GREENHEART GROUP LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 94)

ANNUAL REPORT 2011

Greenheart Group
綠森集團
always growing

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Corporate Information

BOARD OF DIRECTORS

William Judson Martin* *(Chairman, Chief Executive Officer and President)*
Hui Tung Wah, Samuel*
Simon Murray#
Chan Tak Yuen, Allen#
(resigned on 29 August 2011)
Wong Che Keung, Richard**
Tong Yee Yung, Joseph**
Wong Kin Chi**

* *Executive Director*
\# *Non-executive Director*
** *Independent non-executive Director*

AUDIT COMMITTEE

Wong Che Keung, Richard *(Chairman)*
Tong Yee Yung, Joseph
Wong Kin Chi

REMUNERATION COMMITTEE

Tong Yee Yung, Joseph *(Chairman)*
Wong Che Keung, Richard
Wong Kin Chi

NOMINATION COMMITTEE

Tong Yee Yung, Joseph *(Chairman)*
Wong Che Keung, Richard
Wong Kin Chi

COMPANY SECRETARY

Tse Nga Ying

AUTHORIZED REPRESENTATIVES

William Judson Martin
Tse Nga Ying

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

STOCK CODE

94

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

16/F, Dah Sing Financial Centre
108 Gloucester Road, Wanchai
Hong Kong
Tel: (852) 2877 2989
Fax: (852) 2511 8998

INDEPENDENT AUDITORS

Ernst & Young

SOLICITORS

Baker & McKenzie
Sit, Fung, Kwong & Shum
Michael Li & Co.

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
China Construction Bank (Asia) Corporation Limited

PRINCIPAL SHARE REGISTRAR & TRANSFER OFFICE IN BERMUDA

HSBC Bank Bermuda Limited
6 Front Street
Hamilton HM 11
Bermuda

BRANCH SHARE REGISTRAR & TRANSFER OFFICE IN HONG KONG

Tricor Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

WEBSITE

http://www.greenheartgroup.com

INVESTOR RELATIONS

info@greenheartgroup.com

Letter to Shareholders

Dear Greenheart shareholders,

"Taking Root" was the message in our 2010 Annual Report, a year of change – in ownership, in strategy and most importantly, in people. In 2011, we acted on the changes made, developing the core management team to acquire, operate and market our hardwood and softwood forest assets. Despite the volatility we have seen in our share price, the Company's operations have grown steadily and positively. Our revenue growth is a reflection of our operating strategy; a dependable and stable softwood business in New Zealand, a developing sustainable hardwood operation in Suriname with high growth potential in both cases supplying sustainable timber to China and other markets around the world. This year, we will focus on our core fundamentals, improving the bottom line as well as continuing the growth in the top.

In New Zealand, we ramped up our operations quickly, harvesting nearly 350,000 cubic meters to capitalize on the growing demand in China for radiata pine contributing US$38.5 million to our revenue and positive operating cashflow. We are now one of the largest exporters from the Northland region of New Zealand and we aim to continue ramping up our harvesting level as demand continues to grow, in China as well as other markets such as India and South Korea.

In Suriname, we increased our concessions and cutting rights under management from approximately 184,000 hectares to more than 400,000 hectares, making us the largest forestry company in the country. Our strategy in Suriname is to continue increasing our concessions under management, particularly in areas contiguous to our current concessions and cutting rights and fully utilize the world-class processing facilities we have built and continue to build in West Suriname. By focusing on wood processing in the West and Central operations and log harvesting in the East, we can fully utilize our processing facilities and maximize our returns. The experience and systems we have developed in the West will also provide valuable experience and knowledge for when we start to construct processing facilities in the East concessions which we currently plan for in the coming year.

In Hong Kong, we moved to a larger corporate office and added experienced and qualified personnel with a focus on financial prudency, corporate governance and transparent communications with our shareholders. We also recruited an international team of world-class foresters who now lead our operations, sales, marketing and acquisition strategy.

Market transparency has been a key topic for public companies this year and Greenheart has taken the opportunity to become more transparent than ever. In addition to a week-long trip to Suriname with prominent international institutions and analysts, we continue to report and provide regular updates of our operations, marketing and developments.

Letter to Shareholders

As part of our commitment to being a responsible company, we partnered and invested into key projects including support for Suriname's agency for Climate Change and academic studies with a top European university on improving the efficiency of sustainable forestry. We also created Greenheart Housing & Construction, a project dedicated to providing timber for the construction of low-cost homes in Suriname. In Hong Kong, we were awarded the Caring Company Logo by the Hong Kong Council of Social Service in recognition of our contributions to the community, employees and environment. In 2012, we aim to create the Greenheart University, a global initiative to develop the understanding of sustainable forestry through education, training and targeted investment for our people and communities.

Due to factors beyond our control, it has been a very difficult year for our employees, customers and shareholders. In response, we have continued to implement our long-term strategy growing our asset base using limited investment capital, expanding our New Zealand operations to a remarkable level from virtually nothing a year ago, constructing our wood processing plants in Suriname and adding the best of human resources in all regions and over all disciplines to manage the Company. Our key principals are safety, environment and sustainability and this sits level with our focus on profitability, cost and growth. All of this effort is in preparation for what we believe to be a very bright future for Greenheart.

We would like to thank all our employees, customers and shareholders for their support and we look forward to the years ahead.

Executive Management Committee

W. Judson Martin	*Chairman, CEO and Executive Director*
Andrew Fyfe	*Chief Operating Officer*
Tse Nga Ying	*Chief Financial Officer*

Management Discussion and Analysis

BUSINESS REVIEW

We are pleased to report that Greenheart Group Limited ("Greenheart" or the "Company", together with its subsidiaries, the "Group") continued to grow its operations during the year ended 31 December 2011 (the "Year") and recorded strong revenue and gross profit growth throughout the entire Year. Total revenue of the Group was HK$326,984,000 for the Year, representing an 18 times increase from HK$17,031,000 in the previous year. The significant growth in revenue was primarily attributable to the inclusion of sales generated from the softwood radiata pine plantations in New Zealand acquired by us in 2011 (the "Acquired Business" or "New Zealand Acquisition" or "New Zealand Plantation"), which amounted to HK$300,655,000 for the Year. The New Zealand Plantation was acquired by the Group on 31 March 2011 and consists of approximately 13,000 hectares of freehold land, including approximately 11,000 hectares of softwood radiata pine plantations. In view that the New Zealand Plantation continues to be controlled by Sino-Forest Corporation ("Sino-Forest"), the ultimate holding company of the Company, prior and post-acquisition (through its majority shareholding in the Company), and subsequently the contribution from the New Zealand Plantation for the Year has therefore been reflected in the Group's combined financial statements for the entire Year. As the New Zealand Plantation came under Sino-Forest control in October 2010, the comparative figures in the consolidated statement of comprehensive income for last year are required to be restated. Revenue contributed from our existing Suriname operations also increased by HK$8,787,000 to HK$25,501,000 for the Year from HK$16,714,000 in the previous year. The revenue growth was mainly attributable to the increase in our Suriname export logs volume and the sale of timber products in 2011. The Group also commenced trading of logs and timber products during the Year which contributed revenue of HK$828,000.

The Group's gross profit for the Year was approximately HK$154,784,000, representing a 17 times increase from approximately HK$8,597,000 in the previous year. The gross profit contribution made by the Group's New Zealand radiata pine and Suriname tropical hardwood business for the Year is HK$143,938,000 (2010: gross loss of HK$211,000) and HK$10,595,000 (2010: HK$8,808,000), respectively. In addition to our New Zealand radiata pine and Suriname tropical hardwood businesses, the Group also commenced logs and timber products trading business during the Year. The gross profit for the Group's log and timber products trading business is approximately HK$251,000 for the Year. The significant increase in the Group's gross profit was mainly attributable to the increase in sales of approximately 353,000 cubic meters of New Zealand radiata pine and sales of approximately 2,000 cubic meters of logs, 1,150 cubic meters of sawn timber and 51,600 units of processed wood pallets from our Suriname concessions during the Year.

The Group's gross profit margin for the Year was approximately 47.3% as compared to 50.5% in the previous year. The gross profit margin for the Group's New Zealand radiata pine and Suriname tropical hardwood for the Year is 47.9% and 41.5%, respectively. The slight decrease of the Group's gross profit margin for the Year is mainly because approximately 91.9% of sales in 2011 are from New Zealand radiata pine which contributed a lower gross profit margin compared to the Group's gross profit margin in the previous year.

Management Discussion and Analysis

Other income and gains amounted to HK$8,414,000 for the Year, represented an increase of HK$6,120,000 compared with HK$2,294,000 in the previous year. The increase was mainly attributable to the increase in bank interest income by approximately HK$2,223,000 as a result of greater average cash and bank balances retained throughout the Year and the write-back of certain long outstanding other payables of HK2,190,000.

The fair value gain on plantation forest assets for the Year is primarily attributable to the biological growth of tree crops during the Year. The fair value gain on plantation forest assets increased by HK$22,045,000 to HK$45,641,000 compared with 2010; this was largely due to changes in harvest schedules, log prices, forest maturity and the grading of logs supplied to New Zealand domestic suppliers based on the actual operating experience gained in 2011.

Selling and distribution costs mainly represented trucking, barging and export handling expenses from the sales of our Suriname logs and timber products as well as ocean freight and logistics related costs incurred from the sale of our New Zealand radiata pine. The significant increase was mainly attributable to ocean freight charges from the sales of New Zealand radiata pine of HK$79,959,000, which were sold on a cost, insurance and freight basis.

Administrative expenses increased by HK$39,815,000 to HK$91,100,000 during the Year. The increase was primarily attributable to one-off legal and professional fees and compliance fees of approximately HK$9,603,000 incurred for certain legal consultation services, due-diligence reviews on potential investments and regulatory compliance. The increase also resulted from the increase of the salary expenses of HK$8,105,000, rent and rates of HK$1,874,000, recruitment charges of HK$814,000 and travelling and staff welfare charges of HK$4,564,000 etc. Such increases reflect the Group's expansion, particularly in its hiring of experienced corporate and operating staff in Hong Kong and Suriname in order to facilitate the Group's growth plans, the engagement of professionals and consultants to support the Group's corporate development, and the increase in rental and other expenses resulting from the relocation of the Company's corporate head office in Hong Kong during the Year.

Other operating expenses mainly represented the provision of a short term loan to a potential investee of HK$7,410,000 (2010: Nil), a write-down of inventories to net realizable value of HK$5,874,000 (2010: HK$5,564,000), loss on disposal of items of property, plant and equipment of HK$2,426,000 (2010: HK$2,328,000) and impairment of goodwill arising from the acquisition of a subsidiary of HK$1,301,000 (2010: Nil). The remaining expenses recorded in the Year mainly represented costs and expenses incurred for the expansion of operations in East Suriname and the construction of a central log patio to store our logs in West Suriname. We also increased the utilization of the existing sawmill with the construction of new wood processing facilities, a new mechanical workshop and new improved living quarters at the Group's forest camp and a new head-office in Paramaribo, the capital city of Suriname. The development of our processing capabilities allows the Group to achieve greater profitability through higher value products with greater access to new markets. Other operating expenses also include preparations towards full scale operation in West Suriname in 2012 and commitments to achieve Forest Stewardship Council ("FSC") accreditation.

Share option expenses incurred for the Year of HK$4,934,000 were non-cash in nature, represented the amortization of the fair value of the share options granted by the Company during the Year relating to contractual arrangements with senior managers required to implement the Company's growth plans.

Finance costs increased from HK$17,675,000 to HK$30,949,000 for the Year which represented the interest expenses incurred for the convertible bonds with a total principal amount of approximately HK$195,000,000 (equivalent to US$25,000,000, as restated) issued in August 2010, bearing an effective interest rate of approximately 11.2% per annum. These convertible notes bear a coupon rate of 5% per annum, representing an actual coupon of HK$9,750,000 for the Year. The increase in finance costs was mainly attributable to the rise in effective interest rate as the interest expenses incurred in the previous year related to the convertible bonds with a total principal amount of HK$237,000,000 issued in November 2007 bearing an effective interest rate of only 4% per annum and which were fully converted into new ordinary shares of the Company in September 2010. Finance costs also included certain finance lease interest expenses of HK$225,000 (2010: Nil) as a result of the hire-purchase arrangements entered for certain forestry equipment that are essential for the expansion of Suriname's operation.

The share of loss of an associate of HK$1,667,000 recorded in the last year represented our share of the operational loss of an associate. The associate was fully disposed of in September 2010.

Management Discussion and Analysis

The tax charge for the Year mainly represented deferred tax arising from the revaluation of our plantation forest assets and other timing differences arising from our operations in New Zealand and Suriname of HK$12,338,000 (2010: HK$3,898,000, as restated). The remaining credits recorded in the Year mainly represented the effect of foreign exchange differences on income tax payable and deferred tax liabilities during the Year.

The Group has made considerable progress this year as evidenced by the increase in the Group's revenue. The Group increased its concessions and cutting rights under management in Suriname by over 200,000 hectares in the Year and remains committed to the necessary investment into processing facilities, infrastructure and key operational personnel. The Group believes in the long-term strategic value in these investments although in the short term they contributed to the loss attributable to the equity holders of the Company of HK$74,343,000.

LIQUIDITY AND FINANCIAL REVIEW

As at 31 December 2011, the Group's current assets and current liabilities were HK$373,646,000 and HK$75,637,000, respectively (2010: HK$637,461,000 and HK$448,305,000 respectively, as restated), of which the Group maintained cash and bank balances of approximately HK$285,018,000 (2010: HK$613,704,000, as restated) and pledged bank deposits of HK$20,118,000 (2010: Nil). The Group's outstanding borrowings as at 31 December 2011 represented the loan from Sino-Forest amounting to HK$312,000,000 (2010: HK$396,617,000, as restated) and finance lease payables of HK$33,708,000 (2010: Nil). Accordingly, the Group's gearing ratio, which was calculated on the basis of outstanding borrowings (excluding the convertible bonds) as a percentage of equity attributable to equity holders of the Company, was 32.2% (2010: 38.6%, as restated).

During the Year, a total of 96,494,952 new ordinary shares were issued to Sino-Capital Global Inc. ("Sino-Capital"), the immediate holding company of the Company, as part of the consideration paid for the New Zealand Acquisition which subsequently increased Sino-Forest's indirect shareholding in the Company to 63.55%. As at 31 December 2011, there were 779,724,104 ordinary shares of the Company in issue.

The Group adopts conservative treasury policies in cash and financial management. Cash is generally placed in short-term deposits mostly denominated in United States dollars and Hong Kong dollars. The Group's liquidity and financing requirements are reviewed regularly.

Most of our sales are denominated in the United States dollar, to which the Hong Kong dollar is pegged and is the same currency in which the Group's all outstanding borrowings, majority costs and expenses incurred in Hong Kong and Suriname are denominated. The domestic sales generated from our New Zealand plantation assets are denominated in New Zealand dollars which can help to partly offset the Group's operating expenses payable in New Zealand dollars. During the Year, the Group did not use any financial instruments for hedging purposes and the Group did not have any hedging instruments outstanding as at 31 December 2011. However, we will continue to closely monitor all possible exchange rate risk arising from the Group's existing operations and new investments in the future and will implement the necessary hedging arrangement(s) to mitigate any significant foreign exchange exposure.

PROSPECTS

China's timber deficit continues to grow despite a recent tightening of monetary policies and RISI, a leading information provider for the global forest products industry, still maintains its timber deficit forecast of 182 million cubic meters by 2015. The China National Housing and Urban-Rural Development announced that more than 14 million units of affordable housing will be under construction by the end of 2012 which has driven the demand for highly competitive New Zealand radiata pine and a move away from more expensive supply from Russia. According to The International Tropical Timber Organization, China log imports increased approximately 23.2% in 2011 compared to 2010 with an increase of 38.8% in New Zealand radiata pine. Radiata pine prices also reached a historical high of US$162 per cubic meters for A-grade logs at cost and freight prices. While the tightening of monetary policy is expected to slow construction, the versatile use of radiata pine in other products such as appearance grade plywood and furniture means that China demand is likely to remain steady throughout this year.

Agrifax, a leading provider of independent information for New Zealand's forestry sector, reports that India is the fastest growing softwood log market after China and is expected to overtake Korea during 2012 as New Zealand's second largest log export market. Furthermore, India is one of the world's largest hardwood importers. Greenheart has already commenced smaller shipments of softwood to India and will be increasing sales and marketing of both radiata pine and tropical hardwood later this year. Marketing to Korea, which is the second largest radiata pine log importer, has also begun with shipments expected later in 2012.

Management Discussion and Analysis

Tropical hardwood prices and demand have remained stable throughout the year and are generally not as susceptible to price volatility due to a small and diminishing global supply. In 2012 we are looking to expand our hardwood log export markets in Europe and other Asian countries. As we build our processing facilities and work towards FSC certification, our markets will diversify from Asia, to Europe, the United States, Central and South America and the Middle East. Due to the decreasing supply of hardwood logs and lumber from South East Asia and Africa, interest has grown steadily for log and lumber exports from the Guiana's, and particularly Suriname. We aim to achieve Controlled Wood status within the first half of 2012 and full FSC certification in the first half of 2013. This increases the prices of our products as well as opens new markets and customers.

In 2012, our strategy is to remain robust and leverage the favorable market dynamics. We will diversify our radiata pine customer base and regions and increase our harvesting to meet demand. We will also continue to build our hardwood processing facilities and grow our concessions under management in order to position ourselves as a future key supplier of sustainable tropical hardwood.

DIVIDEND

The Board has resolved not to recommend any dividend for the year ended 31 December 2011.

CAPITAL EXPENDITURE

During the Year, the Group spent approximately HK$163,545,000 (2010: approximately HK$116,430,000, as restated) on acquisition of items of property, plant and equipment.

BUSINESS ACQUISITION AND DISPOSAL

On 7 January 2011, the Company entered into a sale and purchase agreement with Sino-Capital and Sino-Forest, whereby the Company has conditionally agreed to purchase the entire equity interest in Mega Harvest International Limited ("Mega Harvest") from Sino-Capital, together with its shareholder's loan at a maximum consideration of approximately HK$288,600,000 (equivalent to US$37,000,000). Mega Harvest is an investment holding company incorporated in the British Virgin Islands, which owns the New Zealand Plantation. The acquisition was completed on 31 March 2011.

Save as disclosed above, the Group had no other material business acquisitions or disposals for the year ended 31 December 2011.

CONTINGENT LIABILITIES

As at 31 December 2011, the Group did not have any significant contingent liabilities (2010: Nil).

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2011, the number of employees of the Group was 273 (2010: 214). Employees' cost (including Directors' emoluments) amounted to approximately HK$42,401,000 for the year ended 31 December 2011. Remuneration of the employees includes salary and discretionary bonus which is based on the Group's results and individual performance. Medical and retirement benefits schemes are made available to all levels of personnel.

Biographical Details of Directors and Senior Management

DIRECTORS

Mr. William Judson Martin, aged 56, is the chairman, chief executive officer of the Company, an executive Director and a member of the Executive Management Committee of the Company. He is a director of several subsidiaries of the Company. He joined the Board of the Company in August 2010. Mr. Martin was appointed vice-chairman of Sino-Forest in June 2010, Chief Executive Officer in August 2011 and has been an independent non-executive director of Sino-Forest since 2006. Before joining Sino-Forest, Mr. Martin was executive vice president and chief financial officer of Alliance Atlantis Communications Inc. from 1999 to 2002 and senior executive vice president and chief financial officer from 2003 to 2005. Mr. Martin is also the chairman of SWEF Terrawinds Resources Corporation and chair of its audit committee and until November 2009 was a director of Somerset Entertainment Income Fund, chair of its compensation and nominating committee and member of its audit committee.

Mr. Hui Tung Wah, Samuel, aged 57, is an executive Director. He joined the Board in June 2005. He was an executive director of the Company from 9 July 2001 to 28 May 2003. After serving 2 years as senior vice president for Sino-Forest, Mr. Hui rejoined the Company from 1 May 2005. Mr. Hui comes from a strong financial and general management background with over 30 years working experience in senior management of major international and local banks, and companies in Hong Kong, Australia and Canada. He is a seasoned executive and has extensive management experience. He is currently a non-executive director of Café de Coral Holdings Limited whose issued shares are listed on the main board of the Stock Exchange. Mr. Hui was a non-executive director of WLS Holdings Limited, a Hong Kong listed company, between August 2004 and March 2012. Mr. Hui holds a Bachelor Degree in Social Sciences from the University of Hong Kong and a Master Degree in Business Administration from the Brunel University in the United Kingdom.

Mr. Simon Murray, aged 72, is a non-executive Director. He joined the Board in August 2010. Mr. Murray is the chairman of General Enterprise Management Services (International) Limited ("GEMS Ltd.") and is an independent non-executive director of Sino-Forest. Before establishing GEMS Ltd. in 1998, Mr. Murray was the group managing director of Hutchison Whampoa Ltd. from 1984 to 1993 and the executive chairman in Asia Pacific for the Deutsche Bank group from 1994 to 1997. Mr. Murray has been a non-executive chairman of Glencore International Plc since April 2011 and is a member of the board of directors of Cheung Kong (Holdings) Limited, Orient Overseas (International) Limited and Wing Tai Properties Limited and IRC Limited, all of which are listed in Hong Kong. He is also a director of Compagnie Financière Richemont SA, a company listed in Switzerland, and Essar Energy plc, a company listed in the United Kingdom. Mr. Murray was also a member of the board of directors of Vodafone Group plc, a company listed in the United Kingdom, between July 2007 and July 2010, Hutchison Whampoa Ltd, a Hong Kong listed company, between August 1984 and May 2007, and Summit Ascent Holdings Limited (formerly known as Arnhold Holdings Ltd.), a Hong Kong listed company, between October 1993 and March 2011. He is a member of the Former Directors Committee of The Community Chest and is involved in a number of other charitable organizations, including The China Coast Community Association.

Mr. Wong Kin Chi, aged 60, is an independent non-executive director of the Company. He joined the Board in September 2004 with an MBA degree from the University of Durham of United Kingdom. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, and an associate member of the Chartered Institute of Management Accountants of the United Kingdom Mr. Wong is currently running a company rendering financial and educational management services for clients. He had over 20 years of experience serving as financial controller and senior executive in a number of multi-national corporations and as an auditor in an international accounting firm. Mr. Wong is a member of the audit committee, remuneration committee and nomination committee of the Company.

Biographical Details of Directors and Senior Management

Mr. Wong Che Keung, Richard, aged 66, is an independent non-executive director of the Company. Mr. Wong joined the Board in June 2000. Mr. Wong is the Honorary Consul of The Republic of Tunisia in Hong Kong and a fellow member of the Canadian Institute of Bankers. He is also the Chief Executive of Regency Investments & Management Co., Ltd. ("RIM") which engages in direct business investments both locally and overseas. Prior joining RIM, Mr. Wong was the Vice-chairman and chief operation officer of Cathay International Holdings Ltd., a company specialize in property development and infrastructure projects in China. Mr. Wong worked for Bank of America in the capacity of Vice-president and Country Manager, responsible for the Bank's business in China. Mr. Wong is the chairman of the audit committee of the Company and a member of the remuneration committee and nomination committee of the Company.

Mr. Tong Yee Yung, Joseph, aged 57, is an independent non-executive director of the Company. Mr. Tong joined the Board in May 2001. He graduated from Southern Illinois University in the USA with a Bachelor of Science degree and obtained an MBA from the University of East Asia. Mr. Tong has over 20 years of experience in corporate finance and management for different listed companies in Hong Kong. Currently, Mr. Tong is an executive director and partner of Kelston Holdings (Hong Kong) Limited. Mr. Tong is the chairman of the remuneration committee and nomination committee of the Company and a member of the audit committee of the Company.

SENIOR MANAGEMENT

Mr. Andrew James Fyfe, aged 53, is the Chief Operating Officer and a member of the Executive Management Committee of the Company. Mr. Fyfe brings over 30 years of relevant forestry experience to the Company. Mr. Fyfe had served as Chief Operating Officer for a private forestry company based in Hong Kong with assets in China and South America. Prior to this, he served as Asia-Pacific President for Pöyry Forestry Industry Ltd, part of Pöyry PLC, a global consulting and engineering firm focusing on the forestry, energy, infrastructure & environment sectors. Mr. Fyfe worked with the Pöyry group for 20 years, overseeing the successful growth of the Asia-Pacific forestry industry consulting business. Mr. Fyfe has worked closely with various governments and agencies on sustainable forestry initiatives and other projects in over 20 countries around the world.

Mr. Fyfe is a New Zealand national and graduated from the University of Canterbury in New Zealand with a Bachelor of Forestry Science.

Ms. Tse Nga Ying, aged 39, is the Chief Financial Officer, a member of the Executive Management Committee and the Company Secretary of the Company. She has worked for the Company and its affiliated companies for more than 10 years. Ms. Tse has over 17 years of experience in audit, accounting, financing and a strong background in manufacturing and trading companies. She graduated from the Chinese University of Hong Kong with a Bachelor degree in professional accountancy. She is also a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

Corporate Governance Report

The Board of Directors ("Board") and the management of the Group emphasize on corporate governance and are committed to maintaining high standard of corporate governance which is reviewed and strengthened from time to time. The Company has complied with all the code provisions set out in the Code of Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 December 2011 except for certain minor deviations as explained in this report.

THE BOARD

The Board comprises six Directors, including two executive Directors, namely Mr. William Judson Martin (Chairman of the Board) and Mr. Hui Tung Wah, Samuel; one non-executive Director, namely Mr. Simon Murray and three Independent Non-Executive Directors ("INED"), namely Mr. Wong Kin Chi, Mr. Wong Che Keung, Richard, and Mr. Tong Yee Yung, Joseph. There is no relationship (including financial, business, family or other material/relevant relationships) among the Board members. Save as disclosed in the paragraph headed "Directors' Securities Transactions" below, all INEDs have complied with the requirements of the Listing Rules and have presented annual confirmations of independence issued pursuant to Rule 3.13 of the Listing Rules to the Company. The Directors consider that all the three INEDs are independent under these independence criteria and are capable to effectively exercise independent judgement. The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interest of the Company and that the current board size as adequate for its present operations.

Detailed biographies outlining each Director's range of specialist experience and suitability for the successful long-term management of the Group can be found in the section headed "Biographical Details of Directors and Senior Management". The principal functions of the Board are to make decision on the objectives, strategic plans, budgets and management structure of the Company; to oversee the management of the business and affairs of the Group with the objective of enhancing the Company and shareholders' value with the proper delegation of the power to the management for its day-to-day operation of the Group, implementation of the budgets and strategic plans and development of the organization of the Company for implementing the Board's decision. During the year under review, the Board has reviewed, inter alia, the performance and formulated business strategy of the Group; reviewed and approved the annual and interim results of the Group for the year ended 31 December 2010 and 30 June 2011, respectively, and the quarterly results for the three months ended 31 March 2011 and the nine months ended 30 September 2011; granted share options; approved the major and connected transaction involving issuance of new shares; continuing connected transactions and a discloseable transaction; reviewed internal controls taken by the Group; and other significant operational, financial and compliance matters.

Corporate Governance Report

The Board conducts meeting on a regular basis and on an ad hoc basis, as required by business needs. The Board totally held 8 meetings during the year under review. The Board has delegated responsibility for day-to-day management of the Group to the executive Directors and Executive Management Committee. Board meetings for exercising share options or daily operation of the Company are delegated to meetings of executive Directors, therefore those Board meetings have not been counted to the Directors' attendance statistics. In the Board meetings, sufficient notices for regular Board meetings and reasonable days for non-regular Board meetings were given to all Directors so as to ensure that each of them had an opportunity to attend the meetings, and agendas and accompanying Board papers were given to all Directors in a timely manner. If necessary, the Directors are enabled, upon the reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's costs. During the intervals between Board meetings, Directors are kept appraised of all major changes that may affect the Group's business. The draft minutes of Board meetings are prepared by the secretary of the meetings and circulated to all Directors for comments within a reasonable time. The approved minutes of the Board meetings are maintained by the Company Secretary and available for inspection by all Directors at request. The number of Board meetings attended by each Director during the year under review is set out in the following table.

Name of Director	Number of Directors' meetings held whilst in office	Number of Directors' meetings attended
Mr. Chan Tak Yuen, Allen *(note 1)*	5	1
Mr. William Judson Martin	8	8
Mr. Hui Tung Wah, Samuel	8	8
Mr. Simon Murray	8	4
Mr. Wong Kin Chi	8	8
Mr. Wong Che Keung, Richard	8	8
Mr. Tong Yee Yung, Joseph	8	8

Note:

1. Mr. Chan Tak Yuen, Allen resigned as Chairman and non-executive Director on 29 August 2011

The Board provides separate appropriate independent professional advice to the Directors to assist the relevant Directors to discharge their duties, where necessary.

Appropriate insurance cover has been arranged in respect of any possible legal action against its Directors.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer of the Company should be separate and should not be performed by the same individual. Following the resignation of Mr. Chan Tak Yuen, Allen on 29 August 2011, Mr. William Judson Martin ("Mr. Martin"), the president, chief executive officer and executive director of the Company, has assumed the role as Chairman of the Board with effect from 29 August 2011. The Company's day-to-day operation is managed by the Executive Management Committee which comprises Mr. Martin, Mr. Andrew Fyfe, the Chief Operating Officer and Ms. Tse Nga Ying, the Chief Financial Officer which is responsible under the immediate authority of the Board for the conduct of the business of the Company. As such, the Board believes that the arrangement that Mr. Martin being both the Chairman of the Board and the chief executive officer of the Company, though not in line with the requirement of code provision A.2.1 of the CG Code, will provide the Group with strong and consistent leadership and allow for more effective and efficient business decision and execution.

NON-EXECUTIVE DIRECTORS

Under code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. The existing non-executive Director was initially not appointed for a specific term but was subject to retirement by rotation and re-election at the annual general meetings pursuant to the bye-laws of the Company. A letter of appointment was entered into between the existing non-executive Director and the Company on 26 March 2012 to record the key terms and conditions in relation to the appointment of the existing non-executive Director, specifying his term of the appointment to expire on 16 August 2013 unless terminated in accordance with the terms and conditions provided therein and subject to rotation and re-election in accordance with the bye-laws of the Company. As such, arrangement has been made to comply with code provision A.4.1 of the CG Code.

Each of the INED has been appointed for a term of 3 years subject to retirement by rotation and re-election in accordance with the Company's bye-laws and Listing Rules at each annual general meeting. They are expected to scrutinize the Company's performance in achieving agreed corporate goals and objectives; and ensuring that the exercise of the board authority is within the powers conferred to the Board under the Company's bye-laws and applicable laws, rules and regulations.

NOMINATION OF DIRECTORS

On 30 March 2012, the Nomination Committee was constituted. The Nomination Committee consists of all the INEDs namely Mr. Tong Yee Yung, Joseph (Chairman), Mr. Wong Che Keung, Richard and Mr. Wong Kin Chi.

Its primary responsibilities are to assist the Board to review the size and structure of the Board and make recommendations to the Board on the appointment or re-appointment of Directors to the Board.

During the Year, i.e. before the Nomination Committee is constituted, the Board is responsible for selection and approval of candidates for appointment as Directors to the Board. For nomination of the Director(s), the Board will take into consideration of the candidate's integrity, qualifications, capabilities and experience to make contribution to the Company. The Board considers that the existing human resource policy in recruitment of new senior staff is also applicable to nomination of a new Director.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors ("Code of Conduct") on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") and the Company has made specific enquiry of all Directors that they have complied with the required standard set out in the Model Code and the Code of Conduct for the year ended 31 December 2011 with the following exception. Mr. Tong Yee Yung Joseph, an INED, has failed to first notify in writing the chief executive officer of the Company and receive a dated written acknowledgment before he disposed of 210,000 shares of the Company on 7 October 2011. In view of this, the Company has looked into the matter and is satisfied that: (a) Mr. Tong has been aware of the Model Code requirement; (b) the failure to comply with the requirement under the Model Code was caused by an inadvertent oversight; (c) the disposal was not made at a time when there was unpublished price sensitive information relating to the Company; and (d) no dishonesty was involved as Mr. Tong has duly disclosed his disposal to the Stock Exchange and the Company pursuant to the requirement under Part XV of the Securities and Futures Ordinance of Hong Kong (the "SFO"). Nevertheless, the Board has reminded all the Directors immediately that the Model Code requirements should be strictly complied with at all times and has arranged the Company's legal advisor to provide course to our Directors to refresh their understanding of the Model Code requirements and keep them abreast of the latest development of the Listing Rules.

ACCOUNTABILITY AND AUDIT

The management provides the explanation and information to the Board to facilitate an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibility to prepare the financial statements that give a true and fair view of the state of affairs of the Group. Meanwhile, the Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgements and estimates made are prudent and reasonable. In preparing the financial statements for the year ended 31 December 2011, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the applicable laws were complied with.

The Board has prepared the financial statements on a going concern basis, details of which are set out in note 2 to the financial statements.

The financial statements of the Group for the year ended 31 December 2011 have been reviewed by the audit committee of the Company ("Audit Committee") and audited by the external auditors, Ernst & Young. For the year ended 31 December 2011, the audit fee was HK$2,290,000 and the non-audit service fee was HK$1,781,000. The non-audit services mainly comprised agreed-upon procedures, review of financial information, taxation compliance and due diligence review. The responsibilities of the external auditors with respect to financial reporting are set out in the section of "Independent Auditors' Report ".

Corporate Governance Report

REMUNERATION COMMITTEE

The Remuneration Committee comprises three members, namely Mr. Tong Yee Yung, Joseph (Chairman), Mr. Wong Che Keung, Richard and Mr. Wong Kin Chi. All of them are INEDs. The primary objectives of Remuneration Committee, inter alia, are to formulate the remuneration policy based on the responsibilities, qualifications and working performance of senior management and Directors; review and recommend to the Board the annual remuneration policy. The major objective of the remuneration policy is to ensure that the Company is able to attract, retain, and motivate a high-calibre team which is essential to the success of the Company. No Directors and executives can determine his own remuneration. During the Year under review, the Remuneration Committee has held one meeting for review and approval of the remuneration policy of the Group, and to assess performance of executive Directors. Minutes of Remuneration Committee meeting are kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the meeting are sent to all members of the Remuneration Committee for their comment and records respectively, in both cases within a reasonable time after the meeting.

Members of Remuneration Committee	**Number of Attendance**
Mr. Tong Yee Yung, Joseph *(Chairman)*	1/1
Mr. Wong Che Keung, Richard	1/1
Mr. Wong Kin Chi	1/1

AUDIT COMMITTEE

The Audit Committee has three members comprising, namely Mr. Wong Che Keung, Richard (Chairman), Mr. Wong Kin Chi and Mr. Tong Yee Yung, Joseph. All of them are INEDs and none of them are members of the former or existing auditors of the Company. The Board considers the Audit Committee has extensive commercial experience in business, financial and legal matters. The primary duties of the Audit Committee include, inter alia, to review and monitor financial reporting and the judgement contained therein; to review financial and internal controls, accounting policies and practices with management and external auditors and to review the periodic reports prepared by the Internal Audit Department.

The Audit Committee has reviewed and discussed with the management the accounting principles and practices adopted by the Group and auditing, internal controls and financial reporting matters. The Audit Committee has reviewed and discussed with management and external auditors the consolidated financial statements for the year ended 31 December 2011. The Audit Committee held four meetings during the Year, which were attended by the external auditors. Details of the attendance of the Audit Committee meetings are as follows:

Members of Audit Committee	Number of Attendance
Mr. Wong Che Keung, Richard *(Chairman)*	4/4
Mr. Wong Kin Chi	4/4
Mr. Tong Yee Yung, Joseph	4/4

The Board has not taken any different view from that of the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Board has delegated to the management the implementation of such systems of internal controls as well as the review of relevant financial, operational and compliance controls and risk management procedures. The management of the Group has reviewed the Group's internal control and risk management system for the year ended 31 December 2011 and has submitted the results of the review and its recommendations and opinions for consideration by the Audit Committee and the Board. Based on its assessment which covers all material controls including financial, operational and compliance controls and risk management functions, management believes that for the year ended 31 December 2011, the Company's internal control is effective. The Board is satisfied that there are adequate resources of staff with appropriate qualifications and experience in its accounting and financial reporting team and that sufficient training and budget have been provided.

The Group has established a specific Internal Audit Department and formulated internal control monitoring procedures to ensure comprehensive, accurate and timely record of accounting and management information. Regular reviews are conducted to ensure financial statements are prepared in accordance with the relevant accounting standards, accounting policies and applicable laws and regulations and cover operational effectiveness and risk management of the Group on an on-going basis. Reports from the internal auditors containing the summary of findings and recommendations are tabled and discussed at meetings by the Audit Committee members.

INVESTOR RELATIONS

During the Year under review, the Group has proactively enhanced its corporate transparency and communications with its shareholders and the investment community through its interim and annual reports, quarterly results and timely distribution of announcements, circular and/or other publications. The corporate website of the Company has provided an effective communication platform to keep the public abreast of its latest developments. Regular meetings and visits have been organised to enhance understanding of the institutional investors and analysts on the Group's business and operations.

COMMUNICATION WITH SHAREHOLDERS

The Company has a shareholders' communication policy to provide the shareholders with detailed information about the communication channels with the shareholders in order to maintain an on-going dialogue with them and the investment community. These include general meetings, financial reports, notices, announcements and circulars.

The Company encourages its shareholders to attend the general meetings of the Company to raise comments and exchange views with the Board. The Directors and, where appropriate, independent external auditors and financial adviser, are available to answer questions at the meetings.

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company comprise log harvesting, timber processing, marketing and sales of logs and timber products. There were no significant changes in the nature of the Group's principal activities during the Year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 38 to 126.

The Directors do not recommend the payment of any dividend for the year ended 31 December 2011 (2010: Nil).

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and the annual report of the Company and restated/reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

	Year ended 31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000	HK$'000
Results					
Revenue	**326,984**	17,031	11,226	10,500	119,552
Loss for the year	**(105,887)**	(86,648)	(96,380)	(115,069)	(144,847)
Attributable to:					
Equity holders of the Company	**(74,343)**	(67,606)	(86,247)	(103,783)	(130,829)
Non-controlling interests	**(31,544)**	(19,042)	(10,133)	(11,286)	(14,018)
	(105,887)	(86,648)	(96,380)	(115,069)	(144,847)

Note: The results for the above years include discontinued operations.

SUMMARY FINANCIAL INFORMATION *(continued)*

	31 December				
	2011	2010	2009	2008	2007
	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000	HK$'000
Assets and liabilities and non-controlling interests					
Total assets	**2,031,201**	2,000,832	849,847	911,439	1,102,142
Total liabilities	**(706,444)**	(715,814)	(339,585)	(332,050)	(385,347)
Non-controlling interests	**(252,362)**	(256,231)	(275,273)	(285,406)	(319,029)
	1,072,395	1,028,787	234,989	293,983	397,766

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the Year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

There were no movements in the Company's authorised share capital during the Year. Details of movements in the Company's issued share capital and share options during the Year are set out in notes 29 and 30 to the financial statements, respectively.

CONVERTIBLE BONDS

Details of movements in the Company's convertible bonds are set out in note 27 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Year.

RESERVES

Details of movements in the reserves of the Company and the Group during the Year are set out in note 31(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2011, the Company had no reserves available for distribution in accordance with the Companies Act 1981 of Bermuda (as amended). However, the Company's share premium account, in the amount of HK$1,451,590,000 may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 60.2% of the total gross revenue before export tax for the Year and sales to the largest customer included therein amounted to 22.2%. Over 99.6% of the Group's sales in the year under review came from the Group's own forest concessions in Suriname or planations in New Zealand. The largest customer of the Group is Sino-Wood Trading Limited, an indirect wholly owned subsidiary of Sino-Forest, a substantial shareholder of the Company. Purchases, which mainly in relation to diesel, spare parts, daily supplies etc from the Group's five largest suppliers accounted for less than 1% of the total purchases for the Year.

Save as disclosed above, none of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

Report of the Directors

DIRECTORS

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

Mr. William Judson Martin*
Mr. Hui Tung Wah, Samuel*
Mr. Simon Murray#
Mr. Chan Tak Yuen, Allen# (resigned on 29 August 2011)
Mr. Wong Kin Chi**
Mr. Wong Che Keung, Richard**
Mr. Tong Yee Yung, Joseph**

* *Executive Director*
\# *Non-executive Director*
** *Independent Non-Executive Director*

In accordance with bye-law 97(A) of the Company's bye-laws, Messrs. Wong Kin Chi and Tong Yee Yung, Joseph will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence pursuant to Rule 3.13 of the Listing Rules from Messrs. Wong Kin Chi, Wong Che Keung, Richard and Tong Yee Yung, Joseph, and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management of the Company are set out on pages 11 to 12 of this annual report.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to the recommendation from the Remuneration Committee of the Company based on the Directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Save for Mr. William Judson Martin and Mr. Simon Murray who have interests in Sino-Forest as disclosed in the paragraph headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" below with which the Group had various transactions as disclosed in the paragraph headed "Connected transactions" below and note 35 to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the Year.

CONNECTED TRANSACTIONS

During the Year, the Company and the Group had the following connected transaction and continuing connected transactions:

Connected transaction

i. Sale and purchase agreement

On 7 January 2011, the Company entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with Sino-Capital as vendor and Sino-Forest as guarantor, whereby the Company has conditionally agreed to purchase the entire equity interest in Mega Harvest International Limited ("Mega Harvest") from Sino-Capital, together with its shareholder's loan at a maximum consideration of approximately HK$288,600,000 (equivalent to US$37,000,000). Mega Harvest is an investment holding company incorporated in the British Virgin Islands, which owns a radiata pine plantation in New Zealand with approximately 13,000 hectares of freehold lands with a net harvestable area of approximately 11,000 hectares. The acquisition was completed on 31 March 2011. Sino-Forest is the holding company of Sino-Capital, the substantial shareholder of the Company, and is therefore a connected of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Sale and Purchase Agreement is a connected transaction under the Listing Rules.

CONNECTED TRANSACTIONS *(continued)*

Continuing connecting transactions

ii. Provision of facility by Silver Mount Group Limited ("Silver Mount") to Greenheart Resources Holdings Limited ("Greenheart Resources")

On 14 May 2008, Greenheart Resources, a 60.39% indirect subsidiary of the Company, and Silver Mount, an indirect wholly-owned subsidiary of the Company, entered into a facility agreement in relation to the provision of the revolving loan facility of up to HK$50 million (the "Facility Limit") by Silver Mount to Greenheart Resources (the "Facility"). The Facility is unsecured, bears interest at prime rate for Hong Kong dollars per annum from time to time as quoted by The Hongkong and Shanghai Banking Corporation Limited (or such other bank as may be designated by Silver Mount) and was due on 14 May 2011 or such later day as Silver Mount and Greenheart Resources may agree in writing. Sino-Forest became a substantial shareholder of the Company since 2007. Sino-Capital is a wholly-owned subsidiary of Sino-Forest and holds 39.61% of the issued share capital of Greenheart Resources following completion of the acquisition of an aggregate of 2,638,469,000 ordinary shares of Greenheart Resources by Sino-Capital in June 2010. After the completion of such acquisition, Greenheart Resources has therefore become a connected person of the Company under Rule 14A.11(5) of the Listing Rules and the provision of the Facility from Silver Mount to Greenheart Resources has become continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

On 22 November 2010, Silver Mount entered into a supplemental facility agreement with Greenheart Resources pursuant to which the parties agreed to increase the Facility Limit to HK$215 million and extend the drawdown period and repayment date of the Facility to 22 November 2013 or such later day as Silver Mount and Greenheart Resources may agree in writing. As at 31 December 2011, a total of HK$189,774,000 has been drawn down by Greenheart Resources from the Facility and the related interest incurred for the Year amounted to HK$5,877,000.

iii. Master sale and purchase agreement

On 7 January 2011, Green Source Holdings Limited ("Green Source"), an indirect wholly-owned subsidiary of the Company, entered into a master sale and purchase agreement (the "Master Sale and Purchase Agreement") with Sino-Wood Trading Limited ("Sino-Wood") for the supply of logs, standing timbers, agri-forest, timber related and agri-related products (the "Products") by Green Source (or any of its subsidiaries) to Sino-Wood (or any of its subsidiaries).

CONNECTED TRANSACTIONS *(continued)*

Continuing connecting transactions (continued)

iii. Master sale and purchase agreement *(continued)*

Sino-Wood is an indirect wholly-owned subsidiary of Sino-Forest, being a substantial shareholder of the Company and is therefore a connected person of the Company under the Listing Rules. The provision of the Products between Green Source (and its subsidiaries) and Sino-Wood (and its subsidiaries) pursuant to the Master Sale and Purchase Agreement therefore constitutes continuing connected transactions of the Company.

As mentioned in the circular of the Company dated 11 March 2011, the proposed annual caps under the Master Sale and Purchase Agreement for the three financial years ending 31 December 2013 are US$30 million, US$80 million and US$100 million respectively. For the year ended 31 December 2011, the aggregate consideration received for the purchase of the products by Sino-Wood (and its subsidiaries) under the Master Sale and Purchase Agreement amounted to approximately HK$26,319,000.

iv. Master agreement

On 27 September 2011, a master agreement (the "Master Agreement") was entered into between two non-wholly owned subsidiaries of the Company, namely Greenheart (Suriname) N.V. ("Greenheart Suriname") and Caribbean Pallet Company N.V. ("CPC") in respect of the sale and purchase of round logs and sawn timber between Greenheart Suriname as vendor and CPC as purchaser. Given that Greenheart Suriname is indirectly owned as to 39.61% by Sino Capital and that CPC is indirectly owned as to 40% by Mr. Ty Wilkinson (who is a director of certain subsidiaries of the Company), both Greenheart Suriname and CPC are connected persons of the Company and the transactions contemplated under the Master Agreement are continuing in nature, the Master Agreement constitutes continuing connected transaction of the Company under the Listing Rules.

As announced by the Company on 27 September 2011, the aggregate annual caps of purchases for each of the two years of purchase of the products by CPC for each of the two years ending 31 December 2012 shall not exceed HK$4,000,000 per annum. For the year ended 31 December 2011, the aggregate consideration for the purchase of the products by CPC from Greenheart Suriname amounted to approximately HK$1,464,000.

CONNECTED TRANSACTIONS *(continued)*

Continuing connecting transactions (continued)

The INEDs have reviewed the continuing connected transactions set out above and have confirmed that each of the continuing connected transactions was entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them and on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions* under the Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing the finding and conclusion in respect of each of the continuing connected transactions disclosed above in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2011, the interests and short positions of the Directors and chief executive of the Company in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO, as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long positions in ordinary shares and underlying shares of the Company:

Name of Director	Capacity	Number of Shares and underlying shares interested *(Note 2)*	Approximate percentage of the total issued share capital of the Company %
William Judson Martin	Beneficial owner	6,811,490	0.874
Hui Tung Wah, Samuel	Beneficial owner	2,811,145	0.361
	Spouse interest *(Note 1)*	75,000	0.010
Simon Murray	Beneficial owner	2,342,000	0.300
Wong Kin Chi	Beneficial owner	1,011,145	0.130
Tong Yee Yung, Joseph	Beneficial owner	681,145	0.087
Wong Che Keung, Richard	Beneficial owner	891,145	0.114

Note 1: These 75,000 Shares were jointly owned by Mr. Hui Tung Wah Samuel and his spouse.

Note 2: It includes the share options granted by the Company, details of the underlying shares involved are set out in the paragraph headed "Share Option Scheme"

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

Interests in the shares of the associated corporations (within the meaning of Part XV of the SFO) of the Company

Name of Director	Capacity	Name of the associated corporation	Number of shares held *(Note 3)*
William Judson Martin	Beneficial owner and family interest *(Note 1)*	Sino-Forest	254,789
Simon Murray	Interest of controlled corporation *(Note 2)*	Sino-Forest	98,783

Note 1: 30,000 shares are held by the spouse of Mr. William Judson Martin and 5,173 deferred stock units are held by Mr. William Judson Martin. Mr. William Judson Martin also has certain derivative interests (options) in Sino-Forest, details of which are as follows:

Exercise Period	Exercise Price	Number of shares
25/08/2006 – 25/08/2011	CAD4.360	14,814
04/06/2007 – 04/06/2012	CAD13.150	153,334
21/06/2010 – 21/06/2015	CAD17.410	28,854
17/03/2011 – 17/03/2016	CAD21.67	22,614

Note 2: Save for 5,230 deferred stock units held directly by Mr. Simon Murray, these shares are held by Forest Operations Limited over which Mr. Simon Murray controls 100% of such interest.

Note 3: This column includes shares that are issuable on the exercise, conversion or exchange of certain securities of the associated corporation.

Save as disclosed above, as at 31 December 2011, none of the directors and chief executives of the Company had registered any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above and in the paragraph headed "Share Option Scheme" below, 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 Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

As at 31 December 2011, there were options for 35,082,070 ordinary shares of HK$0.01 each in the share capital of the Company granted by the Company pursuant to the share option scheme, as adopted by the shareholders of the Company on 22 March 2002 (the "Old Share Option Scheme"), which were valid and outstanding. 8,981,490 options granted under the Old Share Option Scheme were lapsed for the year ended 31 December 2011. The Old Share Option Scheme expired on 22 March 2012. No further options could thereafter be offered under the Old Share Option Scheme but provision of the Old Share Option Scheme shall in all other respects remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Old Share Option Scheme and options granted prior thereto but not yet exercised shall continue to be valid and exercisable in accordance with the Old Share Option Scheme. The Board will propose to adopt a new share option scheme which will be put to the shareholders of the Company for approval at a special general meeting of the Company to be convened. A circular containing, among other things, details of the proposal for the adoption of the new share option scheme will be despatched to the shareholders of the Company in due course.

Further details of the Old Share Option Scheme are disclosed in note 30 to the financial statements.

SHARE OPTION SCHEME *(continued)*

Movements of the share options of the Company during the Year are as follows:–

Name or category of participant	Number of share options: At 1 January 2011	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2011	Exercise period of share options	Exercise price of share options HK$	Date of grant of share options	Closing price of the Company's shares immediately before the date of grant of share options	Weighted average closing price of the Company's shares immediately before the exercise date
Directors										
William Judson Martin	5,480,000	–	–	–	5,480,000	24 Aug 2010 to 23 Aug 2015	2.180	24 Aug 2010	2.12	–
	1,331,490	–	–	–	1,331,490	28 Dec 2010 to 27 Dec 2015	2.500	28 Dec 2010	2.48	–
Hui Tung Wah, Samuel	50,000	–	50,000	–	–	17 Apr 2007 to 21 Mar 2012	0.460	16 Apr 2007	0.44	3.03
	300,000	–	300,000	–	–	15 Jun 2007 to 21 Mar 2012	1.360	14 Jun 2007	1.12	3.03
	200,000	–	–	–	200,000	25 Oct 2007 to 21 Mar 2012	1.744	24 Oct 2007	1.74	–
	500,000	–	–	–	500,000	5 Aug 2009 to 4 Aug 2014	1.650	5 Aug 2009	1.69	–
	681,145	–	–	–	681,145	28 Dec 2010 to 27 Dec 2015	2.500	28 Dec 2010	2.48	–
Simon Murray	1,096,000	–	–	–	1,096,000	24 Aug 2010 to 23 Aug 2015	2.180	24 Aug 2010	2.12	–
Chan Tak Yuen Allen *(Note 1)*	5,480,000	–	–	5,480,000	–	24 Aug 2010 to 23 Aug 2015	2.180	24 Aug 2010	2.12	–
	1,331,490	–	–	1,331,490	–	28 Dec 2010 to 27 Dec 2015	2.500	28 Dec 2010	2.48	–
Wong Kin Chi	30,000	–	–	–	30,000	25 Oct 2007 to 21 Mar 2012	1.744	24 Oct 2007	1.74	–
	150,000	–	–	–	150,000	5 Aug 2009 to 4 Aug 2014	1.650	5 Aug 2009	1.69	–
	681,145	–	–	–	681,145	28 Dec 2010 to 27 Dec 2015	2.500	28 Dec 2010	2.48	–
Wong Che Keung, Richard	30,000	–	–	–	30,000	17 Apr 2007 to 21 Mar 2012	0.460	16 Apr 2007	0.44	–
	50,000	–	–	–	50,000	15 Jun 2007 to21 Mar 2012	1.360	14 Jun 2007	1.12	–
	30,000	–	–	–	30,000	25 Oct 2007 to 21 Mar 2012	1.744	24 Oct 2007	1.74	–
	100,000	–	–	–	100,000	5 Aug 2009 to 4 Aug 2014	1.650	5 Aug 2009	1.69	–
	681,145	–	–	–	681,145	28 Dec 2010 to 27 Dec 2015	2.500	28 Dec 2010	2.48	–
Tong Yee Yung, Joseph	30,000	–	30,000	–	–	25 Oct 2007 to 21 Mar 2012	1.744	24 Oct 2007	1.74	2.69
	681,145	–	–	–	681,145	28 Dec 2010 to 27 Dec 2015	2.500	28 Dec 2010	2.48	–
Employees (other than Directors)										
In aggregate	3,040,000	–	–	20,000	3,020,000	5 Aug 2009 to 4 Aug 2014	1.650	5 Aug 2009	1.69	–
	5,140,000	–	50,000	50,000	5,040,000	28 Dec 2010 to 27 Dec 2015	2.500	28 Dec 2010	2.48	2.80
	–	3,500,000	–	–	3,500,000	10 Jan 2011 to 9 Jan 2016	2.930	10 Jan 2011	2.87	–
	–	2,000,000	–	–	2,000,000	22 Mar 2011 to 21 Mar 2016	2.710	22 Mar 2011	2.71	–
	–	2,000,000	–	–	2,000,000	50% on or after 13 Jun 2012 50% on or after 13 Jun 2013	1.952	16 Jun 2011 *(note 2)*	1.21	–
	–	300,000	–	–	300,000	50% on or after 11 Jul 2012 50% on or after 11 Jul 2013	1.266	11 Jul 2011 *(note 3)*	1.25	–
Other participants										
In aggregate	300,000	–	–	300,000	–	17 Apr 2007 to 21 Mar 2012	0.460	16 Apr 2007	0.44	–
	1,200,000	–	–	1,200,000	–	15 Jun 2007 to 21 Mar 2012	1.360	14 Jun 2007	1.12	–
	3,250,000	–	1,650,000	100,000	1,500,000	25 Oct 2007 to 21 Mar 2012	1.744	24 Oct 2007	1.74	2.93
	6,500,000	–	–	500,000	6,000,000	5 Aug 2009 to 4 Aug 2014	1.650	5 Aug 2009	1.69	–
	38,343,560	7,800,000	2,080,000	8,981,490	35,082,070					

Note 1: Mr. Chan Tak Yuen, Allen resigned as Chairman and non-executive Director on 29 August 2011.

Note 2: 50% of the share options granted are vested on 13 June 2012 and the remaining 50% are vested on 13 June 2013.

Note 3: 50% of the share options granted are vested on 11 July 2012 and the remaining 50% are vested on 11 July 2013.

Details of the valuation of the share options granted during the Year are set out in note 30 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as is known to the Directors and the chief executive of the Company, as at 31 December 2011, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long Positions in Shares and underlying Shares:

Name of Shareholder	Capacity	Number of Shares	Number of underlying Shares	Approximate percentage of Issued share capital of the Company %
Sino-Forest	Interest of controlled corporation *(Note 1)*	495,519,102	–	63.55
Sino-Capital	Beneficial owner *(Note 1)*	495,519,102	–	63.55
General Enterprise Management Services Limited	Interest of controlled corporation *(Note 2)*	7,000,000	97,077,922	13.35
Development Bank of Japan Inc.	Interest of controlled corporation *(Note 3)*	–	97,077,922	12.45
Asia Resources Fund Limited	Interest of controlled corporation *(Note 4)*	–	97,077,922	12.45

Notes:

1. Sino-Capital is a wholly-owned subsidiary of Sino-Forest, Sino-Forest is deemed to be interested in the Shares in which Sino-Capital is interested by virtue of Part XV of the SFO.

2. General Enterprise Management Services (International) Limited ("GEMS") owned 23.26% of Asia Resources Fund Limited and was a person in accordance with whose directions Asia Resources Fund Limited is accustomed to act. GEMS is a wholly-owned subsidiary of General Enterprise Management Services Limited and therefore General Enterprise Management Services Limited is deemed to be interested in the Shares in which GEMS and Greater Sino Holdings Limited are interested by virtue of Part XV of the SFO.`

3. Development Bank of Japan Inc. owned 46.51% of Asia Resources Fund Limited. As such, it is deemed to be interested in the Shares in which Asia Resources Fund Limited is interested by virtue of Part XV of SFO.

4. Greater Sino Holdings Limited is a wholly-owned subsidiary of Asia Resources Fund Limited, Asia Resources Fund Limited is also deemed to be interested in the Shares in which Greater Sino Holdings Limited is interested by virtue of Part XV of SFO.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

Save as disclosed above, the Company has not been notified by any person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company as at 31 December 2011 which were required to be notified to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or which are recorded in the register required to be kept by the Company under the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high level of corporate governance practices. Corporate governance practices adopted by the Company are set out in the Corporate Governance Report on page 13 to 20.

TAX RELIEF

The Company is not aware of any relief from taxation available to shareholders by reason of their holding of the Company's shares.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 38 to the financial statements.

AUDITORS

Except for the change of the Company's auditors from Moore Stephens to Ernst & Young during the year ended 31 December 2010, there was no other change in auditors of the Company in any of the preceding three years.

PAST PERFORMANCE AND FORWARD LOOKING STATEMENTS

The performance and the results of operations of the Group during the past years as contained in this annual report are historical in nature and past performance can be no guarantee of future results of the Group. This annual report contains forward looking statements and opinions with respect to the financial conditions, results of operations and business of the Group. These forward looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Neither the Group nor the Directors, employees or agents of the Group assume (a) any obligation to correct or update the forward-looking statements or opinions contained in this annual report; and (b) any liability in the event that any of the forward-looking statements or opinions does not materialize or turns out to be incorrect.

APPRECIATION

Our Group's success depended on all our staff's commitment, dedication and professionalism. The Board would like to thank every staff for their diligence and dedication and to express its sincere appreciation to our shareholders, clients and suppliers for their continuous and valuable support.

ON BEHALF OF THE BOARD
GREENHEART GROUP LIMITED

William Judson Martin
Chairman

Hong Kong
30 March 2012

Independent Auditors' Report

ERNST & YOUNG
安 永

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To the shareholders of Greenheart Group Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Greenheart Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 38 to 126, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, 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 about whether the consolidated financial statements are free from material misstatement.

AUDITORS' RESPONSIBILITY *(continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 December 2011, and of the Group's loss and cash flows 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.

Ernst & Young
Certified Public Accountants
Hong Kong

30 March 2012

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000 (Restated)
REVENUE	6	**326,984**	17,031
Cost of goods sold		**(172,200)**	(8,434)
Gross profit		**154,784**	8,597
Other income and gains	6	**8,414**	2,294
Fair value gain on plantation forest assets	18	**45,641**	23,596
Selling and distribution costs		**(129,767)**	(6,630)
Administrative expenses		**(91,100)**	(51,285)
Other operating expenses		**(46,038)**	(23,585)
Non-cash share option expenses		**(4,934)**	(13,868)
Finance costs	7	**(30,949)**	(17,675)
Share of loss of an associate		**–**	(1,667)
LOSS BEFORE TAX	8	**(93,949)**	(80,223)
Tax	11	**(11,938)**	(6,425)
LOSS FOR THE YEAR		**(105,887)**	(86,648)
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**2,408**	–
Fair value gain on forestry land		**4,057**	4,995
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX OF NIL		**6,465**	4,995
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(99,422)**	(81,653)
LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Equity holders of the Company	12	**(74,343)**	(67,606)
Non-controlling interests		**(31,544)**	(19,042)
		(105,887)	(86,648)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Equity holders of the Company		**(67,878)**	(62,611)
Non-controlling interests		**(31,544)**	(19,042)
		(99,422)	(81,653)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	13	**HK$(0.098)**	HK$(0.152)

Consolidated Statement of Financial Position

31 December 2011

	Notes	**31 December 2011 HK$'000**	31 December 2010 HK$'000 (Restated)	1 January 2010 HK$'000
NON-CURRENT ASSETS				
Property, plant and equipment	14	**286,950**	127,248	17,205
Prepaid land lease payments	15	**15,572**	1,376	1,448
Goodwill	16	**7,624**	7,624	7,624
Timber concessions and cutting rights	17	**800,201**	741,435	747,384
Plantation forest assets	18	**489,568**	480,480	–
Interest in an associate		**–**	–	20,962
Prepayments, deposits and other receivables	22	**57,640**	5,208	3,128
Total non-current assets		**1,657,555**	1,363,371	797,751
CURRENT ASSETS				
Inventories	20	**7,822**	13,527	6,920
Trade receivables	21	**34,533**	3,377	2,309
Prepayments, deposits and other receivables	22	**26,155**	6,853	1,951
Pledged deposits	23	**20,118**	–	–
Cash and cash equivalents	23	**285,018**	613,704	40,916
Total current assets		**373,646**	637,461	52,096
CURRENT LIABILITIES				
Trade payables	24	**18,513**	6,317	104
Other payables and accruals	25	**27,548**	10,326	6,109
Finance lease payables	26	**6,208**	–	–
Loan from the ultimate holding company	35(b)(i)	**–**	396,617	–
Due to the ultimate holding company	35(a)(i)	**141**	2,892	–
Due to affiliated companies	35(b)(iii)	**–**	190	–
Deposit received from a fellow subsidiary	35(b)(ii)	**22,565**	22,565	22,565
Income tax payable		**662**	9,398	–
Total current liabilities		**75,637**	448,305	28,778
NET CURRENT ASSETS		**298,009**	189,156	23,318
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,955,564**	1,552,527	821,069

Consolidated Statement of Financial Position

31 December 2011

	Notes	31 December 2011 HK$'000	31 December 2010 HK$'000 (Restated)	1 January 2010 HK$'000
NON-CURRENT LIABILITIES				
Loan from the ultimate holding company	35(b)(i)	**312,000**	–	–
Convertible bonds	27	**201,553**	189,804	237,000
Finance lease payables	26	**27,500**	–	–
Deferred tax liabilities	28	**89,754**	77,705	73,807
Total non-current liabilities		**630,807**	267,509	310,807
Net assets		**1,324,757**	1,285,018	510,262
EQUITY				
Equity attributable to equity holders of the Company				
Issued capital	29	**7,797**	6,811	3,145
Reserves	31(a)	**1,064,598**	1,021,976	231,844
		1,072,395	1,028,787	234,989
Non-controlling interests		**252,362**	256,231	275,273
Total equity		**1,324,757**	1,285,018	510,262

William Judson MARTIN
Director

HUI Tung Wah, Samuel
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

		Attributable to equity holders of the Company												
	Notes	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000 (note 31(a)(ii))	Convertible bond equity reserve HK$'000	Capital reserve HK$'000	Forestry land revaluation reserve HK$'000	Merger reserve HK$'000 (note 31(a)(iii))	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2010		3,145	454,372	83,274	29,050	45,234	–	–	–	12,148	(392,234)	234,989	275,273	510,262
Loss for the year		–	–	–	–	–	–	–	–	–	(67,606)	(67,606)	(19,042)	(86,648)
Other comprehensive income for the year:														
Fair value gain on forestry land		–	–	–	–	–	–	4,995	–	–	–	4,995	–	4,995
Total comprehensive income/(loss) for the year		–	–	–	–	–	–	4,995	–	–	(67,606)	(62,611)	(19,042)	(81,653)
Issue of new shares		2,300	416,300	–	–	–	–	–	–	–	–	418,600	–	418,600
Share issue expenses		–	(5,591)	–	–	–	–	–	–	–	–	(5,591)	–	(5,591)
Issue of new shares upon conversion of the convertible bonds		1,185	281,049	–	–	(45,234)	–	–	–	–	–	237,000	–	237,000
Issue of convertible bonds		–	–	–	–	7,328	–	–	–	–	–	7,328	–	7,328
Exercise of share options		181	43,087	–	(15,005)	–	–	–	–	–	–	28,263	–	28,263
Equity-settled share option arrangements	30(a)	–	–	–	13,868	–	–	–	–	–	–	13,868	–	13,868
Share options lapsed		–	–	–	(477)	–	–	–	–	–	477	–	–	–
Deemed capital contribution from the ultimate holding company		–	–	–	–	–	941	–	–	–	–	941	–	941
Business combination under common control	32(a)	–	–	–	–	–	–	–	156,000	–	–	156,000	–	156,000
At 31 December 2010 and 1 January 2011, as restated		6,811	1,189,217*	83,274*	27,436*	7,328*	941*	4,995*	156,000*	12,148*	(459,363)*	1,028,787	256,231	1,285,018
Loss for the year		–	–	–	–	–	–	–	–	–	(74,343)	(74,343)	(31,544)	(105,887)
Other comprehensive income for the year:														
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	–	2,408	–	2,408	–	2,408
Fair value gain on forestry land		–	–	–	–	–	–	4,057	–	–	–	4,057	–	4,057
Total comprehensive income/(loss) for the year		–	–	–	–	–	–	4,057	–	2,408	(74,343)	(67,878)	(31,544)	(99,422)
Assumption of certain liabilities of a subsidiary acquired pursuant to a business combination under common control		–	–	–	–	–	–	–	103,161	–	–	103,161	–	103,161
Issue of new shares as consideration for a business combination under common control	29(a)	965	257,931	–	–	–	–	–	(258,896)	–	–	–	–	–
Exercise of share options	29(b)	21	4,442	–	(977)	–	–	–	–	–	–	3,486	–	3,486
Equity-settled share option arrangements	30(a)	–	–	–	4,934	–	–	–	–	–	–	4,934	–	4,934
Share options lapsed		–	–	–	(4,856)	–	–	–	–	–	4,856	–	–	–
Deemed capital contribution from the ultimate holding company		–	–	–	–	–	(87)	–	–	–	–	(87)	–	(87)
Acquisition of a subsidiary	32(b)	–	–	–	–	–	–	–	–	–	–	–	27,667	27,667
Acquisition of non-controlling interests		–	–	–	–	–	(8)	–	–	–	–	(8)	8	–
At 31 December 2011		**7,797**	**1,451,590***	**83,274***	**26,537***	**7,328***	**846***	**9,052***	**265***	**14,556***	**(528,850)***	**1,072,395**	**252,362**	**1,324,757**

* These reserve accounts comprise the consolidated reserves of HK$1,064,598,000 (2010: HK$1,021,976,000, as restated) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(93,949)**	(80,223)
Adjustments for:			
Finance costs	7	**30,949**	17,675
Share of loss of an associate		**–**	1,667
Bank interest income	6	**(3,617)**	(1,394)
Loss on disposal of items of property, plant and equipment	8	**2,426**	2,328
Gain on disposal of an associate	6	**–**	(64)
Depreciation	8	**7,979**	4,058
Amortization of:			
Depletion cost	8	**39,821**	29
Harvest roading	8	**2,080**	–
Prepaid land lease payments	8	**297**	36
Timber concessions and cutting rights	8	**4,589**	2,458
Recovery of insurance claim	6	**(586)**	–
Write-down of inventories to net realizable value	8	**5,874**	5,564
Provision for a short term loan to a potential investee	8	**7,410**	–
Impairment of:			
Trade receivables	8	**–**	310
Goodwill	8	**1,301**	–
Equity-settled share option expense		**4,934**	13,868
Fair value gain on plantation forest assets		**(45,641)**	(23,596)
Write-back of other payables	6	**(2,190)**	–
		(38,323)	(57,284)
Decrease/(increase) in inventories		**4**	(7,472)
Increase in trade receivables		**(31,066)**	(1,378)
Increase in prepayment, deposits and other receivables		**(19,498)**	(6,285)
Increase/(decrease) in trade payables		**12,112**	(11,340)
Increase in other payables		**2,564**	4,217
Increase in amount due to affiliated companies		**178**	190
Increase in amount due to the ultimate holding company		**–**	2,892
Cash used in operations		**(74,029)**	(76,460)
Interest received		**3,617**	1,394
Overseas taxes paid		**(8,625)**	–
Interest paid		**(18,832)**	(10,700)
Net cash flows used in operating activities		**(97,869)**	(85,766)

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(105,088)**	(13,727)
Purchases of prepaid land lease payments		**(5,467)**	–
Increase in prepayment for the purchase of of items of property, plant and equipment		**(12,936)**	(26)
Proceeds from disposal of an associate		**–**	19,359
Proceeds from disposal of property, plant and equipment		**23**	–
Additions of plantation forest assets	18	**(2,044)**	(133)
Acquisition of cutting rights	32(b)	**(41,499)**	–
Acquisition of subsidiaries	32(c)	**(1,160)**	(342,615)
Increase in pledged deposits		**(20,118)**	–
Increase in other receivables	22(b)	**(51,607)**	–
Pre-acquisition advance to a potential investee		**–**	(33,287)
Net cash flows used in investing activities		**(239,896)**	(370,429)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**3,486**	446,863
Share issue expenses	31(b)	**–**	(5,591)
Proceeds from issue of convertible bonds	27	**–**	193,054
Advances of a loan from an associate		**–**	8,000
Repayment of a interest-bearing bank loan		**(9,598)**	–
Repayment of a loan from an associate		**–**	(8,000)
Loan from the ultimate holding company		**15,196**	394,657
Net cash flows from financing activities		**9,084**	1,028,983
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(328,681)**	572,788
Cash and cash equivalents at beginning of year		**613,704**	40,916
Effect of foreign exchange rate change, net		**(5)**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	**285,018**	613,704
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**126,583**	23,853
Non-pledged time deposits with on original maturity of less than three months when acquired		**158,435**	589,851
Cash and cash equivalents as stated in the statement of cash flows		**285,018**	613,704

Note: Major non-cash transaction

During the year ended 31 December 2011, the Group entered into hire purchase arrangements in respect of certain plant and equipment for its forestry business in Suriname with a total capital value at the inception of the leases amounted to HK$33,708,000 (note 26).

Statement of Financial Position

31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	19	**1,066,569**	485,428
Prepayments, deposits and other receivables	22	**–**	3,702
Total non-current assets		**1,066,569**	489,130
CURRENT ASSETS			
Prepayments, deposits and other receivables	22	**2,040**	178
Cash and cash equivalents	23	**186,685**	591,721
Total current assets		**188,725**	591,899
CURRENT LIABILITIES			
Other payables and accruals	25	**4,167**	1,831
NET CURRENT ASSETS		**184,558**	590,068
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,251,127**	1,079,198
NON-CURRENT LIABILITIES			
Convertible bonds	27	**201,553**	189,804
Net assets		**1,049,574**	889,394
EQUITY			
Issued capital	29	**7,797**	6,811
Reserves	31(b)	**1,041,777**	882,583
Total equity		**1,049,574**	889,394

William Judson MARTIN
Director

HUI Tung Wah, Samuel
Director

1. CORPORATE INFORMATION

Greenheart Group Limited is a limited liability company incorporated in Bermuda and the issued shares of which are listed on The Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda, and its principal place of business is 16/F, Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong.

During the year, the Company and its subsidiaries (collectively the "Group") were principally engaged in log harvesting, timber processing, and marketing and sale of logs and timber products.

As at 31 December 2011 and the date of approval of these financial statements, the immediate holding company of the Company is Sino-Capital Global Inc. ("Sino-Capital"), which is incorporated in the British Virgin Islands ("BVI"), and in the opinion of the directors of the Company (the "Directors"), the ultimate holding company of the Company is Sino-Forest Corporation ("Sino-Forest"), which is incorporated in Canada and listed on the Toronto Stock Exchange.

2. BASIS OF PRESENTATION

Notwithstanding that (i) the Group incurred a loss attributable to equity holders of the Company of approximately HK$74,343,000 and reported net cash outflow from operating activities of HK$97,869,000 for the year ended 31 December 2011; and (ii) the Group has capital commitments of approximately HK$54,109,000, a loan from the ultimate holding company of HK$312,000,000 and convertible bonds with an aggregate principal amount of HK$195,000,000 as at 31 December 2011, in the opinion of the Directors, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due in the foreseeable future, based on the cash flow projections of the Group and after taking into consideration the following:

(i) subsequent to the reporting period, on 26 March 2012:

(a) a loan agreement was signed with Sino-Capital, which agreed to provide a three-year term loan of US$8 million to Greenheart Resources Holdings Limited ("Greenheart Resources"), a non-wholly-owned subsidiary of the Company which is owned as to 60.39% by the Group and as to 39.61% by Sino-Capital, to finance the Group's forestry and sawmill operations in West Suriname;

(b) a supplemental letter to the loan agreement dated 28 March 2011 was signed with Sino-Forest which agreed to change the repayment date of the above-mentioned loan from the ultimate holding company as at 31 December 2011 from 28 March 2013 to 17 August 2013; and

2. BASIS OF PRESENTATION *(continued)*

(i) (continued)

(c) Sino-Capital provided a letter to the Company confirming that it currently has no intention to dispose of, directly or indirectly, any beneficial interest in the shareholding of the Company to the effect that it ceases to be the single largest shareholder of the Company which owns more than 30% of the issued share capital of the Company for more than 30 consecutive days. Further details of this arrangement are included in note 27 to the financial statements.

(ii) the Group has prioritized its funding and efforts to start the operation of its new processing sawmill in West Suriname which the Directors expect can generate fast returns to the Group once operating in full scale; and

(iii) various cost control measures have been taken by the Group to tighten the costs of operations and various general and administrative expenses.

Accordingly, the consolidated financial statements have been prepared on the going concern basis.

3.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for plantation forest assets and forestry land which are measured at fair value less costs to sell and fair value, respectively. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

3.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company. Other than subsidiaries acquired under business combinations under common control which are consolidated from the date when the combining entities or businesses first come under the control of the controlling party, the results of other subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognizes (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognized in other comprehensive income is reclassified to profit or loss or retained profits/accumulated losses, as appropriate.

3.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements:

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 35 to the financial statements.

3.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(continued)*

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the consolidated financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting of Financial Assets and Financial liabilities*[4]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

Further information about those changes that are expected to significantly affect the Group is as follows:

(a) HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortized cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

(b) HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015.

(c) HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(c) *(continued)*

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

(d) HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

(e) Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

(f) HKAS 32 Amendments clarify the requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria and clarify the meaning of “currently has a legally enforceable right of set-off” and some gross settlement systems may be considered equivalents to net settlements. The Group expects to adopt the amendments from 1 January 2014.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from is activities.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any accumulated impairment losses.

Business combinations and goodwill

Business combinations under common control
Business combinations of entities under common control are accounted for using the principles of merger accounting in accordance with the Accounting Guideline 5 *Merger Accounting for Common Control Combinations* ("AG 5") issued by the HKICPA. Under the principles of merger accounting, the consolidated financial statements incorporate the financial statement items of the acquired entities or businesses in which the common control combination occurs from the date when the acquired entities or businesses first come under the control of the controlling party.

The net assets of the acquired entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No adjustments are made to reflect fair values, or recognize any new assets or liabilities as a result of the common control combination. No amount is recognized in respect of goodwill or excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the contribution of the controlling party's interest. All differences between the cost of acquisition (fair value of consideration paid) and the amounts at which the assets and liabilities are recorded have been recognized directly in equity as part of the merger reserve. Acquisition costs are expensed as incurred.

The consolidated statement of comprehensive income includes the results of each of the acquired entities or businesses from the earliest date presented or since the date when the acquired entities or businesses first come under common control, where this is a shorter period.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill (continued)

Other business combinations and goodwill

Other business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognized in profit or loss as a gain on bargain purchase.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill (continued)

Other business combinations and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets (continued)

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties (continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Plantation forest assets

Plantation forest assets predominately consist of standing trees in a forest on which the Group undertakes agricultural activities to transform the standing trees into agricultural produce for sale. The forest establishment and maintenance expenses are charged to profit or loss in the period in which they are incurred.

Plantation forest assets are stated at fair value less costs to sell at the end of each reporting period and the gain or loss arising from the changes in the fair value less costs to sell of the plantation forest assets is recognized in profit or loss in the period in which it arises.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Plantation forest assets (continued)

If an active market exists for standing trees with reference to the distribution of the forest area by age-class, land tenure, forest health, expected growth and yield of the tree crops are adopted for determining the fair value of these assets. 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 or as determined by independent professional valuers.

At the time the tree is harvested, the agricultural produce is measured at its fair value less costs to sell at the point of harvest. It is taken out of the plantation forest assets (non-current assets) and accounted for under inventories (current assets). Depletion of plantation forest assets is calculated based on the rate corresponding to the volume of standing trees actually harvested and the total estimated standing trees volume of the plantation forest assets.

Property, plant and equipment and depreciation

Forestry land

Forestry land of the Group is freehold land, which is measured initially at cost, including transaction costs. Subsequent to initial recognition, forestry land is stated at fair value and is not depreciated.

Valuations are performed frequently enough to ensure that the fair value of the forestry land does not differ materially from its carrying amount. Changes in the values of the forestry land are dealt with as movements in the forestry land revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to profit or loss. Any subsequent revaluation surplus is credited to profit or loss to the extent of the deficit previously charged. On disposal of the forestry land, the relevant portion of the forestry land revaluation reserve realized in respect of previous valuations is transferred to retained profits/accumulated losses as a movement in reserves.

Forestry land is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the period the forestry land is derecognized is the difference between the net sales proceeds and its then carrying amount.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation (continued)

Other property, plant and equipment

Other property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of other property, plant and equipment 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 items of other property, plant and equipment have 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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of other property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of other property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings and capital roadings	2.5% to 10%
Leasehold improvements	Over the shorter of the lease terms and 10%
Plant and machinery	20%
Furniture, fixtures and office equipment	20%
Motor vehicles	10% to 20%

Where parts of an item of other property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of other property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation (continued)

Other property, plant and equipment (continued)

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of other property, plant and equipment when completed and ready for use.

Timber concessions and cutting rights

Timber concessions and cutting rights acquired separately by the Group are intangible assets and are stated at cost less accumulated amortization and any accumulated impairment losses. These timber concessions and cutting rights give the Group rights to harvest trees in the allocated concession forests in designated areas in the Republic of Suriname ("Suriname"). Amortization is charged on a unit-of-production basis, whereby the annual amortization amount is determined based on the actual logging volume for the year to the projected total standing log volume of the timber concessions and cutting rights. These timber concessions and cutting rights are assessed for impairment whenever there is an indication that the timber concessions and cutting rights are assessed for impairment. The amortization period and the amortization method for timber concessions and cutting rights with a finite useful life are reviewed at least at each financial year end.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalized at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalized finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases (continued)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases, net of any incentives received from the lessor, are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating lease are initially stated at cost and subsequently amortized on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as loans and receivables. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognized initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and cash equivalents, trade and other receivables and deposits.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance income in profit or loss. The loss arising from impairment is recognized in financial cost for loans and in other expenses for receivables.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (continued)

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other operating expenses in profit or loss.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to and loan from the ultimate holding company, amounts due to affiliated companies, deposits received, financial lease payables and liability component of convertible bonds.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in profit or loss.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognized as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a non-current liability on the amortized cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognized and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognized.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Convertible bonds (continued)

Upon the exercise of the conversion options, the resulting ordinary shares issued are recorded by the Company as additional share capital at the nominal value of the ordinary shares issued, and the excess of the total carrying amount of the liability and equity components of the convertible bonds over the nominal value of the ordinary shares issued is recorded in the share premium account. When the convertible bonds are redeemed, the carrying amount of the equity component is transferred to retained profits/accumulated losses as a movement in reserves and any difference between the amount paid and the carrying amount of the liability component is recognized in profit or loss. Where the conversion option remains unexercised at the expiry date, any remaining balance of the equity component of the convertible bonds will be transferred to retained profits/accumulated losses as a movement in reserves. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. These techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other option pricing models.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost for the Group's logs and timber products in Suriname is determined using a standard costing basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads, amortization of timber concessions and cutting rights.

Cost for the Group's logs harvested in New Zealand is determined on the first-in, first-out basis. In respect of timbers/felled trees harvested from the plantation forest assets, their costs are measured on initial recognition at their fair value less costs to sell at the point of harvest.

Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax (continued)

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on the straight-line basis over the lease terms; and

(c) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with eligible participants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 30 to the financial statements.

The cost of equity-settled transactions is recognized, together with a corresponding increase in the share option reserve, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment transactions (continued)

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market condition or non-vesting condition is satisfied, provided that all other performance or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the eligible participant as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. In addition, at the time when the share options are exercised, the amount previously recognized in the share option reserve will be transferred to the share premium account.

Options which are cancelled prior to their exercise date or lapse are deleted from the register of outstanding options. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in the share option reserve will be transferred to retained profits/accumulated losses as a movement in reserves.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit 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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalisation of such borrowing costs ceases when 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 capitalized. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

These financial statements are presented in Hong Kong dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or transaction of monetary items are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies (continued)

The functional currencies of the Company and certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their statements of comprehensive income are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognized in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of the exchange fluctuation reserve relating to that particular foreign operation is recognized in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company (after the date of change in functional currency from Hong Kong dollar to the United States dollars of 3 August 2010) and those subsidiaries with functional currency other than Hong Kong dollars are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

The major judgements, estimates and assumptions that have the most significant effect on the amounts recognized in the financial statements and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

(a) Fair value of forestry land and plantation forest assets

The Group's forestry land and plantation forest assets are stated at fair value and at fair value less costs to sell, respectively. In determining the fair value of the plantation forest assets, the professional valuer has applied the net present value approach which requires a number of key assumptions and estimates to be made such as discount rate, land cost, log price, harvest profile, plantation costs, growth, harvesting and establishment, whereas, with respect to the fair value of the forestry land, the professional valuer has applied market value approach which is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties have each acted knowledgeably, prudently, and without compulsion . Any change in the estimates may affect the fair value of the forestry land and the plantation forest assets significantly. The management reviews the assumptions and estimates periodically to identify any significant change in the fair value of the forestry land and the plantation forest assets. The carrying amounts of the Group's forestry land and plantation forest assets as at 31 December 2011 were HK$100,337,000 and HK$489,568,000 (2010: HK$93,756,000 and HK$480,480,000), respectively. Further details of which are set out in notes 14 and 18 to the financial statements.

(b) Useful lives and depreciation of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges of its property, plant and equipment. These estimates are based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will increase the depreciation charge where useful lives are less than previously estimated lives, and will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation charge in the future periods.

(c) Amortization of timber concessions and cutting rights

Amortization is charged to the profit or loss on a unit-of-production basis, by reference to the estimated total standing log volume of the timber concessions and cutting rights, as further detailed in the accounting policy for "Timber concessions and cutting rights" set out in note 3.4 to the financial statements. The estimate of the total logging volume is based on the total proven and probable reserves of the total forestry exploitation volume or contractual period from the date of commencement of commercial exploitation.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

(d) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Such assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(e) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill is allocated. Estimating the recoverable amount requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2011 was HK$7,624,000 (2010: HK$7,624,000). Further details are set out in note 16 to the financial statements.

(f) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and variable selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. The directors reassess the estimations at the end of each reporting period.

(g) Impairment of trade and other receivables

The Group makes impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of the customers and other debtors and the current market condition. The directors reassess the impairment at the end of each reporting period.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

(h) Deferred tax liabilities

The accounting for deferred tax required judgements in assessing the likely future tax consequence of events that have been recognized in the financial statements or tax returns. These judgements, which are completed on a taxing jurisdiction basis, takes into account a number of types of evidence, including the following: the sources of future taxable income, mix of earnings among different tax jurisdictions, tax planning strategies, the timing of reversal of deferred tax assets and liabilities and the likelihood of the change of the tax exemptions or concessions granted to the particular legal entity or tax group based on our interaction with local tax authorities and discussion with the relevant experts in that particular tax jurisdiction. As at 31 December 2011, the Group had total deferred tax liabilities of HK$89,754,000 (2010: HK$77,705,000), of which HK$72,680,000 (2010: HK$73,220,000) arising from the fair value adjustment in relation to the acquisitions of 60% Greenheart Resources and its subsidiaries in 2007. Although management believes that the judgements and estimates discussed herein are reasonable, actual results could differ, and the Group may be exposed to increases or decreases in deferred tax expenses that could be material.

5. OPERATING SEGMENT INFORMATION

The Group has adopted HKFRS 8 *Operating Segments* which requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to segments and to assess their performance.

The Group manages its businesses by geographical location and the chief operating decision makers (i.e. the Directors) also review the segment information by this category to allocate resources to segments and to assess their performance. The Group has presented the following three reportable segments:

Suriname:	Engaging in hardwood log harvesting, timber processing, marketing and sale of logs and timber products
New Zealand:	Engaging in softwood log harvesting, marketing and sale of logs (acquired during the year through a business combination under common control – note 32(a))
Elsewhere:	Engaging in trading of logs and timber products

5. OPERATING SEGMENT INFORMATION *(continued)*

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's loss before tax except that interest income, finance costs, as well as head office and corporate income and expenses are excluded from such measurement.

Segment assets exclude other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

The following tables present the revenue, profit or loss, assets and liabilities information regarding the Group's operating segments for the years ended 31 December 2011 and 2010:

Year ended 31 December 2011

	Suriname HK$'000	New Zealand HK$'000	Elsewhere HK$'000	Total HK$'000
SEGMENT REVENUE	25,501	300,655	828	326,984
SEGMENT RESULTS	(67,224)	60,194	251	(6,779)
Other income and gains	4,458	580	–	5,038
Finance costs	(267)	(9,215)	–	(9,482)
Corporate and other unallocated income and expenses, net			–	(82,726)
LOSS BEFORE TAX				(93,949)
SEGMENT ASSETS	1,102,946	729,599	–	1,832,545
Corporate and other unallocated assets				198,656
Total assets				2,031,201
SEGMENT LIABILITIES	152,100	347,812	–	499,912
Corporate and other unallocated liabilities				206,532
Total liabilities				706,444

5. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2011 *(continued)*

	Suriname HK$'000	New Zealand HK$'000	Elsewhere HK$'000	Total HK$'000
Other segment information*				
Interest income	337	48	–	385
Fair value gain on plantation forest assets	–	45,641	–	45,641
Depreciation	(5,337)	(701)	–	(6,038)
Forest depletion cost as a result of harvesting	–	(39,821)	–	(39,821)
Amortization of timber concessions and cutting rights	(4,589)	–	–	(4,589)
Amortization of harvest roadings	–	(2,080)	–	(2,080)
Amortization of prepaid land lease payments	(297)	–	–	(297)
Impairment of goodwill	(1,301)	–	–	(1,301)
Write-down of inventories to net realizable value	(5,874)	–	–	(5,874)
Capital expenditure#	(129,345)	(27,125)	–	(156,470)

* *Included in the "Segment Results" disclosed above.*

\# *Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments, timber concessions and cutting rights and plantation forest assets and excluding assets from the acquisition of subsidiaries.*

5. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2010

	Suriname HK$'000	New Zealand HK$'000 (Restated)	Elsewhere HK$'000	Total HK$'000 (Restated)
SEGMENT REVENUE	16,714	317	–	17,031
SEGMENT RESULTS	(47,897)	21,081	–	(26,816)
Other income and gains	848	6		854
Finance costs	–	(2,897)		(2,897)
Corporate and other unallocated income and expenses, net				(51,364)
LOSS BEFORE TAX				(80,223)
SEGMENT ASSETS	800,105	592,612	–	1,392,717
Corporate and other unallocated assets				608,115
Total assets				2,000,832
SEGMENT LIABILITIES	102,081	419,498	–	521,579
Corporate and other unallocated liabilities				194,235
Total liabilities				715,814

5. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2010 ***(continued)***

	Suriname HK$'000	New Zealand HK$'000 (Restated)	Elsewhere HK$'000	Total HK$'000 (Restated)
Other segment information*				
Interest income	8	6	–	14
Fair value gain on plantation forest assets	–	23,596	–	23,596
Depreciation	(3,440)	(265)	–	(3,705)
Forest depletion cost as a result of harvesting	–	(29)	–	(29)
Amortization of timber concessions and cutting rights	(2,458)	–	–	(2,458)
Amortization of prepaid land lease payments	(36)	–	–	(36)
Impairment of trade receivables	(310)	–	–	(310)
Write-down of inventories to net realizable value	(5,564)	–	–	(5,564)
Capital expenditure#	(13,650)	(133)	–	(13,783)

* *Included in the "Segment Results" disclosed above.*

\# *Capital expenditure consists of additions to property, plant and equipment, prepaid land lease payments, timber concessions and cutting rights and plantation forest assets and excluding assets from the acquisition of subsidiaries.*

Geographical information

Revenue is attributed to the following geographical regions of the customers:

	2011 HK$'000	2010 HK$'000 (Restated)
Mainland China	**246,340**	15,740
New Zealand	**48,322**	317
Singapore	**26,821**	–
Suriname	**2,543**	974
Netherlands	**2,308**	–
Hong Kong	**650**	–
	326,984	17,031

5. OPERATING SEGMENT INFORMATION *(continued)*

Information about major customers

During the year ended 31 December 2011, the Group had transactions with 4 (2010: 3) customers who each contributed over 10% of the Group's total gross revenue before export tax for the year. A summary of revenue earned from each of these major customers is set out below:

	2011	2010
	HK$'000	HK$'000
		(Restated)
Customer 1	**73,194**	N/A*
Customer 2	**33,618**	N/A*
Customer 3	**32,589**	N/A*
Customer 4	**31,790**	N/A*
Customer 5	**N/A***	6,427
Customer 6	**N/A***	2,488
Customer 7	**N/A***	2,129
	171,191	11,044

* The corresponding revenue of these customers is not disclosed as they individually did not contribute over 10% of the Group's total gross revenue before export tax for the relevant year.

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the aggregate of the invoiced value of goods sold, net of export tax and after allowances for returns and trade discounts.

An analysis of revenue, other income and gains is as follows:

	2011 HK$'000	2010 HK$'000 (Restated)
Revenue		
Sales of logs and timber products	326,984	17,031
Other income and gains		
Bank interest income	3,617	1,394
Other interest income	241	–
Write-back of other payables	2,190	–
Rental income for lease of plant and machinery	861	828
Recovery of insurance claim	586	–
Waive of charge on early loan repayment	222	–
Gain on disposal of an associate	–	64
Others	697	8
	8,414	2,294

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2011 HK$'000	2010 HK$'000 (Restated)
Interest on convertible bonds	21,467	14,714
Interest on a loan from the ultimate holding company	9,215	2,897
Interest on finance leases	225	–
Interest on bank loans	42	–
Interest on a loan from an associate	–	64
	30,949	17,675

8. LOSS BEFORE TAX

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

	Notes	2011 HK$'000	2010 HK$'000 (Restated)
Cost of inventories sold#		**127,790**	5,947
Depreciation	14	**7,979**	4,058
Amortization of prepaid land lease payments	15	**297**	36
Amortization of harvest roadings*		**2,080**	–
Amortization of timber concessions and cutting rights	17	**5,400**	5,949
Less: Amount capitalized in inventories		**(811)**	(3,491)
Current year expenditure charged to cost of goods sold#		**4,589**	2,458
Forest harvested as agricultural produce	18	**38,597**	1,273
Less: Amount reversed from/(capitalized in) inventories		**1,224**	(1,244)
Forest depletion cost as a result of harvesting#		**39,821**	29
Loss on disposal of items of property, plant and equipment*		**2,426**	2,328
Impairment of goodwill*	16	**1,301**	–
Impairment of trade receivables*	21(b)	**–**	310
Write-down of inventories to net realizable value*		**5,874**	5,564
Provision for a short term loan to a potential investee*		**7,410**	–
Minimum lease payments under operating leases for land and buildings		**7,677**	5,437
Auditors' remuneration		**2,290**	1,400
Employee benefit expense (including directors' remuneration (note 9)):			
Wages and salaries		**37,169**	27,241
Equity-settled share option expense		**4,934**	13,868
Pension scheme contributions (defined contribution scheme)		**298**	201
		42,401	41,310
Gross rental income		**(861)**	(828)
Less: outgoings		**539**	368
Net rental income		**(322)**	(460)
Foreign exchange differences, net		**(1,224)**	(3,171)

Included in "Cost of goods sold" disclosed in the consolidated statement of comprehensive income.

* Included in "Other operating expenses" disclosed in the consolidated statement of comprehensive income.

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Fees	**480**	480
Other emoluments:		
Salaries, allowances and benefits in kind	**1,300**	2,099
Equity-settled share option expense	**–**	10,187
Pension scheme contributions	**–**	9
	1,300	12,295
	1,780	12,775

During the prior year, certain directors were granted share options without a vesting period, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 30 to the financial statements. The fair values of such options, which have been recognized in profit or loss in the prior year, were determined as at the respective dates of grant and are included in the above directors' remuneration disclosures.

9. DIRECTORS' REMUNERATION *(continued)*

An analysis of directors' remuneration, on a named basis, is as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 December 2011					
Executive directors:					
Mr. William Judson Martin	–	–	–	–	–
Mr. Hui Tung Wah, Samuel	–	1,300	–	–	1,300
	–	1,300	–	–	1,300
Non-executive directors:					
Mr. Chan Tak Yuen, Allen*	–	–	–	–	–
Mr. Simon Murray	–	–	–	–	–
	–	–	–	–	–
Independent non-executive directors:					
Mr. Wong Che Keung, Richard	120	–	–	–	120
Mr. Tong Yee Yung, Joseph	120	–	–	–	120
Mr. Wong Kin Chi	240	–	–	–	240
	480	–	–	–	480
Total	480	1,300	–	–	1,780

* Mr. Chan resigned as a director of the Company on 29 August 2011.

9. DIRECTORS' REMUNERATION *(continued)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 31 December 2010					
Executive directors:					
Mr. William Judson Martin	–	–	3,830	–	3,830
Mr. Hui Tung Wah, Samuel	–	1,300	488	–	1,788
Mr. Sung Yan Wai, Petrus	–	787	–	9	796
Mr. Chau Chi Piu, Alex	–	12	–	–	12
	–	2,099	4,318	9	6,426
Non-executive directors:					
Mr. Chan Tak Yuen, Allen	–	–	3,830	–	3,830
Mr. Simon Murray	–	–	575	–	575
	–	–	4,405	–	4,405
Independent non-executive directors:					
Mr. Wong Che Keung, Richard	120	–	488	–	608
Mr. Tong Yee Yung, Joseph	120	–	488	–	608
Mr. Wong Kin Chi	240	–	488	–	728
	480	–	1,464	–	1,944
Total	480	2,099	10,187	9	12,775

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2010: three) director, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining four (2010: two) non-director, highest paid employees for the year are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**9,351**	2,291
Equity-settled share option expense	**3,355**	1,074
Pension scheme contributions	**24**	24
	12,730	3,389

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2011	2010
HK$1,000,001 to HK$1,500,000	**1**	–
HK$1,500,001 to HK$2,000,000	**1**	2
HK$2,500,001 to HK$3,000,000	**1**	–
HK$7,000,001 to HK$7,500,000	**1**	–
	4	2

During the current and prior years, share options with or without a vesting period were granted to the four (2010: two) non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 30 to the financial statements. The fair values of the options without a vesting period have been recognized in profit or loss in the year in which such share options were granted; and those of the options with a vesting period have been recognized in profit or loss over the vesting period. The amounts of the fair values of the options recognized in profit or loss are included in the above non-director, highest paid employees' remuneration disclosures.

11. TAX

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax had been made during the year ended 31 December 2010 as the Group did not generate any assessable profits arising in Hong Kong during that year.

No overseas income tax has been provided during the year as the subsidiaries operating in overseas countries did not generate any assessable profits arising during the year based on existing legislation, interpretations and practices in respect thereof. New Zealand income tax has been provided at the rate of 30% in respect of the estimated assessable profits arising in New Zealand during the year ended 31 December 2010, based on the existing legislation, interpretations and practices in respect thereof.

Subsidiaries established in Suriname and New Zealand are subject to relevant tax rules and regulations of Suriname and New Zealand at the statutory tax rate of 36% (2010: 36%) and 28% (2010: 30%), respectively. One of the Company's major subsidiaries in Suriname is currently enjoying a local income tax exemption for an original period of nine years from 2007 to 2016, which, subject to the approval by the Suriname authority, may be renewable or extended for a further period upon expiry. During the year ended 31 December 2011, the effective tax rate of the Group's New Zealand operation, calculated on the basis of total current and deferred tax expenses to its operating result, is 24.1%.

	2011 **HK$'000**	2010 HK$'000 (Restated)
Current – Hong Kong		
Charge for the year	**2,467**	–
Current – Elsewhere		
Charge for the year	**–**	2,527
Overprovision in the prior year	**(2,527)**	–
Foreign exchange differences on income tax payable	**(51)**	–
Deferred (note 28)	**12,338**	3,898
Foreign exchange differences on deferred tax liabilities (note 28)	**(289)**	–
Total tax expense for the year	**11,938**	6,425

11. TAX *(continued)*

A reconciliation of the tax credit applicable to loss before tax at the statutory rate of Hong Kong, where the Company is headquartered, to the tax expense at the effective tax rate, is as follows:

	2011 HK$'000	2010 HK$'000 (Restated)
Loss before tax	**(93,949)**	(80,223)
Tax credit at the Hong Kong statutory tax rate of 16.5% (2010: 16.5%)	**(15,502)**	(13,237)
Difference in tax rates of subsidiaries operating in other jurisdictions	**5,980**	3,640
Overprovision in the prior year	**(2,527)**	–
Expenses not deductible for tax	**25,974**	14,633
Loss attributable to an associate	**–**	275
Income not subject to tax	**(3,351)**	(1,105)
Tax losses not recognized	**749**	2,219
Others	**615**	–
Tax expense at the Group's effective rate of 12.7% (2010: 8.0%)	**11,938**	6,425

12. LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company for the year ended 31 December 2011 includes a loss of HK$36,781,000 (2010: HK$55,750,000) that has been dealt with in the financial statements of the Company.

A reconciliation of the amount of consolidated loss for the year attributable to equity holders of the Company dealt with in the financial statements of the Company to the Company's loss for the year is as follows:

	2011 **HK$'000**	2010 HK$'000
Amount of consolidated loss for the year attributable to equity holders of the Company dealt with in the financial statements of the Company	**36,781**	55,750
Reversal of impairment loss on an amount due from a subsidiary	**–**	(19,848)
Impairment loss on an amount due from a subsidiary	**70,355**	–
Company's loss for the year (note 31(b))	**107,136**	35,902

13. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share amounts is based on the loss for the year attributable to equity holders of the Company, and the weighted average of 755,920,294 (2010: 445,979,969) ordinary shares in issue during the year.

In respect of the diluted loss per share amounts presented, no adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2011 and 2010 as the impact of the share options and convertible bonds outstanding during these years had either no dilutive effect or an anti-dilutive effect on the basic loss per share amounts presented.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Forestry land HK$'000 (note (a))	Buildings and capital roadings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000 (note (b))	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000 (note (b))	Total HK$'000
Year ended 31 December 2011								
At 1 January 2011, as restated:								
Cost or valuation	93,756	12,988	71	22,750	1,275	3,673	1,169	135,682
Accumulated depreciation	–	(473)	(9)	(5,838)	(507)	(1,607)	–	(8,434)
Net carrying amount	93,756	12,515	62	16,912	768	2,066	1,169	127,248
Net carrying amount:								
At 1 January 2011, as restated	93,756	12,515	62	16,912	768	2,066	1,169	127,248
Acquisition of subsidiaries (note 32(b))	–	5,244	–	159	149	–	–	5,552
Additions	–	25,664	4,051	8,765	6,617	3,398	109,498	157,993
Surplus on revaluation	4,057	–	–	–	–	–	–	4,057
Transfers	–	222	–	3,762	–	–	(3,984)	–
Depreciation provided during the year (note 8)	–	(1,366)	(1,171)	(3,367)	(1,231)	(844)	–	(7,979)
Disposals	–	–	(63)	(1,712)	(47)	(627)	–	(2,449)
Exchange realignment	2,524	–	–	4	–	–	–	2,528
At 31 December 2011	100,337	42,279	2,879	24,523	6,256	3,993	106,683	286,950
At 31 December 2011:								
Cost or valuation	100,337	44,133	4,052	31,453	7,966	5,440	106,683	300,064
Accumulated depreciation	–	(1,854)	(1,173)	(6,930)	(1,710)	(1,447)	–	(13,114)
Net carrying amount	100,337	42,279	2,879	24,523	6,256	3,993	106,683	286,950

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Forestry land HK$'000 (note (a))	Buildings and capital roadings HK$'000	Leasehold improve–ments HK$'000	Plant and machinery HK$'000 (note (b))	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000 (note (b))	Total HK$'000
Year ended 31 December 2010								
At 1 January 2010:								
Cost	–	–	1,018	16,043	2,605	3,976	1,708	25,350
Accumulated depreciation	–	–	(675)	(4,715)	(1,240)	(1,515)	–	(8,145)
Net carrying amount	–	–	343	11,328	1,365	2,461	1,708	17,205
Net carrying amount:								
At 1 January 2010	–	–	343	11,328	1,365	2,461	1,708	17,205
Acquisition of subsidiaries (note 32(a))	88,761	8,822	–	125	–	–	–	97,708
Additions	–	–	–	9,006	571	523	3,627	13,727
Surplus on revaluation	4,995	–	–	–	–	–	–	4,995
Transfers	–	4,166	–	–	–	–	(4,166)	–
Depreciation provided during the year (note 8)	–	(473)	(216)	(2,370)	(521)	(478)	–	(4,058)
Disposals	–	–	(65)	(1,177)	(647)	(440)	–	(2,329)
At 31 December 2010, as restated	93,756	12,515	62	16,912	768	2,066	1,169	127,248
At 31 December 2010, as restated:								
Cost or valuation	93,756	12,988	71	22,750	1,275	3,673	1,169	135,682
Accumulated depreciation	–	(473)	(9)	(5,838)	(507)	(1,607)	–	(8,434)
Net carrying amount	93,756	12,515	62	16,912	768	2,066	1,169	127,248

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Notes:

(a) The forestry land represents a parcel of freehold land in New Zealand. The Group uses the revaluation model of HKAS 16 to account for the forestry land, which requires that revaluation should be performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the year.

The Group's forestry land was revalued on 31 December 2011 by Telfer Young (Northland) Limited, independent professionally qualified valuers, with reference to the market price transactions on arm's length terms for land comparable in size and location to that held by the Group.

Had the forestry land been carried under the cost model, the carrying amount of the forestry land of the Group would have been approximately HK$88,761,000 as at 31 December 2011 and 2010.

(b) The net carrying amounts of the Group's property, plant and equipment held under finance leases included in the total amounts of plant and machinery and construction in progress as at 31 December 2011 amounted to HK$4,128,000 (2010: Nil) and HK$47,882,000 (2010: Nil), respectively.

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2011	2010
	HK$'000	HK$'000
Carrying amount at beginning of year	**1,412**	1,448
Additions during the year	**14,901**	–
Amortization provided during the year (note 8)	**(297)**	(36)
Carrying amount at end of year	**16,016**	1,412
Current portion included in current portion of prepayments, deposits and other receivables (note 22)	**(444)**	(36)
Non-current portion	**15,572**	1,376

The leasehold land of the Group are all situated in Suriname and held under medium term leases.

At 31 December 2011 and the date of approval of these financial statements, the Group is in the process of obtaining the land use right certificates for two parcels of land located in Suriname from the local government authority. The Directors consider that the relevant land use right certificates will be obtained upon completion of the registration process with the local government authority.

16. GOODWILL

	Notes	Group 2011 HK$'000	2010 HK$'000
At beginning of year:			
Cost and net carrying amount		**7,624**	7,624
Net carrying amount:			
At beginning of year		**7,624**	7,624
Acquisition of a subsidiary	32(c)	**1,301**	–
Impairment during the year recognized in profit or loss	8	**(1,301)**	–
At end of year		**7,624**	7,624
At end of year:			
Cost		**8,925**	7,624
Accumulated impairment		**(1,301)**	–
Net carrying amount		**7,624**	7,624

Impairment testing of goodwill

The gross carrying amount of the goodwill, which arose on the acquisitions of subsidiaries, has been allocated to the following relevant cash-generating units of the Group for impairment testing, which is summarized as follows:

	Notes	2011 HK$'000	2010 HK$'000
Logs and timber products business	(a)	**7,624**	7,624
Pallets business	(b)	**1,301**	–
		8,925	7,624

16. GOODWILL *(continued)*

Impairment testing of goodwill (continued)

Notes:

(a) *Logs and timber products business cash-generating unit*

The goodwill is attributable to the acquisition of the 100% equity interest in Dynasty Forestry Industry N.V. ("Dynasty") by Beach Paradise N.V., a 60.39% indirectly owned subsidiary of the Company.

The Directors allocated the goodwill of HK$7,624,000 to the cash-generating unit of the forestry and timber business in West Suriname segment for the purpose of testing its impairment. The recoverable amount of the cash-generating unit is determined based on fair value less costs to sell. The key assumptions are based upon the discount rates, budgeted profit margin and revenue during the forecast period. The projections (including profit margin, revenue and the growth rates) are based on the anticipations of the most likely actions which will be taken in the operation of the business with reference to sustainable annual allowable cut and expectations for future market development.

Key assumptions on which management has based its cash flow projections for the fair value less costs to sell calculations are as follows:

Revenue and budgeted gross margins – The basis used to determine the value assigned is based on benchmarking data about the forestry and timber business segment's ability to progress and to generate economic income stream through the sale of the timber products to its customers.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units. The discount rate applied to cash flow projections is 12%.

For the estimation of the product price increment rate and the long term growth rate, the Directors have taken the growth of the forestry and timber product industry and the global economy as a whole.

The Directors are of the opinion that, based on the fair value less costs to sell calculations prepared in accordance with the above key assumptions, no impairment loss provision against the goodwill as at 31 December 2011 is considered necessary (2010: Nil).

(b) *Pallets business cash-generating unit*

As at 31 December 2011, the Directors had performed an impairment testing on the Group's cash-generating unit of the pallets business and considered that the carrying amount of the goodwill is in excess of its recoverable amount as a result of the continuing non-performance of the pallets business Accordingly, a full provision for impairment of HK$1,301,000 against this goodwill was charged to profit or loss during the year (2010: Nil).

17. TIMBER CONCESSIONS AND CUTTING RIGHTS

	Group	
	2011	2010
	HK$'000	HK$'000
At beginning of year:		
Cost	**751,012**	751,012
Accumulated amortization	**(9,577)**	(3,628)
Net carrying amount	**741,435**	747,384
Net carrying amount:		
At beginning of year	**741,435**	747,384
Acquisition of subsidiaries (note 32(b))	**64,166**	–
Amortization provided during the year (note 8)	**(5,400)**	(5,949)
At end of year	**800,201**	741,435
At end of year:		
Cost	**815,178**	751,012
Accumulated amortization	**(14,977)**	(9,577)
Net carrying amount	**800,201**	741,435

The Group is a natural forest concession owner and operator in Suriname, South America, and currently manages and operates certain forest concessions and cutting rights for the exploitation of timber on parcels of land in Suriname of approximately 313,000 hectares with the terms ranging from 10 to 20 years. In addition, the Group has also obtained during the year an exclusive right to manage and operate certain forest concessions of approximately 91,750 hectares of natural tropical hardwood forest in Suriname for a term of two years commencing from 20 December 2011, further details of which are set out in the Company's announcement dated 8 December 2011.

As at 31 December 2011, the Group's total timber concessions and cutting rights under management in Suriname covered land areas of approximately 405,000 hectares (2010: 184,000 hectares).

18. PLANTATION FOREST ASSETS

	2011 HK$'000	2010 HK$'000 (Restated)
At beginning of year	**480,480**	–
Acquisition of subsidiaries (note 32(a))	**–**	458,024
Additions	**2,044**	133
Harvested as agricultural produce (note 8)	**(38,597)**	(1,273)
Changes in fair value less costs to sell	**45,641**	23,596
At end of year	**489,568**	480,480

As at 31 December 2011, the Group intensively managed radiate pine plantation forest assets in the Northland region of New Zealand (the "Mangakahia Forest"), which had a total freehold title land base of approximately 13,000 hectares, of which approximately 11,000 hectares was the net productive area. All the productive area was owned freehold, except for approximately 80 hectares which were held through a single rotation forestry right.

The Group's plantation forest assets in New Zealand are regarded as biological assets which are measured at fair value less costs to sell at the end of each reporting period in accordance with HKAS 41 *Agriculture*. These assets were independently valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited as at 31 December 2011. In view of the non-availability of market value for tree plantations in New Zealand, the professional valuers have applied the net present value approach whereby projected future net cash flows, based on their assessments of current timber log prices, were discounted at the pre-tax discount rate of 11% for the plantation forest assets, to arrive at the fair value of the plantation forest assets.

The discount rate used in the valuation of the plantation forest assets in New Zealand as at 31 December 2011 was determined by reference to discount rates published by public entities and government agencies in New Zealand, weighted average cost of capital analysis, internal rate of return analysis, surveyed opinion of forest valuers practice and the implied discount rate of forest sales transactions mainly in New Zealand over a period of time, with more weight given to the implied discount rate.

19. INTERESTS IN SUBSIDIARIES

		Company	
	Notes	**2011** **HK$'000**	2010 HK$'000
Unlisted shares, at cost		**1**	1
Due from subsidiaries	(a)	**1,660,903**	1,009,407
		1,660,904	1,009,408
Impairment	(b)	**(594,335)**	(523,980)
		1,066,569	485,428

Notes:

(a) The amounts advanced to the subsidiaries included in the interests in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the Directors, these advances are considered as quasi-equity loans to the subsidiaries.

(b) An impairment was recognized for amounts due from subsidiaries of HK$1,660,903,000 (before deducting the impairment loss) (2010: HK$1,009,407,000) because these subsidiaries have been loss-making for some time.

The movements in provision for impairment of the amounts due from subsidiaries during the year are as follows:

	Company	
	2011 **HK$'000**	2010 HK$'000
At beginning of year	**523,980**	543,828
Impairment loss recognized	**70,355**	–
Reversal of impairment loss	**–**	(19,848)
At end of year	**594,335**	523,980

19. INTERESTS IN SUBSIDIARIES *(continued)*

Notes: (continued)

(c) Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operation	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Barnet Consultancy Limited	BVI/Hong Kong	US$1	–	100	Provision of corporate service
Silver Mount Group Limited	BVI/Hong Kong	US$1	100	–	Investment holding
Greenheart Resources Holdings Limited	BVI/Hong Kong	–	–	60.39	Investment holding
Superb Able Industrial Limited	BVI/Hong Kong	US$1,155	–	60.39	Provision of corporate service
Greenheart Resources (Hong Kong) Company Limited	Hong Kong	HK$1	–	60.39	Provision of administrative and management services
Topwood Holdings Limited	BVI/Hong Kong	US$1	–	60.39	Provision of administrative and management services
Greenheart (Suriname) N.V. (formerly known as Octagon International N.V.)	Suriname	Surinamese dollar ("SRD")200	–	60.39	Timber concession holding, harvesting and sale of logs and timber products
Epro N.V.	Suriname	SRD500	–	60.39	Timber concession holding

19. INTERESTS IN SUBSIDIARIES *(continued)*

Notes: (continued)

(c) (continued)

Company name	Place of incorporation/ registration and operation	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Dynasty Forestry Industry N.V.	Suriname	SRD3,000	–	60.39	Timber concession holding
Beach Paradise N.V.	Suriname	SRD1,000	–	60.39	Manufacturing and sale of timber products
Greenheart Grand Forest Limited	BVI/Hong Kong	US$1	–	60.39	Sale of logs and timber products
Greenheart (Overseas) Company Limited	BVI/Hong Kong	US$1	–	100	Sale of logs and timber products
Mega Harvest International Limited ("Mega Harvest")	BVI/Hong Kong	–	–	100	Investment holding
Greenheart MFV Limited	New Zealand	–	–	100	Investment in commercial forestry and investment holding
Greenheart Mangakahia Forest Land Limited	New Zealand	–	–	100	Forestry land holding and investment holding
Greenheart Mangakahia Forest Maori Land Limited	New Zealand	–	–	100	Forestry land holding
Greenheart Forest Technologies N.V. (formerly known as Vista Marina Services N.V.)	Suriname	SRD1,000	–	60	Administration of forestry operations

19. INTERESTS IN SUBSIDIARIES *(continued)*

Notes: (continued)

(c) (continued)

Company name	Place of incorporation/ registration and operation	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Forest Technologies N.V.	Suriname	SRD10,000	–	60	Timber cutting right holding
Caribbean Pallet Company N.V.	Suriname	SRD1,000	–	60	Manufacturing and sale of pallets
Greenheart Forest Suriname Suma Limited	BVI/Hong Kong	US$1	–	100	Investment holding

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

20. INVENTORIES

	Group	
	2011	2010
	HK$'000	HK$'000
		(Restated)
Logs	**4,944**	11,937
Timber products	**2,878**	1,590
	7,822	13,527

21. TRADE RECEIVABLES

	Group	
	2011	2010
	HK$'000	HK$'000
		(Restated)
Trade receivables	**34,533**	3,687
Impairment (note (b))	**–**	(310)
	34,533	3,377

The Group's trading terms with its customers are mainly letters of credit at sight or on open accounts with credit terms of 30 days to 45 days, where a 20% to 40% deposit is normally required. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables so as to minimize credit risk. Overdue balances are reviewed regularly by senior management. In the opinion of the Directors, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

Notes:

(a) An aged analysis of the trade receivables of the Group as at the end of the reporting period, based on the invoice date and net of impairment, is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
		(Restated)
Within 1 month	**33,697**	3,031
1 to 3 months	**749**	342
Over 3 months	**87**	4
	34,533	3,377

21. TRADE RECEIVABLES *(continued)*

Notes: (continued)

(b) The movements in provision for impairment of trade receivables during the year are as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
		(Restated)
At beginning of year	**310**	330
Impairment losses recognized (note 8)	**–**	310
Amount written off as uncollectible	**(310)**	(330)
At end of year	**–**	310

(c) An aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
		(Restated)
Neither past due nor impaired	**33,697**	3,031
Less than 3 months past due	**836**	346
	34,533	3,377

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group and for whom there is no recent history of default. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Non-current portion	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		(Restated)
Deposits paid for the purchase of items of property, plant and equipment	**12,939**	3,154	**–**	–
Costs incurred for acquisition of subsidiaries	**–**	–	**–**	3,702
Rental deposits	**1,906**	1,906	**–**	–
Prepayments	**548**	148	**–**	–
Other receivables (note (b))	**42,247**	–	**–**	–
	57,640	5,208	**–**	3,702

Current portion	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		(Restated)
Current portion of prepaid land lease payments (note 15)	**444**	36	**–**	–
Prepayments	**13,402**	5,994	**–**	178
Deposits	**2,274**	682	**2,040**	–
Other receivables (note (b))	**10,035**	141	**–**	–
	26,155	6,853	**2,040**	178

Notes:

(a) None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

(b) Included in the Group's other receivables under non-current portion and current portion are amounts of HK$42,247,000 and HK$9,360,000, respectively, with respect to a loan of US$6.6 million granted by the Group to an independent third party pursuant to a loan agreement dated 8 December 2011. The loan is secured by the borrower's major assets and entire issued share capital and interest-bearing at the rate of 3.9% per annum. Further details of which are set out in the Company's announcement dated 8 December 2011.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000
Cash and bank balances other than time deposits	**126,583**	23,853	**9,064**	1,870
Time deposits with original maturity of less than three months when acquired	**178,553**	589,851	**177,621**	589,851
Total cash and bank balances	**305,136**	613,704	**186,685**	591,721
Less: Pledged deposits for banking facilities	**(20,118)**	–	**–**	–
Cash and cash equivalents	**285,018**	613,704	**186,685**	591,721

Bank balances other than time deposits earn interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank deposits are deposited with creditworthy banks with no recent history of default.

24. TRADE PAYABLES

An aged analysis of the trade payables of the Group as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2011	2010
	HK$'000	HK$'000 (Restated)
Within 1 month	**17,940**	6,317
1 to 3 months	**238**	–
Over 3 months	**335**	–
	18,513	6,317

The trade payables are non-interest-bearing and are normally settled on 60-day terms.

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2011	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		(Restated)
Other payables	**19,576**	5,080	**–**	–
Deposits received	**38**	584	**–**	–
Accruals	**7,934**	4,662	**4,167**	1,831
	27,548	10,326	**4,167**	1,831

Other payables are non-interest-bearing and have an average term of three months.

26. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery under hire purchase arrangements for its forestry business in Suriname. These hire purchases are classified as finance leases with hire purchase terms of five years.

At 31 December 2011, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments 2011 HK$'000	Minimum lease payments 2010 HK$'000	**Present value of minimum lease payments 2011 HK$'000**	Present value of minimum lease payments 2010 HK$'000
Amounts payable:				
Within one year	**8,661**	–	**6,208**	–
In the second year	**8,202**	–	**6,227**	–
In the third to fifth years, inclusive	**23,921**	–	**21,273**	–
Total minimum finance lease payments	**40,784**	–	**33,708**	–
Future finance charges	**(7,076)**	–		
Total net finance lease payables	**33,708**	–		
Portion classified as current liabilities	**(6,208)**	–		
Non-current portion	**27,500**	–		

27. CONVERTIBLE BONDS

In the prior year, the Company issued US$ denominated convertible bonds with an aggregate principal amount of US$25,000,000 (the"US$ Convertible Bonds") to Greater Sino Holdings Limited ("Greater Sino"), a company in which a director of the Company has an indirect interest, for a total cash consideration of US$24,750,000 pursuant to a convertible note subscription agreement entered into between the Company and Greater Sino on 22 June 2010 (the "Subscription Agreement"). The noteholder has the right to convert the whole or part of the principal amount of the US$ Convertible Bonds into ordinary shares of the Company anytime commencing from six months after the issuance of the US$ Convertible Bonds and from time to time in an amount of not less than US$100,000 on each conversion based on the terms as set out in the Subscription Agreement.

The noteholder may require the Company to redeem all or part of the US$ Convertible Bonds on each of the dates falling on the third anniversary and on the fourth anniversary of the issuance date of the US$ Convertible Bonds at the redemption amount as defined in the Subscription Agreement (the "Redemption Amount"). In addition, the noteholder may require the Company to redeem all of the US$ Convertible Bonds if Sino-Forest and its subsidiaries as a group disposes of, directly or indirectly, any beneficial interest in shareholding in the Company to the effect that such group ceases to be the single largest shareholder which owns more than 30% of the issued share capital of the Company for more than 30 consecutive days or upon certain other events as specified in the Subscription Agreement, at the Redemption Amount. Further details of the Subscription Agreement are set out in the Company's shareholders' circular dated 13 July 2010.

As mentioned in note 2 to the financial statements, a written confirmation was received from Sino-Capital confirming to the Company that it currently has no intention to dispose of, directly or indirectly, any beneficial interest in shareholding in the Company to the effect that it ceases to be the single largest shareholder of the Company which owns more than 30% of the issued share capital of the Company for more than 30 consecutive days. Accordingly, the US$ Convertible Bonds were classified as non-current liabilities as at 31 December 2011 in view of the maturity date of 17 August 2015.

27. CONVERTIBLE BONDS *(continued)*

The summarized information of the US$ Convertible Bonds is set out as follows:

Group and Company

Issuance date	17 August 2010
Maturity date	17 August 2015
Original principal amount	US$25,000,000
Coupon rate	5%
Conversion price per ordinary share (HK$)	2.002

The US$ Convertible Bonds is bifurcated into a liability component and an equity component for accounting purposes. The following tables summarize the movements in the principal amounts, liability and equity components of the Company's US$ Convertible Bonds during the year:

	HK$'000
Principal amount outstanding	
At 31 December 2010, 1 January 2011 and 31 December 2011	195,000
Liability component	
Issue of US$ Convertible Bonds	185,726
Interest expense	7,722
Interest paid and payable	(3,644)
At 31 December 2010 and 1 January 2011	189,804
Interest expense	21,467
Interest paid and payable	(9,718)
At 31 December 2011	201,553
Equity component (included in convertible bond equity reserve)	
At 31 December 2010, 1 January 2011 and 31 December 2011	7,328

28. DEFERRED TAX

The movements in deferred tax liabilities of the Group are during the year are as follows:

Group

	Attributable to						
	Fair value adjustments arising from acquisition of subsidiaries	Revaluation of plantation forest assets	Tax losses	Depreciation allowance in excess of related depreciation	Fair value of interest-bearing loan	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2010	73,807	–	–	–	–	–	73,807
Deferred tax credited to profit or loss during the year (note 11)	(587)	4,485	–	–	–	–	3,898
At 31 December 2010 and 1 January 2011, as restated	73,220	4,485	–	–	–	–	77,705
Deferred tax charged/(credited) to profit or loss during the year (note 11)	(540)	5,968	(3,705)	3,084	7,446	85	12,338
Exchange differences credited to profit or loss during the year (note 11)	–	(289)	–	–	–	–	(289)
At 31 December 2011	72,680	10,164	(3,705)	3,084	7,446	85	89,754

As at 31 December 2011, the Group had aggregate tax losses arising in Hong Kong of approximately HK$58,987,000 (2010: HK$54,448,000) that are available indefinitely for offsetting future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognized in respect of these losses as they have arisen in the Company and subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilized. These tax losses are subject to agreement with the Hong Kong Inland Revenue Department.

29. SHARE CAPITAL

Shares

	Company 2011 HK$'000	Company 2010 HK$'000
Authorized:		
15,000,000,000 ordinary shares of HK$0.01 each	**150,000**	150,000
Issued and fully paid:		
779,724,104 (2010: 681,149,152) ordinary shares of HK$0.01 each	**7,797**	6,811

A summary of the movements in the Company's issued share capital during the years ended 31 December 2011 and 2010 is as follows:

	Notes	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2010		314,539,152	3,145	454,372	457,517
Issue of new shares	(c)	230,000,000	2,300	416,300	418,600
Shares issued upon exercise of share options	(c)	18,110,000	181	43,087	43,268
Shares issued upon conversion of convertible bonds	(c)	118,500,000	1,185	281,049	282,234
Share issue expenses		–	–	(5,591)	(5,591)
At 31 December 2010 and 1 January 2011		681,149,152	6,811	1,189,217	1,196,028
Issue of new shares as consideration for a business combination under common control	(a)	96,494,952	965	257,931	258,896
Shares issued upon exercise of share options	(b)	2,080,000	21	4,442	4,463
At 31 December 2011		779,724,104	7,797	1,451,590	1,459,387

Notes:

(a) 96,494,952 ordinary shares were issued and allotted to Sino-Capital at the issue price of HK$2.683 per share on 31 March 2011 pursuant to a sale and purchase agreement dated 7 January 2011 entered into among the Company, Sino-Forest and Sino-Capital in relation to the acquisition of Mega Harvest, further details of which are set out in note 32(a) to the financial statements, and the Company's announcement dated 7 January 2011 and a shareholders' circular of the Company dated 11 March 2011.

29. SHARE CAPITAL *(continued)*

Shares (continued)

Notes: (continued)

(b) During the year ended 31 December 2011, the subscription rights attaching to 2,080,000 (2010: 18,110,000) share options were exercised at the subscription price ranging from HK$0.46 to HK$1.744 (2010: ranging from HK$0.46 to HK$1.744) per share, resulting in the issue of 2,080,000 ordinary shares of the Company for a total cash consideration of HK$3,486,000 (2010: HK$28,263,000). As a result of the exercise of these share options, their fair value of HK$977,000 (2010: HK$15,005,000) previously recognized in the share option reserve was transferred to the share premium account.

(c) Detail of the movements in the Company's issued capital during the year ended 31 December 2010 are set out in note 27 to the financial statements of the Company for the year ended 31 December 2010, which were included in the Company's annual report for that year.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 30 to the financial statements.

30. SHARE OPTION SCHEME

The Company has a share option scheme (the "Scheme") which was adopted on 22 March 2002 whereby the Directors are authorized, at their discretion, to invite employees, executives or officers of the Group, including executive and non-executive directors of any company in the Group, and any suppliers, consultants, advisers, agents, shareholders, customers, partners or business associates of the Group, to take up options to subscribe the ordinary shares of the Company (the "Shares") as incentives and rewards for their contribution to the Group. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant. The Scheme shall be valid and effective for a period of 10 years ending on 22 March 2012, after which no further options will be granted.

The exercise price of options is determined by the Board at its sole discretion, save that such price will not be less than the highest of (a) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (b) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of a Share.

30. SHARE OPTION SCHEME *(continued)*

The total number of the Shares available for issue under the Scheme as at 31 December 2011 was 112,754,480 Shares (2010: 95,930,915) (including options for 35,082,070 Shares (2010: 38,343,560) that have been granted but not yet lapsed or exercised) which represented 14.46% (2010: 14.08%) of the issued share capital of the Company as at 31 December 2011. Subject to the terms of the Scheme and the Listing Rules, the number of Shares issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to 1% of the Shares in issue on the offer date.

The following share options were outstanding under the Scheme during the year:

		2011		2010	
	Notes	**Weighted average exercise price HK$ per share**	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At beginning of year		**2.04**	**38,344**	1.58	35,120
Granted during the year	(a)	**2.56**	**7,800**	2.33	22,584
Lapsed/forfeited during the year		**2.03**	**(8,982)**	1.37	(1,250)
Exercised during the year	(b)	**1.68**	**(2,080)**	1.56	(18,110)
At end of year	(c)	**2.18**	**35,082**	2.04	38,344

Notes:

a) The fair values of the options granted during the year on 10 January 2011, 22 March 2011, 16 June 2011 and 11 July 2011 were calculated using the Binomial Option Pricing Model. The inputs to the model are as follows:

	10 January 2011	22 March 2011	16 June 2011	11 July 2011
Share price at the date of grant	HK$2.93	HK$2.71	HK$1.17	HK$1.24
Exercise price per share	HK$2.93	HK$2.71	HK$1.95	HK$1.27
Contractual life	5 years	5 years	5 years	5 years
Fair value of options	HK$2,940,000	HK$1,578,000	HK$893,000	HK$179,000
Expected volatility (%)	68.30	71.04	81.68	82.3
Risk-free interest rate (%)	1.672	1.774	1.339	1.310

The Group recognized in profit or loss for the year an equity-settled share option expense of HK$4,934,000 (2010: HK$13,868,000) in total in relation to share options granted by the Company in 2011.

30. SHARE OPTION SCHEME *(continued)*

Notes: (continued)

b) 2,080,000 (2010: 18,110,000) share options exercised during the year resulted in the issue of 2,080,000 ordinary shares (2010: 18,110,000) of the Company and new share capital of approximately HK$21,000 (2010: HK$181,000) and share premium of approximately HK$4,442,000 (2010: HK$43,087,000) (before issue expenses), as further detailed in note 29(b) to the financial statements.

c) At the end of the reporting period and the date of approval of these financial statements, the Company had 35,082,070 (2010: 38,343,560) share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 35,082,070 (2010: 38,343,560) additional ordinary shares of the Company and additional share capital of approximately HK$351,000 (2010: HK$383,000) and share premium of approximately HK$81,062,000 (2010: HK$102,346,000) (before issue expenses). These share options had exercise prices of HK$0.46, HK$1.266, HK$1.36, HK$1.65, HK$1.744, HK$1.952, HK$2.18, HK$2.5, HK$2.71 and HK$2.93 (2010: HK$0.46, HK$1.36, HK$1.744, HK$1.65, HK$2.18 and HK$2.50) per share and a weighted average remaining contractual life of 3.13 years (2010: 3.97 years).

31. RESERVES

(a) Group

(i) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(ii) The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 3.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits/accumulated losses should the related options expire or be forfeited.

(iii) The merger reserve represents the difference between the fair value of the consideration given for the acquisition of a subsidiary pursuant to a business combination under common control and the total amount of the historical carrying amount of the consolidated net assets of the acquiree at the date of acquisition and the amount of certain liabilities of the acquiree assumed by the Group in connection with the business combination.

31. RESERVES *(continued)*

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Convertible bond equity reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2010		454,372	125,376	29,050	45,234	(431,349)	222,683
Loss and total comprehensive loss for the year	12	–	–	–	–	(35,902)	(35,902)
Issue of new shares		416,300	–	–	–	–	416,300
Exercise of share options	29(b)	43,087	–	(15,005)	–	–	28,082
Conversion of convertible bonds		281,049	–	–	(45,234)	–	235,815
Share issue expenses		(5,591)	–	–	–	–	(5,591)
Equity-settled share option arrangements	30(a)	–	–	13,868	–	–	13,868
Share options lapsed		–	–	(477)	–	477	–
Issue of convertible bonds	27	–	–	–	7,328	–	7,328
At 31 December 2010 and 1 January 2011		1,189,217	125,376	27,436	7,328	(466,774)	882,583
Loss and total comprehensive loss for the year	12	–	–	–	–	(107,136)	(107,136)
Issue of new shares as consideration for a business combination under common control	29(a)	257,931	–	–	–	–	257,931
Exercise of share options	29(b)	4,442	–	(977)	–	–	3,465
Equity-settled share option arrangements	30(a)	–	–	4,934	–	–	4,934
Share options lapsed		–	–	(4,856)	–	4,856	–
At 31 December 2011		1,451,590	125,376	26,537	7,328	(569,054)	1,041,777

31. RESERVES *(continued)*

(b) Company (continued)

The Company's contributed surplus, which arose from a reorganization undertaken by the Group on 2 July 1991, represents the difference between the nominal value of the Company's shares issued under the reorganization scheme, in exchange for the shares in the subsidiaries and the fair value of the consolidated net asset value of the acquired subsidiaries, reduced by distributions to shareholders.

Under the Companies Act of Bermuda and the Bye-Laws of the Company, the contributed surplus is distributable to shareholders. The Companies Act of Bermuda also stipulates that a company shall not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued capital and share premium account.

32. ACQUISITION OF SUBSIDIARIES

(a) Business combination under common control

During the year ended 31 December 2011, the Group completed the acquisition of 100% equity interest in Mega Harvest from a subsidiary of Sino-Forest. Mega Harvest and its subsidiaries own approximately 13,000 hectares of freehold land, including approximately 11,000 hectares of softwood radiata pine plantations in New Zealand (the "Acquired Business" or "New Zealand Acquisition" or "New Zealand Plantation"). Given the Acquired Business continues to be controlled by the ultimate holding company before and after the acquisition, the New Zealand Acquisition was accounted for using the principles of merger accounting in accordance with AG 5 issued by the HKICPA in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2011. Accordingly, the acquired assets and liabilities are stated at predecessor values, and were included in the consolidated financial statements from the date the Acquired Business first came under common control of Sino-Forest.

Details of adjustments for the common control combination of the Acquired Business on the Group's results for the year ended 31 December 2010, and the consolidated statement of financial position as at 31 December 2010 were as follows:

	As previously reported HK$'000	Acquired Business HK$'000	Consolidation adjustment HK$'000	As restated HK$'000
Year ended 31 December 2010				
Revenue	16,714	317		17,031
Profit/(loss) for the year	(97,826)	11,178		(86,648)
At 31 December 2010				
ASSETS				
Non-current assets	780,485	582,886		1,363,371
Current assets	627,735	9,726		637,461
Total assets	1,408,220	592,612		2,000,832
LIABILITIES				
Non-current liabilities	263,024	4,485		267,509
Current liabilities	33,292	415,013		448,305
Total liabilities	296,316	419,498		715,814
Net assets	1,111,904	173,114		1,285,018
EQUITY				
Share capital	6,811	156,000	(156,000)	6,811
Reserves	848,862	17,114	156,000	1,021,976
Non-controlling interests	256,231	–		256,231
Total equity	1,111,904	173,114		1,285,018

Note: The carrying amounts of the identifiable assets and liabilities as at the date of acquisition of 8 October 2010, being the date on which the Group obtains control over the Acquired Business, are set out in note 19 of Section 1 of Appendix II to the shareholders' circular of the Company dated 11 March 2011.

32. ACQUISITION OF SUBSIDIARIES *(continued)*

(b) Acquisition of assets and liabilities

On 24 February 2011, Greenheart Forest (Suriname) FT Limited, an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with certain parties, pursuant to which Greenheart Forest (Suriname) FT Limited agreed to acquire from an independent third party a 60% equity interest in Greenheart Forest Technologies N.V. (formerly known as Vista Marina Services N.V.), a company incorporated in Suriname, South America, which manages and operates certain harvesting rights to approximately 128,000 hectares of tropical hardwood concession. The acquisition was completed on 1 March 2011 upon the settlement of consideration of US$5,000,000 (equivalent to HK$39,000,000).

At the time of the acquisition, Greenheart Forest Technologies N.V. and its subsidiary (the "Greenheart FT Group") had not actively engaged in any business and accordingly, in the opinion of the Directors, the acquisition of the Greenheart FT Group does not constitute a business combination but an acquisition of assets and liabilities.

For accounting purposes, the cost of acquisition of HK$41,500,000 (comprising cash consideration transferred of HK$39,000,000 and transaction costs of HK$2,500,000) has been allocated to the following identifiable assets and liabilities of the Greenheart FT Group as at the date of acquisition as follows:

	Notes	**2011** HK$'000
Net assets acquired:		
Property, plant and equipment	14	5,552
Prepaid land lease payment		9,434
Timber concessions and cutting rights	17	64,166
Prepayments, deposits and other receivables		42
Cash and bank balances		1
Other payables and accruals		(430)
Bank loans		(9,598)
Total identifiable net assets acquired		69,167
Less: Non-controlling interests		(27,667)
		41,500

32. ACQUISITION OF SUBSIDIARIES *(continued)*

(b) Acquisition of assets and liabilities *(continued)*

An analysis of the cash flows in respect of the acquisition of the Greenheart FT Group is as follows:

	2011
	HK$'000
Cash and bank balances acquired	1
Cash consideration paid for the acquisition	(41,500)
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(41,499)

(c) Other business combination

On 6 April 2011, Greenheart Forest Technologies N.V., a 60% owned subsidiary of the Group, acquired a 100% interest in Caribbean Pallet Company N.V. ("CPC"), a company incorporated in Suriname, which is engaged in the manufacturing and sale of pallets. The consideration for the acquisition was US$158,000 (equivalent to HK$1,232,000).

The fair values of the identifiable assets and liabilities of CPC as at the date of acquisition were as follows:

	2011
	HK$'000
Trade receivables	91
Cash and bank balances	72
Trade payables	(84)
Other payables and accruals	(148)
Total identifiable net liabilities at fair value	(69)
Goodwill on acquisition (note 16)	1,301
	1,232
Satisfied by cash	1,232

An analysis of the cash flows in respect of the acquisition of CPC is as follows:

	2011
	HK$'000
Cash and bank balances acquired	72
Cash consideration paid for the acquisition	(1,232)
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(1,160)

33. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its plant and machinery to its subcontractors under operating lease arrangements, with leases negotiated for terms of three years.

At 31 December 2011, the Group had total future minimum lease receivables under non-cancellable operating leases with its subcontractors falling due as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Within one year	**899**	1,278
In the second to fifth years, inclusive	**524**	2,023
	1,423	3,301

At 31 December 2011, the Company did not have any non-cancellable operating lease arrangements as lessor (2010: Nil).

(b) As lessee

The Group leases certain of its office properties and staff quarters under operating lease arrangements. Leases for office properties and staff quarters are negotiated for terms of one to three years.

At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2011	2010
	HK$'000	HK$'000
Within one year	**5,328**	5,808
In the second to fifth years, inclusive	**4,211**	9,000
	9,539	14,808

At 31 December 2011, the Company did not have any non-cancellable operating lease arrangements as lessee (2010: Nil).

34. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 33(b) above, the Group had the following capital commitments at the end of reporting period:

	Group	
	2011	2010
	HK$'000	HK$'000
Contracted, but not provided for:		
Land and buildings	**22,734**	–
Plant and machinery	**31,375**	–
Leasehold improvements	**–**	1,373
Furniture and fixtures	**–**	1,287
	54,109	2,660

35. RELATED PARTY DISCLOSURES

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group entered into the following material transactions with related parties during the year:

Name of related party	Nature of transaction	Notes	2011 HK$'000	2010 HK$'000 (Restated)
The ultimate holding company				
Sino-Forest	Interest expenses paid and payable on a loan	(i)	**9,215**	2,897
	Interest expenses paid and payable on the convertible bonds	(ii)	**–**	6,259
Fellow subsidiary				
Sino-Wood Trading Limited	Sales of logs	(iii)	**73,194**	–
A company with a common director				
Greater Sino	Interest expenses paid and payable on the convertible bonds	(iv)	**21,467**	7,722
Associate				
TGX Capital Limited	Interest expense paid and payable on an advance from the associate	(v)	–	64

35. RELATED PARTY DISCLOSURES *(continued)*

(a) (continued)

Notes:

(i) The interest expenses were charged based on the London Interbank Offered Rate plus 3.5% per annum on a loan with a principal amount of HK$312,000,000 (the "New Loan") granted by Sino-Forest. The interest payable as at 31 December 2011 was HK$141,000 (2010: HK$786,000). In the prior year, the Group had an outstanding loan balance of HK$396,617,000 (the "Old Loan") as at 31 December 2010 due to Sino-Forest which bore interest at the rate of 1.05% per annum and was refinanced by the New Loan of HK$312,000,000 during the year, whereas the voluntary prepayment fee on the Old Loan of HK$222,000 was waived by Sino-Forest.

(ii) The amount disclosed above comprised actual interest paid and payable of the convertible bonds denominated in Hong Kong dollar to Sino-Forest at the rate of 4% per annum. The convertible bonds were matured and fully settled in 2010.

(iii) The sales of logs to a fellow subsidiary were made with reference to the prevailing market prices and under normal commercial terms of the sales of similar type of products.

(iv) The amount disclosed above represents the imputed interest expenses charged to profit or loss for accounting purpose for the convertible bonds issued to Greater Sino, a company in which a Director has an indirect interest. The actual interest paid and payable to Greater Sino, which is calculated based on the compound return of 10% per annum as set out in the terms and conditions of the said convertible bonds is HK$9,718,000 (2010: HK$3,644,000).

(v) During the year ended 31 December 2010, the Group was granted a loan of HK$8,000,000 from TGX Capital Limited, an associate of the Group. The loan bore interest at the Hong Kong prime rate per annum and had been fully repaid in September 2010.

35. RELATED PARTY DISCLOSURES *(continued)*

(b) Outstanding balances with related parties

(i) As disclosed in the consolidated statement of financial position, the Group had an outstanding Old Loan balance of HK$396,617,000 as at 31 December 2010 due to Sino-Forest which bore interest at the rate of 1.05% per annum and was refinanced by the New Loan of HK$312,000,000 during the year ended 31 December 2011. Further details of the New Loan are set out in note 35(a)(i) to the financial statements.

(ii) The deposit received from a fellow subsidiary is trade in nature, which is unsecured, and interest-free.

(iii) Included in the amounts due to affiliated companies as at 31 December 2010 were an amount due to the immediate holding company of HK$134,000, and an amount due to a fellow subsidiary of HK$56,000. The balances were unsecured, interest-free and had no fixed terms of repayment.

(c) Other transactions with related parties

During the year ended 31 December 2011, the Group acquired the New Zealand Plantation from Sino-Forest and details of which are set out in note 32(a) to the financial statements and the Company's shareholders' circular dated 11 March 2011.

(d) Compensation of key management personnel of the Group

	2011 **HK$'000**	2010 HK$'000
Short term employee benefits	**11,131**	4,870
Equity-settled share option	**3,355**	11,261
Pension scheme contributions	**24**	33
Total	**14,510**	16,164

Further details of directors' remuneration and remuneration of the five highest paid employees are included in notes 9 and 10 to the financial statements, respectively.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. The board of directors reviews and agrees policies for managing each of these risks and they are summarized below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate, i.e. loan from the ultimate holding company (note 35(a)(i)).

Convertible bonds with fixed interest rates are interest-bearing financial liabilities of the Group. Changes in interest rate would not affect the profit or loss of the Group.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before tax (through the impact on floating rate borrowings).

	Group	
	Increase/ (decrease) in basis points	**Increase/ (decrease) in loss before tax**
		HK$'000
Year ended 31 December 2011	100	2,418
	(100)	(2,418)
Year ended 31 December 2010	100	–
	(100)	–

The Group currently does not have an interest rate hedging policy and will consider enter into interest rate hedging should the need arise.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk

Most of the Group's sales are denominated in the United States dollar, to which the Hong Kong dollar is pegged and is the same currency in which the Group's all outstanding borrowings, majority costs and expenses incurred in Hong Kong and Suriname are denominated. The domestic sales generated from New Zealand operation are denominated in New Zealand dollars which can help to partly offset the Group's operating expenses payable in New Zealand dollars. During the year, the Group did not use any financial instruments for hedging purposes and the Group did not have any hedging instruments outstanding as at 31 December 2011. However, the Directors will continue to closely monitor all possible exchange rate risk arising from the Group's existing operations and new investments in the future and will implement the necessary hedging arrangement(s) to mitigate any significant foreign exchange exposure.

Credit risk

Credit risk arises from the possibility that customers may not be able to settle obligations within the normal terms of transactions. The Group performs an ongoing credit evaluation of the debtors' financial condition and maintains an account for allowance for doubtful trade and other accounts receivable based upon the expected collectibles of all trade and other accounts receivable. At 31 December 2011, there were no major concentrations of credit risk.

The maximum exposure to credit risk is therefore represented by the carrying amount of each financial asset as stated in the statement of financial position.

Cash is held with financial institutions of good standing.

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

Prudent liquidity risk management implies maintaining sufficient cash. The Group monitors and maintains a level of bank balances deemed adequate to finance the Group's operations.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2011				
	On demand HK$'000	**Within 1 year HK$'000**	**1 to 2 years HK$'000**	**2 to 5 years HK$'000**	**Total HK$'000**
Convertible bonds	**–**	**9,750**	**9,750**	**210,898***	**230,398**
Trade payables	**2,459**	**16,054**	**–**	**–**	**18,513**
Other payables	**15,208**	**4,368**	**–**	**–**	**19,576**
Loan from the ultimate holding company	**–**	**–**	**312,000**	**–**	**312,000**
Due to the ultimate holding company	**–**	**141**	**–**	**–**	**141**
Finance lease payables	**–**	**8,661**	**8,202**	**23,921**	**40,784**
	17,667	**38,974**	**329,952**	**234,819**	**621,412**

	2010				
	On demand HK$'000	Within 1 year HK$'000	1 to 2 years HK$'000	2 to 5 years HK$'000	Total HK$'000 (Restated)
Convertible bonds	–	9,750	9,750	220,648*	240,148
Loan from the ultimate holding company	–	396,617	–	–	396,617
Trade payables	6,317	–	–	–	6,317
Other payables	–	5,080	–	–	5,080
Due to the ultimate holding company	–	2,892	–	–	2,892
Due to affiliated companies	190	–	–	–	190
	6,507	414,339	9,750	220,648	651,244

* The maturity profile of convertible bonds disclosed above are based on the contractual undiscounted payments, however, the noteholder would have the right to request the Company to early redeem the convertible bonds before their maturity. Further details are set out in note 27 to the financial statements.

As explained in note 2 to the financial statements, the Directors have adopted or plan to adopt certain measures in order to improve the Group's financial and cash flow positions and to maintain the Group's as a going concern.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Fair value risk

The following table sets out a comparison by category of carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements at other than fair values. The fair values of these financial instruments have been calculated by discounting the expected future cash flows at prevailing interest rates.

	Carrying amount		Fair value	
	2011 HK$'000	2010 HK$'000 (Restated)	**2011 HK$'000**	2010 HK$'000 (Restated)
Financial assets:				
Non-current prepayments, deposits and other receivables	**15,393**	5,208	**15,393**	5,208
Financial liabilities:				
Convertible bonds	**201,553**	189,804	**208,881**	197,132
Loan from the ultimate holding company	**312,000**	–	**312,000**	–
Finance lease payables	**33,708**	–	**33,708**	–
	562,654	195,012	**569,982**	202,340

Note: The carrying amounts of financial assets and liabilities which are due to be received or settled within one year are reasonable approximations of their respective fair values, and accordingly, no disclosure of the fair values of these financial instruments is made.

Capital risk management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011 and 2010.

The Group monitors capital using a ratio, which is the consolidated total debts shall not at any time exceed 1.2 times of the consolidated tangible net worth. The consolidated total debts includes interest-bearing bank and other borrowings, convertible bonds and finance lease payables. The consolidated tangible net worth includes equity attributable to equity holders of the Company, but excludes goodwill. During the years ended 31 December 2011 and 2010, such covenant is met as the aforementioned ratio is below 1.2 times at all time.

37. FINANCIAL INSTRUMENTS BY CATEGORY

All financial assets and liabilities of the Group and the Company as at 31 December 2011 and 2010 were loans and receivables, and financial liabilities stated at amortized cost, respectively.

38. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 2 to financial statements, the Group did not have other significant events which occurred subsequent to the reporting period.

39. COMPARATIVE AMOUNTS

As further explained in note 32(a) to the financial statements, comparative amounts have been restated to reflect the effect of a business combination under common control, which was accounted for using the principles of merger accounting under AG 5 issued by the HKICPA. In addition, certain comparative amounts have been reclassified to conform to the presentation of current year. Accordingly, a third statement of financial position as at 1 January 2010 has been presented.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of Directors on 30 March 2012.