# China Timber Resources Group Limited

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 269

Annual Report 2010

# CONTENTS

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Fung Tsun Pong *(Chairman)*
Mr. Tsang Kam Ching, David *(Finance Director)*

### Independent Non-executive Directors

Mr. Yip Tak On
Mr. Jing Baoli
Mr. Bao Liang Ming

### Audit Committee

Mr. Yip Tak On *(Chairman)*
Mr. Jing Baoli
Mr. Bao Liang Ming

### Remuneration Committee

Mr. Tsang Kam Ching, David *(Chairman)*
Mr. Yip Tak On
Mr. Jing Baoli
Mr. Bao Liang Ming

## COMPANY SECRETARY

Miss Ngan Wai Kam, Sharon

## AUDITOR

BDO Limited

## LEGAL ADVISOR

Louis K.Y. Pau & Company

## PRINCIPAL BANKERS

The Bank of East Asia Limited

## REGISTERED OFFICE

The Office of Caledonian Bank & Trust Limited
Caledonian House
George Town
Grand Cayman
Cayman Islands

## PRINCIPAL PLACE OF BUSINESS

Room 1606, Office Tower
Convention Plaza
Wanchai
Hong Kong

## SHARE REGISTRARS & TRANSFER OFFICE

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

## STOCK CODE AT HONG KONG STOCK EXCHANGE

269

## CONTACT DETAILS

Telephone no.: (852) 3176 7100
Facsimile no.: (852) 3176 7122

# STATEMENT OF CHAIRMAN

To all shareholders,

I am pleased to present the 2010 Annual Report and the audited financial statements of China Timber Resources Group Limited and its subsidiaries (together the "Group") for the year ended 31 March 2010.

## BUSINESS REVIEW

For the year ended 31 March 2010, the Group was principally engaged in forest operation and management, timber logging and trading, timber processing, sale of timber products, plantation and trading of seedlings, property development and asset management.

This financial year had been a very challenging year in which the pace of economic recovery was still weak over the world. However with enhanced marketing strategy and hard work, the Group's turnover for the year ended 31 March 2010 recorded an significant increase of 19% to approximately HK$21.17 million (2009: HK$17.84 million) and generated a gross profit of approximately HK$1.64 million (2009: gross loss of HK$0.86 million).

The Group has continued investing substantial financial resources in the development of its logging business and plantation and trading of seedlings. In addition, the Group has advanced to the property development market in the PRC through the acquisition of a parcel of land with an area of approximately 587,726 square meters located in Hubei Province, the PRC which will be developed into a convention centre, a five-star hotel and various commercial and residential properties. The Board believes the Group can continue to enjoy fruitful rewards in the future from the investment it made during the year.

## FINANCIAL REVIEW

For the year ended 31 March 2010, the Group's turnover increased by 19% to approximately HK$21.17 million as compared with approximately HK$17.84 million in 2009 financial year and the cost of sales was approximately HK$19.53 million (2009: 18.70 million). The four reportable segments engaged by the Group, namely timber logging and trading, other timber operation (manufacture and sale of furniture and handicrafts and sales of refined tea oil), property development and asset management, and cold storage warehouse leasing contributed approximately HK$14.38 million (68%), HK$6.11 million (29%), HK$0 million (0%) and HK$0.68 million (3%) respectively to the Group's consolidated turnover. The Group's property development and asset management business is at a preliminary development stage and is unable to yield any return yet. Detailed segment turnover and contribution to loss before tax of the Group are shown in note 6 to the financial statements. In addition, the Group experienced a gross profit of approximately HK$1.64 million in this year.

The loss before taxation and net loss were approximately HK$69.02 million (2009: HK$71.26 million) and HK$68.78 million (2009: HK$71.44 million) respectively, which represent a slight decrease. The loss was mainly attributable to the effective interest expense of convertible bond and promissory note amounted to HK$5.9 million (2009: Nil) and HK$3.8 million (2009: Nil) respectively and selling and administrative expenses of approximately HK$103.58 million (2009 HK$64.68 million), which mainly comprises amortisation of lease payment for land under operating lease amounted to approximately HK$32.81 million (2009: HK$0.7 million), staff costs of approximately HK$36.25 million (2009: approximately HK$32.08 million) and depreciation amounted to approximately HK$10.41 million (2009: approximately 7.47 million). The loss attributable to shareholders for the year was approximately HK$65.22 million (2009: loss HK$67.44 million).

# STATEMENT OF CHAIRMAN

## LIQUIDITY AND FINANCIAL REVIEW

As at 31 March 2010, the Group's net assets amounted to approximately HK$1,715 million, as compared with net assets value of approximately HK$1,074 million as at 31 March 2009, it represents an increase of 59.6%. Besides, the current assets of the Group were HK$178 million (2009: HK$284 million) which mainly includes inventories of approximately HK$129 million, prepaid lease payments of approximately HK$0.7 million and cash and bank balances of approximately HK$19.76 million (2009: HK$133 million). The current liabilities increased from HK$25.58 million (2009) to HK$127.32 million (2010) during the year due to the attribution of HK$59.93 million by a promissory note, trade and other payables of HK$50.78 million, secured bank loan of HK$5.69 million, and deferred government grant of HK$8.92 million. The gearing ratio of the Group, measured as total debts to total assets, was 31.5% (2009: 3.5%).

On 9 February 2010, the Group issued a promissory note with a principal amount of HK$280,000,000 in connection with the acquisition of the entire equity interest of Shoukong (Beijing) Management Consulting Company Limited（首控（北京）管理咨詢有限公司）("Shoukong Management"), which was the immediate holding company of Yichang Xinshougang Property Deveopment Company Limited（宜昌新首鋼房地產開發有限公司）("Yichang Xinshougang"), a property development company in the PRC. The promissory note bears interests at 1.5% per annum payable quarterly commencing from the date of the issue by 14 installments of HK$20,000,000 each with the interest accrued thereon. The first installment will be paid after the end of the reporting period.

Apart from the promissory note, the Group also issued a convertible bond of an aggregate principal amount of HK$470 million on 9 February 2010 as part of the consideration for the acquisition of Shoukong Management and Yichang Xinshougang. The bond entitles the holders to convert into ordinary shares at a conversion price of HK$0.056 per share. If the bond has not been converted, it shall be redeemed on 8 February 2013 at the principal amount. The interest of the bond is 2.15% per annum payable upon redemption or conversion of the bond.

As at 31 March 2010, the amount due to a director was HK$2 million (2009: Nil) which is unsecured, interest free and repayable on demand.

As at 31 March 2010, the Group committed a bank loan of approximately HK$5.69 million repayable within one year and secured by its subsidiary's prepaid lease payment with interest of 6.1065% per annum.

The Group's business operations, assets and liabilities are denominated mainly in Hong Kong dollars, Renminbi and US dollars except its cold storage warehouse in Australia, thus appreciation in Australian dollars has resulted in a net exchange gain. Save as aforesaid, the Board considered foreign exchange risk being minimal. The management will review from time to time the potential foreign exchange exposure and will take appropriate actions to minimise any potential foreign exchange exposure risk to arise in the future. During this financial year, the Company has not given any guarantee to any financial institution in respect of bank facilities utilised by any of its subsidiaries. As at 31 March 2010, certain prepaid lease payments with a net book value of approximately HK$2.78 million was pledged to secure the bank loan granted to the Group (2009: Nil).

As at 31 March 2010, the Group had capital commitments of HK$134 million (2009: HK$101 million).

The Group did not use any financial instruments for hedging purposes and did not have foreign currency net investments being hedged by foreign currency borrowings and other hedging instruments.

# STATEMENT OF CHAIRMAN

## CAPITAL RAISING AND EXPENDITURE

On 9 February 2010, 4,275,862,068 new ordinary shares of HK$0.01 each were issued at HK$0.0435 per share as settlement of the part of the consideration for the acquisition of property located in the PRC.

## MATERIAL EVENTS

### Acquisition of Yichang Xinshougang

On 9 May 2009, the Company and its wholly owned subsidiary entered into a sale and purchase agreement for the acquisition of the entire equity interest of Shoukong Management together with its wholly owned subsidiary, Yichang Xinshougang. Yichang Xinshougang is a property holding and development company and its sole asset is a piece of land of approximately 587,700 square meters located in Yiling District, Yichang City, Hubei Province, the PRC, for the development of complex commercial and residential properties including the Yichang Three Gorges International Convention Centre (宜昌三峽國際會展中心), the Three Gorges State Guest House (三峽國賓館) and the Three Gorges State Guest Garden Commercial Property (三峽國賓花園商品房). The acquisition was completed on 9 February 2010 and the consideration of HK$986 million was settled by cash of HK$50 million, a promissory note of HK$280 million, consideration shares of HK$186 million and a convertible bond of HK$470 million.

### Equity Line of Credit Agreement and Issue of Warrants

On 5 January 2010, the Company, GEM Global Yield Fund Limited ("GEM Global") and GEM Investment Advisors, Inc. entered into an equity line of credit agreement (the "ELC Agreement") which is supplemented by an amendment deed dated 19 January 2010, pursuant to which, the Company had been granted an option to require GEM Global to subscribe for up to an aggregate of HK$300 million in value of ordinary shares of the Company. Upon full exercise of the option, the Company may issue a maximum of 2,500 million new shares based on the minimum floor issue price of HK$0.12 per share. The equity line of credit has not been utilised by the Company.

Further to the ELC Agreement, on 8 February 2010, the Company issued 1,000 million warrants to GEM Global, each warrant entitled the holder to subscribe for one new share at the exercise price of HK$0.23 per share (subject to adjustments) on or before 8 February 2013. Exercise in full of the warrants would result in an issue of 1,000,000,000 shares of the Company. No registered holder of the warrants has exercised its rights to subscribe for shares in the Company.

## PROSPECT

### Forest land reserve and logging business

With forest resources in Guyana of South America of approximately 257,000 hectares and in Guangdong Province of the PRC of approximately 95,294 Chinese Mu, the Group has determined to position itself as an upstream timber supplier which targets at manufacturers of high-end furniture and construction materials. The Group will strive to achieve its goal by focusing on expanding its logging capacity, broadening its timber sales and distribution channels, and strengthening its business operation.

# STATEMENT OF CHAIRMAN

### Sale and Distribution Centre in Shenzhen

The flagship store of the Group trading in the name of 紫御•尚品 located in Kingkey Banner Center, Nanshan District of Shenzhen (深圳市南山區京基百納廣場) has achieved continuous improvement in sales record in the year of 2010. The Group will continue promoting 紫御尚品 with high grade classic chinese styled wood furniture, hard wood furniture and handicrafts to the public and to maximise its market share. Our hard wood furniture are made of first grade timbers imported from our Guyana forest such as Purpleheart (紫心木／南美紫檀), Greenheart Camphor (綠心樟／南美綠檀), Mora (莫拉／南美雞翅) and Massaranduba (鑽石紅檀).

### Tea-oil processing base in Meizhou, Guangdong

In 2009, our subsidiary (Xing Ning Shu Ren Wood Limited (興寧樹人木業有限公司) was appraised as a leading agriculture enterprise in Xing Ning (興寧市農業龍頭企業) and a leading forestry enterprise in Guangdong Province (廣東省林業龍頭企業). Xing Ning is the hometown of tea-oil and our tea-oil is mainly distributed in Meizhou (梅州) and some cities in Greater Pearl River Delta (珠江三角洲). The subsidiary has come to the final stage of the construction of a tea-oil processing center in Meizhou, the PRC which has a floor area of 22,437 square meters and is well equipped with cutting edge cold pressing facilities. The pilot production was very successful and it is estimated that up to 5,000 tonnes of tea-oil can be produced each year.

The company plans to increase its market share by developing tea-oil downstream products and to generate greater profits. It is expected that the demand for tea-oil will greatly increase in view of the fact that people nowadays are striving for a better and healthier life.

### Sapling Incubation Centre in Da Bu County and Plantation

Up to the end of this financial year, the Group has completed the acquisition of 95,294 Chinese Mu forest land in Da Bu County for replantation purpose. The Group's Sapling Incubation Centre situated in the forest mainly carries out plant tissue cultivation, mass sapling and mass production of fine tree species with high commercial value, such as Acacia Melanoxylon and Camphor tree, to meet the Group's replantation requirements and for sales.

During this year, the centre had completed afforestation of 10,823 Chinese Mu. In the year of 2010, the centre plans to complete afforestation of a further 6,775 Chinese Mu which will include 2,500 Chinese Mu camphor (1,100,000 trees).

For the year ended 31 March 2010, more than 2.4 million saplings such as Acacia Melanoxylon and Camphor saplings had been sold which generated an income of approximately RMB2.22 million. It is estimated that more than 3.40 million saplings will be available for sale in the next financial year. The centre had also introduced new variety of tea-oil camellia from Guangxi Province, the PRC for sapling incubation and was appraised as an improved variety of tea-oil camellia sapling incubation centre.

# STATEMENT OF CHAIRMAN

### Property development in Yichang

The Company has commenced the development of the Yichang Three Gorges International Convention Centre (宜昌三峽國際會展中心), the Three Gorges State Guest House (三峽國賓館) and the Three Gorges State Guest Garden Commercial Property (三峽國賓花園商品房) which comprises commercial as well as residential properties.

### Barges of the Group in Guyana

The Company has completed construction of a 72TEU collection dual purpose barge in Guyana and a new 84TEU collection dual purpose barge is currently under construction and is expected to be completed in August 2010. The two barges will both serve the purpose of transporting wood logs and other goods such as rice, cement and sand. The Board expects that the barges will help generate more profits for the Group.

## EMPLOYEES AND RETIREMENT BENEFIT SCHEME

The Group had approximately 280 employees in Hong Kong, the PRC, Australia and Guyana as at 31 March 2010. The Group implements remuneration policy, bonus and share options schemes to ensure that pay scales of its employees are rewarded on a performance-related basis within the general framework of the Group's remuneration strategy.

The emoluments payable to the Directors are determined based on the scope of work, level of involvement, experience and seniority.

## ACKNOWLEDGEMENTS

I wish to take this opportunity to extend my appreciation to all shareholders for their support and to thank Directors for their guidance and our staff members for their dedication and hard work during the past year.

**Mr. Fung Tsun Pong**
*Chairman*

Hong Kong, 28 July 2010

# DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of the Company and its subsidiaries ("Group") for the year ended 31 March 2010.

## PRINCIPAL ACTIVITIES

The Company is engaged in timber trading and investment holding.

The activities of the Company's subsidiaries as at 31 March 2010 are set out in note 45 to the financial statements. The Group is principally engaged in forest operation and management, timber logging and trading, timber processing, sale of timber products, plantation and trading of seedling, property development and asset management.

## SEGMENT INFORMATION

Details of the segment information are set out in note 6 to the financial statements.

## RESULTS AND DIVIDENDS

The results of the Group are set out in the consolidated income statement on page 26 of this annual report and in the accompanying notes to the financial statements.

The Directors do not recommend the payment of a final dividend (2009: Nil) for the year ended 31 March 2010.

## SHARE PREMIUM AND RESERVES

Movements in the share premium and reserves of the Group and the Company during the year are set out on page 31 of the annual report.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company during the year are set out in note 17 to the financial statements.

## PROPERTIES

Particulars of properties of the Group as at 31 March 2010 are set out on page 107 of the annual report.

# DIRECTORS' REPORT

## SUBSIDIARIES

Particulars of the subsidiaries of the Group as at 31 March 2010 are set out in note 45 to the financial statements.

## DISPOSALS DURING THE YEAR

W&J Forest Resources Development Limited and 廣州樹人裝修設計有限公司, being the subsidiaries of the Group, were both in the process of deregistration during the financial year.

## CONTINGENT LIABILITIES

Details of the Group's contingent liabilities as at 31 March 2010 are set out in note 43 to the financial statements.

## BORROWINGS

Details of borrowings as at 31 March 2010 are set out in note 32 to the financial statements.

## SHARE CAPITAL

Details of the movements in the Company's share capital are set out in note 36 to the financial statements.

On 9 February 2010, the Company issued 4,275,862,068 new shares to 中聚國際控股有限公司 (China Alliance International Holding Group Limited) ("China Alliance") at HK$0.0435 each as settlement of part of the consideration for a very substantial acquisition (the "Acquisition"). Further details of the Acquisition are set out in the Company's circular dated 23 December 2009 and shown in note 37 to the financial statements.

### Convertible Bond

On 9 February 2010, the Company issued HK$470,000,000 redeemable convertible bond (the "Bond") to China Alliance as settlement of part of the consideration for the Acquisition. The Bond bear an annual interest of 2.15% and will mature at 8 February 2013. The Bonds remaining outstanding on the maturity date will be redeemed by the Company on that date at par together with accrued interest.

The Bond is convertible into fully paid ordinary shares of the Company at HK$0.056 per share (subject to adjustment) from 9 February 2011 up to and including the maturity date. There is no restriction on early redemption in whole or in part the Bond by the Company at any time prior to the maturity date.

## SHARE CAPITAL *(Continued)*

### Equity Line of Credit, Option and Warrants

On 5 January 2010, the Company, GEM Global Yield Fund Limited ("GEM Global") and GEM Investment Advisors, Inc. entered into an equity line of credit agreement (the "ELC Agreement") which is supplemented by an amendment deed dated 19 January 2010, pursuant to which, the Company had been granted an option to require GEM Global to subscribe for up to an aggregate of HK$300 million in value of ordinary shares of the Company. Upon full exercise of the option, the Company may issue a maximum of 2,500 million new shares based on the minimum floor issue price of HK$0.12 per share. The equity line of credit has not been utilized by the Company.

Further to the ELC Agreement, on 8 February 2010, the Company issued 1,000 million warrants to GEM Global, each entitled the holder to subscribe for one new share at the exercise price of HK$0.23 per share (subject to adjustments) on or before 8 February 2013. Exercise in full of the warrants would result in an issue of 1,000,000,000 shares of the Company. No registered holder of the warrants has exercised its rights to subscribe for shares in the Company.

Further details of the equity line of credit, the option and the warrants are set out in the Company's circular dated 22 January 2010. Details of warrants of the Group are shown in note 41 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2010, the aggregate turnover and purchases attributable to the five largest customers and suppliers of the Group represented 60% and 82% of the total turnover and purchases of the Group, respectively.

## CONNECTED TRANSACTIONS

The related party transactions in note 44 to the financial statements have been disclosed in accordance with the Hong Kong Accounting Standard 24 "Related Party Disclosures" issued by the Hong Kong institute of Certified Public Accountants ("HKICPA") and did not constitute connected transactions nor continuing connected transactions under the definition of Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("SEHK") ("Listing Rules").

## FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the past five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 106 of the annual report. The summary does not form part of the financial statements.

# DIRECTORS' REPORT

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of listed securities of the Company by the Company or any of its subsidiaries during the year.

## DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

### Executive Directors:

| | |
|---|---|
| Mr. Fung Tsun Pong | |
| Mr. Lau Sing Hung, Stephen | (resigned on 29 January 2010) |
| Mr. Tsang Kam Ching, David | |
| Mr. Chow Ki Shui, Louie | (resigned on 28 February 2010) |

### Independent Non-executive Directors:

Mr. Yip Tak On
Mr. Jing Baoli
Mr. Bao Liang Ming

In accordance with Article 117 of the Company's Articles of Association, the Directors of the Company, including the executive and independent non-executive Directors, are subject to retirement by rotation and, being eligible, may offer themselves for re-election. In addition, Article 100 of the Articles of Association provides that any Director appointed by the board of Directors shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting. Accordingly, Mr. Tsang Kam Ching, David and Mr. Bao Liang Ming shall retire at the forthcoming annual general meeting, and being eligible, shall offer themselves for re-election.

The Company has received annual confirmation from each of the independent non-executive Directors (the "INEDs") as regards their independence to the Company and considers that each of the INEDs is independent to the Company.

# DIRECTORS' REPORT

## BIOGRAPHICAL DETAILS OF DIRECTORS

### Executive Directors

**Mr. Fung Tsun Pong**, aged 50, joined the Group as an Executive Director on 22 September 2004. Mr. Fung has over 20 years of experience in property development, logistics, investment banking and company management. Mr. Fung has held senior management positions in various companies incorporated in Hong Kong, British Virgin Islands and Samoa.

**Mr. Tsang Kam Ching, David**, aged 53, joined the Group as an Executive Director on 17 February 2004. Mr. Tsang has extensive financial management experience over the past 20 years which covers merchant banking, stock broking and corporate finance business. Mr. Tsang is also a fellow member of the Chartered Association of Certified Accountants in the United Kingdom and a member of the Hong Kong Institute of Certified Public Accountants.

### Independent Non-executive Directors

**Mr. Yip Tak On**, aged 64, joined the Group as an independent non-executive director on 22 September 2004. Mr. Yip is a fellow member of ACCA, HKICPA, Taxation Institute of Hong Kong, and a full member of Hong Kong Securities Institute. Mr. Yip has founded his own Certified Public Accountants firm for more than 20 years and he is the managing director of T. O. Yip & Co., Limited. Mr. Yip is also the treasurer of International Chamber of Commerce — Hong Kong China Business Council and the Chairman of a charitable institution, the Neighborhood Advice-Action Council. Mr. Yip has not held other directorships in listed companies in the last three years.

**Mr. Jing Baoli**, aged 45, has been appointed as an independent non-executive director of the Group since 28 February 2006. Mr. Jing graduated from Beijing University Law School with a Bachelor degree in Laws in 1987 and acquired a Master degree in Laws from Lanzhou University in 1997. After graduation from Beijing University, he was assigned to the High Court of Gansu Province and worked in various positions till 1997. In 1997, Mr. Jing joined Gansu Tianhe Law Firm as a partner and in 1999, he became an attorney-at-law of Beijing Shuang Cheng Law Firm. In 2007, Mr. Jing joined Guangdong Hua Shang Law Firm.

**Mr. Bao Liang Ming**, aged 54, has been appointed as an independent non-executive director of the Group since 1 February 2007. Mr. Bao has vast executive and management experience. He has held various directorships in state-owned enterprises in Tianjin and Beijing of the People's Republic of China.

# DIRECTORS' REPORT

## BIOGRAPHICAL DETAILS OF DIRECTORS *(Continued)*

### Senior Management

**Madam Feng Jin Mei** is stationed in Guyana as the chief executive officer of Jaling Forest Industries Inc., a non-wholly owned subsidiary of the Company. She had served as chief executive officer and chief financial officer of large-scale corporations and has over 18 years' management experience. Since her taking over of the daily management of Jaling Forest Industries Inc., her management team has greatly improved the efficiency of the South American forestry operations.

## DIRECTORS' SERVICE CONTRACTS

None of the existing Directors has a service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' EMOLUMENT, THE FIVE HIGHEST PAID EMPLOYEES AND THE GROUP'S EMOLUMENT POLICY

Details of the Directors' emolument and of the five highest paid employees in the Group are set out in notes 11 and 12 to the financial statements. The Group ensures that pay scales of its employees are rewarded on performance-related basis within the general framework of the Group's remuneration strategy. The Directors' remuneration is determined by the Company with reference to their responsibilities to undertake, the Company's performance and profitability, remuneration benchmark, prevailing market conditions and recommendation of the Remuneration Committee of the Company.

## DIRECTORS' INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES, AND DEBENTURES

Save as disclosed below, as at 31 March 2010, according to the register of Interest kept by the Company under Section 336 of the Securities and Future Ordinance (the "SFO") and so far as was known to the Directors, none of the Directors and chief executive of the Company held any interest or short positions on the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (i) where required to be notified to the Company and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") of the Listing Rules, to be notified to the Company and SEHK.

## DIRECTORS' INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES, AND DEBENTURES *(Continued)*

### Long positions in shares and underlying shares of the Company

| | Number of shares | | Number of underlying shares | | Total number of shares and underlying shares held | Approximate percentage (%) of issued share capital |
|---|---|---|---|---|---|---|
| Name of Director | personal interest | corporate interests | personal interest | corporate interests | | |
| Mr. Fung Tsun Pong *(note)* | 1,061,362,449 | 1,055,500,000 | NIL | NIL | 2,116,862,449 | 14.69 |
| Mr. Tsang Kam Ching, David | 66,624,499 | NIL | NIL | NIL | 66,624,499 | 0.46 |

*Note:*

Ocean Gain Limited ("OGL") being wholly owned by Mr. Fung Tsun Pong was interested in 1,055,500,000 shares in the Company, representing approximately 7.32% in the issued shares of the Company. OGL is a substantial shareholder of the Company and its shareholding in the Company is set out in the section headed "Substantial Shareholders".

Save as disclosed above, none of the Directors of the Company and their associates had any interest in the shares and/or underlying shares of the Company and its associated corporations, within the meaning of Part XV of the SFO, which were required to be notified to the Company and the SEHK pursuant to section 341 of the SFO (including interests which they were deemed or taken to have under section 344 of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein as at 31 March 2010.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the annual report, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly at the end of the year or at any time during the year.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the paragraphs headed "Directors' Interest and Short Position in Shares, Underlying Shares and Debentures" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 31 March 2010, according to the register of interest kept by the Company, under Section 336 of the SFO and so far as was known to the Directors, no other person or companies had an interest or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group.

### Long Position in shares of the Company

| Name of Shareholder | Number of shares | | Number of underlying shares | | Total number of shares and underlying shares held | Approximate percentage (%) of issued share capital |
|---|---|---|---|---|---|---|
| | personal interest | corporate interests | personal interest | corporate interests | | |
| Ocean Gain Limited *(note a)* | 1,055,500,000 | NIL | NIL | NIL | 1,055,500,000 | 7.32 |
| Allkeen Investments Limited *(note b)* | 1,016,000,000 | NIL | NIL | NIL | 1,016,000,000 | 7.05 |
| 中聚國際控股有限公司 (China Alliance International Holding Group Limited) *(note c)* | 4,275,862,068 | NIL | 8,392,857,142 | NIL | 12,668,719,210 | 87.90 |
| GEM Global Yield Fund Limited *(Note d)* | NIL | NIL | 1,000,000,000 | NIL | 1,000,000,000 | 6.94 |

*Notes:*

a. Ocean Gain Limited is wholly owned by Mr. Fung Tsun Pong, an executive director of the Company whose interest in shares or underlying shares of the Company is set out in the above section headed "Directors' Interest and Short Positions in Shares, Underlying Shares and Debentures".

b. Allkeen Investments Limited is wholly owned by Mr. Huang Wei Guang.

c. China Alliance International Holding Group Ltd. ("China Alliance") is wholly owned by Ms. Zhang Lei. China Alliance was interested in 4,275,862,068 shares and 8,392,857,142 convertible bonds of the Company representing 29.67% and 58.23% of the existing issued share capital of the Company respectively.

d. GEM Global Yield Fund Limited was interested in 1,000,000,000 warrants of the Company.

Save as disclosed above, as at 31 March 2010, no other persons had any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations as recorded in the register required to be kept by the Company under Section 336 of the SFO.

# DIRECTORS' REPORT

## SHARE OPTION SCHEME

The Share Option Scheme of the Company was adopted on 16 July 2004 and shall remain in force for 10 years from the adoption date unless otherwise terminated or amended. Particulars of the Share Option Scheme are set out in note 39 to the financial statements.

Save as set out above, no share option has been granted, exercised, cancelled or lapsed during the year ended 31 March 2010.

## PUBLIC FLOAT OF THE LISTED SECURITIES

Based on the publicly available information to the Company and within the knowledge of the Board, none of the Directors, up to the date of this report, is aware of any information which would indicate the Company has not maintained sufficient public float of its shares in the market.

## MANAGEMENT CONTRACT

No contract concerning the management and administrative of the whole or any substantial part of the business of the Company.

## THE MODEL CODE

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less than the required standard set out in the Model Code in Appendix 10 of the Listing Rules and the Directors of the Company has confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

## AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee have been prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the HKSA. The Audit Committee provides an important link between the Board and the Company's auditors in matters within the scope of the Group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Committee comprises all INEDs of the Company, namely Mr. Yip Tak On, Mr. Jing Baoli and Mr. Bao Liang Ming. Further information of the Audit Committee is set out in the Corporate Governance Report on page 20 to this Annual Report.

# DIRECTORS' REPORT

## REMUNERATION COMMITTEE

Detailed information related to the remuneration committee is set out in the Corporate Governance Report on page 21 of this Annual Report.

## AUDITOR

The financial statements have been audited by BDO Limited. BDO Limited shall retire and a resolution for its reappointment will be proposed at the forthcoming Annual General Meeting of the Company.

On behalf of the Board

**Mr. Fung Tsun Pong**
*Chairman*
Hong Kong, 28 July 2010

# CORPORATE GOVERNANCE REPORT

The Board is committed to maintaining a high standard of corporate governance practices throughout this financial year with emphasis on enhancing accountability and transparency of the management of the Company for the sake of safeguarding the interest of the shareholders of the Company as a whole. Save as disclosed herein below, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules for the year ended 31 March 2010.

The purpose of this report is to provide shareholders with information on the major principles and corporate governance practices adopted by the Company.

## THE BOARD OF DIRECTORS

The principal duty of the Board is to ensure that the Company is properly managed in the best interest of the shareholders of the Company.

### Board Composition

As at the 31 March 2010, there were five directors of the Company (the "Directors"), of which two were executive Directors, namely Mr. Fung Tsun Pong (the Chairman) and Mr. Tsang Kam Ching, David (the Finance Director) and three were independent non-executive Directors namely, Mr. Yip Tak On, Mr. Bao Liang Ming and Mr. Jing Baoli. Other details of the Directors are given on page 11 of this annual report. An induction regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group has been provided to all Directors shortly upon their appointment as Directors of the Company.

### The Roles of the Chairman and the Board

The Board is chaired by the Chairman since 2005. The overall management of the Company's business is vested in the Board which is led by the Chairman who assumes responsibility for leadership and control of the Company to ensure that the Board acts in the best interests of the Company. The Chairman is responsible for setting the agenda for each Board meeting, taking into account any matters proposed by the Directors. With the support of the Company's secretarial staff, the Chairman ensures that all Board members receive sufficient, complete and reliable information and are properly briefed on issues to be discussed at board meetings by dispatching materials to Directors in advance, such that the Directors could work effectively and discharge their responsibility.

However, the Board is collectively responsible for supervising the Company's affairs, management and operation. Matters like annual budgets, financial statements, significant changes in accounting policy, material contracts, major financing arrangements, risk management strategy and policies, supervision of the management and performance of the Company, are all reserved for the Board.

## THE BOARD OF DIRECTORS *(Continued)*

### The Roles of the Chairman and the Board *(Continued)*

The Board regularly reviews its composition and structure to ensure its expertise and independence are attained and maintained. Any Director appointed by the Board to fill a casual vacancy is subject to election of shareholders at the first general meeting after his appointment and all Directors are subject to retirement by rotation in accordance with the Company's articles of association and, being eligible, may offer themselves for re-election.

All Directors disclose to the Board on their first appointment their interests as Director or otherwise in other companies or organisations and such declarations of interests are updated annually. When the Board considers that any Director is having a conflict of interest in a matter to be considered by the Board, the Board will request such Director to fully disclose and declare his interest and require him to abstain from voting.

All Directors are provided upon reasonable request made to the Board with means, at the Company's expense, to take independent professional advice in furtherance of their duties if necessary.

### The Roles of the Chief Executive Officer and its Management Team

On the other hand, the day-to-day management, administration and operation of the Company were delegated to the chief executive officer ("CEO"), Mr. Lau Sing Hung, Stephen who headed the management team and implemented decisions of the Board. The delegated functions and tasks were supervised and periodically reviewed by the Board to ensure efficiency of management. As the role of the Chairman was separate from that of the CEO and the position of the Chairman and CEO were held by separate individuals, a check and balance of power existed to guarantee better risk management and helped to reinforce their independence and accountability.

On 29 January 2010, Mr. Lau Sing Hung, Stephen resigned from the board and the office of CEO and the duties of CEO have been temporarily taken by the Chairman while the Company has been in the process of recruiting a suitable candidate for the post.

### The Independent Non-executive Directors

The independent non-executive Directors (the "INEDs") serve the important function of providing a balance of skills and experience to the Board and safeguarding the interests of shareholders and the Company as a whole. Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three INEDs, one of whom has appropriate professional qualifications or accounting or related financial management expertise.

Each of the INEDs has executed an appointment letter for an initial term of two years unless terminated by notice of in writing prior to the expiry of the term. The Company has received, from each of the INEDs, an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules. The Board is of the view that all INEDs meet the independence guidelines set out in rule 3.13 of the Listing Rules.

## THE BOARD OF DIRECTORS *(Continued)*

### Board Meetings

The Board held 5 meetings during the fiscal year and the attendance of Directors were set forth below:

| | Name of Directors | Attended/ Eligible to Attend |
|---|---|---|
| Executive Directors | Fung Tsun Pong | 5/5 |
| | Lau Sing Hung, Stephen | 4/5 |
| | Tsang Kam Ching, David | 5/5 |
| | Chow Ki Shui, Louie | 4/5 |
| Independent Non-executive Directors | Yip Tak On | 2/5 |
| | Jing Baoli | 3/5 |
| | Bao Liang Ming | 1/5 |

The Directors have access to the advice and services of the Company's secretarial team and all applicable rules and regulations in respect of the board meetings are followed. Drafts with sufficient details and final versions of the minutes of Board meetings and Board committee meetings were circulated to the Directors for their comment and record respectively. Originals of such minutes, being kept by the Company Secretary, are open for inspection at any reasonable time on reasonable notice by any Director.

Among the board meetings held during the fiscal year, 2 were also regular board meetings with written notice of the meeting despatched to all Directors at least 14 days before the meeting and an agenda with all supporting documents no less than 3 days prior to the meeting. The regular board meetings have achieved active participation of the Directors. The Directors note that the CG Code requires the Board to hold at least 4 regular board meetings a year at approximately quarterly intervals. However, in view of the size and activities of the Group during the year, the Directors considered 4 regular board meetings unnecessary.

If a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the Director will abstain from voting on the relevant board resolution in which he/she or any of his/her associates have a material interest and that he/she shall not be counted in the quorum present at the board meeting.

Save as disclosed above, the Company has complied with the code provisions set out in the CG Code for this financial year.

## THE BOARD OF DIRECTORS *(Continued)*

### Board Committees

The Board has established the following committees: the Remuneration Committee and the Audit Committee with the participation of all the INEDs. In addition, the Board has also adopted good corporate governance practices and procedures and taken appropriate steps to provide effective communication with shareholders.

## AUDIT COMMITTEE

The terms of reference of the Audit Committee was amended on 26 September 2005 to bring them in line with the CG Code. The Audit Committee is responsible to the Board and consists of all the three INEDs from time to time. The current members are Mr. Yip Tak On, Mr. Jing Baoli and Mr. Bao Liang Ming.

The Committee reviewed the completeness and accuracy of the Company's financial statements, annual reports and accounts and half-year reports and provided assurance to the Board that these comply with accounting policies, standards and practices, stock exchange and legal requirements. The Committee also reviewed the adequacy and effectiveness of the financial controls, internal control and risk management systems. It also made recommendation to the board of Directors on the appointment and removal of external auditors and their terms of engagement as well as monitor the external auditor's independence and effectiveness and recommended appropriate actions required.

The Audit Committee held 2 meetings during the fiscal year, the attendances of which were as follows: Mr. Yip Tak On (2/2), Mr. Jing Baoli (2/2), Mr. Bao Liang Ming (0/2).

A summary of the work performed by the Audit Committee during the financial year ended 31 March 2010 is set out below:

(a) approval of the remuneration and terms of engagement of the external auditor;

(b) reviewed the external auditor's independence and the effectiveness of the audit process;

(c) making recommendation to the board on the re-appointment of external auditor.

(d) reviewed with the finance director and/or the external auditor the accounting principles and practices adopted by the Group, the accuracy and fairness of the annual and interim financial statements before submission to the board;

(e) review of the internal audit findings and internal audit plan;

(f) review of the effectiveness of the internal control system of the group; and

(g) reviewed with the external auditor the impact to the Group in respect of the amendments to the accounting principles and standards and the development of corporate governance.

# CORPORATE GOVERNANCE REPORT

## REMUNERATION COMMITTEE

The Remuneration Committee was set up on 26 September 2005 to determine policy on executive Directors and senior management's remuneration and fixing remuneration packages. The Committee comprises all the three INEDs and one executive Director, i.e. a majority of the members are independent non-executive directors. The Remuneration Committee is responsible for, among others, the determination, subject to the agreement with the Board, the framework or policy for the remuneration of the Chairman, the executive directors and senior management staff, and the total individual remuneration package of each executive director and other senior management staff including bonuses, incentive payments and share options or other share awards within the terms of the agreed policy.

In order to be able to attract and retain staff of suitable calibre, the Company provides a competitive remuneration package. This comprises salary, provident fund, leave passage and discretionary bonus. The remuneration policy has contributed considerably to the maintenance of a stable, motivated and high-calibre management team in the Company.

The remuneration policy and the levels of remuneration paid to executive Directors of the Company were reviewed by the Remuneration Committee every year.

No Director takes part in any discussion about his own remuneration. The remuneration of INEDs is determined by the Board in consideration of their responsibility involved. Each of the INEDs are appointed for a fixed term of service and entitled to an annual director's fee of HK$120,000.00.

The Remuneration Committee held 1 meeting during this fiscal year, the attendances of which were as follows: Mr. Yip Tak On (1/1), Mr. Jing Baoli (1/1), Mr. Bao Liang Ming (0/1).

## INTERNAL CONTROL

The Board is responsible for the system of internal control and for reviewing its effectiveness. During this fiscal year, the Directors have conducted two reviews on the effectiveness of the system of internal control of the Company, including but not limited to, financial, operational and compliance controls and risk management functions, and considered that the internal control systems are effective and adequate and the Company has complied with the code provisions on internal control of the CG Code in view of the latest business development and the management structure of the Company.

Detailed control guidelines have been set and made available to all employees of the Company regarding handling and dissemination of price sensitive information.

Systems and procedures are in place to identify, control and report on major risks, including business, legal, financial, and reputational risks. Exposures to these risks are monitored by the Board with the assistance of its external professional advisers.

# CORPORATE GOVERNANCE REPORT

## SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors (the "Securities Code") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules. A copy of the Securities Code is sent to each Director of the Company first on his appointment and thereafter reminders were sent to Directors twice annually, one month before the date of the board meeting to approve the Company's interim and annual results, with a notice that the Director cannot deal in the securities and derivatives of the Company until after the results announcement has been published.

Under the Securities Code, Directors are required to notify the Chairman and receive a dated written acknowledgement before dealing in any securities of the Company and, in the case of the Chairman himself, he must notify the board at a board meeting or alternatively, another executive director and receive a dated written acknowledgement before any dealing. The Company has made specific enquiries on Director's dealings in the securities of the Company and all Directors have confirmed that they have complied with the required standard set out in the Securities Code throughout the year. Directors' interests as at 31 March 2010 in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) are set out on pages 12 and 13 of the annual report.

## EXTERNAL AUDITORS

The external auditors are primarily responsible for auditing and reporting on the annual financial statements. In this fiscal year, the total remuneration paid to the external auditors was approximately HK$1,945,000, of which HK$1,200,000 and HK$745,000 were paid for audit service and advice, and other non-audit services respectively.

## INVESTOR RELATIONS

The Company continues to enhance relationships and communication with its investors. Extensive information about the Company's performance and activities is provided in this Annual Report and the Interim Report which has been sent to shareholders.

All shareholders are encouraged to attend the Annual General Meeting to discuss matters relating to the Company. Any inquiries from shareholders can be addressed to any of the Board.

Shareholders may request an extraordinary general meeting to be convened in accordance with Article 73 of the Articles of Association of the Company, which provides that members holding at the date of deposit of the requisition not less than one-twentieth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

## INVESTOR RELATIONS *(Continued)*

If the Directors do not within twenty-one days from the date of deposit of the requisition proceed duly to convene the meeting, the requisitionists themselves may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Directors shall be reimbursed to them by the Company.

# INDEPENDENT AUDITOR'S REPORT

Tel : +852 2541 5041
Fax : +852 2815 2239
www.bdo.com.hk

電話：+852 2541 5041
傳真：+852 2815 2239
www.bdo.com.hk

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

香港干諾道中111號
永安中心25樓

TO THE SHAREHOLDERS OF CHINA TIMBER RESOURCES GROUP LIMITED
（中國木業資源集團有限公司)
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of China Timber Resources Group Limited (the "Company") and its subsidiaries (hereinafter referred to as the "Group") set out on pages 26 to 105, which comprise the consolidated and company statements of financial position as at 31 March 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of the financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

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

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

# INDEPENDENT AUDITOR'S REPORT

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

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2010 and of the loss and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**BDO Limited**
*Certified Public Accountants*

**Choi Man On**
*Practising Certificate number P02410*

Hong Kong, 28 July 2010

# CONSOLIDATED INCOME STATEMENT

*For the year ended 31 March 2010*

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| Turnover | 5 | **21,171** | 17,841 |
| Cost of sales | | **(19,528)** | (18,696) |
| Gross profit/(loss) | | **1,643** | (855) |
| Gain/(loss) on change in fair value of investment property | 16 | **148** | (5,236) |
| Gain on change in fair value less costs to sell of biological assets | 19 | **4,869** | 35,548 |
| Change in fair value of derivative financial instrument | 23 | **29,820** | — |
| Other income and other gains or losses | 7 | **6,983** | (7,704) |
| Realised gain/(loss) on financial assets at fair value through profit or loss | | **729** | (27,529) |
| Selling and administrative expenses | | **(103,582)** | (64,682) |
| Finance costs | 8 | **(9,633)** | (799) |
| Loss before taxation | 9 | **(69,023)** | (71,257) |
| Taxation credit/(charge) | 10 | **248** | (185) |
| Loss for the year | | **(68,775)** | (71,442) |
| Attributable to: | | | |
| Owners of the Company | 13 | **(65,223)** | (67,436) |
| Minority interests | | **(3,552)** | (4,006) |
| | | **(68,775)** | (71,442) |
| | | **HK cents** | HK cents |
| Loss per share | 15 | | |
| — Basic | | **(0.61)** | (0.67) |
| — Diluted | | **(0.77)** | (0.67) |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 March 2010*

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss for the year | **(68,775)** | (71,442) |
| Other comprehensive income: | | |
| Exchange differences on translating foreign operations | **3,105** | 6,245 |
| Other comprehensive income for the year, net of tax | **3,105** | 6,245 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | **(65,670)** | (65,197) |
| Total comprehensive income attributable to | | |
| Owners of the Company | **(62,808)** | (61,329) |
| Minority interests | **(2,862)** | (3,868) |
| | **(65,670)** | (65,197) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 March 2010*

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Investment property | 16 | 44,900 | 37,000 |
| Property, plant and equipment | 17 | 131,492 | 95,774 |
| Prepaid lease payments | 18 | 1,082,288 | 32,810 |
| Biological assets | 19 | 94,014 | 71,950 |
| Forest concession rights | 20 | 528,545 | 530,783 |
| Prepayments for acquisition of plantation assets and equipment | 21 | 35,261 | 60,358 |
| Derivative financial instrument | 23 | 411,498 | — |
| | | 2,327,998 | 828,675 |
| CURRENT ASSETS | | | |
| Financial assets at fair value through profit or loss | 24 | — | 882 |
| Inventories | 25 | 128,646 | 120,603 |
| Trade and other receivables | 26 | 29,078 | 29,305 |
| Prepaid lease payments | 18 | 704 | 711 |
| Cash and bank balances | 27 | 19,759 | 132,736 |
| | | 178,187 | 284,237 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 28 | 50,778 | 11,367 |
| Promissory note | 29 | 59,930 | — |
| Deferred government grant | 30 | 8,915 | — |
| Amount due to a director | 31 | 2,000 | — |
| Borrowings | 32 | 5,696 | 14,212 |
| | | 127,319 | 25,579 |
| NET CURRENT ASSETS | | 50,868 | 258,658 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 2,378,866 | 1,087,333 |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | 34 | 1,574 | 1,574 |
| Deferred government grant | 30 | 111,871 | — |
| Convertible bond | 35 | 361,205 | — |
| Promissory note | 29 | 177,332 | — |
| Acreage fees payable | | 11,083 | 11,368 |
| | | 663,065 | 12,942 |
| TOTAL NET ASSETS | | 1,715,801 | 1,074,391 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 March 2010*

| | Notes | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| CAPITAL AND RESERVES | | | |
| Share capital | 36 | **144,129** | 101,370 |
| Reserves | | **1,551,788** | 950,050 |
| Equity attributable to owners of the Company | | **1,695,917** | 1,051,420 |
| Minority interests | | **19,884** | 22,971 |
| TOTAL EQUITY | | **1,715,801** | 1,074,391 |

These financial statements were approved and authorised for issue by the board of directors on 28 July 2010.

**Mr. Fung Tsun Pong**
*Director*

**Mr. Tsang Kam Ching, David**
*Director*

# STATEMENT OF FINANCIAL POSITION

*As at 31 March 2010*

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 17 | **137** | 197 |
| Interests in subsidiaries | 22 | **1,823,765** | 872,440 |
| Derivative financial instrument | 23 | **411,498** | — |
| | | **2,235,400** | 872,637 |
| CURRENT ASSETS | | | |
| Financial assets at fair value through profit or loss | 24 | **—** | 882 |
| Other receivables | 26 | **7,263** | 1,151 |
| Cash and bank balances | 27 | **801** | 42,677 |
| | | **8,064** | 44,710 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 28 | **14,955** | 1,417 |
| Promissory note | 29 | **59,930** | — |
| Amount due to a director | 31 | **2,000** | — |
| Amounts due to subsidiaries | 33 | **—** | 1,430 |
| | | **76,885** | 2,847 |
| NET CURRENT (LIABILITIES)/ASSETS | | **(68,821)** | 41,863 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **2,166,579** | 914,500 |
| NON-CURRENT LIABILITIES | | | |
| Convertible bond | 35 | **361,205** | — |
| Promissory note | 29 | **177,332** | — |
| | | **538,537** | — |
| TOTAL NET ASSETS | | **1,628,042** | 914,500 |
| EQUITY | | | |
| Share capital | 36 | **144,129** | 101,370 |
| Reserves | | **1,483,913** | 813,130 |
| TOTAL EQUITY | | **1,628,042** | 914,500 |

These financial statements were approved and authorised for issue by the board of directors on 28 July 2010.

**Mr. Fung Tsun Pong**
*Director*

**Mr. Tsang Kam Ching, David**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 March 2010*

## THE GROUP

| | Attributable to owners of the Company | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital *HK$'000* | Share premium *HK$'000* | Warrants reserve *HK$'000* | Share-based compensation reserve *HK$'000* | Capital redemption reserve *HK$'000* | Capital reserve *HK$'000* | Assets revaluation reserve *HK$'000* | Forest concession rights revaluation reserve *HK$'000* | Convertible bond reserve *HK$'000* | Translation reserve *HK$'000* | Retained profits *HK$'000* | Sub-total *HK$'000* | Minority interests *HK$'000* | Total *HK$'000* |
| At 1 April 2008 | 101,370 | – | 4,000 | 855 | 3,800 | 20,918 | 23,868 | 76,213 | – | 8,844 | 883,018 | 1,122,886 | 26,839 | 1,149,725 |
| Total comprehensive income for the year | – | – | – | – | – | – | – | – | – | 6,107 | (67,436) | (61,329) | (3,868) | (65,197) |
| 2008 final dividend at $0.001 per share | – | – | – | – | – | – | – | – | – | – | (10,137) | (10,137) | – | (10,137) |
| Release of reserve upon lapse of share options | – | – | – | (855) | – | – | – | – | – | – | 855 | – | – | – |
| At 31 March 2009 | 101,370 | – | 4,000 | – | 3,800 | 20,918 | 23,868 | 76,213 | – | 14,951 | 806,300 | 1,051,420 | 22,971 | 1,074,391 |
| Total comprehensive income for the year | – | – | – | – | – | – | – | – | – | 2,415 | (65,223) | (62,808) | (2,862) | (65,670) |
| Disposal of equity interest in a subsidiary | – | – | – | – | – | – | – | – | – | – | – | – | (225) | (225) |
| Issue of ordinary shares for the acquisition of subsidiaries *(Note 37)* | 42,759 | 229,482 | – | – | – | – | – | – | – | – | – | 272,241 | – | 272,241 |
| Issue of convertible bond | – | – | – | – | – | – | – | – | 435,064 | – | – | 435,064 | – | 435,064 |
| Release of reserve upon lapse of warrants | – | – | (4,000) | – | – | – | – | – | – | – | 4,000 | – | – | – |
| At 31 March 2010 | 144,129 | 229,482 | – | – | 3,800 | 20,918 | 23,868 | 76,213 | 435,064 | 17,366 | 745,077 | 1,695,917 | 19,884 | 1,715,801 |

## THE COMPANY

| | Share capital *HK$'000* | Share premium *HK$'000* | Warrants reserve *HK$'000* | Share-based compensation reserve *HK$'000* | Capital redemption reserve *HK$'000* | Contributed surplus *HK$'000* | Convertible bond reserve *HK$'000* | Retained profits *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|---|---|---|
| At 1 April 2008 | 101,370 | – | 4,000 | 855 | 3,800 | 64,314 | – | 789,197 | 963,536 |
| Total comprehensive income for the year | – | – | – | – | – | – | – | (38,899) | (38,899) |
| 2008 final dividend at $0.001 per share | – | – | – | – | – | – | – | (10,137) | (10,137) |
| Release of reserve upon lapse of share options | – | – | – | (855) | – | – | – | 855 | – |
| At 31 March 2009 | 101,370 | – | 4,000 | – | 3,800 | 64,314 | – | 741,016 | 914,500 |
| Total comprehensive income for the year | – | – | – | – | – | – | – | 6,237 | 6,237 |
| Issue of ordinary shares for the acquisition of subsidiaries *(Note 37)* | 42,759 | 229,482 | – | – | – | – | – | – | 272,241 |
| Issue of convertible bond | – | – | – | – | – | – | 435,064 | – | 435,064 |
| Release of reserve upon lapse of warrants | – | – | (4,000) | – | – | – | – | 4,000 | – |
| At 31 March 2010 | 144,129 | 229,482 | – | – | 3,800 | 64,314 | 435,064 | 751,253 | 1,628,042 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 March 2010*

Warrant reserve represents the net proceeds received from the issue of warrants of the Company. The reserve will be transferred to share capital and share premium account upon the exercise of the warrants.

On 14 July 2006, the Company issued 960,000,000 un-listed warrants at an issue price of HK$4,000,000 by private placement. Each warrant entitled the holder to subscribe for one ordinary share at an initial subscription price of HK$0.09 per Subscription Share during the three years period from the date of allocation and issue of the warrants. All warrants lapsed upon expiry on 31 July 2009.

Share-based compensation reserve represents the fair value of outstanding share options granted to executive directors, employees, and any of its subsidiary recognised in accordance with the accounting policy adopted for share based payment.

Translation reserve represents exchange differences arising from the translation of the financial statements of subsidiaries operating outside Hong Kong.

The convertible bond reserve represents the equity component of outstanding convertible bond issued by the Company recognised in accordance with the accounting policy adopted for convertible bond in Note 3(n)(iii).

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of subsidiaries when they were acquired by the Company and the nominal amount of the Company's share capital issued for the acquisition.

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 March 2010*

| | Notes | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Loss before taxation | | **(69,023)** | (71,257) |
| Adjustments for: | | | |
| Interest income | | **(163)** | (1,166) |
| Interest on promissory note | | **3,780** | — |
| Interest on convertible bond | | **5,853** | — |
| Depreciation of property, plant and equipment | | **10,411** | 7,467 |
| Change in fair value of derivative financial instrument | | **(29,820)** | — |
| (Gain)/loss on change in fair value of investment property | | **(148)** | 5,236 |
| Gain on change in fair value less costs to sell of biological assets | | **(4,869)** | (35,548) |
| Realised (gain)/loss on financial assets at fair value through profit or loss | | **(729)** | 27,529 |
| Release of deferred government grant | | **(338)** | — |
| Release of prepaid lease payments | | **32,807** | 711 |
| Amortisation of forest concession rights | | **2,214** | 3,024 |
| Gain on deregistration of a subsidiary | | **(225)** | — |
| Property, plant and equipment written off | | **53** | 245 |
| Impairment loss on inventories | | **—** | 1,956 |
| Net write off of inventories | | **1,059** | 2,604 |
| Operating cash outflows before changes in working capital | | **(49,138)** | (59,199) |
| Decrease in financial assets at fair value through profit or loss | | **—** | 904 |
| Increase in inventories | | **(8,429)** | (84,645) |
| (Increase)/decrease in trade and other receivables | | **(592)** | 24,360 |
| Increase/(decrease) in trade and other payables | | **31,276** | (12,341) |
| Decrease in acreage fees payable | | **(285)** | (549) |
| Increase of biological assets due to plantation expenditure incurred | | **(18,647)** | (10,955) |
| Decrease of biological assets due to direct sales | | **1,568** | 329 |
| Effect of foreign exchange difference | | **(6,175)** | 8,231 |
| Cash used in operations | | **(50,422)** | (133,865) |
| Interest received | | **163** | 1,166 |
| Overseas tax refund/(paid) | | **248** | (269) |
| **Net cash used in operating activities** | | **(50,011)** | (132,968) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 March 2010*

| | Notes | 2010<br>HK$'000 | 2009<br>HK$'000 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | **(30,637)** | (16,534) |
| Additions of prepaid lease payments | | **—** | (1,173) |
| Purchase of biological assets | | **—** | (1,703) |
| Net decrease/(increase) in prepayments for acquisition of plantation assets and equipment | | **13,266** | (25,982) |
| Net cash outflow arising on acquisition of subsidiaries | *37* | **(47,888)** | — |
| Receipts of deferred government grants | | **6,886** | — |
| Purchase of financial assets at fair value through profit or loss | | **—** | (63,789) |
| Proceeds from disposal of financial assets at fair value through profit or loss | | **1,611** | 36,260 |
| **Net cash used in investing activities** | | **(56,762)** | (72,921) |
| **FINANCING ACTIVITIES** | | | |
| Repayment of borrowing | | **(14,212)** | — |
| Proceed from a bank loan | | **5,696** | 8,139 |
| Dividend paid | | **—** | (10,137) |
| Advance from a director | | **2,000** | — |
| **Net cash used in financing activities** | | **(6,516)** | (1,998) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | **(113,289)** | (207,887) |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES** | | **312** | 785 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **132,736** | 339,838 |
| **CASH AND CASH EQUIVALENT AT END OF YEAR** | | **19,759** | 132,736 |
| **ANALYSIS OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | | **19,759** | 132,736 |

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 March 2010*

## 1. CORPORATE INFORMATION

The Company is an exempted company incorporated in the Cayman Islands with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "SEHK"). The address of the registered office is the office of Caledonian Bank & Trust Limited, Caledonian House, George Town, Grand Cayman, Cayman Islands.

The principal activities of the Company and its subsidiaries (the "Group") are engaged in forest operation and management, timber logging and trading, timber processing, sale of timber products, plantation and trading of seedlings, cold storage warehouse rental, property development and asset management.

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

### (a) Adoption of new and revised HKFRSs

The Group has adopted the following new or revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for the current accounting period.

| | |
|---|---|
| HKFRS (Amendments) | Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009 |
| HKFRS (Amendments) | Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39 |
| HKAS 1 (Revised) | Presentation of Financial Statements |
| HKAS 23 (Revised) | Borrowing Costs |
| HKAS 32 & HKAS1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments |
| HKFRS 8 | Operating Segments |
| HK(IFRIC) — Int 9 & HKAS 39 (Amendments) | Embedded Derivatives |
| HK(IFRIC) — Int 13 | Customer Loyalty Programmes |
| HK(IFRIC) — Int 15 | Agreements for the Construction of Real Estate |
| HK(IFRIC) — Int 16 | Hedges of a Net Investment in a Foreign Operation |
| HK(IFRIC) — Int 18 | Transfers of Assets from Customers |

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

### (a) Adoption of new and revised HKFRSs *(Continued)*

The adoption of the above new/revised HKFRSs had no material effect on the reported results or financial position of the Group for both the current and prior reporting periods, except for the following changes:

***HKAS 1 (Revised) Presentation of Financial Statements***

The revised standard has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the consolidated financial statements. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (income statement and statement of comprehensive income). The Group has elected to present two statements: income statement and a statement of comprehensive income. The consolidated financial statements have been prepared under the revised disclosure requirements.

***HKFRS 8 Operating Segments***

HKFRS 8 replaces HKAS 14 "Segment Reporting, and requires operating segment to be identified on the basis of internal reports of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to the segments and to assess their performance. As the business segments reported by the Group in accordance with the requirements of HKAS 14 are the same as the operating segments provided to the chief operating decision-maker as required by HKFRS 8, there are no changes to the operating segments and the relevant segment information on the adoption of HKFRS 8.

***HKFRS 7 (Amendments) Improving Disclosures about Financial Statements***

The amendments to HKFRS 7 expand the disclosure relating to fair value measurements for financial instruments that are measured at fair value and liquidity risk of financial liabilities. A three-level fair value hierarchy has been introduced to categorise the fair value measurements according to the degree they are based on observable market data. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision.

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

### (b) Potential impact arising on HKFRSs not yet effective

The Group has not early applied the following new or revised HKFRSs (potentially relevant to the Group's operations) that have been issued, but are not yet effective:

| | |
|---|---|
| HKFRSs (Amendments) | Amendment to HKFRS 5 as part of Improvements to HKFRSs[1] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009[2] |
| HKFRSs (Amendments) | Improvements to HKFRSs 2010[3] |
| Amendments to HKFRS 2 | Share-based Payment – Group Cash-settled Share-based Payment Transactions[4] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[1] |
| HKFRS 3 (Revised) | Business Combinations[1] |
| HK(IFRIC) — Int 17 | Distributions of Non-cash Assets to Owners[1] |
| HK(IFRIC) — Int 19 | Extinguishing Financial Liabilities with Equity Instruments[5] |
| HKAS 24 (Revised) | Related Party Disclosures[6] |
| HKFRS 9 | Financial instruments[7] |

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
4 Effective for annual periods beginning on or after 1 January 2010
5 Effective for annual periods beginning on or after 1 July 2010
6 Effective for annual periods ending on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 January 2013

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1 April 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. Changes in the Group's ownership interest that do not result in loss of control of the subsidiary will be accounted for as equity transactions. It also requires an entity to attribute the share of profit or loss to non-controlling interest (previously known as minority interest) even if it results in the non-controlling interest having a deficit balance.

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

### (b) Potential impact arising on HKFRSs not yet effective *(Continued)*

The amendment to HKAS 17 made under "Improvements to HKFRSs 2009", mandatory for accounting periods beginning on or after 1 January 2010, removes the specific guidance which stated that land held under a lease should be classified as an operating lease unless title to the land is expected to pass at the end of the lease term. It provides new guidance which indicates that entity should use judgement to decide whether the lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17. The Group will reassess the classification of land elements of unexpired leases at the date it adopts the amendment on the basis of information existing at the inception of the lease and recognise a lease newly classified as a finance lease retrospectively if the criteria of a finance lease is met. If the information necessary to apply the amendment retrospectively is not available, the Group will recognise the related asset and liability at their fair values on the date of adoption and recognise the difference in retained earnings.

The Group is in the process of making an assessment of the potential impact of other new or revised HKFRSs and the directors so far concluded that the application of the other new/ revised HKFRSs will have no material impact on the results and the financial position of the Group.

## 3. PRINCIPAL ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

### (b) Basis of measurement

The financial statements are prepared under the historical cost convention modified by the revaluation of investment property, building, certain financial instruments and biological assets as specified in the accounting policies set out below.

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (c) Group accounting

***Consolidation***

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2010. Subsidiaries are those entities in which the Group, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies, to appoint or remove the majority of the board of directors, or to cast majority of votes at the meetings of the board of directors.

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective disposal, as appropriate.

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

All intercompany transactions, balances and unrealised gains on transactions between Group entities are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment on the asset transferred.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

Minority interests represent the portion of profit or loss and net assets of subsidiaries attributable to equity interests that are not owned directly or indirectly through subsidiaries, by the Company. Minority interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement and consolidated statement of comprehensive income as an allocation of the total profit or loss for the year between minority interests and the owners of the Company.

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

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (c) Group accounting *(Continued)*

***Consolidation*** *(Continued)*

On the disposal of subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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

### (d) Foreign currency translation

***Functional and presentation currency***

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

***Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised in other comprehensive income.

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (d) Foreign currency translation *(Continued)*

***Group companies***

The results and financial position of all the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities of foreign operations are translated at the closing rate at the end of reporting period;

(ii) income and expenses of foreign operations are translated at the average exchange rates for the year (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve.

On consolidation, exchange differences recognised in profit or loss of group entities' separate or individual financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign currency transaction exchange reserve. When a foreign operation is sold, such exchange differences are reclassified to the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in foreign currency translation reserve.

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (e) Property, plant and equipment

Property, plant and equipment other than buildings and construction in progress are stated at cost less accumulated depreciation and any impairment losses. The cost of assets comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Buildings are stated in the statement of financial position at their revalued amounts, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the end of reporting period.

Any revaluation increase arising on the revaluation of assets is credited in other comprehensive income and accumulated in asset revaluation reserve within equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such assets is charged to profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset. Any subsequent increases are recognised in profit or loss up to the amount previously charged and thereafter to the asset revaluation reserve.

Upon disposal, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the asset revaluation reserve to retained earnings.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset other than construction in progress over its estimated useful life. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The principal annual rates used for this purpose are as follows:

| | | |
|---|---|---|
| Buildings | : | 4% |
| Leasehold improvements | : | 20% |
| Furniture and fixtures | : | 20% |
| Motor vehicles | : | 20% |
| Vessels | : | 10% |

The gain or loss on disposal or retirement of a property, plant and equipment recognised in profit or loss is the difference between the net sales proceeds and the carrying amount of the relevant asset.

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (f) Construction in progress

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing, if any. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and are available for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in the preceding paragraphs.

### (g) Prepaid lease payment

The cost of acquiring land under an operating lease is amortised on a straight-line basis over the period of the lease term except where the properties are classified as properties under development for sale.

### (h) Investment property

Investment property is property held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property or at its fair value.

After initial recognition, the investment property is stated at its fair value. Changes in fair value of the investment property are included in profit or loss for the period in which they arise.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in profit or loss.

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (i) Intangible assets

***Forest concession rights***

Forest concession licenses acquired by the Group are stated at cost, being the fair value at the date of acquisition in a business combination less accumulated amortisation and any accumulated impairment losses. These licenses give the Group rights to harvest trees in the allocated concession forests in designated area in Guyana.

The costs of forest concession rights include the acreage fees payable to Guyana Forestry Commission, costs of necessary exploratory, geological, geophysical and other research studies incurred prior to obtaining the right.

Forest concession rights are amortised using the units of production method based on the total proven and probable reserves of the total forestry exploitation volume.

### (j) Impairment of tangible and intangible assets excluding goodwill

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (j) Impairment of tangible and intangible assets excluding goodwill *(Continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### (k) Biological assets

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

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

Seedlings that have little biological transformation taken place since initial cost incurrence are stated at cost less any impairment loss.

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (l) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The cost of timber harvested from biological assets is its fair value less costs to sell at the date of harvest, determined in accordance with the accounting policy for biological assets. (Note 3(k)). Any change in value through the date of harvest is recognised in profit or loss.

### (m) Financial assets

Financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. These financial assets are subsequently accounted for as follows, depending on their classification:

#### *(i) Financial assets at fair value through profit or loss*

Financial assets are classified as at fair value through profit or loss where the financial asset is either held for trading or it is designated as at fair value through profit or loss. Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial assets.

#### *(ii) Loans and receivables*

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (m) Financial assets *(Continued)*

#### *(iii) Impairment of financial assets*

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

— significant financial difficulty of the issuer or counterparty; or
— default or delinquency in interest or principal payments; or
— it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

#### *(iv) Effective interest method*

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

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (m) Financial assets *(Continued)*

#### *(v) Derecognition of financial assets*

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

### (n) Financial liabilities and equity instrument issued by the Group

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below:

#### *(i) Equity instruments*

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

#### *(ii) Financial liabilities*

Financial liabilities, including other payables, borrowings and promissory note, are subsequently measured at amortised cost, using the effective interest method.

#### *(iii) Convertible bond*

Convertible bond issued by the Company that contain the liability component, redemption option and equity component are classified separately into respective items on initial recognition. The redemption option represents the Company's option to early redeem before maturity date. At the date of issue, both the liability and redemption option derivative components are recognised at fair value. The fair value of the liability and redemption option derivative components are determined using the prevailing market interest rate of similar non-convertible instruments. The equity component is determined by deducting the amount of the liability and redemption option derivative from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (n) Financial liabilities and equity instrument issued by the Group *(Continued)*

#### *(iii)* ***Convertible bond*** *(Continued)*

In subsequent reporting periods, the liability component of the convertible bond is carried at amortised cost using the effective interest method. The redemption option derivative is measured at fair value with change in fair value recognised in profit or loss. The equity component represented by the option to convert the liability component into ordinary shares of the Company will remain in the convertible bond equity reserve until the conversion option is exercised, in which case, the balance stated in the convertible bond reserve will be transferred to share premium. Where the conversion option remains unexercised at the maturity date, the balance stated in the convertible bond equity reserve will be released to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

#### *(iv)* ***Effective interest method***

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

#### *(v)* ***Derecognition of financial liabilities***

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired.

### (o) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue of disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost, any differences between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

### (q) Taxation

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

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

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

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

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

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (r) Employee benefits

#### *(i) Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### *(ii) Retirement benefits schemes*

The Company's PRC subsidiaries participate in defined contribution retirement schemes organised by the local government authorities in the PRC. All of the PRC employees are entitled to an annual pension equivalent to a fixed portion of their basic salaries at their retirement dates. The Company's PRC subsidiaries are required to contribute certain percentage ranged from 11% to 15% of the basic salaries of their PRC employees to the retirement schemes and have no further obligation for post-retirement benefits. The contributions are charged to profit or loss of the Group as they become payable in accordance with the rules of scheme.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme ("the MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

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

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (r) Employee benefits *(Continued)*

#### *(iii) Share-based payments* (Continued)

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

Equity-settled share-based payments transactions with other parties are measured at the fair value of the goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

### (s) Provision and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (t) Revenue recognition

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

(i) Revenue from sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

(ii) Rental income from operating leases is recognised in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased assets. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

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

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

### (u) Leases

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

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (v) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### (w) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

### (x) Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

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

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charges where useful lives are less than previously technically obsolete or non-strategic assets that have been abandoned or sold.

### (b) Income tax

The Group is subject to income taxes in several jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that are initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

### (c) Estimated impairment of assets

The Group's management tests annually whether assets (including goodwill and forest concession right) have suffered any impairment, in accordance with the accounting policy stated in note 3(j). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Management has not identified any impairment at the end of the reporting period.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### (d) Fair value estimation

The fair value of financial assets through profit or loss is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial assets that are not traded in an active market is determined by using valuation techniques. The Group used a variety of methods and made assumptions that are based on market conditions existing at the end of each reporting period. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purpose is estimated by discounting the future contractual cash flows at the current market rate that is available to the Group for similar financial instruments.

### (e) Fair values of biological assets

Management estimates the current market prices less costs to sell of biological assets at the end of each reporting period with reference to market prices and professional valuations. Un-anticipated volatile changes in market prices of the underlying agricultural produce could significantly affect the fair values of these biological assets and result in fair value re-measurement losses in future accounting periods.

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

### (f) Recoverability of trade receivables

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

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### (g) Net realisable value of inventories

Management reviews the conditions of timber and other inventories at the end of each reporting period, and make allowances for obsolete and slow-moving inventory items identified that are no longer suitable for use in production and/or sales in the market. These estimates are based on current market conditions and the historical experience of selling goods of similar nature. It could change significantly as a result of change in market condition. Management will reassess the estimations at the end of reporting period.

### (h) Amortisation of forest concession rights

Management determines the amortisation policy on forest concession rights by estimating the economic benefits of units of production of timber products from the harvest of timber during the period of concession rights, or the expected useful life of the rights if shorter. The volume of timber that the Group is able to derive future economic benefits from the use of forest concession rights will change significantly as a result of un-anticipated factors that affect the rate and efficiency of harvest. The amortisation expenses in future accounting periods may be adjusted if there are significant changes in those estimates.

## 5. TURNOVER

Turnover represents the net invoiced value of goods sold and rental income earned by the Group. The amounts of each significant category of revenue recognised in turnover during the year are as follows:

| | **2010**<br>***HK$'000*** | 2009<br>*HK$'000* |
|---|---|---|
| Income from timber logging and trading | **11,855** | 12,975 |
| Sales of goods | **5,125** | 4,146 |
| Sales of seedlings | **2,528** | — |
| Sales of tea-oil | **981** | — |
| Gross rental income from cold storage warehouse (before direct outgoings of HK$49,000; 2009: HK$24,000) | **682** | 720 |
| | **21,171** | 17,841 |

## 6. SEGMENT INFORMATION

HKFRS 8 "Operating Segments" replaces HKAS 14 "Segment Reporting" with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires that disclosure of information about the Group's operating segments. It replaces the requirements under HKAS 14 to determine the primary (business) and secondary (geographical) operating segments of the Group. Adoption of this standard did not have any effect on the Group's results of operations or financial position as the Group has determined that the operating segments are substantially the same as the business segments previously identified under HKAS 14.

The Group has four reportable segments. The segments are managed separately as each business offers different products and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

— Timber logging and trading — sales of timber logs from forest concession, tree plantation area and outside suppliers

— Other timber operation — the manufacture and sale of furniture and handicrafts and sales of refined tea-oil

— Property development and asset management

— Cold storage warehouse leasing

Segment assets exclude derivative financial instrument and cash and bank balances and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude deferred tax liabilities, promissory note and convertible bond and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

There was no inter-segment sale or transfer during the year (2009: HK$ Nil). Central revenue and expenses are not allocated to the operating segments as they are not included in the measure of the segments' loss that is used by the chief operating decision makers for assessment of segment performance.

## 6. SEGMENT INFORMATION *(Continued)*

### (a) Reportable Segment

**For the year ended 31 March 2010**

| | Timber logging and trading *HK$'000* | Other timber operation *HK$'000* | Property development and asset management *HK$'000* | Cold storage warehouse leasing *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| REVENUE | | | | | |
| Revenue from external customers | 14,383 | 6,106 | – | 682 | 21,171 |
| Inter-segment revenue | – | – | – | – | – |
| Reportable segment revenue | 14,383 | 6,106 | – | 682 | 21,171 |
| Reportable segment loss | (17,370) | (18,859) | (31,384) | (59) | (67,672) |
| Reportable segment assets | 817,218 | 80,971 | 1,052,288 | 44,900 | 1,995,377 |
| Reportable segment liabilities | (41,514) | (15,555) | (113,907) | (198) | (171,174) |
| **Other segment information** | | | | | |
| Change in fair value of derivative financial instrument | – | – | – | – | 29,820 |
| Gain on change in fair value of investment property | – | – | – | 148 | 148 |
| Gain on change in fair value less costs to sell of biological assets | 4,869 | – | – | – | 4,869 |
| Interest income | 59 | 85 | – | – | 144 |
| Unallocated interest income | | | | | 19 |
| Total interest income | | | | | 163 |

## 6. SEGMENT INFORMATION *(Continued)*

### (a) Reportable Segment *(Continued)*

**For the year ended 31 March 2010** *(Continued)*

| | Timber logging and trading HK$'000 | Other timber operation HK$'000 | Property development and asset management HK$'000 | Cold storage warehouse leasing HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Finance costs | – | – | – | – | 9,633 |
| Depreciation and impairment loss | 3,869 | 2,263 | 1 | 1 | 6,134 |
| Unallocated depreciation | | | | | 4,277 |
| Total depreciation and impairment loss | | | | | 10,411 |
| Amortisation of forest concession rights | 2,214 | – | – | – | 2,214 |
| Release of lease payments for land under operating lease | 623 | – | 32,184 | – | 32,807 |
| Taxation credit | (248) | – | – | – | (248) |
| Additions to non-current assets | 7,729 | 41,055 | 1,082,905 | – | 1,131,689 |
| Unallocated additions to non-current assets | | | | | 14,275 |
| Total additions to non-current assets | | | | | 1,145,964 |

## 6. SEGMENT INFORMATION *(Continued)*

### (a) Reportable Segment *(Continued)*

**For the year ended 31 March 2009**

| | Timber logging and trading HK$'000 | Other timber operation HK$'000 | Cold storage warehouse leasing HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| REVENUE | | | | |
| Revenue from external customers | 12,975 | 4,146 | 720 | 17,841 |
| Inter-segment revenue | – | – | – | – |
| Reportable segment revenue | 12,975 | 4,146 | 720 | 17,841 |
| Reportable segment loss | (43,712) | (7,811) | (369) | (51,892) |
| Reportable segment assets | 846,368 | 34,005 | 37,000 | 917,373 |
| Reportable segment liabilities | (20,630) | (13,337) | (152) | (34,119) |
| **Other segment information** | | | | |
| Loss on change in fair value of investment property | – | – | (5,326) | (5,326) |
| Gain on change in fair value less costs to sell of biological assets | 35,548 | – | – | 35,548 |
| Interest income | 826 | 25 | 7 | 858 |
| Unallocated interest income | | | | 308 |
| Total interest income | | | | 1,166 |
| Finance costs | 264 | 535 | – | 799 |
| Depreciation and impairment loss | 3,886 | 1,431 | 1 | 5,318 |
| Unallocated depreciation | | | | 2,149 |
| Total depreciation and impairment loss | | | | 7,467 |
| Taxation charge | 185 | – | – | 185 |
| Amortisation of forest concession rights | 3,024 | – | – | 3,024 |
| Release of lease payments for land under operating lease | 630 | – | 81 | 711 |
| Additions to non-current assets | 38,587 | 9,507 | – | 48,094 |
| Unallocated additions to non-current assets | | | | 9,719 |
| Total additions of non-current assets | | | | 57,813 |

## 6. SEGMENT INFORMATION *(Continued)*

### (b) Reconciliation of reportable segment loss, assets and liabilities

| | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|
| Loss before taxation | | |
| Reportable segment loss | **(67,672)** | (51,892) |
| Gain/(loss) on change in fair value of investment property | **148** | (5,236) |
| Gain on change in fair value less costs to sell of biological assets | **4,869** | 35,548 |
| Change in fair value of derivative financial instrument | **29,820** | — |
| Other income and other gains or losses | **6,592** | (7,263) |
| Realised gain/(loss) on financial assets at fair value through profit or loss | **729** | (27,529) |
| Unallocated corporate expenses | **(33,876)** | (14,086) |
| Finance costs | **(9,633)** | (799) |
| Consolidated loss before taxation | **(69,023)** | (71,257) |
| Assets | | |
| Reportable segment assets | **1,995,377** | 917,373 |
| Derivative financial instrument | **411,498** | — |
| Cash and bank balances | **19,759** | 132,736 |
| Unallocated corporate assets | **79,551** | 62,803 |
| Consolidated total assets | **2,506,185** | 1,112,912 |
| Liabilities | | |
| Reportable segment liabilities | **171,174** | 34,119 |
| Deferred tax liabilities | **1,574** | 1,574 |
| Promissory note | **237,262** | — |
| Convertible bond | **361,205** | — |
| Unallocated corporate liabilities | **19,169** | 2,828 |
| Consolidated total liabilities | **790,384** | 38,521 |

## 6. SEGMENT INFORMATION *(Continued)*

### (c) Geographical information

The Group operates in four principal geographical areas — the People's Republic of China (excluding Hong Kong) (the PRC), Hong Kong, Australia and Guyana.

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

| | Revenue from external customers | | Non-current assets | |
|---|---|---|---|---|
| | **2010** **HK$'000** | 2009 HK$'000 | **2010** **HK$'000** | 2009 HK$'000 |
| PRC | **8,355** | 7,283 | **1,309,533** | 223,196 |
| Hong Kong | **3,191** | 2,076 | **425,514** | 15,025 |
| Australia | **682** | 720 | **44,900** | 37,000 |
| Guyana | **8,943** | 7,762 | **548,051** | 553,454 |
| | **21,171** | 17,841 | **2,327,998** | 828,675 |

### (d) Information about major customers

The Group's customer base is not diversified and there were two customers with whom transactions have exceeded 10% of the Group's revenues. Revenues from one customer in the timber logging and trading segment was approximately HK$5,536,000 (2009: HK$7,209,000) and another customer from other timber operation was approximately HK$4,134,000 (2009: HK$2,197,000).

## 7. OTHER INCOME AND OTHER GAINS OR LOSSES

Other income and other gains or losses comprises:

| | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|
| Interest income | **163** | 1,166 |
| Exchange gain/(loss), net | **6,453** | (8,081) |
| Loss on fair value changes on financial assets | **—** | (909) |
| Gain on deregistration of a subsidiary | **225** | — |
| Other income | **142** | 120 |
| | **6,983** | (7,704) |

## 8. FINANCE COSTS

| | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|
| Interest on short term borrowings wholly repayable within five years | **—** | 799 |
| Interest expenses on convertible bond maturing within five years | **5,853** | — |
| Interest expenses on promissory note maturing within five years | **3,780** | — |
| | **9,633** | 799 |

## 9. LOSS BEFORE TAXATION

Loss before taxation is stated after charging:

| | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|
| Auditor's remuneration | **1,200** | 980 |
| Depreciation of property, plant and equipment | **10,411** | 7,467 |
| Amortisation of forest concession rights | **2,214** | 3,024 |
| Release of lease payments for land under operating lease | **32,807** | 711 |
| Cost of inventories and timber harvested | **19,528** | 18,696 |
| Staff cost (excluding director's remuneration): | | |
| — Salaries and allowances | **25,437** | 17,970 |
| — Pension fund contributions | **357** | 598 |

*Note:* Salaries and allowances of HK$2,025,000 (2009: HK$2,139,000) has been included in the cost of sales on the face of the consolidated income statement. Also depreciation charge of HK$293,000 (2009: HK$156,000) has been included in cost of sales on the face of the consolidated income statement.

Cost of inventories and timber harvested also included a write-down of inventories of HK$Nil (2009: HK$1,956,000) and net write off of inventories of HK$1,059,000 (2009: HK$2,604,000).

## 10. TAXATION

The taxation (credit)/charge comprises:

| | 2010<br>*HK$'000* | 2009<br>*HK$'000* |
|---|---|---|
| Hong Kong profits tax | — | — |
| PRC enterprise income tax | | |
| — (over)/under provision, in respect of prior years | **(248)** | 185 |
| Taxation (credit)/charge | **(248)** | 185 |

The taxation (credit)/charge for the year can be reconciled to the accounting loss as follows:

| | 2010<br>*HK$'000* | 2009<br>*HK$'000* |
|---|---|---|
| Loss before taxation | **(69,023)** | (71,257) |
| Taxation calculated at 16.5% | **(11,389)** | (11,757) |
| (Over)/under provision in prior years | **(248)** | 185 |
| Net effect of non-taxable/deductible items | **669** | 3,270 |
| Net effect of tax losses and temporary differences not recognised | **14,266** | 19,242 |
| Tax effect on tax exemption granted by PRC tax authority | **(369)** | (6,619) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(3,177)** | (4,136) |
| Taxation (credit)/charge | **(248)** | 185 |

The statutory tax rate for Hong Kong profits tax is 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. No Hong Kong profits tax was made as there was no assessable profits derived for the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The State Council released the Implementation Rules to the Corporate Income Tax Law on 6 December 2007 (the "Implementation Rules"). According to the Implementation Rules, an entity engaged in forestry business is entitled to full exemption from PRC enterprise income tax commencing from 1 January 2008. 樹人木業(大埔)有限公司 and 樹人苗木組培(大埔)有限公司 are qualified as forestry operation enterprise by the local tax authorities and so they are fully exempted from PRC enterprise income tax.

For the year ended 31 March 2010, the statutory corporate income tax rates applicable to all other subsidiaries established and operating in the PRC is 25% (2009: 25%).

## 11. DIRECTORS' REMUNERATION

Details of remuneration of each director are shown below:

**Year ended 31 March 2010**

| Name of director | Fees<br>*HK$'000* | Basic salaries, allowances and other benefits<br>*HK$'000* | Retirement benefit scheme contributions<br>*HK$'000* | Share option based payment<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Fung Tsun Pong | – | 3,600 | 12 | – | 3,612 |
| Lau Sing Hung, Stephen *(i)* | – | 3,000 | 10 | – | 3,010 |
| Tsang Kam Ching, David | – | 1,800 | 12 | – | 1,812 |
| Chow Ki Shui, Louie *(ii)* | – | 1,650 | 11 | – | 1,661 |
| **Independent non-executive directors** | | | | | |
| Yip Tak On | 120 | – | – | – | 120 |
| Jing Baoli | 120 | – | – | – | 120 |
| Bao Liang Ming | 120 | – | – | – | 120 |
| | 360 | 10,050 | 45 | – | 10,455 |

## 11. DIRECTORS' REMUNERATION *(Continued)*

Year ended 31 March 2009

| Name of Director | Fees<br>*HK$'000* | Basic salaries, allowances and other benefits<br>*HK$'000* | Retirement benefit scheme contributions<br>*HK$'000* | Share option based payment<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Fung Tsun Pong | – | 3,600 | 12 | – | 3,612 |
| Lau Sing Hung, Stephen | – | 3,403 | 12 | – | 3,415 |
| Tsang Kam Ching, David | – | 4,300 | 12 | – | 4,312 |
| Chow Ki Shui, Louie | – | 1,800 | 12 | – | 1,812 |
| **Independent non-executive directors** | | | | | |
| Yip Tak On | 120 | – | – | – | 120 |
| Jing Baoli | 120 | – | – | – | 120 |
| Bao Liang Ming | 120 | – | – | – | 120 |
| | 360 | 13,103 | 48 | – | 13,511 |

(i) resigned on 29 January 2010

(ii) resigned on 28 February 2010

During the years ended 31 March 2010 and 2009, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office. There were no arrangements under which a director waived or agreed to waive any remuneration during the current and prior years.

## 12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

During the year, the five highest paid individuals included four (2009: four) directors, details of whose emoluments are set out in Note 11. The emolument paid or payable to the remaining one (2009: one) non-director highest paid individual is as follows:

| | **2010**<br>***HK$'000*** | 2009<br>*HK$'000* |
|---|---|---|
| Salaries and other benefits | **507** | 535 |
| Retirement benefit scheme contributions | **—** | — |
| | **507** | 535 |

The emoluments of the employees are within the following band:

| | **Number of employees** | |
|---|---|---|
| | **2010** | 2009 |
| Nil – HK$1,000,000 | **1** | 1 |

## 13. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The profit attributable to owners of the Company for the year ended 31 March 2010 includes a profit of approximately HK$6,237,000 (2009: loss of HK$38,899,000) which has been dealt with in the financial statements of the Company.

## 14. DIVIDEND

The Directors of the Company do not recommend the payment of a dividend for the year ended 31 March 2010 (2009: $Nil).

Pursuant to a resolution passed at the Directors' meeting on 29 July 2008, a final dividend of equivalent to HK$0.001 per share totalling HK$10,137,000 for the year ended 31 March 2008 was proposed for shareholders' approval at the Annual General Meeting. The dividend had not been provided for in the consolidated financial statements for the year ended 31 March 2008. The dividend was paid during the year ended 31 March 2009.

## 15. LOSS PER SHARE

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

### Loss attributable to owners of the Company

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Loss for the purposes of basic loss per share | **(65,223)** | (67,436) |
| Interest on convertible bond | **5,853** | – |
| Fair value gain on the derivative component of convertible bond | **(29,820)** | – |
| Loss for the purposes of diluted loss per share | **(89,190)** | (67,436) |
| | ***'000*** | *'000* |
| Number of shares | | |
| Weighted average number of ordinary shares for the purposes of basic loss per share | **10,734,514** | 10,137,065 |
| Convertible bond | **839,285** | – |
| Weighted average number of ordinary shares for the purposes of diluted loss per share | **11,573,799** | 10,137,065 |

The computation of diluted loss per share does not assume the exercise of the Company's outstanding warrants as the exercise price of those warrants is higher than the average market price for shares for 2010 and 2009.

## 16. INVESTMENT PROPERTY

| | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|
| Valuation: | | |
| At 1 April | **37,000** | 50,000 |
| Fair value gain/(loss) | **148** | (5,236) |
| Exchange difference | **7,752** | (7,764) |
| At 31 March | **44,900** | 37,000 |

The investment property is held in freehold land outside Hong Kong.

The Group's investment property was revalued at 31 March 2010 by an independent firm of chartered surveyors, LCH (Asia-Pacific) Surveyors Limited. Due to the lack of an established market upon which to base on comparable transactions of actual sales of comparable properties, the investment property has been valued on the basis of its depreciated replacement cost. Depreciated replacement cost is defined as "the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimatisation." The gain from the change in fair value estimated by the valuer on 31 March 2010 amounted to HK$148,000 has been credited to the consolidated income statement for the year ended 31 March 2010 (2009:loss of HK$5,236,000).

## 17. PROPERTY, PLANT AND EQUIPMENT

| Group | Buildings HK$'000 | Leasehold improvements HK$'000 | Furniture, machinery and equipment HK$'000 | Motor vehicles HK$'000 | Vessels HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **Cost or valuation:** | | | | | | | |
| At 1 April 2008 | 13,000 | 445 | 14,189 | 6,274 | – | 33,531 | 67,439 |
| Additions | – | 1,126 | 31,818 | 491 | – | 6,052 | 39,487 |
| Disposal/write off | – | (13) | (251) | – | – | – | (264) |
| Exchange difference | – | 10 | 69 | 110 | – | 726 | 915 |
| At 31 March 2009 | 13,000 | 1,568 | 45,825 | 6,875 | – | 40,309 | 107,577 |
| Additions | – | – | 1,216 | 860 | – | 42,336 | 44,412 |
| Acquisition of subsidiaries *(Note 37)* | – | – | 15 | – | – | 1,583 | 1,598 |
| Disposal/write off | – | (40) | – | – | – | – | (40) |
| Deregistration of a subsidiary | – | – | (31) | – | – | – | (31) |
| Transfer in/(out) | 841 | – | 5,170 | – | 25,216 | (31,227) | – |
| Exchange difference | – | 5 | 50 | 19 | – | 128 | 202 |
| **At 31 March 2010** | **13,841** | **1,533** | **52,245** | **7,754** | **25,216** | **53,129** | **153,718** |
| **Analysis of cost or valuation** | | | | | | | |
| **2010** | | | | | | | |
| **At cost** | **841** | **1,533** | **52,245** | **7,754** | **25,216** | **53,129** | **140,718** |
| **At valuation** | **13,000** | **–** | **–** | **–** | **–** | **–** | **13,000** |
| | **13,841** | **1,533** | **52,245** | **7,754** | **25,216** | **53,129** | **153,718** |
| 2009 | | | | | | | |
| At cost | – | 1,568 | 45,825 | 6,875 | – | 40,309 | 94,577 |
| At valuation | 13,000 | – | – | – | – | – | 13,000 |
| | 13,000 | 1,568 | 45,825 | 6,875 | – | 40,309 | 107,577 |

## 17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

| Group | Buildings HK$'000 | Leasehold improvements HK$'000 | Furniture, machinery and equipment HK$'000 | Motor vehicles HK$'000 | Vessels HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **Accumulated depreciation and impairment:** | | | | | | | |
| At 1 April 2008 | – | 24 | 2,899 | 1,424 | – | – | 4,347 |
| Charge for the year | – | 191 | 6,130 | 1,146 | – | – | 7,467 |
| Disposal/write off | – | (2) | (17) | – | – | – | (19) |
| Exchange difference | – | 1 | (4) | 11 | – | – | 8 |
| At 31 March 2009 | – | 214 | 9,008 | 2,581 | – | – | 11,803 |
| Charge for the year | 520 | 300 | 6,442 | 1,261 | 1,888 | – | 10,411 |
| Deregistration of a subsidiary | | – | (18) | – | – | – | (18) |
| Exchange difference | – | 1 | 18 | 7 | 4 | – | 30 |
| **At 31 March 2010** | **520** | **515** | **15,450** | **3,849** | **1,892** | **–** | **22,226** |
| **Net carrying amount:** | | | | | | | |
| **At 31 March 2010** | **13,321** | **1,018** | **36,795** | **3,905** | **23,324** | **53,129** | **131,492** |
| At 31 March 2009 | 13,000 | 1,354 | 36,817 | 4,294 | – | 40,309 | 95,774 |

The property amounted to HK$13,000,000 held by the Group was revalued at 31 March 2009 at their open market value by reference to an open market value by reference to net rental income allowing for reversionary income potential. The valuation was carried out by an independent firm of chartered surveyors, LCH (Asia-Pacific) Surveyors Limited.

Had this building been carried at cost less accumulated depreciation and accumulated impairment losses, its carrying amount would have been HK$3,114,411 (2009: HK$3,183,620).

## 17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

### The Company

| | Furniture, machinery and equipment *HK$'000* | Motor vehicles *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| **Cost:** | | | |
| At 1 April 2008 | 183 | 150 | 333 |
| Additions | 2 | — | 2 |
| As 31 March 2009 | 185 | 150 | 335 |
| Additions | 8 | — | 8 |
| As 31 March 2010 | 193 | 150 | 343 |
| **Accumulated depreciation:** | | | |
| At 1 April 2008 | 28 | 43 | 71 |
| Charge for the year | 37 | 30 | 67 |
| At 31 March 2009 | 65 | 73 | 138 |
| Charge for the year | 38 | 30 | 68 |
| As 31 March 2010 | 103 | 103 | 206 |
| **Net book value:** | | | |
| **At 31 March 2010** | 90 | 47 | 137 |
| At 31 March 2009 | 120 | 77 | 197 |

## 18. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represent land use rights in the PRC under medium term lease.

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| **Cost:** | | |
| At 1 April | **33,521** | 26,366 |
| Additions | | |
| — acquisition of subsidiaries *(Note 37)* | **1,082,905** | — |
| — from the People's Government of Da Bu County | **—** | 6,198 |
| — others | **—** | 1,173 |
| Exchange difference | **(627)** | 495 |
| Release to profit or loss | **(32,807)** | (711) |
| At 31 March | **1,082,992** | 33,521 |
| Classified as current portion | **704** | 711 |
| Classified as non-current portion | **1,082,288** | 32,810 |

At 31 March 2010, certain prepaid lease payment of the Group with a net book value of approximately HK$2,786,000 was pledged to secure the bank loan granted to the Group (Note 32).

The Company's newly acquired subsidiary, Yichang Xinshougang Property Development Company Limited ("Yichang Xinshougang") (Note 37) owns the land use rights of a parcel of land situated in Meiziya Village, Yiling District, Yichang City, Hubei Province, the PRC and are held on lease of between 40 to 70 years (the "Land"). The Land was acquired for the development of the Yichang Three Gorges International Convention Centre, the Three Gorges State Guest House and the Three Gorges State Guest Garden Commercial Property.

Pursuant to a Contract for the Grant of State-owned Land Use Rights dated 29 December 2006 (the "Land Use Rights Contract") made between Yichang Xinshougang and the Bureau of Land Resource Yiling Autonomous County(宜昌市夷陵區國土資源局)and a subsequent supplemental contract dated 29 December 2006, if the construction works for the development of the Land, is not commenced by Yichang Xinshougang before the time limit of 30 June 2007 as stipulated in the Land Use Rights Contract and such delay exceeded the time limit by over one year, Yichang Xinshougang would be subject to a penalty of RMB22,434,000 for land idling. In addition, if the construction works have not commenced by Yichang Xinshouggang and the date stipulated is exceeded by over two years, the Bureau of Land Resource could repossess the land use right without compensation. So far, the Bureau of Land Resource Yiling Autonomous County(宜昌市夷陵區國土資源局)has not issued any demand letter for payment of such penalty or repossession of the land use rights to Yichang Xinshougang.

## 18. PREPAID LEASE PAYMENTS *(Continued)*

Yichang Xinshougang conducted the ceremony for commencement of construction works on 27 May 2008 which was broadly reported by the press. On 30 November 2009, Yichang Xinshougang had obtained the permission to commence the phase 1 site formation works for the property development project from The Committee of New Developing Area of Yiling District of Yichang City (宜昌市夷陵區發展新區指揮部). Work has already commenced as at the end of the reporting period.

Pursuant to Yichang Urban Planning Bureau (宜昌市規劃局) planning meeting held on 30 June 2010, Yichang Urban Planning Bureau approved the development design plan and alterations thereon. Pursuant to Yichang Urban Planning Bureau of Yiling District (宜昌市夷陵區規劃局) planning meeting held on 8 July 2010, the detailed overall development plan and the development design plan of the property development project have also been approved. The approval documents will be obtained at the end of July 2010.

In view of the above, the directors of the Company consider that it is not probable for the local government to claim penalty for land idling or repossess the land use rights and no provision for penalty has been made during the year.

## 19. BIOLOGICAL ASSETS

| | Seedlings<br>*HK$'000* | Standing trees<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|
| At 1 April 2008 | 1,521 | 21,085 | 22,606 |
| Additions at fair value (at cost of approximately HK$2,962,000 plus fair value gain at recognition of approximately HK$13,000,000) | 1,703 | 14,259 | 15,962 |
| Plantation expenditure incurred | 8,243 | 2,712 | 10,955 |
| Reclassification | 4,696 | (4,696) | — |
| Direct sales | (329) | — | (329) |
| Change in fair value less costs to sell | — | 22,548 | 22,548 |
| Exchange difference | 135 | 73 | 208 |
| At 31 March 2009 | 15,969 | 55,981 | 71,950 |
| Plantation expenditure incurred | 17,947 | 700 | 18,647 |
| Reclassification | 296 | (296) | — |
| Direct sales | (1,426) | (142) | (1,568) |
| Change in fair value less costs to sell | — | 4,869 | 4,869 |
| Exchange difference | 52 | 64 | 116 |
| At 31 March 2010 | 32,838 | 61,176 | 94,014 |

## 19. BIOLOGICAL ASSETS *(Continued)*

The Group's biological assets are located in the People's Republic of China. Standing trees are planted on leasehold land of approximately 94,500 (2009: 94,500) Chinese Mu with 50 years term, expiring in 2057. The Group has entered into a binding agreement with the People's Government of Da Bu County for acquisition of not less than 500,000 Chinese Mu of forest land and its biological assets. Details of the transaction are disclosed in Note 38 to the financial statements.

During the year ended 31 March 2010, the Group did not harvest or sell any round logs (2009: Nil).

The Group's standing trees were independently valued by LCH (Asia-Pacific) Surveyors Limited (the "Valuer"). The Valuer has adopted market value approach for the valuation of standing trees. The method uses the current market price per unit cubic meter of round logs and the total merchantable volume of timber in the forest at 31 March 2010 as basis for estimating the fair value less costs to sell of the Group. The principal assumptions adopted are as follows:

— the Group is to produce round logs and;

— the factors of natural defects in the wood such as physical defects, rots and directions of grain have been allowed for a recovery rate of 70% for the valuation.

Seedlings are carried at cost as little biological transformation has taken place since initial cost incurrence. The cost of seedlings is therefore not materially different from their fair values as at 31 March 2010 and 2009 as determined by the directors of the Company.

## 20. FOREST CONCESSION RIGHTS

The Forest Concession Rights in Guyana is stated at cost less accumulated amortisation and any accumulated impairment losses. The costs of Forest Concession Right include the acreage fees payable to Guyana Forestry Commission, costs of necessary exploration, geological, geophysical and other research studies incurred prior to obtaining the rights.

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| **Valuation:** | | |
| At 1 April | **534,475** | 534,479 |
| Exchange difference | **(24)** | (4) |
| At 31 March | **534,451** | 534,475 |
| **Accumulated amortisation:** | | |
| At 1 April | **3,692** | 668 |
| Amortisation for the year | **2,214** | 3,024 |
| At 31 March | **5,906** | 3,692 |
| **Net carrying amount:** | | |
| At 31 March | **528,545** | 530,783 |

## 20. FORESTS CONCESSION RIGHTS *(Continued)*

**Forest concession rights held by Jaling Forest Industries Inc. ("Jaling Concession Rights"), a subsidiary of the Company**

On 22 August 2003 Jaling Forest Industries Inc. ("Jaling") was granted a State Forest Exploratory Permit (1/2003) by the Commissioner of Forests, the Guyana Forestry Commission, to carry out exploratory work on an area of 167,000 hectares (approximately 412,000 acres) for a period of 3 years. Pursuant to the Timber Sales Agreement (TSA 02/2005) dated 25 January 2005, Jaling was granted with an exclusive timber concession right by the Commissioner of Forests, the Guyana Forestry Commission for a period of 25 years, commencing on 25 January 2005 and until 24 January 2030 (both dates inclusive) to occupy, cut and remove timber from an area of approximately 136,900 hectares (approximately 338,000 acres) in the State Forest of Guyana, South America, which include a block (Block A) based on the natural surrounding and is bounded on the North by the Amakura River, on the South by the Baramita Amerindian Reserves and Whana River, on the East by the Whannamaparu and Whana River, and on the West by the common border of Guyana and Venezuela. It lies within the Northwest border of Guyana, South America and another block (Block B) is bounded on the North by WCL 6/93, on the South by the Kaituma River, (TSA 04/91-BCL) and Sebai River, on the East by the Aruka River and Sebai Amerindian Reserves and on the West by Sand Creek and Waiamu River, being the concession boundary of BCL-TSA 04/91. Under the Jaling Concession Rights, Jaling shall pay a total acreage fee of approximately HK$9,000,000 charged on all forestry area as prescribed by the Forest Act and Regulations of Guyana. In addition, based on a letter dated 23 November 2004 issued by the Commissioner of Forests, the Guyana Forestry Commission has committed in principle to find an additional area in the proximity of the current concession which would compensate more or less to the area that was exercised and bring the total concession acreage as close as possible to the original 167,000 hectares (approximately 412,000 acres) at terms same as the Forest Concession Rights.

The logging operation in Block B has been completed during the year and will shift the logging operation to Block A in near future.

**Forest concession rights held by Garner Forest Industries Inc. ("Garner Concession Rights"), a subsidiary of the Company**

On 18 August 2004, Garner Forest Industries Inc. ("Garner") was granted a State Forest Exploratory permit (3/2004) by the Commissioner of Forests, the Guyana Forestry Commission, to carry out exploratory work on an area of 90,469 hectares (approximately 223,552 acres) for a period of 3 years. Pursuant to the Timber Sales Agreement (TSA 03/2005) dated 11 June 2005, Garner was granted with an exclusive concession right by the Commissioner of Forests, the Guyana Forestry Commission for a period of 25 years, commencing on 11 June 2005 and until 10 June 2030 (both dates inclusive) to occupy, cut and remove timber from an area of approximately 92,737 hectares (approximately 229,158 acres) in the State Forest of Guyana, South America, which includes a block located on the left bank of Mazaruni River, right bank of Puruni River, left bank of Putareng River of Guyana, South America. Under the Garner Concession Rights, Garner shall pay a total acreage fee of approximately HK$5,375,000 charged on all forestry area as prescribed by the Forest Act and Regulations of Guyana. Garner has completed the necessary exploratory studies and obtained the Garner Concession Rights.

## 20. FOREST CONCESSION RIGHTS *(Continued)*

For the purpose of impairment testing, the forest concession rights were independently valued by LCH (Asia-Pacific) Surveyors Limited (the "Valuer") using the market value approach for the valuation of standing trees. The method uses the current market price per unit cubic meter of round logs and the total merchantable volume of timber in the forest at 31 March 2010 as the basis for estimating the fair value less costs to sell of the standing trees. The principal assumptions adopted are as follows:

— the Group is to produce round logs;

— the annual growth rate have been allowed for reasonable rate for the valuation;

— the total volume of logs for Jaling Concession Rights and Garner Concession Rights were 2.78 million cu.m and 1.94 million cu.m respectively as at 31 March 2010;

— the price of logs are homogenous and the average price for all species is applicable;

— the round logs are free from all encumbrances, restrictions and outgoings of an onerous nature which could affect its value; and

— the factors of natural defects in the wood such as physical defects, rots and directions of grain have been allowed for reasonable recovery rate for the valuation.

Based on the valuation report, as at 31 March 2010, no impairment was required.

Amortisation is provided to write off the cost of the forest concession rights using the units of production method based on the proven and probable timber resources.

Amortisation charged for the year ended 31 March 2010 represents the cost of logged timbers harvested from the Jaling Concession Rights. No logging activity has been taken place from the Garner Concession Rights.

## 21. PREPAYMENTS FOR ACQUISITION OF PLANTATION ASSETS AND EQUIPMENT

The prepayments primarily comprise(i) payments to the People's Government of Da Bu County for acquisition of plantation assets appropriate for the Group (further details are set out in Note 38) and (ii) deposits paid for the acquisition of equipment by the Group.

## 22. INTERESTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at cost | **10** | 10 |
| Due from subsidiaries | **1,850,855** | 899,530 |
| | **1,850,865** | 899,540 |
| *Less:* Impairment losses | **(27,100)** | (27,100) |
| | **1,823,765** | 872,440 |

Particulars of the Company's subsidiaries as at 31 March 2010 are set out in Note 45 to the financial statements.

Amounts due from subsidiaries are unsecured, non-interest bearing and in substance represent the Company's interest in the subsidiaries in the form of quasi-equity loans. The amounts are not expected to be settled within the next twelve months.

An allowance for amounts due from subsidiaries of HK$27,100,000 (2009: HK$27,100,000) was recognised as at 31 March 2010 because the balances due from subsidiaries with reference to the net assets value of the respective subsidiaries were estimated to be less than their carrying amounts. Accordingly, the carrying amount of the related investment costs and amounts due from them is reduced to their recoverable amounts.

## 23. DERIVATIVE FINANCIAL INSTRUMENT

Derivative financial instrument represents the fair value of the Company's option to early redeem in convertible bond issued by the Company on 9 February 2010. The fair value of the early redemption option is calculated using the Binomial Option Pricing Model. The inputs into the model were as follows:

| | **At 31 March 2010** | **At issue date** |
|---|---|---|
| Redemption price | HK$0.56 | HK$0.56 |
| Expected volatility *(note a)* | 80% | 88% |
| Expected life *(note b)* | 2.87 years | 3 years |
| Risk free rate *(note c)* | 1.182% | 0.93% |

*Notes:*

(a) Expected volatility was determined by calculating the historical volatility of the Company's share price cover the period same as the remaining life of convertible bond before date of valuation.

(b) Expected life was the expected remaining life of the respective options.

(c) The risk free rate is determined by reference to the HKMA Exchange Fund Notes rate at date of valuation.

During the year, HK$29,820,000 was recognised as a change in fair value of derivative financial instrument (Note 35).

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

| | **Group and Company** | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Trading securities | | |
| — Listed equity securities in Hong Kong | **–** | 882 |
| Market value of listed securities | **–** | 882 |

The investments above represented investments in listed equity securities that offered the Group the opportunity for return through dividend income and fair value gains. They had fixed maturity or coupon rate. The fair values of these securities were based on quoted market prices.

## 25. INVENTORIES

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Raw materials | **68,099** | 105,913 | **–** | – |
| Work in progress | **45,713** | 8,022 | **–** | – |
| Finished goods | **12,937** | 4,334 | **–** | – |
| Timber logs and products | **1,897** | 2,334 | **–** | – |
| | **128,646** | 120,603 | **–** | – |

At 31 March 2009, raw materials included timber logs and roots with a net realisable value of HK$76,160,190, were purchased for a high-end business operation commenced subsequent to 31 March 2009.

The cost of inventories recognised as an expenses during the year was HK$19,528,000 (2009: HK$18,696,000) which included a write down of HK$Nil (2009: HK$1,956,000) to state inventories at their net realisable value and a net write off of un-useable inventories of HK$1,059,000 (2009: HK$2,604,000).

## 26. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Trade receivables | **2,903** | 5,733 | **–** | – |
| Other receivables | **5,566** | 2,812 | **–** | 6 |
| Deposits paid | **2,285** | 1,498 | **388** | 389 |
| Prepayment | **18,324** | 19,262 | **875** | 756 |
| | **29,078** | 29,305 | **1,263** | 1,151 |

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally two months, extending up to over three months or more for major customers. 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.

## 26. TRADE AND OTHER RECEIVABLES *(Continued)*

Details of the ageing analysis of trade receivables of the Group are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Outstanding balances aged: | | | | |
| 0 to 30 days | **2,015** | 537 | **–** | – |
| 31 to 60 days | **451** | 353 | **–** | – |
| 61 to 180 days | **52** | 4,843 | **–** | – |
| Over 180 days | **385** | – | **–** | – |
| | **2,903** | 5,733 | **–** | – |

At 31 March 2009 and 2010, all of the Group's trade receivables were neither past due nor impaired which related to customers for whom there was no recent history of default. Consequently, no allowance for doubtful debts was recognised therefor at the end of reporting period.

Included in trade receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Renminbi | **85** | 3,963 | **–** | – |
| United States dollars | **2,818** | 1,770 | **–** | – |
| | **2,903** | 5,733 | **–** | – |

## 27. CASH AND BANK BALANCES

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Cash and bank balances | **19,759** | 132,736 | **801** | 42,677 |

Cash and bank balances were denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Hong Kong dollars | **2,826** | 53,541 | **790** | 42,666 |
| Renminbi ("RMB") | **15,861** | 78,121 | **—** | — |
| United States dollars | **885** | 553 | **11** | 11 |
| Australian dollars | **176** | 189 | **—** | — |
| Guyana dollars | **11** | 332 | **—** | — |
| | **19,759** | 132,736 | **801** | 42,677 |

The RMB is not freely convertible into other currencies, however, under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits were made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates.

## 28. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Trade payables | **2,256** | 5,294 | **—** | — |
| Other payables and accruals | **39,872** | 6,073 | **9,847** | 1,417 |
| Deposit received from a customer | **3,542** | — | **—** | — |
| Purchase consideration payable | **5,108** | — | **5,108** | — |
| | **50,778** | 11,367 | **14,955** | 1,417 |

Details of the ageing analysis of trade payables of the Group are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Outstanding balances aged: | | | | |
| 0 to 30 days | **1,543** | 3,640 | **—** | — |
| 31 to 60 days | **—** | 261 | **—** | — |
| 61 to 180 days | **698** | 1,393 | **—** | — |
| Over 180 days | **15** | — | **—** | — |
| | **2,256** | 5,294 | **—** | — |

Trade and other payables were denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Hong Kong dollars | **30,283** | 1,392 | **14,955** | 1,417 |
| Renminbi | **18,345** | 9,273 | **—** | — |
| United States dollars | **1,946** | 551 | **—** | — |
| Australian dollars | **204** | 151 | **—** | — |
| | **50,778** | 11,367 | **14,955** | 1,417 |

## 29. PROMISSORY NOTE

On 9 February 2010, the Company issued HK$280,000,000 promissory note in connection with the acquisition of subsidiaries (Note 37). The promissory note is repayable by 14 quarterly instalments of HK$20,000,000 each with the interest accrued thereon payable on the last day of every three months after the issue of the promissory note. The promissory note bears coupon interests at 1.5% per annum payable quarterly. The Company may, by giving prior written notice to the noteholder, repay in whole or in part the outstanding promissory note (in the multiples of HK$20,000,000) at any time and from time to time after the date of issue of the promissory note. The fair value of promissory note is HK$233,482,000, as at the issue date, based on the professional valuation performed by LCH (Asia-Pacific) Surveyors Limited. The effective interest rate of the promissory note is determined to be 11.82% per annum.

The movement on the promissory note is as follows:

| | ***HK$'000*** |
|---|---|
| Issue of promissory note during the year | **233,482** |
| Interest expense *(Note 8)* | **3,780** |
| Carrying value as at 31 March 2010 | **237,262** |
| *Less:* current portion | **(59,930)** |
| Non-current portion | **177,332** |

## 30. DEFERRED GOVERNMENT GRANT

| | *HK$'000* |
|---|---|
| At 1 April 2009 | – |
| Additions | 6,886 |
| Acquisition of subsidiaries *(Note 37)* | 114,308 |
| Amount released to profit or loss | (338) |
| Exchange difference | (70) |
| As 31 March 2010 | 120,786 |
| Analysed for reporting purposes as: | |
| Current liabilities | 8,915 |
| Non-current liabilities | 111,871 |
| | 120,786 |

## 30. DEFERRED GOVERNMENT GRANT *(Continued)*

(i) The Company's newly acquired subsidiary, Yichang Xinshougang received a government grant of approximately RMB105,326,000 (equivalent to HK$119,987,000) in 2007 in the form of a foregivable payable on the partial land premium in respect of a piece of land situated in Yichang City, Hubei, the PRC.

Pursuant to the Land Use Rights Contract and the supplemental contract, Yichang Xinshougang had committed to invest approximately RMB650 million (equivalent to HK$740 million) to develop this piece of land during 2007. As Yichang Xinshougang obtained the legal title of the land in March 2007, the government grant was recorded since that date.

The government grant is amortised over the estimated useful lives of the above land.

(ii) The Company's subsidiary received a government grant of approximately RMB6,045,000 (equivalent to HK$6,886,000) for the development of tea-oil production located in Xing Ning, the PRC.

The government grant is to be amortised on a systematic basis according to the volume of production when the production of tea-oil begins and income is generated. No amortisation was charged for the year ended 31 March 2010 as production had not been commenced at the end of reporting period.

## 31. AMOUNT DUE TO A DIRECTOR

The amount due to a director is unsecured, interest free and repayable on demand.

## 32. BORROWINGS

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Interest bearing | | |
| Secured — bank loan *(i)* | **5,696** | — |
| Unsecured — other loan *(ii)* | **—** | 14,212 |
| | **5,696** | 14,212 |

At 31 March 2010, total current bank loan and other borrowings were repayable as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| On demand or within one year included in current liabilities | **5,696** | 14,212 |

*(i)* The bank loan is secured by the Group's prepaid lease payment (Note 18), interest bearing at 6.1065% per annum and is repayable within one year.

*(ii)* The other borrowings were unsecured, interest bearing ranging from 7.2% to 8.4% per annum, and were repayable within one year and fully settled in August 2009.

## 33. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries were unsecured, interest free and repayable within the next twelve months after the reporting period.

## 34. DEFERRED TAX LIABILITIES

The movements in deferred tax assets and liabilities recognised on revaluation of properties during current and prior years were as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| At 31 March | **1,574** | 1,574 |

Deferred income tax assets were recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK$114,578,000 (2009: HK$86,102,000) to be carried forward for offset against future taxable income which included tax losses of HK$39,755,000 (2009: HK$18,550,000) may be carried forward against future taxable income for a period of five years in accordance with the PRC tax law. The remaining tax losses may be carried forward indefinitely.

## 35. CONVERTIBLE BOND

On 9 February 2010, the Company issued redeemable convertible bond with a principal amount of HK$470,000,000 in connection with the acquisition of subsidiaries (Note 37). The bond carried coupon interest rate of 2.15% per annum, which shall be payable by the Company upon conversion or redemption of the bond.

The bond entitles the holders to convert to ordinary shares of the Company at an initial conversion price of HK$0.056 per conversion share (subject to the normal adjustments in accordance with the terms of the convertible bond) at any time during the period commencing from date of issue of convertible bond.

Unless previous redeemed or converted or purchased and cancelled by the Company, the Company shall redeem any outstanding convertible bond at the principal amount together with accrued interest on the maturity date which is the date falling three years after the issuing date.

The Company may at any time prior to the maturity date of the convertible bond to redeem the whole or any relevant part of the outstanding bond together with interest accrued by giving to the bondholders 10 days' notice of its intention to make such redemption.

## 35. CONVERTIBLE BOND *(Continued)*

The Company determined the fair value of the embedded early redemption option component and liability component based on the valuations performed by LCH (Asia-Pacific) Surveyors Limited using discounted cash flow approach. The effective interest rate is 12.08%. The residual amount was assigned as the equity component for the conversion option and was included in the convertible bond reserve of the Company and the Group.

The liability component is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption.

The movement of different components of the convertible bond during the year is set out below:

| | Liability component *HK$'000* | Early redemption option component *HK$'000* | Equity component *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| Issue of convertible bond during the year | 355,352 | (381,678) | 435,064 | 408,738 |
| Interest expense *(Note 8)* | 5,853 | — | — | 5,853 |
| Change in the fair value *(Note 23)* | — | (29,820) | — | (29,820) |
| At 31 March 2010 | 361,205 | (411,498) | 435,064 | 384,771 |

## 36. SHARE CAPITAL

| | | **2010** | | 2009 | |
|---|---|---|---|---|---|
| | *Note* | **Number of shares** ***'000*** | **Amount** ***HK$'000*** | Number of shares *'000* | Amount *HK$'000* |
| Authorised: | | | | | |
| Ordinary shares of HK$0.01 each | | | | | |
| At 1 April | | **20,000,000** | **200,000** | 20,000,000 | 200,000 |
| Increase during the year | *(a)* | **10,000,000** | **100,000** | — | — |
| At 31 March | | **30,000,000** | **300,000** | 20,000,000 | 200,000 |
| Issued and fully paid: | | | | | |
| Ordinary shares of HK$0.01 each | | | | | |
| At 1 April | | **10,137,065** | **101,370** | 10,137,065 | 101,370 |
| Issue of new shares for acquisition of subsidiaries *(Note 37)* | *(b)* | **4,275,862** | **42,759** | — | — |
| At 31 March | | **14,412,927** | **144,129** | 10,137,065 | 101,370 |

## 36. SHARE CAPITAL *(Continued)*

*Note:*

**(a) Authorised share capital**

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 28 August 2009, the authorised ordinary share capital of the Company was increased from HK$200,000,000 divided into 20,000,000,000 shares of a par value of HK$0.01 each to HK$300,000,000 shares of a par value of HK$0.01 each by the creation of an additional 10,000,000,000 new shares of a par value of HK$0.01 each.

**(b) Acquisition of subsidiaries**

On 9 February 2010, 4,275,862,068 new ordinary shares of HK$0.01 each were issued at HK$0.0637 per share as settlement of the part of the consideration for the acquisition of subsidiaries in the PRC. Details were disclosed in the circular of the Company dated 23 December 2009.

All these new ordinary shares rank pari passu in all respects with the existing shares of the Company.

## 37. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES

On 8 February 2010, the Group acquired a piece of land located in the PRC and its related assets and liabilities from China Alliance International Holding Group Limited ("China Alliance"), which is an independent third party at a fair value consideration of HK$964,461,000. The acquisition was made by way of acquisition of (i) the 100% equity interests in Shoukong (Beijing) Management Consulting Company Limited (首控（北京）管理咨詢有限公司) ("Shoukong Management") and its subsidiary – Yichang Xinshougang Property Development Company Limited (宜昌新首鋼房地產開發有限公司) ("Yichang Xinshougang") and (ii) the shareholder's advance owned by Shoukong Management to China Alliance (the "China Alliance's Loan"). This transaction has been reflected as a purchase of assets and liabilities. Further details are set out in the Company's circular dated 23 December 2009.

The consideration was satisfied by (i) HK$50,000,000 in cash; (ii) issue and allotment of 4,275,862,068 shares of the Company; (iii) issue of convertible bond with a principal amount of HK$470,000,000 by the Company; and (iv) issue of promissory note with a principal amount of HK$280,000,000 by the Company.

## 37. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES *(Continued)*

Details of the fair value of net assets acquired are as follows:

| | Note | 2010<br>HK$'000 |
|---|---|---|
| Net assets acquired: | | |
| Property, plant and equipment | *17* | 1,598 |
| Prepaid lease payments | *18* | 1,082,905 |
| Other receivables | | 40 |
| Cash and cash equivalents | | 51 |
| Other payables | | (2,778) |
| The China Alliance's Loan | | (155,389) |
| Deferred government grant | *30* | (114,308) |
| | | 812,119 |
| *Add:* Assignment of the China Alliance's Loan | | 155,389 |
| | | 967,508 |
| Consideration satisfied by: | | |
| Cash paid | | 44,892 |
| Cost directly attributable to the acquisition | | 3,047 |
| Shares of the Company *(Note)* | | 272,241 |
| Convertible bond — at fair value *(Note 35)* | | 408,738 |
| Promissory note — at fair value *(Note 29)* | | 233,482 |
| Remaining cash balance payable to China Alliance *(Note 28)* | | 5,108 |
| Total consideration | | 967,508 |

*Note:* The value of the 4,275,862,068 shares issued (Note 36) as part of the consideration was determined with reference the fair value of the assets and liabilities acquired after deducting the cash paid and the fair values of the convertible bond and promissory note issued. Out of the total value of shares of HK$272,241,000, HK$42,759,000 was credited to share capital and the remaining balance of HK$229,482,000 was credited to share premium account.

| | |
|---|---|
| Net cash outflow arising on acquisition: | |
| Consideration paid in cash | (44,892) |
| Cost directly attributable to the acquisition | (3,047) |
| Cash and cash equivalents acquired | 51 |
| Total consideration | (47,888) |

## 37. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES *(Continued)*

Shoukong Management is an investment holding company and Yichang Xinshougang has just commenced the property development activities and therefore Shoukong Management and Yichang Xinshougang have not contributed any amount to the Group's turnover during the year. Shoukong Management and Yichang Xinshougang contributed HK$31,828,000 in total to the consolidated loss since the acquisition date. If the acquisition had occurred on 1 April 2009, the loss of the Group for the year would have been HK$38,569,000.

## 38. ACQUISITION OF PLANTATION ASSETS

(a) On 15 October 2007, 樹人木業（大埔）有限公司, a wholly owned subsidiary of the Company, entered into a legally binding agreement with the People's Government of Da Bu County ("Binding Agreement"), an independent third party of the Company, engaging it to arrange and procure the acquisition of the Leasehold Interest in not less than 500,000 Chinese Mu of forest land and its biological assets. The total consideration is expected to be not more than RMB150 million (equivalent to approximately HK$170,880,000). The terms shall be prescribed in the formally signed sale and purchase agreement to be entered into with leaseholders by the Company. Under the Binding Agreement, the Company is also required to pay a one-off arrangement fee of RMB2,500,000 (equivalent to approximately HK$2,779,000) to the People's Government of Da Bu County. The Group's commitment is disclosed in Note 42.

As at 31 March 2009, the Group paid RMB70 million (equivalent to HK$79.5 million) to the People's Government of Da Bu County. During the year, the Group receive a refund of RMB11 million (equivalent to HK$12.5 million) from the Peoples' Government Da Bu County because of the failure in granting forest land over the last two years. In aggregate, the Group paid RMB59 million (equivalent to HK$67.2 million) as at 31 March 2010. According to the Binding Agreement, these payments should represent the cost of acquisition of forest land together with biological assets for an area of approximately 197,000 Chinese Mu and 233,000 Chinese Mu at 31 March 2010 and 31 March 2009 respectively.

However, as at 31 March 2010 and 2009, the Group was only granted with forestry ownership for an area of approximately 94,500 (2009: 94,500) Chinese Mu, so the attributed cost of acquisition of biological assets and land use rights of HK$33.9 million (2009: HK$33.8 million) in total was recognised and the remaining balance was included in prepayments under non-current assets. During the year, the People's Government of Da Bu County is actively in selecting suitable forest land for the Group and management assessed that the prepayments made is fully recoverable.

## 38. ACQUISITION OF PLANTATION ASSETS *(Continued)*

(a) *(Continued)*

Details of the cost for acquisition of the biological assets and land use rights attributable from the above prepayments were illustrated as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Acquisition of land use rights *(note i)* | **26,810** | 26,723 |
| Acquisition of biological assets *(note ii)* | **7,090** | 7,068 |
| | **33,900** | 33,791 |
| Cash paid | **67,213** | 79,486 |
| Prepayments | **33,313** | 45,695 |

*Notes:*

The above movements for the year ended 31 March 2010 represents:

(i) The amount of approximately HK$87,000 (2009: HK$434,000) represented the exchange difference for the year.

(ii) The amount of approximately HK$22,000 (2009: HK$124,000) represented the exchange difference for the year.

## 39. SHARE OPTIONS

The Share Option Scheme adopted on 16 July 2004 shall remain in force for 10 years from the adoption date unless otherwise terminated or amended.

The exercise price of the options shall be determined by the Directors of the Company, but may at least the highest of (i) the Stock Exchange closing price of the Company's share on the date of the grant of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the grant of the share options; and (iii) the nominal value of an ordinary share. The maximum number of shares in respect of which options may be granted under the New Share Option Scheme shall not exceed 10 % of the issued share capital of the Company from time to time.

During the year ended 31 March 2009, 6,000,000 share options granted in prior year were lapsed.

## 39. SHARE OPTIONS *(Continued)*

The following table shows the movement of the Company's share options during the year ended 31 March 2009:

| Date of share options granted | Outstanding at the beginning of the period | Number of share option granted | Number of share options exercised during the period | Number of share options lapsed during the period | Number of share options outstanding at the end of the period | Exercise price *(HK$)* | Exercise period |
|---|---|---|---|---|---|---|---|
| 24 October 2007 | 6,000,000 | – | – | (6,000,000) | – | 0.35 | 24 October 2007 to 24 October 2008 |

In assessing the theoretical aggregate value of the share options granted and fully accepted during the year ended 31 March 2008, the result of Black-Scholes option pricing model performed by an independent valuer, LCH (Asia-Pacific) Surveyors Limited, was used. In total, approximately HK$855,000 was recognised as share-based payment expenses in that year.

*Notes:*

According to the Black-Scholes option pricing model, the fair value of the options was estimated at HK$855,000 as at 24 October 2007 (when the options were granted) with the following variables and assumptions:

| | |
|---|---|
| — Risk Free Interest Rate: | 3.27%, being the approximate yield of the 4-year Exchange Fund Note trade on 6 June 2006 |
| — Expected Volatility: | 104.08%, being the annualised standard deviation of the continuously compounded rates of return on the share prices of three other comparable listed Hong Kong companies with similar business operations |
| — Expected Life of the Options: | 1 year from the date of granting |
| — Share Price at Grant Date: | HK$0.35 |
| — Expected Dividends: | Nil |

No share options were granted, exercised nor lapsed during the year ended 31 March 2010 and 2009.

## 40. OPERATING LEASE COMMITMENTS

The Group leases its office properties and plantation sites, under operating lease arrangements. Lease for properties is negotiated for terms for one to eight years. Leases for plantation sites are negotiated for terms for 5 to 10 years.

At 31 March 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **2,117** | 2,749 |
| In the second to fifth years, inclusive | **2,392** | 6,563 |
| After five years | **410** | 407 |
| | **4,919** | 9,719 |

## 41. GRANT OF THE EQUITY LINE OF CREDIT TO THE COMPANY AND ISSUE OF WARRANTS

On 5 January 2010, the Company entered into the Equity Line of Credit Agreement ("Agreement") with GEM Global Yield Fund Limited ("GEM Global") and GEM Investment Advisors, Inc. ("GEMIA"), pursuant to which the Company has been granted an option to require GEM Global to subscribe for up to HK$300 million worth of shares of the Company structured under the Equity Line of Credit during the commitment period (the "Option")and the 1,000 million warrants of the Company. On 19 January 2010, the Company, GEM Global and GEMIA further entered into the Amendment Deed. Further details are set out in the Company's circular dated on 22 January 2010.

The Option is exercisable by the Company during the commitment period commencing on (and including) the date of the Agreement and expiring upon the earlier of (i) the third anniversary of the date of the Agreement, and (ii) the date on which the Equity Line of Credit has been fully utilised by the Company by way of allotting and issuing shares (the "Option Shares")for total issue price equals to the total commitment amount (i.e. HK$300 million) upon exercising the Option in full.

The Company shall exercise any part of the Option by serving a drawdown notice and specifying the proposed number of the Option Shares thereunder. GEM Global shall respond to any drawdown notice by delivering a closing notice, which shall set out, inter alia, the final number of Option Shares to be subscribed by, and allotted and issued to, the GEM Global or any other subscribers procured by it on the closing date.

On 8 February 2010, the Company issued a total of 1,000 million warrants at nil consideration at an exercise price of HK$0.23 per warrant share (subject to adjustment pursuant to the conditions to GEM Global) pursuant to the Agreement.

## 41. GRANT OF THE EQUITY LINE OF CREDIT TO THE COMPANY AND ISSUE OF WARRANTS *(Continued)*

The movement of the warrants during the year is set out below:

| Date of grant | Exercise period | Subscription price | Balance as at 1 April 2009 '000 | Granted during the year '000 | Utilised during the year '000 | Balance as at 31 March 2010 '000 |
|---|---|---|---|---|---|---|
| 8 February 2010 | 8 February 2010 to 8 February 2013 | HK$0.23 | — | 1,000,000 | — | 1,000,000 |

During the year no warrants were utilised to subscribe for the shares of the Company.

The Company shall pay GEMIA a commitment fee of HK$6,000,000, which equal to 2% of the total commitment amount of HK$300 million and shall be payable by the Company (i) on or before the first anniversary of the date of the Agreement, or (ii) on the Company's receipt or deemed receipt of the proceeds resulting from the first closing notice to be issued by GEM Global to the Company, whichever is earlier. The commitment fee payable was recognised at 31 March 2010 as the Group considered that condition (i) was fulfilled. The commitment fee is capitalised in trade and other receivables and will be deducted from proceeds received from issuing equity instruments.

## 42. CAPITAL COMMITMENTS

Capital commitments outstanding at 31 March 2010 and 2009 not provided for in the financial statements were as follows:

| | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|
| Contracted but not provided for | | |
| — acquisition of plantation assets *(note i)* | **103,667** | 90,841 |
| — acquisition of property, plant and equipment and land use right | **29,948** | 10,024 |
| | **133,615** | 100,865 |

*Notes:*

(i) As disclosed in Note 38 to the financial statements, the Group entered into the Binding Agreement for a consideration of not more than approximately HK$170,880,000, of which deposit of approximately HK$67,213,000 had been paid and the remaining balance of approximately HK$103,667,000 had not been provided for.

## 43. CONTINGENT LIABILITIES

The Group's operations are regulated by various laws and regulations in Guyana. Guyana laws and regulations for the protection of the environment and wild life have generally become more stringent in recent years and could become more stringent in future. Some of these laws and regulations could impose significant costs, expenses, penalties and liabilities on the Group. The financial position of the Group may be adversely affected by any environmental liabilities which may be imposed under such new environmental laws and regulations. The directors are not aware of any environmental liabilities as at the end of the reporting period and up to the date of this report. The directors are also not aware of any violation to existing conditions attached to the Group's timber concession right, or subject to any significant costs, expenses, penalties and liabilities.

## 44. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

Members of key management during the year comprised the directors whose remuneration is set out in Note 11 to the financial statements.

## 45. PARTICULARS OF SUBSIDIARIES

| Name | Place of incorporation and operation | Issued and fully paid share capital/ registered capital | Proportion of ownership interest<br>Held by the company*/ subsidiaries<br>% | Proportion of ownership interest<br>Attributable to the Group<br>% | Principal activity |
|---|---|---|---|---|---|
| Allied National Ltd | British Virgin Islands/ Hong Kong | US$1 share | 100* | 100 | Investment holding |
| Australian Service Cold Storage (N.S.W.) Pty Ltd | Australia | A$2,500,002 shares | 100 | 100 | Dormant |
| Seapower Resources Australia Pty Ltd | Australia | A$700,002 shares | 100 | 100 | Investment holding |
| Seapower Resources Gosford Pty Ltd | Australia | A$4,200,002 shares | 100 | 100 | Cold storage warehousing |

| Name | Place of incorporation and operation | Issued and fully paid share capital/ registered capital | Proportion of ownership interest<br>Held by the company*/ subsidiaries<br>% | <br>Attributable to the Group<br>% | Principal activity |
|---|---|---|---|---|---|
| Triumph Kind Investment Limited | Hong Kong | HK$1 share | 100* | 100 | Investment in property |
| Wide Forest Limited | Hong Kong | HK$1 share | 100* | 100 | Investment holding |
| Seapower Resources Investment Pty Ltd | Australia | A$2,000,002shares | 100 | 100 | Investment holding |
| Seapower Investment (China) Limited | Hong Kong | HK$10,000 shares | 100* | 100 | Investment holding |
| Jaling Forest Industries Inc. | Guyana | G$500,000 shares | 95 | 95 | Timber logging |
| Garner Forest Industries Inc. | Guyana | G$100,000 shares | 100 | 100 | Timber logging |
| W&J Forest Resources Development Limited | Hong Kong | HK$10,000 shares | 95 | 90.25 | Deregistered in July 2010 |
| Glory Success Trading Limited | Hong Kong | HK$10 shares | 100* | 100 | Timber log trading and manufacturing of furniture |
| Vastrich Corporation Limited | Hong Kong | HK$1 share | 100* | 100 | Investment holding |
| Triumph Max Investment Limited | Hong Kong | HK$100 share | 100* | 100 | Investment holding |
| Smart Fancy (China) Limited | Hong Kong | HK$1 share | 100* | 100 | Investment holding |
| China Timber Maritime Limited | British Virgin Islands | HK$20,000,000 | 65 | 65 | Construction of barges |
| 樹人木業(深圳)有限公司 | People's Republic of China | RMB43,773,024 | 100 | 100 | Timber log trading, manufacturing and sale of furniture and handicrafts |
| 廣州樹人裝修設計有限公司 | People's Republic of China | RMB1,000,00 | 100 | 100 | Deregistered in June 2010 |

## 45. PARTICULARS OF SUBSIDIARIES *(Continued)*

| Name | Place of incorporation and operation | Issued and fully paid share capital/ registered capital | Proportion of ownership interest: Held by the company*/ subsidiaries % | Proportion of ownership interest: Attributable to the Group % | Principal activity |
|---|---|---|---|---|---|
| 樹人木業(大埔)有限公司 | People's Republic of China | RMB102,175,000 | 100 | 100 | Forest operation, timber logging and tree plantation |
| 樹人苗木組培(大埔)有限公司 | People's Republic of China | RMB4,721,500 | 100 | 100 | Plantation and trading of seedling |
| 東莞樹人木業有限公司 | People's Republic of China | RMB153,673,000 | 100 | 100 | Investment holding |
| Unisea Wood Development Inc. | Guyana | G$10,000 | 100* | 100 | Dormant |
| 中國國際資源控股集團有限公司 (Formerly known as Afforce Limited) | Hong Kong | HK$1 share | 100* | 100 | Investment holding |
| 興寧樹人木業有限公司 | People's Republic of China | RMB30,000,000 | 100 | 100 | Production and sale of tea-oil |
| Bondwell International Group Limited | British Virgin Islands | US$1 share | 100* | 100 | Investment holding |
| Best Idea International Investment Limited | British Virgin Islands | US$1 share | 100* | 100 | Investment holding |
| 首控(北京)管理咨詢有限公司 | People's Republic of China | RMB2,000,000 | 100 | 100 | Investment holding |
| 宜昌新首鋼房地產開發有限公司 | People's Republic of China | RMB20,000,000 | 100 | 100 | Property development and asset management |
| 陽東縣樹人木業有限公司 | People's Republic of China | RMB1,000,000 | 100 | 100 | Processing and manufacturing of timber products |
| China Solartronics Technology Limited | Hong Kong | HK$1 share | 100* | 100 | Dormant |

## 46. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's business and financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and market risk. These risks are limited by the Group's financial management policies and practices described below.

### (a) Interest rate risk

The Group's fair value interest-rate risk mainly arises from bank loan, convertible bond and promissory note as disclosed in Notes 32, 35 and 29 respectively. Bank loan, convertible bond and promissory note were issued at fixed rates which expose the Group to fair value interest-rate risk. The Group has no cash flow interest-rate risk as there are no borrowings which bear floating interest rates. The Group has not used any financial instruments to hedge potential fluctuations in interest rates.

The following table details the interest rate profile of the Group's fixed rate borrowings at the end of the reporting period.

| | Group | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| | **Effective interest rate** | | Effective interest rate | |
| | ***(%)*** | ***HK$'000*** | *(%)* | *HK$'000* |
| Fixed rate borrowings | | | | |
| Bank loan | **6.1065** | **5,696** | – | – |
| Convertible bond | **12.08** | **361,205** | – | – |
| Promissory note | **11.82** | **237,262** | – | – |
| | | **604,163** | | – |

The following table details the interest rate profile of the Group's variable rate bank balances at the end of reporting period.

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Effective interest rate** | | Effective interest rate | |
| | **%** | ***HK'000*** | % | HK'000 |
| Variable rate cash and bank balances | **0.854** | **19,060** | 0.549 | 83,290 |

At 31 March 2010, it was estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's loss after taxation and increase/decrease the retained profits by approximately HK$190,600 (2009: HK$832,900).

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 March 2010*

## 46. FINANCIAL RISK MANAGEMENT *(Continued)*

### (b) Foreign currency risk

The group companies mainly operated in their local jurisdiction with most of the transactions settled in their functional currency of the operation and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

### (c) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade receivables. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At the end of reporting period, the Group has a certain concentration of credit risk as 69% (2009: 37%) and 97% (2009: 93%) of the total trade receivables was due from the Group's largest customer and the three largest customers.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 26.

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

## 46. FINANCIAL RISK MANAGEMENT *(Continued)*

### (d) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

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

| The Group | Carrying amount<br>*HK$'000* | Total contractual undiscounted cash flow<br>*HK$'000* | Within 1 year or on demand<br>*HK$'000* | More than 1 year but less than 2 years<br>*HK$'000* | More than 2 years but less than 5 years<br>*HK$'000* | More than 5 years<br>*HK$'000* |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| Trade and other payables | 50,778 | 50,778 | 50,778 | – | – | – |
| Promissory note | 237,262 | 287,875 | 83,750 | 82,550 | 121,575 | – |
| Amount due to a director | 2,000 | 2,000 | 2,000 | – | – | – |
| Borrowings | 5,696 | 5,696 | 5,696 | – | – | – |
| Convertible bond | 361,205 | 500,315 | – | – | 500,315 | – |
| Acreage fees payable | 11,083 | 11,083 | 519 | 519 | 1,557 | 8,488 |
| | 668,024 | 857,747 | 142,743 | 83,069 | 623,447 | 8,488 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| 2009 | | | | | | |
| Trade and other payables | 11,367 | 11,367 | 11,367 | – | – | – |
| Borrowings | 14,212 | 14,212 | 14,212 | – | – | – |
| Acreage fees payable | 11,368 | 11,368 | 519 | 519 | 1,557 | 8,773 |
| | 36,947 | 36,947 | 26,098 | 519 | 1,557 | 8,773 |

## 46. FINANCIAL RISK MANAGEMENT *(Continued)*

### (d) Liquidity risk *(Continued)*

| The Company | Carrying amount *HK$'000* | Total contractual undiscounted cash flow *HK$'000* | Within 1 year or on demand *HK$'000* | More than 1 year but less than 2 years *HK$'000* | More than 2 years but less than 5 years *HK$'000* | More than 5 years *HK$'000* |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| Trade and other payables | **14,955** | **14,955** | **14,955** | **–** | **–** | **–** |
| Promissory note | **237,262** | **287,875** | **83,750** | **82,550** | **121,575** | **–** |
| Amount due to a director | **2,000** | **2,000** | **2,000** | **–** | **–** | **–** |
| Convertible bond | **361,205** | **500,315** | **–** | **–** | **500,315** | **–** |
| | **615,422** | **805,145** | **100,705** | **82,550** | **621,890** | **–** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| 2009 | | | | | | |
| Trade and other payables | 1,417 | 1,417 | 1,417 | – | – | – |
| Amounts due to subsidiaries | 1,430 | 1,430 | 1,430 | – | – | – |
| | 2,847 | 2,847 | 2,847 | – | – | – |

### (e) Market risk

The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of derivative or other financial liabilities of the Group. At the end of reporting period, the Group is exposed to this risk through the early redemption option attached to the convertible bond issued by the Company as disclosed in Note 35.

***Sensitivity analysis***

The sensitivity analysis on equity price risk includes the Group's financial instruments, which fair value or future cash flow will fluctuate because of changes in their corresponding or underlying asset's equity price. If the prices of the respective equity instruments had been 10% higher/lower, loss after tax would decrease/increase by HK$63,912,000 and other component of equity would increase/decrease by HK$63,912,000.

## 47. CAPITAL RISK MANAGEMENT

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

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total liabilities divided by total assets. The gearing ratios at 31 March 2010 and 2009 are as follows:

| | **2010**<br>***HK$*** | 2009<br>*HK$* |
|---|---|---|
| Total liabilities | **790,384** | 38,521 |
| Total assets | **2,506,185** | 1,112,912 |
| Gearing ratio | **31.5%** | 3.5% |

## 48. NATURE RISK

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

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

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

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 March 2010 and 2009 may be categorised as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Financial assets** | | |
| Fair value through profit or loss — held for trading | **—** | 882 |
| Derivative financial instrument | **411,498** | — |
| Loans and receivables (including cash and bank balances) | **30,513** | 142,779 |
| **Financial liabilities** | | |
| Financial liabilities measured at amortised cost | **788,810** | 36,947 |

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

The fair value of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for option derivatives.

(b) The following table provides an analysis of financial instruments carried at fair value by level of fair value hierarchy:

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| **31 March 2010** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Assets | | | | |
| Derivative financial instrument | — | 411,498 | — | 411,498 |

# SUMMARY OF FINANCIAL INFORMATION

The summarised consolidated results, assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements of the Group, were set out below:

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | **2010** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| **RESULTS** | | | | | |
| Turnover | 4,129 | 10,380 | 33,382 | 17,841 | **21,171** |
| (Loss)/profit from operations | (13,171) | (13,975) | 19,445 | (70,458) | **(59,390)** |
| Finance costs | (406) | (426) | — | (799) | **(9,633)** |
| (Loss)/profit before taxation | (13,577) | (14,401) | 19,445 | (71,257) | **(69,023)** |
| Taxation | — | (434) | 346 | (185) | **248** |
| (Loss)/profit for the year | (13,577) | (14,835) | 19,791 | (71,442) | **(68,775)** |
| Attributable to: | | | | | |
| Owners of the Company | (13,577) | (14,245) | 21,211 | (67,436) | **(65,223)** |
| Minority interests | — | (590) | (1,420) | (4,006) | **(3,552)** |
| | (13,577) | (14,835) | 19,791 | (71,442) | **(68,775)** |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | 67,550 | 330,438 | 1,193,081 | 1,112,912 | **2,506,185** |
| Total liabilities | (7,133) | (105,215) | (43,356) | (38,521) | **(790,384)** |
| Minority interests | — | (128,926) | (26,839) | (22,971) | **(19,884)** |
| **Shareholders' funds** | 60,417 | 96,297 | 1,122,886 | 1,051,420 | **1,695,917** |

# PARTICULARS OF THE GROUP'S MAJOR PROPERTIES

## 1. PROPERTIES HELD FOR THE GROUP'S OWN USE

### (a) Leasehold building and prepaid lease payments

| Location | Lease expiry | Approximate gross floor area *(sq. m)* | Attributable interest to the Group % |
|---|---|---|---|
| Level 7, Xinruike Building, Futian Trade Zone, Futian District, Shenzhen, The PRC | 2,051 | 2,736.75 | 100 |

### (b) Leasehold land and prepaid lease payments

| Location | Lease expiry | Approximate gross floor area *(sq. m)* | Attributable interest to the Group % |
|---|---|---|---|
| Meiziya Village Xiaoxita Yiling District Yichang City Hubei Province The People's Republic of China | The property is subject to a right to use land till 28 December 2046 for commercial, tourism and convention purpose and till 28 December 2076 for residential purpose | 587,726.09 | 100 |

## 2. PROPERTY HELD FOR RENTAL PURPOSE

### Cold storage warehouse — investment property

| Location | Lease expiry | Approximate gross floor area *(sq. m)* | Attributable interest to the Group % |
|---|---|---|---|
| Central Coast Cold Storage Lots 120 Racecourse Road West Gosford, New South Wales, Australia | Freehold | 10,520 | 100 |