of financial position as at 30 September 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 30 September 2012.

For the part of the stock held by the third parties of HK$2,946,000, our independent auditor's report on the Group's consolidated financial statements for the year ended 31 March 2012 was qualified due to the limitation of scope of the audit in relation to the existence of these inventories. Moreover, there was absence of new information in relation to the existence of these inventories as at 30 September 2012. As a result, there were no other satisfactory review procedures that we could adopt and therefore we were unable to express a conclusion as to whether anything had come to our attention that caused us to believe that the carrying amount of the inventory as included in the Group's interim financial report as at 30 September 2012 were not prepared, in all material respects in accordance with IAS 34. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

(c) Scope limitation — Trade and other payables

Included in the trade and other payables of approximately HK$79,265,000 in the consolidated statement of financial position as at 30 September 2012 was trade payable of approximately HK$40,174,000 which was subject to an interest of 1 % per month for overdue payment. The Group represented that the trade creditor did not bill any interest for the overdue payment. Our independent auditor's report on the Group's consolidated financial statements for the year ended 31 March 2012 was qualified due to the limitation of scope of the audit in relation to the existence, completeness and valuation of trade payables for these amount. Moreover, there was absence of new information in relation to the existence, completeness and valuation of trade payables of these amount as at 30 September 2012. As a result, there were no other satisfactory review procedures that we could adopt and therefore we were unable to express a conclusion as to whether anything had come to our attention that caused us to believe that the carrying amount of the trade payable as included in the Group's interim financial report as at 30 September 2012 were not prepared, in all material respects in accordance with IAS 34. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

(d) Prior year audit scope limitation affecting opening balances

We issued a qualified opinion on the consolidated financial statements of the Group for the year ended 31 March 2012 due to the limitation on the scope of the audit in relation to the (a) to (c) above, details of which have been set out in above (a) to (c) and in our report dated 20 December 2012.

Any adjustments that might have been found to be necessary in respect of the carrying amounts of the consideration receivable, inventory and trade payable as at 31 March 2012 and 30 September 2012 would have an effect on the opening balances and consequential effect on the Group's net assets as at 31 March 2012 and 30 September 2012, and the Group's profit for the six month period ended 30 September 2012 and related disclosures in the notes to the interim financial report.

QUALIFIED CONCLUSION

Except for the adjustments to the interim financial report that we might have become aware of had it not been for the situation described above, based on our review, nothing has come to our attention that causes us to believe that the interim financial report is not prepared, in all material respects, in accordance with International Accounting Standard 34.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

For the six months ended 30 September 2012, revenue decreased from HK$88.5 million in 2011 to HK$47.5 million and results increases from net loss of HK$244.5 million in 2011 to net profit of HK$10.1 million. The total revenue consisted primarily of sales of forestry and timber products. The net profit for the period ended 30 September 2012 included a waiver of liabilities by vendors of approximately HK$124.5 million.

Total revenue consisted entirely of sales of forestry and timber products. No contributions were recorded from tree felling services segment.

BUSINESS REVIEW

Business environment continued to be difficult for the Group in Brazil. On 27 March 2012, the board decided to suspend harvesting operations in Acre, Brazil for one year and until the operating environment for its Brazilian subsidiary improves. For the six-month period ended 30 September 2012, Acre's operations remained suspended.

The PRC 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 six months ended 30 September 2012, 99.6% of the total revenue was derived from sales to customers in the PRC.

Demand for the Group's timber products remains sluggish as the slow down of the economy and real estate sector continued during the six-month period ended 30 September 2012.

OUTLOOK

Uncertain market conditions and poor demand for timber products continued to affect the Group's near term outlook. The Group will continue to control its expenses and look for new business opportunities restore shareholders' value.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2012, the Group had cash and cash equivalents amounted to HK$2.4 million (31 March 2012: HK$7.8 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), over equity attributable to the owners of the Company, decreased from 28.3% as at 31 March 2012 to 27.3% as at 30 September 2012.

As at 30 September 2012, the Group had HK$15 million (31 March 2012: HK$25.6 million) in interest bearing borrowings from independent third parties. As at 30 September 2012, the Group's working capital was approximately HK$126.6 million (31 March 2012: HK$6.2 million). In addition, interest bearing borrowings from shareholders and related companies totaled HK$232.7 million and HK$219.4 million as at 30 September and 31 March 2012, respectively.

CONTINGENT LIABILITIES

The Group's contingent liabilities at 30 September 2012 are disclosed in Note 26 to the consolidated financial statements.

FOREIGN EXCHANGE RISK

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

During the six months ended 30 September 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 period 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 30 September 2012, the Group had approximately 326 employees (31 March 2012: 450) mainly in Hong Kong, the PRC and Brazil. The total remuneration paid by the Group to its employees (including directors) for the period was approximately HK$22.7 million (30 September 2011: HK$25.4 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.

INTERIM DIVIDEND

The Board does not recommend payment of an interim dividend for the six months period ended 30 September 2012 (30 September 2011: Nil).

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 six months period ended 30 September 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 six months ended 30 September 2012.

CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 September 2012, the Company has applied the principles of, and complied with, the applicable code provisions of the Code on Corporate Governance Practices ("**Code Provisions**") as set out in Appendix 14 to the Listing Rules, except for deviation mentioned below:

Code Provision A.2.1

Under the 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 ("**Chairman**") and the chief executive officer ("**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 up to the date of this report, the position of the CEO has not been appointed. Since the beginning of the current financial period, Mr. John Tewksbury BANIGAN acted as the Chairman. During the current financial period 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.

The Company periodically reviews its corporate governance practices to ensure that it continues to meet the requirements under the Code Provisions.

AUDIT COMMITTEE

During the six months ended 30 September 2012, the audit committee of the Board comprised three independent non-executive directors of the Company, namely Mr. John Tewksbury BANIGAN (chairman of the Audit Committee), Mr. KEUNG Paul Hinsum and Mr. Donald Smith WORTHLEY. The audit committee has reviewed the unaudited condensed consolidated financial statements and the interim report for the six months ended 30 September 2012. After review and discussions, the audit committee recommended the Board to approve the unaudited condensed consolidated interim financial statements for the six months ended 30 September 2012.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the websites of the Company (www.susfor.com) and the Stock Exchange (www.hkexnews.hk). The Company's 2012 interim report for the six months ended 30 September 2012 will be published on the above websites and despatched to the shareholders of the Company in due course.

RESUMPTION OF TRADING

At the request of the Company, trading of Shares was suspended with effect from 9:00 a.m. on 3 July 2012. Application has been made by the Company to the Stock Exchange for the resumption of trading of the Shares with effect from 9:00 a.m. on 31 December 2012.

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

Hong Kong, 28 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 and Mr. LEUNG Siu Hung, Joel as executive directors; and Mr. John Tewksbury BANIGAN, Mr. KEUNG Paul Hinsum and Mr. Donald Smith WORTHLEY as independent non-executive directors.