Sustainable Forest Holdings Limited

永保林業控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 723)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2013

The board (the "Board") of directors (the "Directors") of Sustainable Forest Holdings Limited (the "Company") hereby present the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 March 2013 together with the comparative figures for the corresponding period in 2012 as follows:

* *For identification purpose only*

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2013

	Notes	2013 HK$'000	2012 HK$'000
CONTINUING OPERATIONS			
REVENUE	*5*	**76,550**	115,616
Cost of sales		**(67,302)**	(118,423)
GROSS PROFIT/(LOSS)		**9,248**	(2,807)
Other income	*6*	**122,962**	4,124
Other net loss	*6*	**(9,618)**	(274,484)
Selling and distribution costs		**(10,398)**	(18,543)
Administrative expenses		**(61,040)**	(107,175)
Loss on business disruption	*7*	**–**	(335,641)
Other operating expenses	*8*	**(47,546)**	(1,519,271)
Change in fair value of biological assets less costs to sell	*14*	**(482,190)**	(150,419)
LOSS FROM OPERATIONS		**(478,582)**	(2,404,216)
Finance income		**5,332**	486
Finance costs		**(16,571)**	(15,790)
Net finance costs	*9(a)*	**(11,239)**	(15,304)
LOSS BEFORE TAXATION	*9*	**(489,821)**	(2,419,520)
Income tax	*10*	**163,145**	87,105
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(326,676)**	(2,332,415)
DISCONTINUED OPERATION			
Profit for the year from discontinued operation	*11*	**–**	4,503
LOSS FOR THE YEAR		**(326,676)**	(2,327,912)

CONSOLIDATED INCOME STATEMENT *(cont'd)*
For the year ended 31 March 2013

	Notes	**2013** **HK$'000**	2012 *HK$'000*
ATTRIBUTABLE TO:			
Owners of the Company		**(326,601)**	(2,327,909)
Non-controlling interests		**(75)**	(3)
		(326,676)	(2,327,912)
(Loss)/profit attributable to owners of the Company arises from:			
Continuing operations		**(326,601)**	(2,332,415)
Discontinued operation		**–**	4,506
		(326,601)	(2,327,909)
Loss per share			
From continuing and discontinued operations	*13*		
— Basic		**(4.85) cents**	(41.19) cents
— Diluted		**(4.85) cents**	(41.19) cents
From continuing operations	*13*		
— Basic		**(4.85) cents**	(41.27) cents
— Diluted		**(4.85) cents**	(41.27) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2013

	2013 HK$'000	2012 HK$'000
Loss for the year	**(326,676)**	(2,327,912)
Other comprehensive loss		
Exchange differences on translation of financial statements of overseas subsidiaries	**(49,534)**	(68,659)
Reclassification adjustment for exchange differences relating to disposal of overseas subsidiaries	**–**	(6,364)
	(49,534)	(75,023)
Income tax relating to components of other comprehensive income	**–**	–
Other comprehensive loss for the year, net of tax	**(49,534)**	(75,023)
Total comprehensive loss for the year	**(376,210)**	(2,402,935)
Total comprehensive (loss)/income attributable to:		
Owners of the Company	**(376,131)**	(2,402,945)
Non-controlling interests	**(79)**	10
	(376,210)	(2,402,935)
Total comprehensive (loss)/income attributable to owners of the Company arises from:		
Continuing operations	**(376,131)**	(2,407,451)
Discontinued operation	**–**	4,506
	(376,131)	(2,402,945)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 March 2013

	Notes	**2013** **HK$'000**	2012 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**190,274**	213,306
Intangible assets		**–**	–
Biological assets	*14*	**344,172**	913,049
Goodwill	*15*	**302,118**	302,118
Deposit for purchase of property, plant and equipment	*16*	**–**	–
		836,564	1,428,473
CURRENT ASSETS			
Inventories	*17*	**4,337**	65,628
Trade and other receivables	*18*	**10,583**	17,972
Consideration receivable	*21*	**–**	208,000
Cash and cash equivalents		**216,540**	7,760
		231,460	299,360
CURRENT LIABILITIES			
Trade and other payables	*19*	**79,401**	212,310
Loans and borrowings		**36,132**	25,289
Consideration payables		**–**	–
Finance leases payables		**–**	100
Provision for taxation		**50,255**	49,456
Financial liabilities		**–**	6,030
Promissory notes		**6,648**	–
		172,436	293,185
NET CURRENT ASSETS		**59,024**	6,175
TOTAL ASSETS LESS CURRENT LIABILITIES		**895,588**	1,434,648

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(cont'd)*
At 31 March 2013

	2013	2012
	HK$'000	*HK$'000*
NON-CURRENT LIABILITIES		
Loans and borrowings	**–**	–
Amounts due to shareholders	**231,568**	210,874
Amount due to related companies	**3,717**	2,048
Finance leases payables	**–**	250
Promissory notes	**–**	6,517
Deferred tax liabilities	**143,296**	339,564
	378,581	559,253
NET ASSETS	**517,007**	875,395
CAPITAL AND RESERVES		
Share capital	**390,832**	384,328
Reserves	**126,168**	490,981
Total equity attributable to the owners of the Company	**517,000**	875,309
Non-controlling interests	**7**	86
TOTAL EQUITY	**517,007**	875,395

Notes:

1. CORPORATE INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda and its ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office and the principal place of business is 4/F., Soho Tower No. 110–118 Caine Road, Central, Hong Kong.

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

2. STATEMENT OF COMPLIANCE

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

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

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 7	Financial Instruments: Disclosures — Transfers of Financial Assets
Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets

The adoption of the above new and revised IFRSs does not have any significant impacts on the financial statements of the Group for the current or prior accounting periods.

4. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the board of directors ("Board") (the chief operating decision maker) 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 the consolidated financial statements has been prepared in a manner consistent with the information used by the Board of the Company for the purposes of assessing segment performance and allocating resources among segments. In this regard, the Board of the Company monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all non-current assets and current assets attributable to an individual reportable segment with the exception of certain unallocated corporate assets including unallocated cash and cash equivalents and consideration receivable.

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.

Segment profit/(loss) represents the profit earned by/(loss) from each segment without allocation of central administration cost such as directors' salaries and other head office or corporate administration costs.

In addition to receiving segment information concerning the profit earned by/(loss) from each segment, the Board is provided with segment information concerning revenue (including inter-segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations.

(a) Segment results, assets and liabilities

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

		2013					
		Continuing operations				Discontinued operation	
		Tree felling service	Sustainable forest management	Zhongshan operations	Sub-total	Chita forests operation	Total
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customers		–	–	76,550	76,550	–	76,550
Inter-segment revenue		–	–	–	–	–	–
Reportable segment revenue		–	–	76,550	76,550	–	76,550
Reportable segment loss before taxation		–	(419,092)	(50,825)	(469,917)	–	(469,917)
Change in fair value of biological assets less costs to sell	*14*	–	(482,190)	–	(482,190)	–	(482,190)
Depreciation		–	(1,011)	(1,272)	(2,283)	–	(2,283)
Write off of other receivables	*8*	–	(64)	(220)	(284)	–	(284)
Write down of inventories	*8*	–	(44,840)	–	(44,840)	–	(44,840)
Loss on disposal of property, plant and equipment	*8*	–	(736)	–	(736)	–	(736)
Write off of property, plant and equipment	*8*	–	(1,686)	–	(1,686)	–	(1,686)
Waiver of liabilities by trade creditors	*6*	–	119,603	–	119,603	–	119,603
Interest income	*9*	–	5,332	–	5,332	–	5,332
Interest expense		–	(14,505)	–	(14,505)	–	(14,505)
Reportable segment assets		–	836,011	14,906	850,917	–	850,917
Additions to non-current segment assets		–	450	2,239	2,689	–	2,689
Reportable segment liabilities		–	(319,476)	(26,038)	(345,514)	–	(345,514)

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

		2012					
		Continuing operations				Discontinued operation	
	Notes	Tree felling service HK$'000	Sustainable forest management HK$'000	Zhongshan operations HK$'000	Sub-total HK$'000	Chita forests operation HK$'000	Total HK$'000
Revenue from external customers		5,396	30,702	79,518	115,616	–	115,616
Inter-segment revenue		–	58,389	–	58,389	–	58,389
Reportable segment revenue		5,396	89,091	79,518	174,005	–	174,005
Reportable segment loss before taxation		(223,220)	(2,080,650)	(72,004)	(2,375,874)	(4,316)	(2,380,190)
Change in fair value of biological assets less costs to sell	*14*	–	(150,419)	–	(150,419)	–	(150,419)
Amortisation		–	–	(2,389)	(2,389)	–	(2,389)
Depreciation		–	(1,332)	(91)	(1,423)	–	(1,423)
Write off of other receivables		–	(7,434)	–	(7,434)	–	(7,434)
Write off of timber logs	*7*	(233,572)	–	–	(233,572)	–	(233,572)
Write down of timber logs		–	(1,781)	–	(1,781)	–	(1,781)
Rental expenses	*6*	–	(13,745)	–	(13,745)	–	(13,745)
Loss on disposal of property, plant and equipment		–	(296)	–	(296)	–	(296)
Impairment loss of intangible assets		–	–	(45,205)	(45,205)	–	(45,205)
Write off of trade receivables	*6,7*	–	(413,360)	–	(413,360)	–	(413,360)
Waiver of service fee payables	*7*	12,205	–	–	12,205	–	12,205
Impairment loss of goodwill	*15*	–	(1,384,765)	(77,353)	(1,462,118)	–	(1,462,118)
Interest income		–	485	1	486	–	486
Interest expense		–	(9,780)	–	(9,780)	–	(9,780)
Reportable segment assets		–	1,449,834	64,686	1,514,520	–	1,514,520
Additions to non-current segment assets		–	3,847	2,881	6,728	–	6,728
Reportable segment liabilities		–	(390,465)	(27,138)	(417,603)	–	(417,603)

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

(i) Revenue

	2013	2012
	HK$'000	*HK$'000*
Reportable segment revenue	**76,550**	174,005
Elimination of inter-segment revenue	**–**	(58,389)
Consolidated revenue	**76,550**	115,616

(ii) Loss

	2013	2012
	HK$'000	*HK$'000*
Reportable segment loss before taxation (continuing operations)	**(469,917)**	(2,375,874)
Unallocated corporate income	**8,969**	2,703
Depreciation	**(17)**	(231)
Unallocated corporate expenses	**(26,790)**	(40,108)
Unallocated interest expense	**(2,066)**	(6,010)
Loss before taxation (continuing operations)	**(489,821)**	(2,419,520)

(iii) Assets

	2013	2012
	HK$'000	*HK$'000*
Segment assets for reportable segments from continuing operations	**850,917**	1,514,520
Reportable segment assets	**850,917**	1,514,520
Unallocated:		
— Unallocated corporate assets	**817**	3,083
— Unallocated cash and cash equivalents	**216,290**	2,230
— Consideration receivable	**–**	208,000
Total assets per consolidated statement of financial position	**1,068,024**	1,727,833

(iv) Liabilities

	2013	2012
	HK$'000	*HK$'000*
Segment liabilities for reportable segments from continuing operations	**345,514**	417,603
Reportable segment liabilities	**345,514**	417,603
Unallocated:		
— Provision for taxation	**50,255**	49,456
— Deferred tax liabilities	**143,296**	339,564
— Unallocated corporate liabilities	**11,952**	45,815
Total liabilities per consolidated statement of financial position	**551,017**	852,438

(v) Other items

	2013								
	Continuing operations					**Discontinued operation**			
	Tree felling service	**Sustainable forest management**	**Zhongshan operations**	**Unallocated**	**Sub-total**	**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***
Depreciation	**–**	**(1,011)**	**(1,272)**	**(17)**	**(2,300)**	**–**	**–**	**–**	**(2,300)**
Interest expense	**–**	**(14,505)**	**–**	**(2,066)**	**(16,571)**	**–**	**–**	**–**	**(16,571)**
Write off of other receivables	**–**	**(64)**	**(220)**	**–**	**(284)**	**–**	**–**	**–**	**(284)**
Write off of property, plant and equipment	**–**	**(1,686)**	**–**	**–**	**(1,686)**	**–**	**–**	**–**	**(1,686)**
Loss on disposal of property, plant and equipment	**–**	**(736)**	**–**	**–**	**(736)**	**–**	**–**	**–**	**(736)**

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

(c) Revenue from major products and services:

	Continuing operations		**Discontinued operation**		**Consolidated**	
	2013	2012	**2013**	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Tree felling service income	**–**	5,396	**–**	–	**–**	5,396
Sales of forestry and timber products	**76,550**	110,220	**–**	–	**76,550**	110,220
	76,550	115,616	**–**	–	**76,550**	115,616

Geographical information

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

	Revenue from external customers		**Non-current assets**	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Continuing operations				
North America	**–**	111	**–**	–
South America	**–**	5,921	**832,360**	1,422,778
Asia Pacific (other than Hong Kong)	**76,550**	109,584	**4,016**	3,049
Hong Kong (place of domicile)	**–**	–	**188**	2,646
	76,550	115,616	**836,564**	1,428,473
Discontinued operation				
Asia Pacific (other than Hong Kong)	**–**	–	**–**	–
Hong Kong (place of domicile)	**–**	–	**–**	–
	–	–	**–**	–
	76,550	115,616	**836,564**	1,428,473

Information about major customers

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

	2013	2012
	HK$'000	*HK$'000*
Continuing operations		
Customer A — revenue from sales of forestry and timber products from Zhongshan operations — China	**60,567**	–
Customer B — revenue from sales of forestry and timber products from Sustainable forest management — China	**–**	27,910

5. REVENUE

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

An analysis of revenue is as follows:

	Continuing operations		**Discontinued operation**		**Consolidated**	
	2013	2012	**2013**	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Tree felling service income	**–**	5,396	**–**	–	**–**	5,396
Sales of forestry and timber products	**76,550**	110,220	**–**	–	**76,550**	110,220
	76,550	115,616	**–**	–	**76,550**	115,616

6. OTHER INCOME AND OTHER NET LOSS

	Continuing operations		**Discontinued operation**		**Consolidated**	
	2013	2012	**2013**	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other income						
Rental income	**30**	29	**–**	451	**30**	480
Waiver of liabilities by trade creditors *(Note i)*	**119,603**	–	**–**	–	**119,603**	–
Others	**3,329**	4,095	**–**	–	**3,329**	4,095
	122,962	4,124	**–**	451	**122,962**	4,575
Other net loss						
Net exchange loss	**(15,648)**	(35,536)	**–**	(1,284)	**(15,648)**	(36,820)
Write off of trade receivables *(Note i)*	**–**	(299,086)	**–**	–	**–**	(299,086)
Rental expenses *(Note ii)*	**–**	(13,745)	**–**	–	**–**	(13,745)
Waiver of consideration payable *(Note iii)*	**–**	71,183	**–**	–	**–**	71,183
Change in fair value of financial liabilities	**6,030**	2,700	**–**	–	**6,030**	2,700
	(9,618)	(274,484)	**–**	(1,284)	**(9,618)**	(275,768)

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 were 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 were assumed by the buyers. The customers inspected and accepted the goods sold at the respective designated yards in DRC and USA. The sales contracts were signed under Hong Kong laws. According to the terms and conditions of the sales contracts, the customers were responsible for arranging transportation after inspection and acceptance of delivery.

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

The Group understood that Chinese customs places ban on importation of products and goods from time to time. These bans might be politically motivated as retaliations to discriminatory policies against Chinese goods by foreign countries. Bans based on such motivations might 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 were limited choice of shipping lines due to the perceived security risks associated with DRC, the limiting conditions of the port and the lack of proper port facilities for loading. The Group tried to assist the customers out of courtesy but was also not successful.

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

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

Timber prices began decreasing during the last quarter of 2011 and dropped significantly and suddenly during the first quarter of 2012 due to slow down in the Chinese housing market and economy. The customers notified the Group its intention to default on the contracts in May 2012. After repeated unsuccessful attempts in collecting the outstanding receivables from the PRC customers, the Group agreed with the African and US suppliers to terminate its purchase agreements with them on 31 May 2012. The African and US suppliers took back the logs and timber with no further liabilities due from the Group. The Group understood that the supplier sold the logs in the domestic market with some profit after taking back the logs. The Group recognised the waiver of liabilities HK$119,603,000 as other income during the year ended 31 March 2013.

The Group was consulting legal advice from its Hong Kong lawyer and was preparing to take legal actions against the PRC customers for breach of contract and loss of profit. It was uncertain as to the amount that may be recovered from the PRC customers and whether the courts of Hong Kong will be the convenient forum to handle the claims against these PRC companies. As such, the Group considered that the value of the total receivable outstanding with these PRC customers of HK$299 million was impaired and the amount was written off during the year ended 31 March 2012.

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

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

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

(iii) On 2 August 2011, the Group acquired the entire issued share capital of Originate Tech Global Investments Limited ("Originate Tech") for a total consideration of 769,230,769 shares. Originate Tech is an investment holding company and its Hong Kong and PRC subsidiaries are collectively referred to as "Zhongshan Operations". Consideration shares were payable in three tranches with the second and third tranches contingent upon meeting net profit guarantee. Consideration payable represented the fair value of tranche 2 and 3 shares valued at the time of acquisition, and the amount was extinguished at the end of the financial year ended 31 March 2012 as the net profit guarantee was not met. Details of the acquisition and the net profit guarantee are outlined in Note 20.

7. LOSS ON BUSINESS DISRUPTION

	2013	2012
	HK$'000	*HK$'000*
Write off of trade receivables	**–**	114,274
Write off of timber logs	**–**	233,572
Waiver of service fee payables	**–**	(12,205)
	–	335,641

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

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

Since around February 2011, UTRB and some of the senior officers of the Company were receiving threatening emails and phone calls from the Alleged Agent extorting money including that payable under the Proposed Deal. It was also believed that the Alleged Agent 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 also harassed the Group's staff with constant emails, phone calls, sms and numerous personal visits to UTRB's office premises.

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

In March 2011, the Group sold logs located inside the hydropower plant at total sale prices of approximately HK$114 million to some PRC customers who were independent to the Group and its directors. The customers inspected and accepted the goods sold at the respective designated yards in DRC and USA. The sales contracts were signed under Hong Kong laws. According to the terms and conditions of the sales contracts, the customers were responsible for arranging transportation after inspection and acceptance of delivery. The abovementioned sold logs at the hydropower plant were part of the goods sold under sales contracts that also included other timber products from Africa and USA. The sold logs remained inside the hydropower plant up to the time when UTRB was denied access to the hydropower plant in September 2011. For goodwill with these PRC customers, the Group negotiated and agreed with PRC customers that it would 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 was 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$234 million translated at the relevant average exchange rate for the year ended 31 March 2012) for the full carrying value of the logs and the trade receivables with PRC customers of HK$114 million during the year 2012.

During the year 2012 and 2013, the Group has also retained criminal lawyer to assist UTRB and its staff (including its departed staff) with the ongoing investigations by police in Brazil into the Events and various filings by our staff against the Alleged Agent. The police's investigation still in the progress during the year 2013 and up to the date of approval the financial statements.

8. OTHER OPERATING EXPENSES

	Continuing operations		Discontinued operation		Consolidated	
	2013	2012	**2013**	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Loss on disposal of property, plant and equipment	**736**	733	**–**	–	**736**	733
Write off of property, plant and equipment	**1,686**	–	**–**	–	**1,686**	–
Write down of timber logs *(Note i)*	**–**	1,781	**–**	–	**–**	1,781
Write down of inventories *(Note ii)*	**44,840**	–	**–**	–	**44,840**	–
Write off of other receivables *(Note iii)*	**–**	9,434	**–**	–	**–**	9,434
Impairment loss of intangible assets	**–**	45,205	**–**	–	**–**	45,205
Impairment loss of goodwill *(Note iv)*	**–**	1,462,118	**–**	–	**–**	1,462,118
Write off of other receivables	**284**	–	**–**	–	**284**	–
	47,546	1,519,271	**–**	–	**47,546**	1,519,271

Notes:

(i) After the financial year ended 31 March 2012, UTRB entered into a sales agreement with a third party to purchase its logs inventory located at the yard inside the Brazil forest. The amount represented the estimated net loss on sale of logs inventory. The access road to the yard was destroyed during the rainy season and was being repaired as of the date of approval of the financial statements for the year ended 31 March 2012.

(ii) During the year ended 31 March 2013, the inventories were written down to their net realizable value as they were slow-moving and obsolete.

(iii) Write off of other receivables included primarily prepaid service fees paid to vendors, advanced deposits paid to suppliers and other miscellaneous receivables that the suppliers and vendors defaulted on or were unable to return upon termination. Particularly, included in the amount is the write off of an advanced deposit of R$840,000 (or approximately to HK$3,869,000) paid to a third party under a Partnership Harvesting Agreement in Brazil. Please refer to Note 22 for more details.

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

9. LOSS BEFORE TAXATION

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

	Continuing operations		Discontinued operation		Consolidated	
	2013	2012	**2013**	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
(a) Net finance costs						
Interest income from consideration receivable	**(5,324)**	–	**–**	–	**(5,324)**	–
Interest income from bank deposits	**(8)**	(486)	**–**	–	**(8)**	(486)
Interest income on financial assets not at fair value through profit or loss	**(5,332)**	(486)	**–**	–	**(5,332)**	(486)
Finance costs						
Interest on loans and other borrowings wholly repayable within five years	**5,083**	5,973	**–**	–	**5,083**	5,973
Interest on promissory notes	**131**	129	**–**	–	**131**	129
Interest on amounts due to shareholders	**10,640**	8,463	**–**	–	**10,640**	8,463
Interest on amounts due to related companies	**668**	48	**–**	–	**668**	48
Interest on loan from a related company	**–**	1,164	**–**	–	**–**	1,164
Finance charges on obligations under finance leases	**49**	13	**–**	–	**49**	13
Total interest expenses on financial liabilities not at fair value through profit or loss	**16,571**	15,790	**–**	–	**16,571**	15,790
	11,239	15,304	**–**	–	**11,239**	15,304

	Notes	Continuing operations		Discontinued operation		Consolidated	
		2013	2012	**2013**	2012	**2013**	2012
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
(b) Staff costs (including directors' remuneration)							
Salaries, wages and other benefits		**38,198**	51,260	**–**	–	**38,198**	51,260
Pension scheme contributions		**1,137**	1,444	**–**	–	**1,137**	1,444
Equity-settled share-based payment		**(349)**	(2,426)	**–**	–	**(349)**	(2,426)
		38,986	50,278	**–**	–	**38,986**	50,278
(c) Other items							
Cost of inventories*	*17*	**110,298**	347,436	**–**	–	**110,298**	347,436
Amortisation		**–**	2,389	**–**	–	**–**	2,389
Depreciation		**2,300**	1,654	**–**	–	**2,300**	1,654
Minimum lease payments under operating leases for land and buildings (including directors' quarters)		**2,485**	4,483	**–**	27	**2,485**	4,510
Auditor's remuneration							
— audit services		**1,088**	1,072	**–**	254	**1,088**	1,326
— other services		**718**	600	**–**	–	**718**	600
		1,806	1,672	**–**	254	**1,806**	1,926
Equity-settled share-based payment for consultants		**–**	(587)	**–**	–	**–**	(587)

* *Cost of inventories includes depreciation of HK$Nil (2012: HK$306,000), the amount of which is also included in the respective total amounts disclosed separately above.*

10. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Income tax in the consolidated income statement represents:

	Continuing operations		Discontinued operation		Consolidated	
	2013	2012	**2013**	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Current tax						
— Hong Kong Profits Tax						
— Provision for the year	**799**	–	**–**	–	**799**	–
Current tax						
— PRC Enterprise Income Tax						
— Provision for the year	**–**	20	**–**	–	**–**	20
Deferred tax						
— Reversal of temporary differences	**(163,944)**	(87,125)	**–**	–	**(163,944)**	(87,125)
	(163,145)	(87,105)	**–**	–	**(163,145)**	(87,105)

Hong Kong Profits Tax has been provided at the rate of 16.5% (2012: 16.5%) of the estimated assessable profits arising in Hong Kong for the year ended 31 March 2013.

Brazil income tax rate is 34% (2012: 34%) of the estimated assessable profits arising in Brazil. No Brazil income tax has been provided for in the financial statements as the Brazil's subsidiary has no assessable profit for both years.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2012: 25%).

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

11. DISCONTINUED OPERATION

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

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

In January 2012, Novoles was declared bankrupt and one concession right previously held by it expired without renewal. In the same month, one concession right previously held by ZLK with carrying amount on 30 March 2012 of HK$144,231,000 was expropriated by the State Forest Agency due to concession fees in arrears. The Company assisted 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 would 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 was required to complete the procedures to get back the two concessions. In granting the extension, the board had 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 should 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.

During the year ended 31 March 2012, 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 analysts, they both concluded that the plan proposed by the Company and the Buyer to obtain the two concessions back are legal, reasonable and feasible.

On 28 March 2013, the Company received the consideration and the accrued interests. Starting from 1 January 2013, the Buyer did not require further assistance from the Company and will continue to apply the concession by themselves.

The operations of Chita forests were classified as discontinued operation and the profit arising from discontinued operation is analysed as follows:

	2013	2012
	HK$'000	*HK$'000*
Loss after tax	–	(4,316)
Gain on disposal of discontinued operation *(Note 21)*	–	8,819
Profit from discontinued operation	–	4,503

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

		Chita forests operation	
		2013	2012
	Notes	***HK$'000***	*HK$'000*
Revenue	*5*	–	–
Cost of sales		–	–
Gross profit		–	–
Other income	*6*	–	451
Other net loss	*6*	–	(1,284)
Selling and distribution costs		–	–
Administration expenses		–	(3,483)
Other operating expenses	*8*	–	–
		–	(3,483)
Loss from operations		–	(4,316)
Finance income		–	–
Finance costs		–	–
Net finance costs	*9(a)*	–	–
Loss before tax		–	(4,316)
Income tax	*10*	–	–
Loss after tax		–	(4,316)
Gain on disposal of discontinued operation before tax	*21*	–	8,819
Income tax		–	–
Gain on disposal of discontinued operation net of tax		–	8,819
Profit from discontinued operation		–	4,503
Attributable to:			
Owners of the Company		–	4,506
Non-controlling interests		–	(3)
		–	4,503
Cash flow from discontinued operation			
Net cash used in operating activities		–	(536)
Net cash generated from investing activities		–	–
Net cash generated from financing activities		–	535
		–	(1)

The carrying amounts of the assets and liabilities of the discontinued operation at the date of disposal are disclosed in Note 21.

12. DIVIDENDS

The directors of the Company do not propose the payment of any dividend for the year ended 31 March 2013 (2012: Nil).

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

	2013	2012
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved during the year, of HKNil cent per ordinary share (2012: HK0.45 cent)	**–**	24,683
Final dividend in respect of the previous financial year, approved during the year, of HKNil cent per convertible preferred share (2012: HK0.084 cent)	**–**	7,313
	–	31,996

The final dividend relating to year ended 31 March 2011 amounted to HK$22,691,000 was paid in September 2011.

13. LOSS PER SHARE

(a) For continuing and discontinued operations

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

	2013	2012
	HK$'000	*HK$'000*
Loss		
Loss for the purpose of basic and diluted loss per share — Loss attributable to the owners of the Company	**(326,601)**	(2,327,909)

Diluted loss per share equals to the basic loss per share for the year ended 31 March 2013 and 2012 because the outstanding convertible preferred shares, share options, warrants and other potential ordinary shares in issue had an anti-dilutive effect on the basic loss per share.

(b) For continuing operations

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

	2013	2012
	HK$'000	*HK$'000*
Loss		
Loss for the purpose of basic and diluted loss per share		
— Loss attributable to the owners of the Company	**(326,601)**	(2,332,415)

Diluted loss per share equals to the basic loss per share for the year ended 31 March 2012 and 2013 because the outstanding convertible preferred shares, share options, warrants and other potential ordinary shares in issue had an anti-dilutive effect on the basic loss per share.

(c) For discontinued operation

(i) Basic earnings per share

Basic earnings per share for the discontinued operation is HK0.08 cents which is based on the profit from the discontinued operation attributable to the owners of HK$4,506,000 in 2012 and the denominators used are shown in Note (d).

(ii) Diluted earnings per share

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

(d) Weighted average number of shares

	2013	2012
	'000	*'000*
Number of Shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**6,734,032**	5,651,619

* As disclosed in note 23, the Group completed the open offers on 7 May 2013. As the open offers did not have bonus element, no adjustment is required for the weighted average number of shares.

14. BIOLOGICAL ASSETS

	2013	2012
	HK$'000	*HK$'000*
At beginning of the year	**913,049**	1,173,150
Transfer to inventories	**–**	(2,951)
Changes in fair value less costs to sell	**(482,190)**	(150,419)
Exchange movement	**(86,687)**	(106,731)
At end of the year	**344,172**	913,049

The Group's forest assets, acquired through the business combination of Amplewell Holdings Limited ("Amplewell") and its subsidiaries ("Amplewell Group"), are located in the Northwest of Brazil, the State of Acre, Amazon Region (the "Brazil Forest"). At 31 March 2013 and 2012, the biological assets represent natural tropical forests. The total area of the Brazil Forest is approximately 44,500 hectares. Under the environmental laws in Brazil, 20% (2012: 20%) or 8,939 hectares (2012: 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 30 cubic meters per hectare, an average, over a 25 to 30 year harvesting cycle.

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 also created a difficult and hostile environment for UTRB and its staff in Brazil. Since the harassments began in February 2011, the Alleged Agent harassed UTRB's staff and their family with death threats in numerous instances. The Group's employees especially in Brazil were scared and UTRB had experienced high turnover of personnel. As such, it was decided to suspend harvesting operations in Acre to address the concerns of its staff. For the year ended 31 March 2013, the Group recorded a revaluation loss on biological assets of HK$482.1 million (2012: HK$150.4 million). The fair value of the biological assets decreased from HK$913,049,000 to HK$344,172,000. The decrease was primarily attributable to the decrease in average log prices, which decreased 37% during the year, and depreciation of Brazilian Real against Hong Kong dollars.

For the year ended 31 March 2012, the fair value of the biological assets decreased from HK$1,173,150,000 to HK$913,049,000. The decrease was primary attributable to the 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 the following methodology in determining the harvestable area of the Brazil forests in the technical report used for the 2012 and 2013 valuation. This methodology or standard (Modeflora — Digital Model of Forest Exploration) was developed locally in Brazil by Embrapa (Brazilian Enterprise for Agricultural Research). Adoption is not mandatory by the state but recommended to the forest engineer professionals.

During the valuation process, GCA referenced to a technical report on estimation of quality and quantity of commercial and potentially commercial wood species and residues resulting from the forest exploitation issued by CAAP FORESTAL ("CAAP"). CAAP performed only one 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 each 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 it is not necessary to perform detailed sampling of the entire Brazil Forest 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 conditions, such as 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 may affect the quality/volume of the forestry asset, but in a long term prospective (which usually over decades) instead of affecting within a short period of time.

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

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

- a logging volume of 21.5 m^3 (2012: 21.5 m^3) per hectare in the sustainable forest management program area.

- a discount rate of 16.5% (2012: 15.8%) based on the data and factors relevant to the economy of Brazil, the industry of forest business and the harvestable resources in the Brazil Forest, and the weighted average cost of capital.

- harvesting activities for the first 30-year cycle will resume from the calendar year of 2013 and complete in 7 years (2012: 7 years). Revenue or costs from subsequent harvesting cycle are not taken into account.

- average logs price growth at a rate of 3% per annum (2012: 3% per annum) in the next 7 years (2012: 7 years) which is the expected long term growth rate was estimated by reference to the Consumer Price Index in USA.

- the Group will obtain Forest Stewardship Council (the "FSC") certification in 2015. 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 2015 when the Group obtains the FSC certification.

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

(i) Regulatory and environmental risks

The Group is subject to laws and regulations in Brazil in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks. The Directors are not aware of any environmental liabilities as at 31 March 2013.

(ii) Supply and demand risk

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

15. GOODWILL

	Sustainable forest management *(note i)* *HK$'000*	Zhongshan Operations *(note ii)* *HK$'000*	Total *HK$'000*
Cost			
At 1 April 2011	1,686,883	–	1,686,883
Arising from acquisition of subsidiaries	–	77,353	77,353
At 31 March 2012, 1 April 2012 and 31 March 2013	1,686,883	77,353	1,764,236
Accumulated impairment losses			
At 1 April 2011	–	–	–
Impairment losses recognised during the year	1,384,765	77,353	1,462,118
At 31 March 2012, 1 April 2012 and 31 March 2013	1,384,765	77,353	1,462,118
Carrying amounts			
At 31 March 2013	302,118	–	302,118
At 31 March 2012	302,118	–	302,118

Notes:

(i) Sustainable forest management

Goodwill was allocated to the Group's cash-generating unit identified according to the operating segment. Goodwill as at 31 March 2013 and 2012 was attributable to the cash-generating unit that comprises the sustainable forest management segment.

For the year ended 31 March 2013, goodwill relating to sustainable forest management segment suffered an impairment loss of HK$Nil (2012: 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 the following methodology in determining the harvestable area of the Brazil forests in the technical report used for 2012 and 2013 valuation. This methodology or standard (Modeflora — Digital Model of Forest Exploration) was developed locally in Brazil by Embrapa (Brazilian Enterprise for Agricultural Research). Adoption is not mandatory by the state but recommended to the forest engineer professionals.

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

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

— Cash flows were projected based on past experience and financial budget approved by management. The financial budget is for 7 years. The management considers that the harvesting activities have 30-year cycle, so longer period of budget can be justified. Management estimated that the cash flows after 7 years (2012: 7 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 7 years (2012: 7 years) are not included in the value in use calculations. Management estimated that there would be a negative growth of 71% in year 7 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 (2012: 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 25.75% (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 2015. FSC certification demonstrates fulfillment of social and ecological criteria, while increasing the prices achievable for timber products. Based on current market practices, the Directors estimate that the Group can enjoy a price premium of 15% over non FSC timer products from 2015 when the Group obtains the FSC certification.

(ii) Zhongshan Operations

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

The entire value of Zhongshan operations segment was considered impaired as of 31 March 2012, and an impairment loss on goodwill of HK$77 million was recorded. Details of the impairment are disclosed in Note 20.

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

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

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

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

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

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

For the year ended 31 March 2012, goodwill relating to Zhongshan operations segment suffered an impairment loss of HK$77 million. Zhongshan Operations incurred a net loss of approximately HK$18 million in its first year of operations since consolidation into the Group. The net loss was mainly due to rapid slow down of the PRC property market and falling property prices in the PRC. As a result of the uncertainties in the PRC economy and continued depressed timber demand and prices, the Group considered that the value of the goodwill related to Zhongshan Operations suffered impairment. Please refer to Note 20 for more details on the acquisition of Zhongshan Operations.

16. DEPOSIT FOR PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

17. INVENTORIES

	Notes	**2013** **_HK$'000_**	2012 *HK$'000*
Timber logs	*(a)*	**–**	1,425
Sawn timber	*(b)*	**3,320**	48,126
Raw materials	*(c)*	**–**	3,212
Work in progress	*(c)*	**–**	83
Finished goods	*(c)*	**1,017**	12,782
		4,337	65,628

Notes:

(a) The timber logs were harvested from the biological assets during the year ended 31 March 2012.

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

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

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

	2013	2012
	HK$'000	*HK$'000*
Carrying amount of inventories sold	**65,458**	112,083
Write down of timber logs *(Note 8)*	**–**	1,781
Write down of inventories *(Note 8)*	**44,840**	–
Write off of timber logs *(2012: Note 7)*	**–**	233,572
	110,298	347,436

18. TRADE AND OTHER RECEIVABLES

		2013	2012
	Notes	***HK$'000***	*HK$'000*
Trade receivables		**274**	955
Other receivables		**5,608**	10,279
Amount due from a director	*(i)*	**183**	456
Amount due from a shareholder	*(ii)*	**422**	–
Prepayments and deposits		**4,096**	6,282
		10,583	17,972

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

Notes:

(i) The amount due from a director was unsecured, interest free and had no fixed terms of repayment. The maximum outstanding amount during the year is approximately HK$183,000. As at 1 April 2012 and 1 April 2011, the amount due from a director was approximately HK$456,000 and HK$ Nil respectively.

(ii) The amount due from a shareholder was unsecured, interest free and had no fixed terms of repayment.

(a) Trade receivables

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

	2013	2012
	HK$'000	*HK$'000*
0 to 30 days	**197**	922
31 to 60 days	**–**	18
61 to 90 days	**–**	–
Over 90 days	**77**	15
	274	955

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.

(b) Impairment of trade receivables

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

(c) Trade receivables that are not impaired

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

	2013	2012
	HK$'000	*HK$'000*
Neither past due nor impaired	**197**	28
Less than 1 month past due	**–**	894
1 to 3 months past due	**–**	18
Over 3 months past due	**77**	15
	77	927
	274	955

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

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

19. TRADE AND OTHER PAYABLES

		2013	2012
	Notes	***HK$'000***	*HK$'000*
Trade payables	*(a)*	**51,650**	177,997
Other payables and accruals		**19,818**	22,049
Amounts due to related companies	*(b)*	**7,933**	12,264
Financial liabilities measured at amortised costs		**79,401**	212,310

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

(a) Trade payables

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

	2013	2012
	HK$'000	*HK$'000*
0 to 30 days	**3,930**	5,200
31 to 60 days	**190**	2,717
Over 90 days *(note (i))*	**47,530**	170,080
	51,650	177,997

Note:

(i) Trade payables as of 31 March 2012 included HK dollars equivalent amounts of HK$114 million and HK$10 million payable to two suppliers for African timber and logs, and North American logs, respectively. The logs were purchased and sold to PRC customers during the financial year ended 31 March 2011. The Group agreed with these two suppliers to terminate its purchase agreement with them on 31 May 2012. The Group recognised the waiver of liabilities for trade creditors as other income during the year ended 31 March 2013. Please refer to Note 6(i) for details of the purchases and the related sales.

In addition, trade payables also included equivalent R$10 million (equivalent to approximately HK$40 million at 31 March 2013 and HK$45 million at 31 March 2012). This sum represented service fees payable to a subcontractor for a tree felling service project in Rondonia, Brazil. UTRB had disputes with the subcontractor and it abandoned the site. No further work was subcontracted to them after the year ended 31 March 2011 as UTRB was not assigned any area for clearing by the hydropower plant of this project in the financial year ended 31 March 2013 and 2012, and no amount was paid by UTRB either. UTRB is not aware of any claims or lawsuits filed by the subcontractor at the relevant courts.

(b) Amounts due to related companies

The amounts were unsecured, interest free and had no fixed terms of repayment. The director of the related companies is also the director of certain Group's subsidiaries.

20. ACQUISITION OF SUBSIDIARIES

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

Net Profit Guarantee and Contingent Consideration

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

Rationale for the Acquisition

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

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

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

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

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

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

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

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

Goodwill arising on acquisition

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

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

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

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

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

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

Impairment of Zhongshan Operations and Acquisition Goodwill

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

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

Project Sales

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

Franchise Operations

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

Timber Wholesale Market

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

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

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

21. DISPOSAL OF SUBSIDIARIES

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

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

Note:

(i) According to the announcement on 20 December 2012, the Company and the purchaser entered into a supplemental agreement. As set out in the supplemental agreement, the consideration shall be paid in one lump sum payment within 12 months upon Completion in cash. The consideration has been received by the Company on 27 March 2013.

22. 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.

23. SUBSEQUENT EVENTS

(a) After the end of the reporting period, the Company completed to issue 1,180,938,718 shares through open offer at the subscription price of HK$0.0534 per offer share on the basis of one offer share for every six existing shares held with an issue of one bonus share warrant for every offer share subscribed. The Company also completed to issue 215,525,161 CPS share through open offer at the subscription price of HK$0.0100125 per offer CPS on the basis of one offer CPS for every six existing CPS held with one bonus CPS warrant for every offer CPS allotted and issued. The open offers were completed on 7 May 2013 and approximately HK$65 million before expense was raised.

(b) After the end of the reporting period, the Group repaid approximately HK$139 million and HK$83 million to settle the amounts due to shareholders and amounts due to related companies respectively.

(c) As at 31 March 2013, the Group had an interest-bearing loan of HK$33 million which was secured by a share charge in favour of the lender over the entire issued share capital of a wholly owned subsidiary, Acenergy Limited. The Group may borrow up to HK$50 million within a 12-month period commencing the date of the loan agreement. After the reporting period, the Group further borrowed HK$17 million under this loan agreement. On 8 May 2013, the Group fully repaid the loan of HK$50 million.

EXTRACTS FROM INDEPENDENT AUDITORS' REPORT

BASIS FOR QUALIFIED OPINION

(a) Limitation of scope on prior year's scope limitation affecting corresponding figures

As explained in our report dated 20 December 2012 on the Group's consolidated financial statements for the year ended 31 March 2012, included in inventories of approximately HK$65,628,000 in the consolidated statement of financial position was a sum of inventories amounted to HK$29,989,000 which do not have subsequent sale up to the report dated 31 March 2012, and no reliable information about the net realizable value of these inventories was available; and we did not observe the counting of physical inventories amounting to approximately HK$1,425,000; and for the part the inventories held by the third parties of HK$2,496,000, direct confirmation from consignee had not been obtained; and amounting HK$2,951,000 transferred from the biological assets to inventories during the year 2012 and the amounts of inventories HK$1,781,000 being written down in the consolidated income statement in 2012, we were unable to obtain sufficient appropriate audit evidence or to carry out alternative audit procedures that we considered necessary to assess the valuation, existence, accuracy and completeness of the inventories as at 31 March 2012 and 1 April 2012 and the related impact on the Group's result attributable to the equity holders for the year ended 31 March 2012 and 31 March 2013. Consequently, we were unable to determine whether any adjustments to these amounts were necessary. Any adjustments found to be necessary to the opening balances as at 1 April 2012 may materially affect the Group's result attributable to the equity holders for the year ended 31 March 2013 and the related disclosures in the consolidated financial statements with respect to the inventories.

(b) Scope limitation — Trade and other payables

Included in the trade and other payables of approximately HK$79,401,000 in the consolidated statement of financial position as at 31 March 2013 was trade payable of approximately HK$40,293,000 which was subject to an interest of 1% per month for overdue payment. During the audit of the consolidated financial statements for the year ended 31 March 2011, the related trade creditor confirmed that no interest was billed to the Group. Therefore, the Group did not accrue interest for overdue payment. For 2012 and 2013 year audit, the Group represented that the trade creditor did not bill any interest for the overdue payment. However, due to the non-reply to our confirmation request, absence of new information of the trade creditor, and no sufficient and appropriate audit evidence to prove that no interest was required to be accrued, there were no other alternative audit procedures that we could carry out to obtain sufficient and appropriate audit evidence to verify the existence, completeness and valuation of the trade payable as at 31 March 2013 and 2012. Accordingly, we were unable to satisfy ourselves as to whether these amounts were fairly stated in the financial statements as at 31 March 2013 and 2012.

Our audit opinion on the Group's financial statements for the year ended 31 March 2012 was also qualified accordingly.

QUALIFIED OPINION

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraphs, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2013, and of the Group's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

For the year ended 31 March 2013, revenue and net loss after tax decreased to HK$76.6 million and HK$326.7 million from HK$115.6 million and HK$2,327.9 million, respectively from the year before. The total revenue consisted primarily 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 year ended 31 March 2013, 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 year ended 31 March 2013, all 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 financial year ended 31 March 2013.

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 31 March 2013, the Group had cash and cash equivalents that amounted to HK$216.5 million (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, increased from 28% as at 31 March 2012 to 53.8% as at 31 March 2013.

As at 31 March 2013, the Group had HK$36.1 million in interest bearing borrowings from an independent third party of which were repayable within one year. As at 31 March 2012, the Group had HK$25.6 million in interest bearing borrowing from independent third parties of which HK$25.4 million were repayable within one year and the remaining HK$0.2 million were repayable after one year. As at 31 March 2013, the interest bearing borrowings of HK$36.1 million from the independent third party were other borrowings. As at 31 March 2012, the interest bearing borrowings of HK$25.6 million from the independent third parties consisted of HK$25.2 million in bank and other borrowings and HK$0.4 million in finance leases payable. As at 31 March 2013, the Group's working capital was approximately HK$59.0 million (2012: HK$6.2 million). In addition, interest bearing borrowings from shareholders and related companies totaled HK$241.9 million and HK$219.4 million for the years ended 31 March 2013 and 2012, respectively.

CHARGE ON ASSETS

As at 31 March 2013, no property, plant and equipment (2012: with a carrying value of HK$0.7 million) of the Group was pledged to secure general banking facilities.

CONTINGENT LIABILITIES

The Group's contingent liabilities at 31 March 2013 are disclosed in Note 22 to the consolidated financial statements.

FOREIGN EXCHANGE RISK

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

During the year ended 31 March 2013, revenue from continuing operations was denominated mainly in Renminbi while its costs and expenses were primarily in Renminbi, Hong Kong dollars and Brazilian Reais where the Group's continuing operations are based. The Group is exposed to potential foreign exchange risk as a result of fluctuations between those currencies that are not pegged.

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

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

HUMAN RESOURCES AND REMUNERATION POLICY

As at 31 March 2013, the Group had approximately 305 employees (2012: 450) mainly in Hong Kong, China, Brazil and USA (2012: Hong Kong, China, Brazil, Russia and USA). The total remuneration paid by the Group to its employees (including directors) for the year was approximately HK$39.0 million (2012: HK$50.3 million).

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

FINAL DIVIDEND

The Board does not recommend payment of final dividend for the year ended 31 March 2013 (2012: HK$Nil per ordinary share and HK$Nil per convertible preferred share).

CORPORATE GOVERNANCE PRACTICES

During the year ended 31 March 2013, the Company has applied the principles of, and complied with, the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules, except for the deviations mentioned below:

Code Provision A.2.1

Under the Code Provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The roles of the chairman (the "Chairman") and the chief executive (the "CE") 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 CE 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 CE. Since then and to up the date of this announcement, the position of the CE has not been appointed. Since the beginning of the current financial year, Mr. John Tewksbury BANIGAN acted as the Chairman. On 17 January 2013, Mr. John Tewksbury BANIGAN resigned as the Chairman and Ms. ZHOU Jing was appointed as the Chairman. During the current financial year when no CE was appointed, the functions of the CE 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.

Code Provision A.6.7

Under Code Provision A.6.7, independent non-executive directors and non-executive directors should attend general meetings. However, Mr. John Tewksbury BANIGAN, Mr. KEUNG Paul Hinsum and Mr. Donald Smith WORTHLEY were unable to attend the special general meeting held in Hong Kong on 11 April 2012 and Mr. KEUNG Paul Hinsum and Mr. William Keith JACOBSEN were unable to attend the annual general meeting held in Hong Kong on 5 February 2013 as they were absent from Hong Kong or had another business engagement.

Further information on the Company's corporate governance practices during the year under review will be set out in the section headed "Corporate Governance Report" to be contained in the Company's Annual Report for the year ended 31 March 2013 which will be despatched to the Shareholders on or before 31 December 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code (the "Model Code") for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 March 2013.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2013.

AUDIT COMMITTEE

The Audit Committee comprised three members, namely Mr. William Keith JACOBSEN (chairman of the Audit Committee), Mr. WU Wang Li and Mr. NG Wai Hung and all of them are independent non-executive directors. The Audit Committee has reviewed the accounting principles and practice adopted by the Group, reviewed the annual results for the year ended 31 March 2013 and discussed the internal controls together with the management.

REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in respect of the announcement of the Group's results for the year ended 31 March 2013 have been agreed by the Group's auditor, Crowe Horwath (HK) CPA Limited ("Crowe Horwath"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Crowe Horwath in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Crowe Horwath on the announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement is published on the websites of the Company (www.susfor.com) and the Stock Exchange (www.hkexnews.hk). The Company's annual report for 2012/13 will be published on the above websites and despatched to the Shareholders on or before 31 July 2013.

By Order of the Board
Sustainable Forest Holdings Limited
Zhou Jing
Chairman

Hong Kong, 28 June 2013

As at the date of this announcement, the Board comprises Ms. Zhou Jing and Mr. Mung Wai Ming as executive directors; and Mr. William Keith Jacobsen, Mr. Wu Wang Li and Mr. Ng Wai Hung as independent non-executive directors.