THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Response Document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Greenheart Group Limited, you should at once hand this Response Document to the purchaser or the transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

GREENHEART GROUP LIMITED

綠 森 集 團 有 限 公 司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 94)

RESPONSE DOCUMENT RELATING TO THE UNCONDITIONAL MANDATORY GENERAL CASH OFFERS BY MOELIS & COMPANY ASIA LIMITED ON BEHALF OF EMERALD PLANTATION GROUP LIMITED TO ACQUIRE ALL THE ISSUED ORDINARY SHARE CAPITAL OF GREENHEART GROUP LIMITED (OTHER THAN THE ORDINARY SHARES ALREADY OWNED OR CONTROLLED BY EMERALD PLANTATION GROUP LIMITED AND PARTIES ACTING IN CONCERT WITH IT AT THE TIME THE OFFER IS MADE), OFFER FOR THE CANCELLATION OF ALL OUTSTANDING OPTIONS AND OFFER FOR ALL OUTSTANDING CONVERTIBLE NOTES

Financial adviser to Greenheart Group Limited

Investec

Independent financial adviser to the Independent Board Committee

HALCYON 鎧盛

Halcyon Capital Limited

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Response Document.

A letter from the Board is set out on pages 5 to 9 of this Response Document.

A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders, the holders of the Options and the holder of the Convertible Notes is set out on pages 10 to 11 of this Response Document.

A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee in respect of the Offers is set out on pages 12 to 38 of this Response Document.

This Response Document will remain on the websites of the Stock Exchange at http://www.hkex.com.hk and the Company at www.greenheartgroup.com as long as the Offers remain open.

* *For identification purpose only*

7 March 2013

CONTENTS

In this Response Document, unless the context otherwise requires, the following expressions have the following meanings:

"acting in concert"	the same meaning ascribed to it under the Takeovers Code
"Announcement"	the announcement of the Company dated 31 January 2013 regarding, among other things, the Share Offer
"associate(s)"	the same meaning ascribed to it under the Takeovers Code and the Listing Rules (as appropriate)
"Board"	the board of Directors
"Business Day"	a day on which the Stock Exchange is open for the transaction of business
"CAD"	Canadian dollars, the lawful currency of Canada
"CCAA"	The Companies Creditors Arrangement Act (Canada) R.S.C. 1985, c. C-36
"Company"	Greenheart Group Limited (Stock Code: 94), a company incorporated in the Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
"Companies Act"	the Companies Act 1981 of Bermuda (as amended)
"Companies Law"	the Companies Law (Revised) of the Cayman Islands
"Compulsory Acquisition"	the compulsory acquisition in accordance with applicable law and regulations of Offer Shares held by Shareholders who do not accept the Share Offer
"Convertible Notes"	the US dollar denominated convertible notes due 17 August 2015 with an original aggregate principal amount of US$25,000,000 issued by the Company and convertible into 97,077,922 Shares. As disclosed in the Company's announcement dated 20 February 2013, the Company has redeemed US$8,000,000 of the principal amount of the convertible notes and as a result, the outstanding principal amount of the convertible notes was reduced to US$17,000,000 which is convertible into 66,012,987 Shares
"Convertible Notes Offer"	the unconditional cash offer to acquire the Convertible Notes
"Directors"	the directors of the Company
"Executive"	the Executive Director of the Corporate Finance Division of the SFC from time to time or any of his delegate

"First Closing Date"	21 March 2013, being the first closing date of the Offers which is 28 days after the date on which the Offer Document is posted
"Forms of Acceptance"	the WHITE form of acceptance and transfer of shares in respect of the Share Offer accompanying the Offer Document, the YELLOW form of acceptance and cancellation of outstanding options relating to the Options in respect of the Option Offer being separately despatched to the holders of the Options and the PINK form of acceptance and transfer of Convertible Notes in respect of the Convertible Notes Offer being separately despatched to the holder of Convertible Notes
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the People's Republic of China
Independent Board Committee	the independent committee of the Board comprising all the non-executive Directors, which has been established to make recommendation to the Independent Shareholders, the holders of the Options and the holder of the Convertible Notes as to whether the Offers are fair and reasonable and as to the acceptance of the Offers
"Independent Financial Adviser" or "Halcyon"	Halcyon Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, and the independent financial adviser to the Independent Board Committee in respect of the Offers
"Independent Shareholder(s)"	Shareholder(s) other than the Offeror and parties acting in concert with it
"Latest Practicable Date"	5 March 2013, being the latest practicable date prior to the printing of this Response Document for the purpose of ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Main Board"	the securities market operated by the Stock Exchange prior to the establishment of growth enterprise market ("GEM") (excluding the options market) which stock market continues to be operated by the Stock Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM

"Offer Document"	the offer document dated 21 February 2013 issued by the Offeror in relation to the Offers
"Offer Period"	the meaning ascribed to it under the Takeovers Code and commencing from the date of the Offeror's Announcement until the First Closing Date on such other later date revised or extended by the Offeror, with the consent of the Executive in accordance with the Takeover Code
"Offer Shares"	the Shares in issue at the date on which the Share Offer is made and any further Shares which are unconditionally allotted or issued after the date on which the Share Offer is made and on or before the date on which the Share Offer closes including any Shares which are unconditionally allotted or issued on the exercise of Options granted under the Share Option Schemes or conversion of the Convertible Notes, other than those Shares held by the Offeror, SCGI and any other member of the Offeror Group and persons acting in concert with the Offeror
"Offeror"	Emerald Plantation Group Limited, a company incorporated in the Cayman Islands with limited liability
"Offeror Group"	the Offeror and each of its subsidiaries (as such term is defined in the Companies Law)
"Offeror's Announcement"	The announcement made by the Offeror dated 31 January 2013 in relation to the Offers
"Offers"	the Share Offer, the Option Offer and the Convertible Notes Offer
"Option Offer"	the unconditional cash offers for the cancellation of all outstanding Options
"Options"	outstanding options granted by the Company under the Share Option Schemes
"Plan"	the plan of compromise and reorganisation of Sino-Forest by way of a debt-equity conversion under the CCAA as amended and approved by the creditors of Sino-Forest on 3 December 2012 and sanctioned by the Ontario Superior Court of Justice on 10 December 2012
"Relevant Period"	the period from 31 July 2012, being the date falling on the six months before the date of the Announcement, up to and including the Latest Practicable Date

"Response Document"	this offeree board circular in respect to the Offers issued by the Company in accordance with the Takeovers Code
"SCGI"	Sino-Capital Global Inc., a company incorporated in the British Virgin Islands, prior to implementation of the Plan a wholly-owned subsidiary of Sino-Forest and following implementation of the Plan a wholly-owned subsidiary of the Offeror
"SFC"	the Securities and Futures Commission
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Sino-Forest"	Sino-Forest Corporation, a company incorporated in Canada and formerly listed on the Toronto Stock Exchange
"Share(s)"	ordinary shares of HK$0.01 each in the existing share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Share Offer"	the unconditional mandatory general cash offer to acquire the Offer Shares
"Share Offer Price"	the price at which the Share Offer is being made, being HK$0.58 per Offer Share
"Share Option Schemes"	the share option schemes of the Company, being the share option scheme adopted on 22 March 2002 (which expired on 22 March 2012) and the existing share option scheme adopted on 28 June 2012
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder(s)"	the same meaning ascribed to it under the Listing Rules
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers, as in force from time to time
"United States" or "US"	the United States of America (including its territories and possessions, any state in the US and the District of Columbia)
"US$"	United States dollar(s), the lawful currency of the United States
"%"	per cent.

GREENHEART GROUP LIMITED
綠森集團有限公司*

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

Directors
Executive Directors
Mr. W. Judson Martin
Mr. Hui Tung Wah Samuel

Non-executive Director
Mr. Simon Murray

Independent Non-executive Directors
Mr. Wong Che Keung Richard
Mr. Tong Yee Yung Joseph
Mr. Wong Kin Chi

Principal Office
16/F., Dah Sing Financial Centre
108 Gloucester Road, Wanchai
Hong Kong

Registered Office
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

7 March 2013

To the Shareholders,
holders of the Options and holder of the Convertible Notes

Dear Sir or Madam,

UNCONDITIONAL MANDATORY GENERAL CASH OFFERS BY MOELIS & COMPANY ASIA LIMITED ON BEHALF OF EMERALD PLANTATION GROUP LIMITED TO ACQUIRE ALL THE ISSUED ORDINARY SHARE CAPITAL OF GREENHEART GROUP LIMITED (OTHER THAN THE ORDINARY SHARES ALREADY OWNED OR CONTROLLED BY EMERALD PLANTATION GROUP LIMITED AND PARTIES ACTING IN CONCERT WITH IT AT THE TIME THE OFFER IS MADE), OFFER FOR THE CANCELLATION OF ALL OUTSTANDING OPTIONS AND OFFER FOR ALL OUTSTANDING CONVERTIBLE NOTES

* *For identification purpose only*

INTRODUCTION

Reference is made to the Offeror's Announcement, the Announcement and the Offer Document.

On 31 January 2013, the Offeror announced, among other things, that pursuant to the Plan, all of Sino-Forest's group companies and substantially all of the other assets of Sino-Forest, including the entire issued share capital of SCGI (which holds 495,519,102 Shares representing approximately 63.6% of the issued Shares), were transferred to the Offeror pursuant to the implementation of the Plan on 30 January 2013 (Toronto time). As a consequence, the Offeror acquired an indirect interest in 495,519,102 Shares representing approximately 63.6% of the issued Shares.

As a result of the implementation of the Plan, the Offeror is required under Rule 26.1 of the Takeovers Code to make a mandatory general offer for all of the Shares other than the Shares already owned or controlled by the Offeror and parties acting in concert with it and to make an appropriate offer for cancellation of all outstanding Options and an appropriate offer for the Convertible Notes. As the Offeror and parties acting in concert with it hold more than 50% of the voting rights of the Company, the Offers are unconditional.

On 21 February 2013, the Offeror despatched the Offer Document containing, among other matters, details of the Offers, to the Independent Shareholders, the holders of the Options and the holder of the Convertible Notes.

The purpose of this Response Document is to provide you with, among other things, information relating to the Group, the Offers, the recommendation from the Independent Board Committee to the Independent Shareholders, the holders of the Options and the holder of the Convertible Notes in respect of the Offers and the advice from the Independent Financial Adviser to the Independent Board Committee in respect of the Offers.

INDEPENDENT BOARD COMMITTEE

In accordance with Rule 2.1 of the Takeovers Code, the Independent Board Committee comprising all the non-executive Directors, namely, Mr. Simon Murray, Mr. Wong Che Keung Richard, Mr. Tong Yee Yung Joseph and Mr. Wong Kin Chi, none of whom has any direct or indirect interest in the Offers other than being Shareholders and/or holders of the Options and/or beneficial owner of the Convertible Notes, has been established to give recommendation (i) as to whether or not the Offers are fair and reasonable and (ii) as to acceptance. In particular, the Company understands that while Mr. Simon Murray was an independent non-executive director of Sino-Forest, he is not a party acting in concert with Sino-Forest or the Offeror and did not participate or have any involvement in the Plan or have any interest in any assets or companies transferred to the creditors of Sino-Forest under the Plan. Accordingly, the Company is of the view that Mr. Simon Murray shall be eligible to be a member of the Independent Board Committee.

Halcyon has been appointed as the independent financial adviser to the Independent Board Committee in respect of the Offers. The appointment of Halcyon by the Company has been approved by the Independent Board Committee. The letter of advice from Halcyon addressed to the Independent Board Committee is set out on pages 12 to 38 of this Response Document.

You are advised to read the "Letter from the Independent Board Committee" addressed to the Independent Shareholders, the holders of the Options and the holder of the Convertible Notes and the additional information contained in the appendices to this Response Document carefully before taking any action in respect of the Offers.

UNCONDITIONAL MANDATORY GENERAL CASH OFFERS

Principal terms of the Offers

The terms of the Offers as set out in the Offer Document are extracted below. You are recommended to refer to the Offer Document and the Forms of Acceptance for further details.

Moelis & Company Asia Limited, is making the Offers, on behalf of the Offeror in compliance with the Takeovers Code on the following terms:–

For every Offer Share .... HK$0.58 in cash

For cancellation of each Option with an exercise price of:
HK$0.501 (14,430,000 options in total) .... HK$0.079 in cash
HK$1.266 (300,000 options in total) .... HK$0.001 in cash
HK$1.952 (2,000,000 options in total) .... HK$0.001 in cash
HK$1.65 (9,770,000 options in total) .... HK$0.001 in cash
HK$2.18 (6,576,000 options in total) .... HK$0.001 in cash
HK$2.50 (7,626,070 options in total) .... HK$0.001 in cash
HK$2.71 (2,000,000 options in total) .... HK$0.001 in cash
HK$2.93 (3,500,000 options in total) .... HK$0.001 in cash

For each US$1.00 face value of the Convertible Notes .... HK$2.252 in cash

The Offer Shares will be acquired fully paid and free from all liens, charges, options, equities, encumbrances or other third party rights of any nature and together with all rights now or hereafter attaching or accruing to them, including the right to all dividends and other distributions (if any) declared, made or paid on or after the date of despatch of the Offer Document.

The Share Offer will extend to all Shares in issue on the date on which the Share Offer is made and to any further Shares which are unconditionally allotted or issued after the date on which the Share Offer is made and before the date on which the Share Offer closes, including any Shares which are unconditionally allotted or issued on the exercise of Options granted under the Share Option Schemes or on conversion of the Convertible Notes, other than those Shares held by the Offeror, SCGI and any other member of the Offeror Group, and parties acting in concert with the Offeror.

The Option offer price of HK$0.079 for Options with an exercise price of HK$0.501 represents the difference between the exercise price of HK$0.501 and the Share Offer Price. The exercise prices for Options between HK$1.266 to HK$2.93 are higher than the Share Offer Price and these Options are out of the money. In the circumstances, the Option Offer is made at a nominal price of HK$0.001 for the cancellation of each corresponding Option.

Acceptance of the Option Offer by the holders of the outstanding Options will result in the cancellation of those outstanding Options, together with all rights attaching thereto.

The offer price for the Convertible Notes is HK$2.252 for each US$1.00 face value of the Convertible Notes determined, in accordance with Practice Note 6 to the Takeovers Code, as the "see-through" consideration for each Convertible Note being the number of Shares into which the Convertible Note is convertible multiplied by the Share Offer Price.

The Convertible Notes will be acquired fully paid and free from all liens, charges, options, equities, encumbrances or other third party rights of any nature and together with all rights now or hereafter attaching or accruing to them, including the right to all dividends and other distributions (if any) declared, made or paid on or after the date of despatch of the Offer Document. The Convertible Notes Offer will apply to the outstanding Convertible Notes in issue on the date on which the Convertible Notes Offer is made and will not apply to any Convertible Notes which are or have been converted into Shares prior to the close of the Share Offer.

Further details of the Offers

Further details of the Offers including, among other things, the expected timetable, the terms and procedures of acceptance and settlement of the Offers, are set out in the "Expected Timetable", "Letter from Moelis" and Appendix I to the Offer Document and the Forms of Acceptance.

INFORMATION ON THE GROUP

General Information

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.

For the year ended 31 December 2011, the Group recorded audited consolidated loss before taxation of approximately HK$93.9 million and loss attributable to equity holders of the Company of approximately HK$74.3 million. For the year ended 31 December 2010, the Group recorded audited consolidated loss before taxation of approximately HK$80.2 million and loss attributable to equity holders of the Company of approximately HK$67.6 million. The audited net assets attributable to equity holders of the Company as at 31 December 2011 were approximately HK$1,072.4 million.

INFORMATION ON THE OFFEROR AND INTENTIONS OF THE OFFEROR REGARDING THE GROUP

Your attention is drawn to the sections headed "Information about the Offeror and the Offeror Group" and "The Offeror's intentions in relation to the Offeree" in the "Letter from Moelis" of the Offer Document.

As stated in the Offer Document, if, within four months after making of the Share Offer, the Offeror together with other members of the Offeror Group acquires not less than nine-tenths in value of the Offer Shares from Shareholders representing three-fourths in number of the holders of Offer Shares, the Offeror intends to exercise any rights it may have under Section 102 of the Companies Act and in accordance with Rule 2.11 of the Takeovers Code to proceed to the Compulsory Acquisition of those Offer Shares not acquired by the Offeror pursuant to the Share Offer.

It is also stated in the Offer Document that if the Offeror does not achieve the level of acceptances required for Compulsory Acquisition, the directors of the Offeror intend that the Company shall maintain the listing of the Shares on the Stock Exchange. The Stock Exchange has stated that, if, at the close of the Offers, less than 25% of the issued Shares are held by the public or if the Stock Exchange believes that: (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, then the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares. As stated in the Offer Document, the directors of the Offeror understand that Rule 8.08 of the Listing Rules relating to the minimum prescribed percentage of Shares to be held by the public has to be complied with and will jointly and severally undertake to the Stock Exchange to take appropriate steps following the close of the Offers to ensure that sufficient public float exists in the Shares if the Offeror does not achieve the level of acceptances required for Compulsory Acquisition.

In addition, as stated in the Offer Document, the Offeror has not formed any views on whether major changes should be introduced to the Company's business (including the redeployment of the fixed assets of the Company), on the continued employment of the employees of the Group. Thus, the Board does not have any views on the Offeror's plans for the Company and its employees.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 10 to 11 of this Response Document and the letter from the Independent Financial Adviser set out on pages 12 to 38 of this Response Document, which contains, among other things, its advice to the Independent Board Committee in relation to the Offers and the principal factors considered by it in arriving at its advice.

ADDITIONAL INFORMATION

You are also advised to read this Response Document together with the Offer Document and the Forms of Acceptance in respect of the acceptance and settlement procedures of the Offers. Your attention is also drawn to the additional information contained in the appendices to this Response Document.

Yours faithfully,
By order of the Board
Greenheart Group Limited
W. Judson Martin
Chairman, CEO and Executive Director

GREENHEART GROUP LIMITED

綠森集團有限公司*

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

7 March 2013

To the Independent Shareholders, the holders of the Options and the holder of the Convertible Notes

Dear Sir or Madam,

UNCONDITIONAL MANDATORY GENERAL CASH OFFERS BY MOELIS & COMPANY ASIA LIMITED ON BEHALF OF EMERALD PLANTATION GROUP LIMITED TO ACQUIRE ALL THE ISSUED ORDINARY SHARE CAPITAL OF GREENHEART GROUP LIMITED (OTHER THAN THE ORDINARY SHARES ALREADY OWNED OR CONTROLLED BY EMERALD PLANTATION GROUP LIMITED AND PARTIES ACTING IN CONCERT WITH IT AT THE TIME THE OFFER IS MADE), OFFER FOR THE CANCELLATION OF ALL OUTSTANDING OPTIONS AND OFFER FOR ALL OUTSTANDING CONVERTIBLE NOTES

We refer to the Response Document dated 7 March 2013 issued by the Company in response to the Offers, of which this letter forms part. Terms defined in the Response Document shall have the same meanings in this letter unless the context requires otherwise.

We have been appointed to constitute the Independent Board Committee to consider the terms of the Offers and to advise you as to whether or not, in our opinion, the terms of the Offers are fair and reasonable so far as your interests are concerned. Halcyon has been appointed as the independent financial advisor to advise us in this respect. Details of its advice and the principal factors taken into consideration in arriving at its recommendation are set out in the letter from Halcyon on pages 12 to 38 of the Response Document.

We also wish to draw your attention to the letter from the Board, the letter from Halcyon and the additional information set out in the Offer Document, Forms of Acceptance and the appendices to this Response Document.

* *For identification purpose only*

Taking into account the terms of the Offers and the advice from Halcyon, we consider that the Share Offer is fair and reasonable and would recommend the Independent Shareholders to accept the Share Offer. Nevertheless, since the Shares have been traded at or above the Share Offer Price during the period following the resumption of trading of the Shares upon publication of the Announcement up to and including the Latest Practicable Date, the Independent Shareholders are reminded to closely monitor the stock market and the trading price and liquidity of the Shares during the Offer Period and shall, having regard to their own circumstances, consider selling their Shares in the open market instead of accepting the Share Offer if the net proceeds from such disposal of the Shares would be higher than the proceeds from accepting the Share Offer. For the Option Offer, we consider that the Option Offer is fair and reasonable and would recommend the holders of the Options to accept the Option Offer. For the Convertible Notes Offer, we consider that the Convertible Notes Offer is not fair or reasonable so far as the holder of the Convertible Notes is concerned and would recommend the holder of the Convertible Notes not to accept the Convertible Notes Offer.

Yours faithfully,
For and on behalf of the
Independent Board Committee of
Greenheart Group Limited

Mr. Simon Murray
Non-executive Director

Mr. Wong Che Keung Richard
Independent Non-executive Director

Mr. Tong Yee Yung Joseph
Independent Non-executive Director

Mr. Wong Kin Chi
Independent Non-executive Director

The following is the full text of a letter of advice from Halcyon to the Independent Board Committee in relation to the Offers, which has been prepared for the purpose of inclusion in this Response Document.

HALCYON 鎧盛

11/F, 8 Wyndham Street,
Central, Hong Kong

7 March 2013

To the Independent Board Committee

Dear Sirs,

THE UNCONDITIONAL MANDATORY GENERAL CASH OFFERS BY MOELIS & COMPANY ASIA LIMITED ON BEHALF OF EMERALD PLANTATION GROUP LIMITED TO ACQUIRE ALL THE ISSUED ORDINARY SHARE CAPITAL OF GREENHEART GROUP LIMITED (OTHER THAN THE ORDINARY SHARES ALREADY OWNED OR CONTROLLED BY EMERALD PLANTATION GROUP LIMITED AND PARTIES ACTING IN CONCERT WITH IT AT THE TIME THE OFFER IS MADE), OFFER FOR THE CANCELLATION OF ALL OUTSTANDING OPTIONS AND OFFER FOR ALL OUTSTANDING CONVERTIBLE NOTES

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in relation to the terms of the Offers, details of which are set out in the Offer Document dated 21 February 2013 and issued by the Offeror and the Response Document dated 7 March 2013 and issued by the Company to the Shareholders and the holders of the Options and the Convertible Notes. Terms used in this letter shall have the same meanings as those defined in the Response Document unless the context otherwise requires.

As referred to in the "Letter from the Board" of the Response Document (the "**Letter**"), on 31 January 2013, the Offeror announced, among other things, that pursuant to the Plan as approved by the creditors of Sino-Forest on 3 December 2012 and sanctioned by the Ontario Superior Court of Justice on 10 December 2012, all of Sino-Forest's group companies and substantially all of the other assets of Sino-Forest, including the entire issued share capital of SCGI (which holds 495,519,102 Shares, representing approximately 63.6% of the issued Shares), were transferred to the Offeror pursuant to the implementation of the Plan on 30 January 2013 (Toronto time). As a consequence, the Offeror acquired an indirect interest in 495,519,102 Shares representing approximately 63.6% of the issued Shares.

As a result of the implementation of the Plan, the Offeror is required to make a mandatory general offer for all the issued Shares (other than those already owned or controlled by it and parties acting in concert with it) pursuant to Rule 26.1 of the Takeovers Code. Pursuant to Rule 13 of the Takeovers Code, the Offeror is also required to make an appropriate offer for cancellation of all outstanding Options and an appropriate offer for the Convertible Notes. As the Offeror and persons acting in concert with it hold more than 50% of the voting rights of the Company, the Offers are unconditional.

The Independent Board Committee comprising all the non-executive Directors, namely Messrs. Simon Murray, Wong Kin Chi, Wong Che Keung Richard and Tong Yee Yung Joseph has been established to make a recommendation as to whether the Offers are fair and reasonable and as to acceptance and has approved our appointment as the Independent Financial Adviser regarding the Offers. In our capacity as the Independent Financial Adviser to the Independent Board Committee, our role is to provide the Independent Board Committee with an independent opinion and recommendation as to whether the terms of the Offers are fair and reasonable and as to acceptance.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on the information, financial information and facts included in the Offer Document and the Response Document and supplied to us, and the representations expressed by the Directors and/or management of the Group, and have assumed that all such information, financial information, facts and any representations made to us, or referred to in the Offer Document and the Response Document, in all material aspects, were true, accurate and complete as at the time they were made and as at the Latest Practicable Date, have been properly extracted from the relevant underlying accounting records (in the case of financial information) and made after due and careful inquiry by the Directors and/or the management of the Group. Shareholders will be notified of material changes by the Company as soon as possible, if any, after the Latest Practicable Date and throughout the Offer Period to the information and representations provided and made to us. The Directors and/or the management of the Group have confirmed that, having made all reasonable enquiries and to the best of their knowledge and belief, all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have no reason to doubt the completeness, truth or accuracy of the information and representations provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

Our review and analyses were based upon, among others, the Offer Document and the information provided by the Group including the announcements, annual and interim reports of the Company and the Response Document.

We considered that we have reviewed sufficient information to reach an informed view and to justify reliance on the information provided and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Offer Document and the Response Document and supplied to us by the Directors and/or the management of the Group nor have we conducted any form of in-depth investigation into the businesses, affairs, financial position, profitability or prospects of the Group or the Offeror Group. We also have not considered the tax implications on the Independent Shareholders and the holders of the Options and the Convertible Notes of their acceptances or non-acceptances of the Offers since these are particular to their own individual circumstances. In particular, the Independent Shareholders and the holders of the Options and the Convertible Notes who are residents outside Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the Offers and, if in any doubt, should consult their own professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Offers to the Independent Board Committee, we have considered the following principal factors and reasons:

I. The Share Offer

1. Business and financial performance and outlook of the Group

The Group is principally engaged in log harvesting, timber processing, and marketing and sales of logs and timber products.

Set out below are highlights of the financial information and operating results of the Group for the two years ended 31 December 2010 and 2011 and for the six months ended 30 June 2011 and 2012 as extracted from the annual report of the Company for the year ended 31 December 2011 (the "**Annual Report**") and the interim report of the Company for the six months ended 30 June 2012 (the "**Interim Report**") respectively:

	For the six months ended 30 June		**For the year ended 31 December**	
	2012	**2011**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	*(unaudited)*	*(Audited)*	*(Audited)* *(restated)*
Revenue	202,640	124,061	326,984	17,031
Gross profit	71,976	63,238	154,784	8,597
Gross profit margin	*35.5%*	*51.0%*	*47.3%*	*50.5%*
Loss before taxation	(35,400)	(12,074)	(93,949)	(80,223)
Loss for the period/year	(38,617)	(22,981)	(105,887)	(86,648)
Loss attributable to equity holders of the Company	(19,789)	(11,849)	(74,343)	(67,606)

The following is a summary of the Group's financial position as at 31 December 2011 and 30 June 2012 as extracted from the Annual Report and the Interim Report:

	As at 30 June 2012 HK$'000 (Unaudited)	As at 31 December 2011 HK$'000 (Audited)
Timber concessions and cutting rights	796,894	800,201
Plantation forest assets	496,642	489,568
Property, plant and equipment	376,179	286,950
Other total non-current assets	81,040	80,836
Cash and cash equivalents	202,868	285,018
Other total current assets	104,996	88,628
Total assets	**2,058,619**	**2,031,201**
Total current liabilities	85,119	75,637
Loan from the ultimate holding company	312,000	312,000
Convertible bonds	207,927	201,553
Other total non-current liabilities	163,360	117,254
Total liabilities	**768,406**	**706,444**
Total equity	**1,290,213**	**1,324,757**

As disclosed in the Annual Report, the revenue of the Group for the year ended 31 December 2011 ("**FY2011**") was approximately HK$327.0 million, representing an increase of approximately 18 times as compared to the revenue for the year ended 31 December 2010 ("**FY2010**"), which was primarily attributable to the inclusion of sales of approximately HK$300.7 million generated from the softwood radiata pine plantations in New Zealand acquired by the Group in 2011 (the "**New Zealand Plantation**"). 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. Revenue contributed from the Group's operations in Republic of Suriname ("**Suriname**") also increased by about 52.6% from approximately HK$16.7 million for FY2010 to approximately HK$25.5 million for FY2011, which was mainly attributable to the increase in the Group's export logs volume in Suriname and the sale of timber products in 2011.

The gross profit of the Group for FY2011 was approximately HK$154.8 million, representing an increase of approximately 17 times as compared to the gross profit for FY2010 of approximately HK$8.6 million, and was mainly contributed by the Group's radiata pine business in New Zealand of approximately HK$143.9 million and the tropical hardwood business in Suriname of approximately HK$10.6 million. As advised by the management of the Group, the Group also commenced logs and timber products trading business across different regions, mainly from South America to China, during FY2011, which contributed a gross profit of approximately HK$0.3 million for FY2011. As stated in the Annual Report, the significant increase in gross profit of the Group was mainly attributable to the increase in sales of approximately 353,000 cubic meters of radiata pine in New Zealand 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 the concessions of the Group in Suriname for FY2011.

The gross profit margin of the Group for FY2011 was approximately 47.3% as compared to the gross profit margin of 50.5% for FY2010. The gross profit margin for the operations in New Zealand and the operations in Suriname for FY2011 was approximately 47.9% and approximately 41.5%, respectively. As stated in the Annual Report, the decrease in gross profit margin of the Group for FY2011 was mainly due to the significant increase in sales of New Zealand radiata pine which contributed a lower gross profit margin as compared to the gross profit margin for FY2010.

Despite increment in the Group's gross profit, loss attributable to the equity holders of the Company for FY2011 increased by approximately 10.0% to approximately HK$74.3 million, as compared to loss attributable to the equity holders of the Company of approximately HK$67.6 million for FY2010. Such increase in loss was mainly resulted from the combining effects of: (i) increase in selling and distribution costs of approximately HK$123.1 million which was mainly attributable to the ocean freight and logistics related costs incurred from the sale of the Group's radiata pine in New Zealand; (ii) increase in administrative expenses of approximately HK$39.8 million which was mainly attributable to one-off legal and professional fees and compliance fees incurred for certain legal consultation services, due-diligence reviews on potential investments and regulatory compliance, and increase in staff costs and rent and rates to cater for the Group's expansion; (iii) increase in other operating expenses of approximately HK$22.5 million which was mainly attributable to the provision for a short term loan made to a potential investee, and costs and expenses incurred for the expansion of operations in East Suriname and the construction of a central log patio for log storage in West Suriname; (iv) increase in finance costs of approximately HK$13.3 million as a result of the issue of the Convertible Notes in August 2010 with higher effective interest rate than that of the convertible bonds with principal amount of HK$237.0 million issued in November 2007 and fully converted into new Shares in September 2010; and (v) increase in fair value gain of approximately HK$22.0 million for the New Zealand Plantation.

As disclosed in the Interim Report, the revenue of the Group for the six months ended 30 June 2012 ("**1H FY2012**") was approximately HK$202.6 million, representing an increase of approximately 63.3% as compared to the Group's revenue for the six months ended 30 June 2011 ("**1H FY2011**") of approximately HK$124.1 million. The growth in the Group's revenue was primarily contributed by the increase in sales generated from the Group's operation in New Zealand as a result of the Group's further ramp-up in the harvesting activities in New Zealand for 1H FY2012. As advised by the management of the Group, the increase in sales was mainly driven by more export of radiata pine from the New Zealand Plantation to the Chinese and Indian markets.

The gross profit of the Group for 1H FY2012 was approximately HK$72.0 million, representing an increase of approximately 13.8% as compared to the gross profit for 1H FY2011 of approximately HK$63.2 million, which was contributed by the Group's radiata pine business in New Zealand of approximately HK$65.4 million, the tropical hardwood business in Suriname of approximately HK$6.0 million and the log and timber products trading of approximately HK$0.5 million. The increase in gross profit of the Group was mainly attributable to the increase in sales of approximately 105,000 cubic meters of radiata pine in New Zealand for 1H FY2012.

The gross profit margin of the Group for 1H FY2012 was approximately 35.5% as compared to the gross profit margin of approximately 51.0% for 1H FY2011. The Group's gross profit margin for the operations in New Zealand and the operations in Suriname for 1H FY2012 was approximately 35.3% and approximately 40.1%, respectively, both of which decreased as compared to their respective gross profit margin of approximately 51.6% and 45.6% for 1H FY2011. As stated in the Interim Report, the decrease in gross profit margin for the Group's operations in New Zealand was mainly attributable to (i) a strategic adjustment of radiata pine grading of the Group; (ii) a decrease in overall prices of radiata pine in the Chinese market; and (iii) an increase in the operating costs of the Group in New Zealand due to the appreciation of New Zealand dollars against United States dollars during 1H FY2012. The decrease in gross profit margin for the Group's operations in Suriname was mainly due to an increase in overall operating costs in Suriname, which mainly resulted from (i) the addition of loading and other related costs of setting up the central log yard as a storage and selection centre for better inventory management and control of the Group; and (ii) the relatively high inflation rate in Suriname, which had previously reached 22.6% in April 2011 and was stabilised at 6.5% as of March 2012 due to tighter financial controls.

Loss attributable to the equity holders of the Company for 1H FY2012 was approximately HK$19.8 million, representing an increase of approximately 67.0% as compared to loss attributable to the equity holders of the Company for 1H FY2011 of approximately HK$11.8 million. Such increase was mainly a result of the combining effects of: (i) increase in selling and distribution costs of approximately HK$28.9 million which was mainly attributable to the ocean freight and logistics related costs incurred from the increased sale of the Group's radiata pine in New Zealand; (ii) increase in other operating expenses of approximately HK$11.4 million which was mainly attributable to the additional costs and expenses incurred for the preparation and testing of the Group's new wood processing facility in West Suriname and new development costs for the expansion of sustainable forestry operations in the East and Central concessions; and (iii) increase in fair value gain of approximately HK$7.4 million for the New Zealand Plantation.

As shown from the above, the Group had total assets of approximately HK$2,031.2 million as at 31 December 2011 including, among others, timber concessions and cutting rights of approximately HK$800.2 million (accounting for approximately 39.4% of the total assets of the Group), plantation forest assets of approximately HK$489.6 million (accounting for approximately 24.1% of the total assets of the Group), property plant and equipment of approximately HK$287.0 million (accounting for approximately 14.1% of the total assets of the Group) and cash and cash equivalents of approximately HK$285.0 million (accounting for approximately 14.0% of the total assets of the Group). The timber concessions and cutting rights of the Group represent the rights to harvest trees in the allocated concession forests in designated areas in Suriname. Total liabilities of the Group as at 31 December 2011 amounted to approximately HK$706.4 million, including, among others, a loan (the "**Holding Company Loan**") with a principal amount of US$40.0 million (equivalent to HK$312.0 million) granted by Sino-Forest (accounting for approximately 44.2% of the total liabilities of the Group) and the Convertible Notes of approximately HK$201.6 million (accounting for approximately 28.5% of the total liabilities of the Group).

As at 30 June 2012, the Group had total assets of approximately HK$2,058.6 million, with timber concessions and cutting rights remained the largest balance sheet item which amounted to approximately HK$796.9 million (accounting for approximately 38.7% of the total assets of the Group); and other major assets mainly included plantation forest assets of approximately HK$496.6 million (accounting for approximately 24.1% of the total assets of the Group), property plant and equipment of approximately HK$376.2 million (accounting for approximately 18.3% of the total assets of the Group) and cash and cash equivalents of approximately HK$202.9 million (accounting for approximately 9.9% of the total assets of the Group). The Group's total liabilities as at 30 June 2012 increased to approximately HK$768.4 million, representing an increase of approximately 8.8% as compared to the Group's total liabilities as at 31 December 2011, which was mainly due to the Group's draw down of loan from SCGI of approximately HK$47.6 million as at 30 June 2012.

Future prospect of the Group

According to the Annual Report, the Group aimed to continue (i) ramping up its harvesting level in New Zealand to accommodate demands for radiata pine in China, as well as other markets such as India; and (ii) increasing its forest concessions under management in Suriname and enhancing its new processing facilities in West Suriname which provided foundation for its expansion of processing operation into other forest concessions of Suriname in the future. As disclosed in the Interim Report, despite the growth of the Group's revenue for 1H FY2012, the net loss of the Group increased for 1H FY2012 which was mainly driven by the decrease in overall radiata pine prices in China resulted from its weaker construction market (while China was a key market for the Group's radiata pine in New Zealand and logs in Suriname) and increase in operating expenses mainly attributable to additional costs and expenses incurred for the preparation and testing of the Group's new processing facility in West Suriname. As advised by the management of the Group, the construction market in China was weakened as a result of the measures taken by the Chinese government to curb the property speculation. We understand from the management of the Group that the Group has followed its planned investment, harvesting and processing strategy in Suriname during 1H FY2012 and with the introduction of new processing facilities in West Suriname, the Group aimed to diversify its product range and enhance its profit margins and to produce niche products for Europe as well as increase marketing efforts of hardwood lumber into Asian markets like India. Concurrent with the Group's strategy in Suriname to boost productivity levels and sales, the Group remained committed in its efforts to achieve accreditation of Forest Stewardship Council (a global and not-for-profit organisation dedicated to the promotion of responsible forest management worldwide) as its commitment to high standards of sustainable forestry and to open up more market opportunities for its hardwood products, particularly in Europe and North America.

According to the press release published by the National Bureau Statistics of China on 18 January 2013, the total investment in real estate development in China in 2012 was approximately Renminbi ("RMB") 7,180.4 billion, representing a year-on-year nominal growth of approximately 16.2%, but such growth rate was much less than the nominal growth for 2011 of approximately 28.1%. According to the news brief from Wood Resources International LLC ("**WRI**"), a forest industry consulting firm, the reduction in construction activities in China during 2012 has resulted in reduced demand for lumber, which led to decline in both volume and prices of importation of softwood logs and lumber to China. WRI reported that demand for imported softwood logs in China increased in the second half of 2012 after declining during the first six months of 2012 and more shipments were from New Zealand which supported the rise in average import value of radiata pine of New Zealand in the fourth quarter of 2012. According to a news release by International Wood Markets Group Inc., a forest market research and analysis provider, on 10 December 2012, the demand for imported logs and lumber in China is expected to return to a steady growth after 2012 as a result of its growing wood deficit. Nevertheless, there is no assurance that China will not impose any macro-economic administrative measures from time to time against the real estate market in China which may affect the demand for imported logs and lumber.

According to RISI, an information provider for the global forest products industry, India is the fastest growing softwood log market in Asia, which is a market accounted for approximately 15.4% of the Group's log sales in New Zealand for 1H FY2012. As advised by the management of the Company, the Group continued to expand its softwood market with shipments to India in 2012, which, according to the latest publicly available information on the website of Ministry of Primary Industries in New Zealand, has been the third largest market after China in term of logs export of New Zealand for 2009, 2010, 2011 and the first half year of 2012. As advised by the management of the Company, India is an important market to the Group, as the radiata pine market in India is growing fast and India will also be one of the markets for the Surinamese hardwoods of the Group.

As advised by the management of the Company, the Group has completed phase one of the construction of a hardwood processing facility in West Suriname and commenced production of new sawn lumber and higher value products such as flooring and decking products and focused its sales and marketing of lumber products on new higher margin markets such as Europe, North America, Australia and India.

Furthermore, we understand from the management of the Company that the Group is in the process of construction of additional dry kilns and molders for the purpose of enhancing the quality of the hardwood lumber produced and preparation for the construction of a second sawmill line in West Suriname in order to increase the production capacity to cater for market demand from Europe and the United States once their economies are recovered. The management of the Group states that the Group also has new plans to build a bioenergy plant adjacent to its processing facility for converting the waste produced from the processing facility into green energy. Such bioenergy plant is expected to power the Group's processing facility and camp site, which allows the Group to save diesel fuel consumption.

As advised by the management of the Company, the Group has commenced log and timber products trading business in FY 2011 and has further initiated a trading strategy in the second half of 2012, which focuses on the sourcing of third-party logs and lumber from other sustainable hardwood and softwood suppliers and trading to existing and new customers for a margin.

We understand from the management of the Group that with the above action plans, the Group will continue its business strategies to increase harvest levels in New Zealand, increase market share in India and China as well as explore new opportunities for trading margin expansion for the business operations in New Zealand and Suriname.

As disclosed in the Company's announcement dated 20 December 2012, the Group has entered into an agreement with the Bank of New Zealand in relation to a US$5.0 million repayable on demand overdraft facility and a US$25.0 million cash advance facility maturing on 30 November 2015 (collectively, the "**Bank Loan Facilities**"). As disclosed in the Response Document, the Company redeemed US$8 million of the principal amount of the Convertible Notes by cash on 20 February 2013 under the terms and conditions of the Convertible Notes and following such redemption, the holder of the Convertible Notes may subsequently exercise its redemption right (in whole or in part of its outstanding Convertible Notes) at any time prior to the maturity of the Convertible Notes (but the Group has not received any further notice from the holder of the Convertible Notes with regard to its intention over the remaining outstanding principal amount of the Convertible Notes of US$17 million as at the Latest Practicable Date) and the remaining balance of the Convertible Notes shall be classified as current liabilities in the Group's consolidated statement of financial position thereafter. As mentioned in the Offer Document and the Letter in the Response Document, all of Sino-Forest's group companies and substantially all of the other assets of Sino-Forest, including the entire issued share capital of SCGI (which holds 495,519,102 Shares, representing approximately 63.6% of the issued Shares), were transferred to the Offeror pursuant to the implementation of the Plan. It was noted in the Offer Document that the Offeror has not formed any views on whether major changes should be introduced to the Group's business and the Offeror intends to review the business activities and management of the Group, with a view to evaluating its strategy on its equity investment in the Company and its financial support to the Group. As disclosed in the Interim Report, the Holding Company Loan is repayable on 17 August 2013. As advised by the management of the Group, Sino-Forest has assigned all of its rights and benefits under the Holding Company Loan to the Offeror pursuant to the implementation of the Plan and the Company is in discussion with the Offeror to seek for its agreement to extend the repayment date of the Holding Company Loan to 2014 while no decision has yet been made by the Offeror as at the Latest Practicable Date. We understand from the management of the Group that if the extension of repayment of the Holding Company Loan is not granted, the Group will have to obtain other financial resources to meet with its repayment obligation and one possible option the management of the Group may consider is to sell some of its non-current assets. Based on the above and taking into account the Group's existing financial resources, the Board and the management of the Group are of the view, which we concur with, that the Group will have sufficient financial resources and working capital to finance its operations and to meet with its financial obligations, including the full redemption of the Convertible Notes if the redemption right is exercised by the holder of the Convertible Notes. The Independent Shareholders and the holders of the Options and the Convertible Notes are reminded to consider carefully that the Group may have financial distress if the Group cannot seek for the Offeror's agreement to extend the repayment date of the Holding Company Loan and cannot obtain other financial resources to meet with its repayment obligation.

2. Valuation of the Share Offer Price

The Share Offer Price of HK$0.58 per Offer Share represents:

(a) a discount of approximately 1.7% to the closing price of the Shares quoted on the Stock Exchange of HK$0.59 per Share on 23 January 2013 (the "**Last Trading Day**"), being the last full trading day on which the Shares were traded prior to suspension of trading of the Shares pending issue of the Announcement;

(b) a discount of approximately 1.0% to the average closing price of the Shares quoted on the Stock Exchange of approximately HK$0.59 per Share over the 5 trading days up to and including the Last Trading Day;

(c) a discount of approximately 0.9% to the average closing price of the Shares quoted on the Stock Exchange of approximately HK$0.59 per Share over the 10 trading days up to and including the Last Trading Day;

(d) a premium of approximately 1.3% over the average closing price of the Shares quoted on the Stock Exchange of approximately HK$0.57 per Share over the 30 trading days up to and including the Last Trading Day;

(e) a premium of approximately 4.3% over the average closing price of the Shares quoted on the Stock Exchange of approximately HK$0.56 per Share over the 60 trading days up to and including the Last Trading Day;

(f) a premium of approximately 6.8% over the average closing price of the Shares quoted on the Stock Exchange of approximately HK$0.54 per Share over the 90 trading days up to and including the Last Trading Day;

(g) a premium of approximately 16.9% over the average closing price of the Shares quoted on the Stock Exchange of approximately HK$0.50 per Share over the 180 trading days up to and including the Last Trading Day;

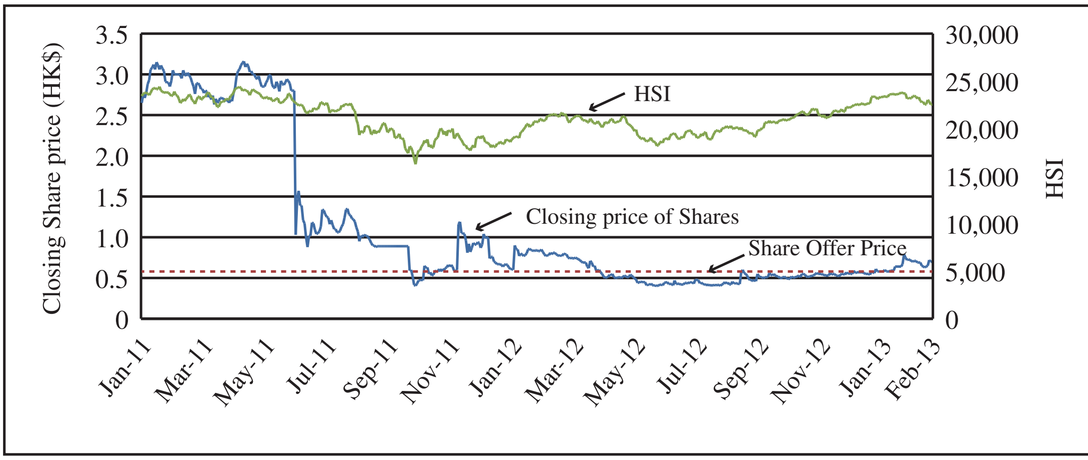
(h) a discount of approximately 17.1% to the closing price of HK$0.70 per Share as quoted by the Stock Exchange on the Latest Practicable Date;

(i) a discount of approximately 57.8% to the Company's audited consolidated net assets per Share of approximately HK$1.38 based on the Company's audited consolidated equity attributable to Shareholders of approximately HK$1,072,395,000 as at 31 December 2011 and 779,724,104 Shares in issue as at the Latest Practicable Date; and

(j) a discount of approximately 57.2% to the Company's unaudited consolidated net assets per Share of approximately HK$1.36 based on the Company's unaudited consolidated equity attributable to Shareholders of approximately HK$1,056,679,000 as at 30 June 2012 and 779,724,104 Shares in issue as at the Latest Practicable Date.

2.1 Historical trading price of the Shares

The following chart shows the closing prices of the Shares as quoted on the Stock Exchange from 1 January 2011 up to and including 24 January 2013 (the "**Pre-Announcement Period**") and from 31 January 2013 (being the first trading day immediately following the resumption of trading of the Shares upon the publication of the Announcement) up to and including the Latest Practicable Date (the "**Post-Announcement Period**") relative to the movement of the Hong Kong Hang Seng Index ("**HSI**"):



Source: the Stock Exchange's website (www.hkex.com.hk) and Bloomberg

During the period spanning from the beginning of the Pre-Announcement Period to the end of the Post-Announcement Period (the "**Review Period**"), the closing price of the Shares ranged from the lowest of HK$0.40 per Share recorded on 4 June 2012 to the highest of HK$3.16 per Share recorded on 13 April 2011. The Share Offer Price represents a premium of approximately 45% over the lowest closing price per Share and a discount of approximately 81.6% to the highest closing price per Share during the Review Period.

We noted that there was a slump in the closing price of the Shares since June 2011 which was not directly affected by the general market condition (as evidenced from the performance of HSI). Such dramatic decrease and fluctuations in the closing price of the Share may be affected by the incidents experienced by the Company set out below.

On 7 June 2011, the Company published an announcement (the "**Allegations Announcement**") that a report issued on a website by an organization made certain allegations towards Sino-Forest ("**Sino-Forest Allegations**"), the Company's then ultimate controlling shareholder (as defined in the Listing Rules), and had concerns about the Company. The price of the Share was closed at HK$1.03 on 8 June 2011, being the first trading date after the publication of the Allegations Announcement, represented a sharp decrease of approximately 63.2% from the closing price of the Share of HK$2.80 on 2 June 2011, being the last trading date prior to the issue of the Allegations Announcement. The closing price of the Share bounced back to HK$1.47 on 9 June 2011 followed by the publication of the Company's voluntary announcement to provide information regarding its business operations in Suriname. The closing price of the Share subsequently decreased to HK$0.88 on 20 June 2011 and the Company issued an announcement on unusual price and trading volume movements of the Shares at the request of the Stock Exchange and provided further information in relation to its key operations in Suriname and New Zealand and the independence of the Company's operations from Sino-Forest.

On 29 August 2011, the SFC directed the Stock Exchange to suspend trading in the Shares from 29 August 2011 and the Company announced the change of its chairman of the Board. Subsequently, the Company published an announcement (the "**Concession Announcement**") in relation to the successful renewal of concession and harvesting rights held by Dynasty Forestry Industry N.V., a subsidiary of the Company, in Suriname and the Company (i) provided responses to deny the doubts raised by the South China Morning Post on the validity and legality of the Group's harvesting rights and subcontracting arrangements in Suriname; (ii) provided further information on the relationship of the Group with Sino-Forest; and (iii) stated that the SFC's investigations into the Company's affairs were continuing. Trading in the Shares was resumed on 27 September 2011 with a closing price of the Share of HK$0.59, representing a decrease of approximately 33.7% from the closing price of Share of HK$0.89 on 26 August 2011, being the last trading date prior to the issue of the Concession Announcement.

The price of the Share was closed at HK$1.16 on 15 November 2011 and after market close, the Company issued an announcement on unusual price and trading volume movements of the Shares at the request of the Stock Exchange and provided updates in relation to a press release made by Sino-Forest for certain findings of the independent committee of the board of directors of Sino-Forest (the "**Independent Committee**") in respect of the Sino-Forest Allegations. On 13 December 2011, the trading in Shares was suspended for one day pending the release of an announcement (the "**Sino-Forest Announcement**") in relation to a press release dated 12 December 2011 in respect of the status of the third quarter financial results of Sino-Forest and the report of the Independent Committee. Trading of Shares was resumed on 14 December 2011 with a closing price of Share of HK$0.74, represented a decrease of approximately 26.0% from the closing price of Share of HK$1.00 on 12 December 2011, being the last trading date prior to the issue of the Sino-Forest Announcement.

The closing price of the Share followed a general downward trend as the market since then and on 1 April 2012, the Company made announcement regarding possible change of Sino-Forest's control on the Company following the announcements made by Sino-Forest regarding proposed restructuring plan with its noteholders. On 22 August 2012, the Company announced the termination of the investigation by the SFC and the closing price of Share on 23 August 2012 rose to HK$0.57, represented an increase of approximately 34.1% as compared to the closing price of Share on 22 August 2012. Since then, the closing price of the Shares had generally been moving in line with the HSI in an upward trend and the Company has made several announcements in respect of the press releases made by Sino-Forest regarding updates of its restructuring plan before publication of the Announcement on 31 January 2013.

During the Post-Announcement Period, the closing price of the Shares ranged from the lowest of HK$0.63 per Share recorded on 26 February 2013 to the highest of HK$0.79 per Share recorded on 1 February 2013 and remained higher than the Share Offer Price. The Share Offer Price represents a discount of approximately 17.1% to the closing price of the Share of HK$0.70 on the Latest Practicable Date. It is expected that such surge in the closing price of the Share during the Post-Announcement Period was probably a result of market reaction after the issue of the Announcement.

Independent Shareholders should note that there is no assurance that the trading price of the Shares will or will not be sustained or return to the previous trading level before the publication of the Allegations Announcement and it is uncertain whether the market price per Share will or will not be higher than the Share Offer Price during the Offer Period. Independent Shareholders should be reminded to closely monitor the market price of the Shares during the Offer Period.

2.2 Liquidity of the Shares

The following table sets out the trading volume of the Shares on the Stock Exchange during the Review Period:

	Total trading volume for the month/period *(Note 1)*	**Average daily trading volume for the month/period** *(Note 2)*	**Percentage of average daily trading volume to total number of Shares in issue as at the Latest Practicable Date** *(Note 3)* *(approximately)*	**Percentage of average daily trading volume to total number of Shares held by public Shareholders as at the Latest Practicable Date** *(Note 4)* *(approximately)*
Pre-Announcement Period				
2011				
January	47,757,804	2,274,181	0.29%	0.83%
February	7,489,551	416,086	0.05%	0.15%
March	11,597,325	504,232	0.06%	0.18%
April	12,181,815	676,768	0.09%	0.25%
May	7,466,975	373,349	0.05%	0.14%
June	656,837,735	34,570,407	4.43%	12.60%
July	207,252,635	10,362,632	1.33%	3.78%
August	46,841,050	2,342,053	0.30%	0.85%
September	32,127,001	10,709,000	1.37%	3.90%
October	48,782,239	2,439,112	0.31%	0.89%
November	359,394,120	16,336,096	2.10%	5.96%
December	159,478,788	8,393,620	1.08%	3.06%
2012				
January	112,655,067	6,258,615	0.80%	2.28%
February	61,734,406	2,939,734	0.38%	1.07%
March	31,158,150	1,416,280	0.18%	0.52%
April	11,563,000	642,389	0.08%	0.23%
May	7,068,487	321,295	0.04%	0.12%
June	4,980,000	237,143	0.03%	0.09%
July	5,692,785	271,085	0.03%	0.10%
August	34,847,125	1,515,092	0.19%	0.55%
September	20,351,292	1,017,565	0.13%	0.37%
October	9,491,250	474,563	0.06%	0.17%
November	13,327,412	605,791	0.08%	0.22%
December	10,669,004	561,527	0.07%	0.20%
2013				
January (up to and including the Last Trading Day)	18,628,650	1,164,291	0.15%	0.42%
Post-Announcement Period				
1 February 2013 to Latest Practicable Date	88,220,837	4,411,042	0.57%	1.61%

Notes:

1. Source: Bloomberg.

2. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period which excludes any trading day on which trading of the Shares on the Stock Exchange was suspended for the trading day.

3. Based on 779,724,104 Shares in issue as at the Latest Practicable Date.

4. Based on 274,304,002 Shares held by the public Shareholders as at the Latest Practicable Date.

The average daily trading volume of the Shares in each month/period during the Pre-Announcement Period ranged from approximately 237,143 Shares to approximately 34,570,407 Shares, representing approximately 0.03% and approximately 4.43% respectively of the total number of the Shares in issue as at the Latest Practicable Date and approximately 0.09% and 12.60% respectively of the total number of Shares held by public Shareholders as at the Latest Practicable Date. We note that the unusually high average daily trading volume of the Shares recorded in June 2011 of approximately 34,570,407 Shares during the Pre-Announcement Period was mainly resulted from the Allegations Announcement in relation to the Sino-Forest Allegations published by the Company on 7 June 2011.

Trading volume of the Shares increased to 39,905,375 Shares on 1 February 2013, the first full trading day following the publication of the Announcement. Trading volume of the Shares decreased thereafter, with an average daily trading volume of approximately 4,411,042 Shares, representing approximately 0.57% of the total number of Shares in issue as at the Latest Practicable Date and approximately 1.61% of the total number of Shares held by the public as at the Latest Practicable Date. The trading volume of the Shares on the Latest Practicable Date amounted to 928,425 Shares, representing approximately 0.12% of the total number of Shares in issue as at the Latest Practicable Date and approximately 0.34% of the total number of Shares held by the public Shareholders as at the Latest Practicable Date.

As illustrated in the data set out in the table above, the overall liquidity of the Shares during the Review Period was generally low. Independent Shareholders who wish to realise part or all of their investments in the Shares through disposal in the market, especially those with large block of Shares, should note that there may not be sufficient trading volume to absorb the amount of Shares intended to be sold without exerting significant downward pressure on the price of Shares.

2.3 Comparison with comparable companies

The Group is principally engaged in log harvesting, timber processing, marketing and sales of logs and timber products. In assessing the fairness and reasonableness of the Share Offer Price, we have attempted to compare the pricing ratios represented by the Share Offer Price against the market valuation of other listed companies in Hong Kong which are principally engaged in businesses similar to that of the Group. In general, in assessing whether a business segment is principal to a company, we consider that it is a justifiable basis to make reference to the revenue generated from a business segment which contributes more than half of the total revenue of a company based on the latest available financial statements. As the Company has recorded net losses for FY2011 as extracted from the Annual Report, only the price-to-book ratio ("**P/B ratio(s)**") has been used in the analysis. We have, based on the information available from the website of the Stock Exchange and Bloomberg, identified the following 3 comparables (the "**Comparable Companies**"), being an exhaustive list of companies listed on the Stock Exchange (both the Growth Enterprise Market and the Main Board) and principally engaged in businesses similar to that of the Group. We note that the business models and the products of the Comparable Companies and their geographical location of business operation may not be exactly identical to those of the Group, but we consider that they are relevant and would have reflected the market's collective valuation for the similar nature of business conducted by the Group. The list of the aforesaid Comparable Companies and their respective P/B ratios are set out below.

Stock code	**Company name**	**Principal business**	**Market capitalisation** *(HK$ million)*	**P/B ratio** *(times)* *(Note 1)*
930	China Forestry Holdings Co., Ltd. *(Note 2)*	Management of forests and sale of timber logs in China.	8,952	3.05
1228	Superb Summit International Timber Co. Ltd.	Exploitation and management of timber resources in China; marketing and sales of a wide range of timber products.	2,032	0.60
8186	China Asean Resources Ltd.	Wood products manufacturing and plantation, coal logistics and trading, design and manufacture of plastic and wooden household products.	210	0.20

For the Comparable Companies:

			minimum	0.20
			maximum	3.05

Stock code	Company name	Principal business	Market capitalisation *(HK$ million)*	P/B ratio *(times)* *(Note 3)*
94	The Company	Log harvesting, timber processing, marketing and sales of logs and timber products.	554	0. 43

Source: the Stock Exchange's website (www.hkex.com.hk) and Bloomberg

Notes:

1. P/B ratios of the Comparable Companies are calculated based on their respective closing prices as at the Latest Practicable Date and the net assets attributable to the shareholders of the Comparable Companies as extracted from their respective latest published annual or interim reports divided by their total number of issued shares as at the Latest Practicable Date.

2. The trading of shares of China Forestry Holdings Co., Ltd. has been suspended since 26 January 2011. This was the last share price of the shares of China Forestry Holdings Co., Ltd. on 26 January 2011.

3. Calculated based on the Share Offer Price and the unaudited consolidated net assets attributable to the Shareholders as at 30 June 2012 as extracted from the Interim Report divided by the total number of issued Shares as at the Latest Practicable Date.

Given that the shares of China Forestry Holdings Co., Ltd. have been suspended for trading for a certain period of time, the P/B ratio calculated based on the price of the shares immediately before suspension of trading may not provide a good reference. The P/B ratio of the Company as implied by the Share Offer Price of approximately 0.43 times is lower than the P/B ratio of Superb Summit International Timber Co. Ltd. of approximately 0.60 times and higher than the P/B ratio of China Asean Resources Ltd. of approximately 0.20 times.

2.4 Comparison with privatisation precedents

As noted from the Offer Document, if, within four months after making of the Share Offer, the Offeror together with other members of the Offeror Group acquires not less than nine-tenths in value of the Offer Shares from Shareholders representing three-fourths in number of the holders of Offer Shares, the Offeror intends to exercise any rights it may have under Section 102 of the Companies Act and in accordance with Rule 2.11 of the Takeovers Code to proceed to the compulsory acquisition of those Offer Shares not acquired by the Offeror pursuant to the Share Offer. Accordingly, for the purpose of assessing the Share Offer Price, we have also identified from publicly available information on the website of the Stock Exchange an exhaustive list of privatisation precedents (the "**Privatisation Precedents**") that (i) were announced since 1 January 2011 and up to the Latest Practicable Date; and (ii) have been successfully completed on or before the Latest Practicable Date. Although the subject companies of the Privatisation Precedents are principally engaged in different nature of businesses than that of the Group (except for Samling Global Ltd. ("SGL")), we consider that this analysis provides additional reference as to premium/discount of prices for privatisation over/to the then prevailing market prices and book values of the relevant companies prior to the initial announcement of the privatisation proposals. Set out in the following table are the details of the Privatisation Precedents for reference to the Independent Shareholders.

				Premium/(discount) of offer/cancellation price over/(to) the average share price prior to announcement of offer/privatisation proposal					
Date of initial announcement	Company	Stock code	Principal activities	Last Trading Day	30 trading days	60 trading days	90 trading days	180 trading days	P/B ratio *(Note 3)*
21-Feb-12	Alibaba.com Limited	1688	Provision of software, technology and other services on online business-to-business marketplaces	45.9%	58.8%	60.4%	59.3%	42.0%	7.56
30-Jan-12	Samling Global Ltd.	3938	Sale of timber logs from concession and tree plantation areas, the manufacturing and sale of plywood and veneer, the provision of upstream support, and the manufacturing and sale of timber related products	102.7%	102.7%	93.4%	80.5%	21.6%	0.69
18-Jul-11	Cosway Corporation Ltd.	288	Direct sales of consumer products, property investment and investment holding	34.2%	45.1%	35.6%	32.9%	23.8%	6.37
19-Dec-11	Hang Ten Group Holdings Ltd.	448	Design, marketing and retail and wholesale of apparel and accessories under various brand names and licensing of its proprietary trade mark and associated mark	58.8%	54.3%	64.9%	60.4%	40.4%	2.77
19-Oct-11	Zhengzhou China Resources Gas Co. Ltd. *(Note 1)*	3928	Sales of natural gas, pressure control equipment and gas appliances, the construction of gas pipelines and the provision of renovation services of gas pipelines	45.8%	38.4%	28.2%	22.8%	10.9%	1.35
8-Aug-11	HannStar Board International Holdings Ltd.	667	Manufacturing, sales and trading of printed circuit boards	47.1%	51.8%	56.8%	48.0%	23.8%	0.57

Date of initial announcement	Company	Stock code	Principal activities	Premium/(discount) of offer/cancellation price over/(to) the average share price prior to announcement of offer/privatisation proposal: Last Trading Day	30 trading days	60 trading days	90 trading days	180 trading days	P/B ratio *(Note 3)*
14-Jul-11	International Mining Machinery Holdings Ltd.	1683	Design, manufacture and sale of underground longwall coal mining equipment in China, including roadheaders, shearers, armoured-face conveyors and related products and electric control systems	29.8%	15.8%	10.5%	16.3%	23.8%	3.33
30-Jun-11	Schramm Holding AG	955	Provision of technical coatings solutions in automotive and general industry coatings, coil coatings (for pre-coated metals) and electrical insulation paints and varnishes sectors	163.2%	174.5%	194.6%	195.2%	196.8%	2.77
30-Jun-11	China Resources Microelectronics Ltd. *(Note 1)*	597	Engaged in activities cover open foundry, integrated circuits design and testing and packaging as well as discrete devices businesses	43.3%	29.7%	24.4%	21.8%	27.5%	1.16
26-Apr-11	Little Sheep Group Ltd.	968	Operation of Chinese hot pot restaurants, the provision of catering services and the sale of related food products in Mainland China, Hong Kong and Macau	30.0%	29.6%	33.0%	32.3%	30.8%	4.94
20-Jan-11	Shanghai Forte Land Co. Ltd.	2337	Property development	25.4%	34.3%	40.0%	43.0%	52.4%	1.08
10-Jan-11	Fubon Bank (Hong Kong) Ltd. *(Note 2)*	636	Provision of a range of banking, financial and related services	37.6%	43.2%	41.0%	39.3%	45.9%	1.46
	Mean			**55.3%**	**56.5%**	**56.9%**	**54.3%**	**45.0%**	**2.84**
	Min			**25.4%**	**15.8%**	**10.5%**	**16.3%**	**10.9%**	**0.57**
	Max			**163.2%**	**174.5%**	**194.6%**	**195.2%**	**196.8%**	**7.56**
31-Jan-13	**The Company**	**94**	Log harvesting, timber processing, marketing and sales of logs and timber products	**(1.7)%**	**1.3%**	**4.3%**	**6.8%**	**16.9%**	**0.43**

Source: the Stock Exchange's website (www.hkex.com.hk) and Bloomberg

Notes:

1. The offer in the privatisation proposal of the respective company consisted of cash offer or share exchange offer. The above computation was based on the cash offer only.

2. The offer price of the privatisation proposal of the company was revised upwards after the first announcement for privatisation. The above computation was based on the revised offer price.

3. P/B ratios of the Privatisation Precedents are calculated based on their respective offer/cancellation price and the net assets attributable to the shareholders of the relevant listed companies in Hong Kong as extracted from their respective latest published annual or interim reports divided by their total number of issued shares as at the date of the initial announcement of offer/privatisation, based on the exchange rates as published on Bloomberg on the respective ending dates of the accounting periods.

As noted from the above, the offer/cancellation prices of successful Privatisation Precedents during the period reviewed were all at certain premium over their respective closing price or average closing price (as the case may be) of last trading day, 30 trading days, 60 trading days, 90 trading days and 180 trading days immediately preceding the initial announcement of the privatisation proposals. Except that the premium of the Share Offer Price over 180-trading day average price is higher than the lowest end of those of the Privatisation Precedents (but still lower than the average), the premium of the Share Offer Price over 30- trading day, 60- trading day, 90-trading day average prices fall below the lowest end of those of the Privatisation Precedents and the Share Offer Price represents a discount of approximately 1.7% to the closing price of the Shares at the Last Trading Day and a discount of approximately 17.1% to the closing price of the Shares at the Latest Practicable Date. Regarding the comparison against book value, the P/B ratio of approximately 0.43 times, represented by the Share Offer Price, is the lowest compared to those of the Privatisation Precedents. Having considered that all the Privatisation Precedents were offers made to the shareholders for cash or shares of other listed companies in Hong Kong to exit their respective investments, we consider that the Privatisation Precedents provide general references to the Independent Shareholders as to the range of premium/discount of other offer/privatisation proposals over/to their respective net assets and average share price prior to the offer/privatisation announcement as represented by their respective offer/cancellation price. It should be noted that the Privatisation Precedents were conducted under various market conditions and the companies involved are engaged in a variety of industry sectors (except for SGL). Accordingly, the premiums of offer/cancellation price of the Privatisation Precedents may be affected by factors different from those applying to the Share Offer.

Among the Privatisation Precedents, SGL was, prior to its privatisation, principally engaged in the sale of timber logs from concession and tree plantation areas, the manufacturing and sale of plywood and veneer, the provision of upstream support, and the manufacturing and sale of timber related products, which were similar to that of the Company. As noted from the above, the premium of cancellation price of SGL over the closing/average prices of all reviewed periods and P/B ratio as represented by the cancellation price of SGL are better than those as represented by the Share Offer Price.

3. Background of the Offeror and its intention relating to the Group

As stated in the Offer Document, the Offeror is a company newly incorporated in the Cayman Islands pursuant to the Plan for the purpose of receiving the transfer of certain assets of Sino-Forest. Save for taking transfer of such assets in accordance with the Plan, the Offeror has not traded since its incorporation. The Offeror is a direct, wholly-owned subsidiary of Emerald Plantation Holdings Limited ("**EPHL**"), which is also a company newly incorporated in the Cayman Islands pursuant to the Plan. EPHL is, on implementation of the Plan, the ultimate holding company of the Offeror. The shareholders of EPHL comprise the former holders of the certain notes issued by Sino-Forest (as detailed in the Offer Document) and other creditors of Sino-Forest recognised in accordance with the Plan. No shareholder of EPHL is expected to hold 30% or more of the voting rights of EPHL.

According to the Offer Document, if, within four months after making of the Share Offer, the Offeror together with other members of the Offeror Group acquires not less than nine-tenths in value of the Offer Shares from Shareholders representing three-fourths in number of the holders of Offer Shares, the Offeror intends to exercise any rights it may have under Section 102 of the Companies Act and in accordance with Rule 2.11 of the Takeovers Code to proceed to the Compulsory Acquisition of those Offer Shares not acquired by the Offeror pursuant to the Share Offer.

It was also stated in the Offer Document that if the Offeror does not achieve the level of acceptances required for Compulsory Acquisition, the directors of the Offeror intend that the listing status of the Company will be maintained and will undertake to the Stock Exchange to take appropriate steps following the close of the Offer to ensure that Rule 8.08 of the Listing Rules relating to the minimum prescribed percentage of Shares to be held by the public is complied with.

As noted from the Offer Document, the Offeror has not formed any views on whether major changes should be introduced to the business of the Company (including the redeployment of the fixed assets of the Company), or on the continued employment of the employees of the Group. The Offeror intends to review the business activities and management of the Group, with a view to evaluating its strategy on its equity investment in the Company and its financial support to the Group. This review, which is expected to continue after closing of the Offers, may or may not result in the Offeror changing its strategy with respect to the Group. No assurance is given by the Offeror that it will not seek to introduce changes to the business or management of the Group post review. Changes to the Group, if any, will be made in accordance with the applicable laws and the Listing Rules. The Offeror has made no decision in relation to appointments to and removals from the Board and any such change will only take effect in accordance with the requirements of the Takeovers Code and the publication requirement under the Listing Rules to inform the public accordingly.

Furthermore, it was stated in the Offer Document that EPHL continues to evaluate its strategic options to realise value for its shareholders and is in the preliminary stages of soliciting interest in the Offeror from possibly interested parties as part of its endeavour to assess its strategic options, which include a possible sale or sales of all or any of its assets including a sale of the Offeror or other companies or assets of the Offeror Group. Such sale may or may not affect the interests in Shares and give rise to an obligation on any purchaser to make a mandatory general offer to Shareholders under the Takeovers Code. Any such sale transactions, including a possible transaction affecting interests in Shares, may or may not proceed and is speculative.

Based on the above, it is uncertain whether the Offeror would make any change or not to the business or management of the Group which may have no, positive or negative impact to the prospect of the Group.

4. Other consideration - Compulsory Acquisition and possible withdrawal from listing or maintaining the listing status of the Company

The Independent Shareholders should note that if the level of acceptances of the Share Offer reaches the prescribed level under the Companies Act and Rule 2.11 of the Takeovers Code permits a Compulsory Acquisition and if the Offeror proceeds with the exercise of such compulsory acquisition rights and privatisation of the Company, Shares held by the Independent Shareholders who have not accepted the Share Offer will be subject to compulsory purchase on exercise of the compulsory acquisition rights by the Offeror. The Company will apply for the withdrawal of listing of the Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules and dealings in the Shares will be suspended from the close of the Offers up to the withdrawal of listing of the Shares from the Stock Exchange.

In the event that the Offeror does not effect the Compulsory Acquisition, whether by reason of not having acquired the prescribed percentage as required under the Companies Act or otherwise, the Offeror may take such steps as are necessary to ensure, or procure the Company to take such steps as are necessary to ensure, that the Company maintains an adequate public float so as to comply with the applicable requirements of the Listing Rules. However, Independent Shareholders should note that upon the close of the Offers, there may be less than 25% of the Shares are held by the public, or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, then the Stock Exchange may exercise its discretion to suspend trading in the Shares until a level of sufficient public float is attained. The Company will then be required to place down some of the Shares to maintain the minimum public float and there remains a possibility that the Offeror may or may not be able to do so without selling the Shares at a discount to the Share Offer Price, which may indirectly exert a downwards pressure on the price of the Share.

Given that (i) the Group may have financial distress if the Group cannot seek for the Offeror's agreement to extend the repayment date of the Holding Company Loan and cannot obtain other financial resources to meet with its repayment obligation; and (ii) it is uncertain whether the Offeror would make any change or not to the business or management of the Group which may have no, positive or negative impact to the prospect of the Group, the Share Offer may represent an exit option for the Independent Shareholders. Accordingly, we consider the Share Offer is fair and reasonable and would recommend the Independent Board Committee to advise the Independent Shareholders to accept the Share Offer in this regard.

Despite this, the Shares have been traded at or above the Share Offer Price during the Post-Announcement Period and the Independent Shareholders are reminded to closely monitor the stock market and the trading price and liquidity of the Shares during the Offer Period and shall, having regard to their own circumstances, consider selling their Shares in the open market instead of accepting the Share Offer if the net proceeds from such disposal of the Shares would be higher than the proceeds from accepting the Share Offer. Those Independent Shareholders who wish to retain some or all of their investments in the Shares and/or are confident in the future prospect of the Group or otherwise are reminded to closely monitor the development of the Group and any announcement of the Company in this regard.

II. The Option Offer

As advised by the Directors, as at the Latest Practicable Date, the Company had 25,217,070 outstanding Options entitling the holders of the Options thereof to subscribe for an aggregate of 25,217,070 Shares with exercise prices ranging from HK$0.501 to HK$2.50 per Share. Acceptance of the Option Offer by the holders of the outstanding Options will result in the cancellation of those outstanding Options, together with all rights attaching thereto. The details of the offer price for cancellation of each Option ("**Option Offer Price**") as extracted from the Offer Document and the number of outstanding Options at respective exercise price as at the Latest Practicable Date are set out below.

Exercise price	**Option Offer Price**
HK$0.501 (4,335,000 options in total)	HK$0.079 in cash.
HK$1.266 (nil option in total)	HK$0.001 in cash.
HK$1.65 (9,750,000 options in total)	HK$0.001 in cash.
HK$1.952 (nil option in total)	HK$0.001 in cash.
HK$2.18 (6,576,000 options in total)	HK$0.001 in cash.
HK$2.50 (4,556,070 options in total)	HK$0.001 in cash.
HK$2.71 (nil option in total)	HK$0.001 in cash.
HK$2.93 (nil option in total)	HK$0.001 in cash.

For assessing the terms of the Option Offer, we envisage that the adoption of a "see-through" price (representing the difference between the Share Offer Price and any given exercise price of the convertible instrument) is commonly regarded as the minimum offer price for any convertible instrument in conjunction with a general offer for ordinary shares. We note that the Option Offer Price for the (i) in-the-money Option represents the difference between the Share Offer Price and the exercise price of the in-the-money Option; and (ii) out-of-the-money Option is made at a nominal price of HK$0.001, for cancellation of the Options. In this respect, we consider that the basis of determining the Option Offer Price is acceptable.

Given our view that the Share Offer may represent an exit option for the Independent Shareholders, we consider that the Option Offer may represent an exit option for the holders of the Options as well. Accordingly, we consider the Option Offer is fair and reasonable and would recommend the Independent Board Committee to advise the holders of the Options to accept the Option Offer.

In any event, the holders of the Options are advised to exercise their Options and dispose of the Shares so converted in the open market if the market price per Share exceeds their respective exercise price (and hence becoming or restoring to be in-the-money) during the Offer Period and if the net proceeds from such actions (after deducting all transaction costs) would exceed the net amount receivable under the Option Offer. The holders of the Options should exercise caution in doing so and closely monitor the stock market and trading price and liquidity of the Shares. Furthermore, the holders of the Options are reminded that, in accordance with the terms and conditions of the Share Option Schemes and as advised by the management of the Company, those outstanding Options not exercised within 14 days after the date on which the Share Offer becomes or is declared unconditional in all respects will automatically lapse.

III. The Convertible Notes Offer

As advised by the Directors, as at the Latest Practicable Date, there were outstanding Convertible Notes, being the US dollar denominated convertible notes in the principal amount of US$17 million (equivalent to approximately HK$132.2 million) which are convertible into an aggregate of 66,012,987 Shares (representing approximately 8.5% of the issued Shares as at the Latest Practicable Date) at HK$2.002 per Share. According to the Offer Document, the offer price under the Convertible Notes Offer is HK$2.252 for each US$1.00 face value of the Convertible Notes determined as the "see-through" consideration for each Convertible Note being the number of Shares into which the Convertible Note is convertible multiplied by the Share Offer Price. The Convertible Notes are in aggregate convertible into 66,012,987 Shares which when multiplied by the Share Offer Price of HK$0.58 per Share values the total Convertible Notes Offer at HK$38,287,533, which is far below the outstanding principal amount of the Convertible Notes of US$17 million (equivalent to approximately HK$132.2 million).

Pursuant to the terms and conditions of the Convertible Notes and as advised by the management of the Company, the holder of the Convertible Notes will be able to redeem all or some of the outstanding principal amount of the Convertible Notes on the third anniversary date (i.e. 17 August 2013) or the fourth anniversary date (i.e. 17 August 2014) or redeem full outstanding principal amount of the Convertible Notes on the maturity date of the Convertible

Notes (i.e. 17 August 2015) at redemption amount. Such redemption amount is the aggregate of (i) the outstanding principal amount to be redeemed/full outstanding principal amount upon maturity (as the case may be) and (ii) a further sum that will result in a compounded return of 10% per annum accrued from the date of completion of the issue of the Convertible Notes (i.e. 17 August 2010) up to but not including the date of redemption/maturity (as the case may be) on the outstanding principal amount to be redeemed/full outstanding principal amount upon maturity (as the case may be), inclusive of any interest received (at a coupon rate of 5% per annum). Such redemption amount represents a large premium to the total consideration for the Convertible Notes Offer as detailed above.

In addition, as stated in the Announcement and the Company's announcement dated 20 February 2013, the implementation of the Plan has already triggered the "Change of Control" provisions as set out in the terms and conditions of the Convertible Notes, under which the holder of the Convertible Notes has become entitled to require the Company to redeem the Convertible Notes in whole or in part of such outstanding Convertible Notes at any time prior to the maturity of the Convertible Notes. In accordance with the terms and conditions of the Convertible Notes and as advised by the management of the Company, the redemption amount is the higher of: (a) the aggregate amount of (i) the outstanding principal amount to be redeemed and (ii) a further sum that will result in a compounded return of 10% per annum accrued from the date of completion of the issue of the Convertible Notes (i.e. 17 August 2010) up to but not including the date falling on the third anniversary of such date on the outstanding principal amount to be redeemed, inclusive of any interest received; and (b) the aggregate amount of (i) the outstanding principal amount to be redeemed and (ii) a further sum that will result in a compounded return of 10% per annum accrued from the date of completion of the issue of the Convertible Notes (i.e. 17 August 2010) up to but not including the date of redemption on the outstanding principal amount to be redeemed, inclusive of any interest received. Such redemption amount represents a substantial premium to the total consideration for the Convertible Notes Offer as detailed above.

Based on the Group's latest available financial resources which, among others, include the Bank Loan Facilities, we do not consider that the Company would experience financial difficulty in meeting its obligations to redeem the Convertible Notes and/or pay interests thereon in accordance with the terms and conditions of the Convertible Notes. Accordingly, we consider the Convertible Notes Offer is not fair and reasonable so far as the holder of the Convertible Notes is concerned and we recommend the Independent Board Committee to advise the holder of the Convertible Notes not to accept the Convertible Notes Offer.

RECOMMENDATION ON THE SHARE OFFER, THE OPTION OFFER AND THE CONVERTIBLE NOTES OFFER

In the above sections, we note that:

(i) there was a slump in the closing price of the Shares since June 2011 mainly as a result of a report issued on a website by an organisation making certain allegations towards Sino-Forest, the Company's then ultimate controlling shareholder (as defined in the Listing Rules) and with concerns about the Company; the investigations made by the SFC into the Company which have subsequently been terminated; and certain press releases or announcements made by Sino-Forest regarding the restructuring plan with its creditors which involved the possible change in Sino-Forest's control of the Company before the publication of the Announcement;

(ii) the overall liquidity of the Shares during the Review Period was generally low;

(iii) there are three listed companies principally engaging in similar businesses as that of the Group while one of them has been suspended for trading for a certain period of time, and the P/B ratio implied by the Share Offer Price of approximately 0.43 times is within the range of the P/B ratios of the remaining two Comparable Companies of approximately 0.20 times and approximately 0.60 times;

(iv) the offer/cancellation prices of successful Privatisation Precedents during the period reviewed were all at certain premium over their respective closing price or average closing price (as the case may be) of last trading day, 30 trading days, 60 trading days, 90 trading days and 180 trading days immediately preceding the initial announcement of the privatisation proposals. Except that the premium of the Share Offer Price over 180-trading day average price is higher than the lowest end of those of the Privatisation Precedents (but still lower than the average), the premium of the Share Offer Price over 30- trading day, 60- trading day, 90-trading day average prices fall below the lowest end of those of the Privatisation Precedents and the Share Offer Price represents a discount of approximately 1.7% to the closing price of the Shares at the Last Trading Day and a discount of approximately 17.1% to the closing price of the Shares at the Latest Practicable Date;

(v) the P/B ratio of approximately 0.43 times, represented by the Share Offer Price, is the lowest compared to those of the Privatisation Precedents; and

(vi) among the Privatisation Precedents, SGL was, prior to its privatisation, principally engaged in the sale of timber logs from concession and tree plantation areas, the manufacturing and sale of plywood and veneer, the provision of upstream support, and the manufacturing and sale of timber related products, which were similar to that of the Company and the premium of cancellation price of SGL over the closing/average prices of all reviewed periods and P/B ratio as represented by the cancellation price of SGL are better than those as represented by the Share Offer Price.

However, given that (i) the Group may have financial distress if the Group cannot seek for the Offeror's agreement to extend the repayment date of the Holding Company Loan and cannot obtain other financial resources to meet with its repayment obligation; and (ii) it is uncertain whether the Offeror would make any change or not to the business or management of the Group which may have no, positive or negative impact to the prospect of the Group, the Share Offer may represent an exit option for the Independent Shareholders. Accordingly, we consider the Share Offer is fair and reasonable and would recommend the Independent Board Committee to advise the Independent Shareholders to accept the Share Offer in this regard.

Despite this, the Shares have been traded at or above the Share Offer Price during the Post-Announcement Period and the Independent Shareholders are reminded to closely monitor the stock market and the trading price and liquidity of the Shares during the Offer Period and shall, having regard to their own circumstances, consider selling their Shares in the open market instead of accepting the Share Offer if the net proceeds from such disposal of the Shares would be higher than the proceeds from accepting the Share Offer. Those Independent Shareholders who wish to retain some or all of their investments in the Shares and/or are confident in the future prospect of the Group or otherwise are reminded to closely monitor the development of the Group and any announcement of the Company in this regard.

For the Option Offer, we note that the Option Offer Price for the (i) in-the-money Option represents the difference between the Share Offer Price and the exercise price of the in-the-money Option; and (ii) out-of-the-money Option is made at a nominal price of HK$0.001, for cancellation of the Options. In this respect, we consider that the basis of determining the Option Offer Price is acceptable. Given our view that the Share Offer may represent an exit option for the Independent Shareholders, we consider that the Option Offer may represent an exit option for the holders of the Options as well. Accordingly, we consider that the Option Offer is fair and reasonable and would recommend the Independent Board Committee to advise the holders of the Options to accept the Option Offer.

For the Convertible Notes Offer, given that the respective redemption amount upon maturity of the Convertible Notes or upon exercise of the redemption rights by the holder of the Convertible Notes on the third or the fourth anniversary dates or upon occurrence of change of control event represents premium to the total consideration for the Convertible Notes Offer, we consider the Convertible Notes Offer is not fair and reasonable so far as the holder of the Convertible Notes is concerned and would recommend the Independent Board Committee to advise the holder of the Convertible Notes not to accept the Convertible Notes Offer.

Independent Shareholders, the holders of the Options and the Convertible Notes are reminded that their decisions to dispose or hold their investments or exercise their rights in the Shares, the Options or the Convertible Notes are subject to their individual circumstances and investment objectives and they are reminded to carefully (i) monitor the stock market and the trading price and liquidity of the Shares; (ii) consider the intention of the Offeror; (iii) evaluate the future prospect of the Group; and (iv) note the lapse of the Options in accordance with the terms and conditions of the Share Option Schemes. Independent Shareholders, the holders of the Options and the Convertible Notes should read carefully the procedures for accepting the Share Offer, the Option Offer and the Convertible Notes Offer as detailed in the Offer Document, the appendices to the Offer Document and the Forms of Acceptance, if they wish to accept the respective Offers.

Yours faithfully,
For and on behalf of
Halcyon Capital Limited

Derek C.O. Chan	**Terry Chu**
Chairman	*Managing Director*

1. FINANCIAL SUMMARY

The following is a summary of the consolidated financial information of the Group for each of the six months ended 30 June 2012 and the three years ended 31 December 2009, 2010 and 2011, as extracted from the relevant interim and annual reports of the Company. There is no exceptional item because of size, nature or incidence for each of the three years ended 31 December 2009, 2010 and 2011.

The Company has not declared any dividend for each of the three years ended 31 December 2009, 2010 and 2011.

The Company's auditors have not issued any qualified opinion on the Group's financial statements for each of the three years ended 31 December 2009, 2010 and 2011.

RESULTS

	For the six months ended 30 June 2012	**For the year ended 31 December**		
		2011	**2010**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	*(Audited)*	*(Audited and restated)*	*(Audited)*
Revenue	202,640	326,984	17,031	11,226
Cost of goods sold	(130,664)	(172,200)	(8,434)	(5,412)
Gross profit	71,976	154,784	8,597	5,814
Other income and gain	7,685	8,414	2,294	1,137
Fair value gain on plantation forest assets	42,731	45,641	23,596	–
Selling and distribution costs	(71,076)	(129,767)	(6,630)	(4,731)
Administrative expenses	(43,874)	(91,100)	(51,285)	(41,821)
Other operating expenses	(23,021)	(46,038)	(23,585)	(34,362)
Non-cash share option expenses	(371)	(4,934)	(13,868)	–
Finance costs	(19,450)	(30,949)	(17,675)	(20,883)
Share of loss of an associate	–	–	(1,667)	(1,725)
Loss before tax	(35,400)	(93,949)	(80,223)	(96,571)
Tax	(3,217)	(11,938)	(6,425)	191
Loss for the period/year	(38,617)	(105,887)	(86,648)	(96,380)
Other comprehensive income				
Exchange differences on translation of foreign operations	3,702	2,408	–	–
Fair value gain on forestry land	–	4,057	4,995	–
Other comprehensive income for the period/year, net of tax of nil	3,702	6,465	4,995	–
Total comprehensive loss for the period/year	(34,915)	(99,422)	(81,653)	(96,380)

	For the six months ended 30 June 2012	For the year ended 31 December 2011	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	*(Audited)*	*(Audited and restated)*	*(Audited)*
Loss for the period/year attributable to:				
Equity holders of the Company	(19,789)	(74,343)	(67,606)	(86,247)
Non-controlling interests	(18,828)	(31,544)	(19,042)	(10,133)
	(38,617)	(105,887)	(86,648)	(96,380)
Total comprehensive loss for the period/year				
Equity holders of the Company	(16,087)	(67,878)	(62,611)	(86,247)
Non-controlling interests	(18,828)	(31,544)	(19,042)	(10,133)
	(34,915)	(99,422)	(81,653)	(96,380)
Loss per share attributable to equity holders of the Company				
Basic and diluted	HK$(0.025)	HK$(0.098)	HK$(0.152)	HK$(0.27)

ASSETS AND LIABILITIES

	As at 30 June 2012	As at 31 December 2011	2010	2009
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	*(Audited)*	*(Audited and restated)*	*(Audited)*
Non-current assets	1,750,755	1,657,555	1,363,371	797,751
Current assets	307,864	373,646	637,461	52,096
Total assets	2,058,619	2,031,201	2,000,832	849,847
Current liabilities	85,119	75,637	448,305	28,778
Total assets less current liabilities	1,973,500	1,955,564	1,552,527	821,069
Non-current liabilities	683,287	630,807	267,509	310,807
Net assets	1,290,213	1,324,757	1,285,018	510,262
Non-controlling interests	233,534	252,362	256,231	275,273

2. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2012

Set out below are the unaudited consolidated financial statements of the Group for the six months ended 30 June 2012 together with the comparative figures for the six months ended 30 June 2011 and the accompanying notes as extracted from the Company's 2012 interim report:

Condensed Consolidated Statement of Comprehensive Income

		For the six months ended 30 June	
		2012	**2011**
		(Unaudited)	**(Unaudited)**
	Notes	*HK$'000*	*HK$'000*
REVENUE	4	202,640	124,061
Cost of goods sold		(130,664)	(60,823)
Gross profit		71,976	63,238
Other income and gains	4	7,685	3,706
Fair value gain on plantation forest assets	10	42,731	35,312
Selling and distribution costs		(71,076)	(42,130)
Administrative expenses		(43,874)	(42,282)
Other operating expenses		(23,021)	(11,627)
Non-cash share option expenses		(371)	(4,542)
Finance costs	5	(19,450)	(13,749)
LOSS BEFORE TAX	6	(35,400)	(12,074)
Tax	7	(3,217)	(10,907)
LOSS FOR THE PERIOD		(38,617)	(22,981)
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		3,702	6,612
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX OF NIL		3,702	6,612
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(34,915)	(16,369)

		For the six months ended 30 June	
		2012	2011
		(Unaudited)	(Unaudited)
	Notes	*HK$'000*	*HK$'000*
LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
Equity holders of the Company		(19,789)	(11,849)
Non-controlling interests		(18,828)	(11,132)
		(38,617)	(22,981)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
Equity holders of the Company		(16,087)	(5,237)
Non-controlling interests		(18,828)	(11,132)
		(34,915)	(16,369)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	8		
Basic and diluted		HK$(0.025)	HK$(0.016)

Condensed Consolidated Statement of Financial Position

	Notes	30 June 2012 (Unaudited) HK$'000	31 December 2011 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		376,179	286,950
Prepaid land lease payments		15,349	15,572
Goodwill		7,624	7,624
Timber concessions and cutting rights	9	796,894	800,201
Other intangible assets		5,938	–
Plantation forest assets	10	496,642	489,568
Prepayments, deposits and other receivables		52,129	57,640
Total non-current assets		1,750,755	1,657,555
CURRENT ASSETS			
Inventories		23,233	7,822
Trade receivables	11	41,273	34,533
Prepayments, deposits and other receivables		37,090	26,155
Tax recoverable		1,879	–
Pledged deposits		1,521	20,118
Cash and cash equivalents		202,868	285,018
Total current assets		307,864	373,646
CURRENT LIABILITIES			
Trade payables	12	30,904	18,513
Other payables and accruals		16,869	27,548
Finance lease payables		7,307	6,208
Due to the ultimate holding company	16(a)(i)	103	141
Due to the immediate holding company	16(a)(ii)	434	–
Deposit received from a fellow subsidiary	16(b)	22,565	22,565
Income tax payable		6,937	662
Total current liabilities		85,119	75,637
NET CURRENT ASSETS		222,745	298,009
TOTAL ASSETS LESS CURRENT LIABILITIES		1,973,500	1,955,564

	Notes	30 June 2012 (Unaudited) HK$'000	31 December 2011 (Audited) HK$'000
NON-CURRENT LIABILITIES			
Loan from the ultimate holding company	16(a)(i)	312,000	312,000
Loan from the immediate holding company	16(a)(ii)	47,580	–
Convertible bonds	13	207,927	201,553
Finance lease payables		27,198	27,500
Deferred tax liabilities		88,582	89,754
Total non-current liabilities		683,287	630,807
NET ASSETS		1,290,213	1,324,757
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital		7,797	7,797
Reserves		1,048,882	1,064,598
		1,056,679	1,072,395
Non-controlling interests		233,534	252,362
TOTAL EQUITY		1,290,213	1,324,757

Condensed Consolidated Statement of Changes In Equity

For the six months ended 30 June 2012

	Attributable to equity holders of the Company												
	Issued capital	Share premium account	Contributed surplus	Share option reserve	Convertible bond equity reserve	Capital reserve	Forestry land revaluation reserve	Merger reserve	Exchange fluctuation reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2012 (audited)	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
Loss for the period	–	–	–	–	–	–	–	–	–	(19,789)	(19,789)	(18,828)	(38,617)
Other comprehensive income for the period	–	–	–	–	–	–	–	–	3,702	–	3,702	–	3,702
Total comprehensive loss for the period	–	–	–	–	–	–	–	–	3,702	(19,789)	(16,087)	(18,828)	(34,915)
Equity-settled share option arrangements	–	–	–	371	–	–	–	–	–	–	371	–	371
Share options lapsed	–	–	–	(1,157)	–	–	–	–	–	1,157	–	–	–
At 30 June 2012 (unaudited)	7,797	1,451,590*	83,274*	25,751*	7,328*	846*	9,052*	265*	18,258*	(547,482)*	1,056,679	233,534	1,290,213
At 1 January 2011 (audited)	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 period	–	–	–	–	–	–	–	–	–	(11,849)	(11,849)	(11,132)	(22,981)
Other comprehensive income for the period	–	–	–	–	–	–	–	–	6,612	–	6,612	–	6,612
Total comprehensive loss for the period	–	–	–	–	–	–	–	–	6,612	(11,849)	(5,237)	(11,132)	(16,369)
Issue of new shares as consideration for a business combination under common control	965	257,931	–	–	–	–	–	(155,735)	–	–	103,161	–	103,161
Exercise of share options	21	4,442	–	(977)	–	–	–	–	–	–	3,486	–	3,486
Equity-settled share option arrangements	–	–	–	4,542	–	–	–	–	–	–	4,542	–	4,542
Share options lapsed	–	–	–	(57)	–	–	–	–	–	57	–	–	–
Deemed capital contribution from the ultimate holding company	–	–	–	–	–	(87)	–	–	–	–	(87)	–	(87)
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	27,667	27,667
Acquisition of non-controlling interests	–	–	–	–	–	(8)	–	–	–	–	(8)	8	–
At 30 June 2011 (unaudited)	7,797	1,451,590	83,274	30,944	7,328	846	4,995	265	18,760	(471,155)	1,134,644	272,774	1,407,418

* These reserve accounts comprise the consolidated reserves of HK$1,048,882,000 (31 December 2011: HK$1,064,598,000) in the condensed consolidated statement of financial position.

Condensed Consolidated Statement of Cash Flows

	For the six months ended 30 June	
	2012	**2011**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(49,930)	(55,385)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(79,281)	(76,562)
NET CASH FLOWS FROM FINANCING ACTIVITIES	46,577	9,306
NET DECREASE IN CASH AND CASH EQUIVALENTS	(82,634)	(122,641)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	285,018	613,704
EFFECT ON FOREIGN EXCHANGE RATE CHANGE, NET	484	–
CASH AND CASH EQUIVALENTS AT END OF PERIOD	202,868	491,063
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	202,868	491,063

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2012

1. BASIS OF PREPARATION AND PRESENTATION

These unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). These interim financial statements 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 interim financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Notwithstanding that (i) the Group incurred a loss attributable to equity holders of the Company of approximately HK$19,789,000 and reported net cash outflow from operating activities of HK$49,930,000 for the period ended 30 June 2012; and (ii) the Group has capital commitments of approximately HK$22,165,000, a loan from the ultimate holding company of HK$312,000,000, a loan from the immediate holding company HK$47,580,000 and convertible bonds with an aggregate principal amount of HK$195,000,000 ("CN") as at 30 June 2012, in the opinion of the Directors, the Group has 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:

(a) Sino-Capital, the immediate holding company of the Company, provided a letter dated 26 March 2012 to the Company confirming that it has no intention to dispose of, directly or indirectly, any beneficial interest in 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. In view of the announcements made by Sino-Forest, the ultimate holding company of the Company, on 30 March 2012 and 14 August 2012, the Company has been in touch with Sino-Forest, its financial advisers and representatives of Sino-Forest's noteholders to consider alternatives of undergoing the restructuring of Sino-Forest that will not trigger the "Change of Control" provision under the CN. The Group is also in discussion with the noteholders regarding such redemption if Sino-Forest's restructuring plan is to be effective in future eventually;

(b) the Group has prioritised its funding and efforts to start the operation of its new processing sawmill in West Suriname which the Directors expect can generate faster returns to the Group upon full scale operation;

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

(d) the Group is actively exploring different options to obtain alternative source of financing. Certain term sheet or plan have been received/developed by the Group prior to the date of this interim report.

Accordingly, these unaudited condensed consolidated interim financial statements have been prepared on the going concern basis.

2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The accounting policies and basis of preparation adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) effective from 1 January 2012, noted below.

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*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfer of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred tax: Recovery of Underlying Assets*

The adoption of the above revised HKFRSs has had no significant financial impact on these unaudited condensed consolidated interim financial statements.

3. 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 geographic location and the chief operating decision maker (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
Elsewhere:	Engaging in trading of logs and timber products

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 earnings/(loss) before interest, tax, depreciation and amortization.

The following tables present revenue and profit or loss information regarding the Group's operating segments for the six months ended 30 June 2012:

For the six months ended 30 June 2012

	Suriname	**New Zealand**	**Elsewhere**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
SEGMENT REVENUE	15,048	185,135	2,457	202,640
SEGMENT RESULTS				
Earning/(loss) before interest, tax, depreciation and amortization	(30,557)	32,650	519	2,612
Reconciliation of the segment results:				
Fair value gain on plantation forest assets	–	42,731	–	42,731
Government grant of carbon credits	–	5,840	–	5,840
Finance costs	(1,874)	(6,344)	–	(8,218)
Forest depletion cost as a result of harvesting	–	(36,503)	–	(36,503)
Amortization of harvest roading	–	(3,831)	–	(3,831)
Amortization of timber concession and cutting rights	(2,513)	–	–	(2,513)
Amortization of prepaid land lease payments	(223)	–	–	(223)
Depreciation	(4,331)	(603)	–	(4,934)
Corporate and other unallocated expenses, net				(30,361)
LOSS BEFORE TAX				(35,400)

For the six months ended 30 June 2011

	Suriname	New Zealand	Elsewhere	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
SEGMENT REVENUE	13,914	110,147	–	124,061
SEGMENT RESULTS				
Earning/(loss) before interest, tax, depreciation and amortization	(15,920)	26,682	–	10,762
Reconciliation of the segment results:				
Fair value gain on plantation forest assets	–	35,312	–	35,312
Finance costs	(42)	(3,134)	–	(3,176)
Forest depletion cost as a result of harvesting	–	(13,869)	–	(13,869)
Amortization of harvest roading	–	(1,040)	–	(1,040)
Amortization of timber concession and cutting rights	(2,220)	–	–	(2,220)
Amortization of prepaid land lease payments	(121)	–	–	(121)
Depreciation	(1,884)	(139)	–	(2,023)
Corporate and other unallocated expenses, net				(35,699)
LOSS BEFORE TAX				(12,074)

Geographical information

Revenue is attributed to the following geographical regions:

	For the six months ended 30 June	
	2012	**2011**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Mainland China	152,477	93,985
India	28,592	–
New Zealand	12,938	26,937
Suriname	4,649	1,784
Netherlands	2,045	841
Hong Kong	1,491	514
Singapore	448	–
	202,640	124,061

Information about major customers

During the six months ended 30 June 2012, the Group had transactions with 2 (2011: 2) customers who each contributed over 10% of the Group's total gross revenue before export tax for the Period. A summary of revenue earned from each of these major customers is set out below:

	For the six months ended 30 June	
	2012	**2011**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Customer 1	45,818	N/A*
Customer 2	20,967	18,225
Customer 3	N/A*	73,194
	66,785	91,419

* 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 Period.

4. REVENUE, OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2012	**2011**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Revenue		
Sales of logs and timber products	202,640	124,061
Other income and gains		
Bank interest income	295	2,319
Other interest income	1,043	–
Rental income for the lease of plant and machinery	449	564
Government grant of carbon credits	5,840	–
Others	58	823
	7,685	3,706

5. FINANCE COSTS

	For the six months ended 30 June	
	2012	**2011**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Interest on CN *(note 13)*	11,232	10,573
Interest on a loan from the ultimate holding company *(note 16(a)(i))*	6,344	3,134
Interest on a loan from the immediate holding company *(note 16(a)(ii))*	434	–
Interest on finance leases	1,440	–
Interest on a bank loan	–	42
	19,450	13,749

6. LOSS BEFORE TAX

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

	For the six months ended 30 June	
	2012	**2011**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Forest harvested as agricultural produce *(note 10)*	38,970	14,307
Amount capitalized in inventories	(2,467)	(438)
Forest depletion cost as a result of harvesting#	36,503	13,869
Amortization of timber concessions and cutting rights *(note 9)*	3,307	3,238
Less: Amount capitalized in inventories	(794)	(1,018)
Current period expenditure charged to cost of goods sold#	2,513	2,220
Depreciation	6,129	2,969
Amortization of prepaid land lease payments	223	121
Amortization of harvest roading*	3,831	1,040

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

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

7. 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 Period. No provision for Hong Kong profits tax had been made during the six months ended 30 June 2011 as the Group did not generate any assessable profits arising in Hong Kong during that period.

No overseas income tax has been provided during the periods ended 30 June 2012 and 2011 as the subsidiaries operating in overseas countries did not generate any assessable profits arising during the Period based on 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% and 28%, 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.

	For the six months ended 30 June	
	2012	**2011**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the Period	4,398	–
Current – Elsewhere	–	–
Foreign exchange difference on income tax payable	(9)	114
Deferred	(1,701)	9,835
Foreign exchange difference on deferred tax liabilities	529	958
Total tax expenses for the Period	3,217	10,907

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

The calculation of basic loss per share amount is based on the loss for the Period attributable to equity holders of the Company, and the weighted average of 779,724,104 (2011: 731,721,945) ordinary shares in issue during the Period.

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 six months ended 30 June 2012 and 2011 as the impact of the share options and convertible bonds outstanding during these periods had neither dilutive effect nor anti-dilutive effect on the basic loss per share amounts presented.

9. TIMBER CONCESSIONS AND CUTTING RIGHTS

	30 June 2012 (Unaudited) *HK$'000*	31 December 2011 (Audited) *HK$'000*
At beginning of the period/year:		
Cost	815,178	751,012
Accumulated amortization	(14,977)	(9,577)
Net carrying amount	800,201	741,435
Net carrying amount:		
At beginning of the period/year	800,201	741,435
Acquisition of subsidiaries	–	64,166
Amortization provided during the period/year *(note 6)*	(3,307)	(5,400)
At end of the period/year	796,894	800,201
At the end of period/year:		
Cost	815,178	815,178
Accumulated amortization	(18,284)	(14,977)
Net carrying amount	796,894	800,201

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 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 30 June 2012 and 31 December 2011, the Group's total concessions and cutting rights under management in Suriname covered land areas of approximately 405,000 hectares.

10. PLANTATION FOREST ASSETS

	30 June 2012 (Unaudited) *HK$'000*	31 December 2011 (Audited) *HK$'000*
At beginning of the period/year	489,568	480,480
Additions	3,313	2,044
Harvested as agricultural produce *(note 6)*	(38,970)	(38,597)
Changes in fair value less costs to sell	42,731	45,641
At the end of period/year	496,642	489,568

As at 30 June 2012, the Group intensively managed radiata plantation forest assets in 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 net productive area.

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 valued by the Directors as at 30 June 2012. In view of the non-availability of market value for tree plantations in New Zealand, the Directors 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 30 June 2012 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.

11. TRADE RECEIVABLES

	30 June 2012 (Unaudited) *HK$'000*	**31 December 2011 (Audited)** *HK$'000*
Trade receivables	41,273	34,533

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 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. Trade receivables are non-interest-bearing.

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:

	30 June 2012 (Unaudited) *HK$'000*	**31 December 2011 (Audited)** *HK$'000*
Within 1 month	40,615	33,697
1 to 3 months	495	749
Over 3 months	163	87
	41,273	34,533

12. 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:

	30 June 2012 (Unaudited) *HK$'000*	31 December 2011 (Audited) *HK$'000*
Within 1 month	30,511	17,940
1 to 3 months	74	238
Over 3 months	319	335
	30,904	18,513

The trade payables are non-interest-bearing and are normally settled on 30-day terms.

13. CONVERTIBLE BONDS

During the year ended 31 December 2010, the Company issued US$ denominated convertible bonds with an aggregate principal amount of US$25,000,000 (equivalent to HK$195,000,000) 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 CN into ordinary shares of the Company anytime commencing from six months after the issuance of the CN 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 CN held by it on each of the dates falling on the third anniversary and on the fourth anniversary of the issuance date of the CN at the redemption amount as defined in the Subscription Agreement (the "Redemption Amount"). In addition, the noteholder may require the Company to redeem all or part of the CN held by it 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 1 to these unaudited condensed consolidated interim financial statements, a letter dated 26 March 2012 was received from Sino-Capital confirming to the Company that it has no intention to dispose of, directly or indirectly, any beneficial interest in 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. Accordingly, the CN were classified as non-current liabilities as at 30 June 2012 in view of the maturity date of 17 August 2015.

The summarized information of the CN is set out as follows:

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 CN is bifurcated into a liability component and an equity component for accounting purpose. The following tables summarise the movements in the principal amounts, liability and equity components of the Company's CN during the reporting period:

	30 June 2012 (Unaudited) *HK$'000*	31 December 2011 (Audited) *HK$'000*
Principal amount outstanding		
At beginning and end of period/year	195,000	195,000
Liability component		
At beginning and end of period/year	201,553	189,804
Interest expense *(note 5)*	11,232	21,467
Interest paid and payable	(4,858)	(9,718)
At the end of period/year	207,927	201,553
Equity component (included in convertible bonds equity reserve)		
At beginning and end of period/year	7,328	7,328

14. 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 30 June 2012, the Group had total future minimum lease receivables under non-cancellable operating leases with its subcontractors falling due as follows:

	30 June 2012 (Unaudited) *HK$'000*	31 December 2011 (Audited) *HK$'000*
Within one year	899	899
In the second to fifth years, inclusive	75	524
	974	1,423

(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 30 June 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2012 (Unaudited) *HK$'000*	**31 December 2011 (Audited)** *HK$'000*
Within one year	5,332	5,328
In the second to fifth years, inclusive	1,860	4,211
	7,192	9,539

15. CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of reporting period:

	30 June 2012 (Unaudited) *HK$'000*	**31 December 2011 (Audited)** *HK$'000*
Contracted, but not provided for:		
Land and buildings	8,205	22,734
Plant and machinery	13,960	31,375
	22,165	54,109

16. RELATED PARTY DISCLOSURES

(a) In addition to the transactions detailed elsewhere in these unaudited condensed consolidated interim financial statements, the Group entered into the following material transactions with related parties during the six months ended 30 June 2012:

			For the six months ended 30 June	
			2012	**2011**
Name of related party	**Nature of transaction**	*Notes*	**(Unaudited)**	**(Unaudited)**
			HK$'000	*HK$'000*
The ultimate holding company				
Sino-Forest	Interest expenses paid and payable on a loan	(i)	6,344	3,134
The immediate holding company				
Sino-Capital	Interest expenses payable on a loan	(ii)	434	–
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 CN	(iv)	11,232	10,573

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 granted by Sino-Forest, which is unsecured and repayable on 17 August 2013. The interest payable as at 30 June 2012 was HK$103,000.

(ii) The interest expenses were charged based on the Hong Kong Prime Rate on a loan granted by Sino-Capital during the six months ended 30 June 2012. The total loan facility is HK$62,400,000 (i.e. US$8 million) of which HK$47,580,000 (i.e. US$6.1 million) was drawdown as at 30 June 2012. The loan is unsecured and repayable on 26 March 2015. The interest payable as at 30 June 2012 was HK$434,000.

(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. There have been no sales to Sino-Forest or any of its subsidiaries during the Period.

(iv) The amount disclosed above represents the imputed interest expenses charged to profit or loss for accounting purpose for the CN issued to Greater Sino, a company in which a director of the Company 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 CN is HK$9,718,000.

(b) Outstanding balances with related parties

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

(c) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2012	**2011**
	(Unaudited)	**(Unaudited)**
	HK$'000	*HK$'000*
Short-term employee benefits	14,537	4,791
Equity-settled share option	371	2,941
Pension scheme contributions	49	28
	14,957	7,760

17. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the presentation of the current Period.

18. EVENTS AFTER THE REPORTING PERIOD

On 14 August 2012, Sino-Forest announced a restructuring plan (the "Plan") under which Sino-Forest will transfer substantially all of its assets, other than certain excluded assets, to a newly formed entity to be owned by the affected creditors of Sino-Forest. Upon completion of the Plan, the ultimate control over the shares in the Company currently held by Sino-Capital may be changed.

In view that the terms of the Plan remain to be settled between the parties involved and the Plan itself will still be subject to various conditions, including but not limited to, relevant creditors, regulatory and court approvals, the Board considers it is premature to speculate on the outcome of the Plan and how it will affect the shareholdings of Sino-Forest in the Company. Besides, the Board at this stage is not in a position to ascertain whether the Plan will constitute a "Change of Control" under the terms of the CN. The Board is currently in discussion with the noteholder regarding such redemption if the Plan is to be effective and the Board will announce further information as and when appropriate.

Further details are set out in the Company's announcements dated 1 April 2012 and 16 August 2012.

19. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved by the Board of Directors on 30 August 2012.

3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2011

Set out below are the audited consolidated financial statements of the Group for the year ended 31 December 2011 together with the comparative figures for the year ended 31 December 2010 and the accompanying notes as extracted from the Company's 2011 annual report:

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)

	Notes	2011 *HK$'000*	2010 *HK$'000* (Restated)
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

	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

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

	Notes	2011 HK$'000	2010 HK$'000 (Restated)
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)
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)	–

	Notes	2011 HK$'000	2010 HK$'000 (Restated)
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

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

Notes to Financial Statements

31 December 2011

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

(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.

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.

(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

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.

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.

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.

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.

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

(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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

(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.

(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

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	**New Zealand**	**Elsewhere**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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
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.*

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
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	2010
	HK$'000	*HK$'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

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	2010
	HK$'000	*HK$'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	2010
	HK$'000	*HK$'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.

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

	Fees	Salaries, allowances and benefits in kind	Equity-settled share option expense	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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.

	Fees	Salaries, allowances and benefits in kind	Equity-settled share option expense	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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	**2010**
	HK$'000	*HK$'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

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	**2010**
	HK$'000	*HK$'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	**2010**
	HK$'000	*HK$'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

	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

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

		Group	
		2011	**2010**
	Notes	*HK$'000*	*HK$'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:

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

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	**2010**
	HK$'000	*HK$'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	
		2011	**2010**
	Notes	*HK$'000*	*HK$'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	**2010**
	HK$'000	*HK$'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

(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	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
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

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
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
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

(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*	*HK$'000*	*HK$'000*
		(Restated)		
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	Minimum lease payments 2010	Present value of minimum lease payments 2011	Present value of minimum lease payments 2010
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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.

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	**2010**
	HK$'000	*HK$'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.

(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.

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.

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.

(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

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	**Acquired Business**	**Consolidation adjustment**	**As restated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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.

(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:

		2011
	Notes	*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

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

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.

(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	**2010**
	HK$'000	*HK$'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.

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.

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	**Within 1 year**	**1 to 2 years**	**2 to 5 years**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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

Group	**2010**				
	On demand	**Within 1 year**	**1 to 2 years**	**2 to 5 years**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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.

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	**2010**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)		(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.

4. INDEBTEDNESS

Borrowings

As at the close of business on 31 December 2012, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Response Document, the Group had an outstanding unsecured loan from the ultimate holding company of HK$312.0 million (equivalent to US$40.0 million), outstanding unsecured loan from the immediate holding company of approximately HK$62.4 million (equivalent to approximately US$8.0 million), unsecured convertible notes in the aggregate principal amount of approximately HK$195.0 million (equivalent to US$25.0 million) and finance lease payables of approximately HK$31.1 million (equivalent to approximately US$4.0 million).

Charge on Group assets

The Group had pledged all the forestry land located in New Zealand and the equity interests of certain wholly-owned subsidiaries of the Company for the overdraft and loan facilities granted from a bank in New Zealand, which were not utilized as at the close of business on 31 December 2012.

Contingent liabilities

As at the close of business on 31 December 2012, the Group had no significant contingent liabilities.

Disclaimer

Save as disclosed above and apart from intra-group liabilities and normal trade payables, the Group did not, as at the close of business on 31 December 2012, have any outstanding mortgages, charges or debentures, loan capital issued or agreed to be issued, bank overdrafts and loans, debt securities or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits or any hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities.

As disclosed in the Company's announcement dated 20 February 2013, the Company has redeemed US$8,000,000 of the principal amount of the Convertible Notes by cash on 20 February 2013 under the terms and conditions of the Convertible Notes. Following the said redemption, the Convertible Notes Holder may subsequently exercise its redemption right (in whole or in part of its outstanding Convertible Notes), by giving an exercise notice of at least 30 days prior to such further redemption, at any time prior to the maturity of the Convertible Notes. Thus, the outstanding principal amount of the Convertible Notes of US$17,000,000 shall be classified as current liabilities in the Group's consolidated statement of financial position thereafter.

As at the Latest Practicable Date, save for the abovementioned redemption, the Group has not received any further notice from the Convertible Notes holder with regard to its intention over the remaining outstanding principal amount of the Convertible Notes of US$17,000,000.

Nevertheless, as disclosed in the Company's announcement dated 20 December 2012, the Group has entered into an agreement with the Bank of New Zealand in relation to a US$5.0 million repayable on demand overdraft facility and a US$25.0 million cash-advance-facility maturing on 30 November 2015 (collectively, the "Bank Loan Facilities"). With the availability of the Bank Loan Facilities, the Company is of the view that it has sufficient financial resources to meet its financial obligations should the Convertible Notes holder opt to exercise its right to redeem the outstanding principal of the Convertible Notes in whole or in part.

Save for the redemption of US$8,000,000 of the principal amount of the Convertible Notes as disclosed in the Company's announcement dated 20 February 2013, there are no material changes in terms of indebtedness, liabilities and contingent liabilities of the Group between 31 December 2012 and the Latest Practicable Date.

5. MATERIAL CHANGE

Save for (i) the unaudited consolidated loss recorded by the Group as set out in the Company's interim financial statements for the six months ended 30 June 2012; (ii) the redemption of US$8,000,000 of the principal amount of the Convertible Notes as disclosed in the Company's announcement dated 20 February 2013; and (iii) implementation of the Plan and the holder of the Convertible Notes becoming entitled to require the Company to redeem the Convertible Notes in whole on in part as a result of the implementation of the Plan having triggered the "Change in Control" provisions as disclosed in the Company's announcement dated 31 January 2013, the Directors confirm that there has been no material change in the financial or trading position or outlook of the Group since 31 December 2011, being the date to which the latest audited consolidated financial statements of the Group were made up.

1. RESPONSIBILITY STATEMENTS

The Directors jointly and severally accept full responsibility for the accuracy of the information (other than information relating to the Offeror and parties acting in concert with it and the terms of the Offers) contained in this Response Document and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Response Document have been arrived at after due and careful consideration and there are no other facts not contained in this Response Document, the omission of which would make any statement in this Response Document misleading.

The information contained in this Response Document relating to the Offeror and parties acting in concert with it and the terms of the Offers has been extracted or derived from the Offer Document. The Directors jointly and severally accept full responsibility for the correctness and fairness of the reproduction or presentation of such information but accept no further responsibility in respect of such information.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at 31 December 2011 (being the latest financial year end of the Company) and the Latest Practicable Date were as follows:

Authorised ordinary share capital:		*HK$*
15,000,000,000	Shares of HK$0.01 each as at 31 December 2011 and the Latest Practicable Date	150,000,000
Issued and fully paid:		
779,724,104	Shares as at 31 December 2011 and the Latest Practicable Date	7,797,241.04

All the existing issued Shares are fully paid up and rank pari passu with each other in all respects including all rights as to dividends, voting and capital.

The Company's existing share option scheme was adopted pursuant to a resolution passed by the Shareholders on 28 June 2012. The Company's former share option scheme adopted on 22 March 2002 expired on 22 March 2012.

As at the Latest Practicable Date, the number of Shares in respect of which Options had been granted and remained outstanding under the Share Option Schemes was 25,217,070. Particulars of such Options are as follows:

Date of Grant	**Exercise Price**
	HK$
5 August 2009	1.65
24 August 2010	2.18
28 December 2010	2.50
11 October 2012	0.501

As at the Latest Practicable Date, the Company had the Convertible Notes, being the US dollar denominated convertible notes with an aggregate principal amount of US$17,000,000 due 17 August 2015 issued by the Company which are convertible into 66,012,987 Shares.

Save as disclosed above, as at the Latest Practicable Date, there were no outstanding options, warrants, derivatives or convertible securities which may confer any right on the holder thereof to subscribe for, convert or exchange into new Shares.

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

As at the Latest Practicable Date, 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 under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for the Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules, were as follows:

Long Positions in Shares and underlying shares of the Company

Name of Directors	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	2,611,145	0.335
	Family interest *(Note 1)*	75,000	0.010
Simon Murray	Beneficial owner	2,342,000	0.300
Wong Kin Chi	Beneficial owner	981,145	0.126
Tong Yee Yung, Joseph	Beneficial owner	681,145	0.087
Wong Che Keung, Richard	Beneficial owner	781,145	0.100

Notes:

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

2. It includes the share options granted by the Company under the Share Option Schemes.

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

Name of Directors	Capacity	Name of the associated corporation	Number of Shares and underlying shares held *(Note 4)*
William Judson Martin	Beneficial owner and family interest *(Note 1)*	Sino-Forest *(Note 3)*	254,789
Simon Murray	Interest of controlled corporation *(Note 2)*	Sino-Forest *(Note 3)*	98,783

Notes:

1. 30,000 shares are held by 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 *(Note 5)*	CAD4.360	14,814
04/06/2007 – 04/06/2012 *(Note 5)*	CAD13.150	153,334
21/06/2010 – 21/06/2015	CAD17.410	28,854
17/03/2011 – 17/03/2016	CAD21.670	22,614

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.

3. Sino-Forest is as of the date hereof subject to a cease trade order issued by the Ontario Securities Commission which prohibits trading in Sino-Forest's securities.

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

5. Although 14,841 shares and 153,334 shares of Mr. William Judson Martin's Sino-Forest stock options were scheduled to expire on 25 August 2011 and 4 June 2012 respectively, Sino-Forest has imposed a blackout period with respect to trading by employees and other insiders in its securities since 22 March 2011. Pursuant to the terms of Sino-Forest's stock option plan, in the event that the term of a stock option expires within a blackout period imposed by Sino-Forest, the stock options do not expire until the date that is ten business days following the end of such blackout period.

Save as disclosed above, as at the Latest Practicable Date, 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.

4. 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 the Latest Practicable Date, 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 Shareholders	Capacity	Number of Shares	Number of underlying shares	Approximate percentage of the total issued share capital of the Company %
Emerald Plantation Group Limited	Interest of controlled corporation *(Note 1)*	495,519,102	–	63.55
SCGI	Beneficial owner *(Note 1)*	495,519,102	–	63.55
General Enterprise Management Services Limited	Interest of controlled corporation *(Note 2)*	7,000,000	66,012,987	9.36
Development Bank of Japan Inc.	Interest of controlled corporation *(Note 3)*	–	66,012,987	8.47
Asia Resources Fund Limited	Interest of controlled corporation *(Note 4)*	–	66,012,987	8.47
Greater Sino Holdings Limited	Interest of controlled corporation *(Note 4)*	–	66,012,987	8.47

Notes:

1. SCGI is a wholly-owned subsidiary of Emerald Plantation Group Limited, Emerald Plantation Group Limited is deemed to be interested in the Shares in which SCGI 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 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.

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 the Latest Practicable Date 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.

5. SHAREHOLDINGS AND DEALINGS IN THE OFFEROR

As at the Latest Practicable Date, none of the Company nor any of its Directors have any interest in the relevant securities (as defined in note 4 to Rule 22 of the Takeovers Code) (the "Relevant Securities") of the Offeror, and no such person (including the Company) had dealt in the Relevant Securities of the Offeror during the Relevant Period.

6. SHAREHOLDINGS AND DEALINGS IN SECURITIES OF THE COMPANY

Save as disclosed in the section headed "Disclosure of Interests by Directors and Chief Executive of the Company" in this appendix, none of the Directors held any shares, convertible securities, warrants, options or other derivatives of the Company, and none of the Directors have dealt for value in any Share or any convertible securities, warrants, option or derivatives issued by the Company during the Relevant Period.

As at the Latest Practicable Date,

(a) no Share or any convertible securities, warrants, option or derivatives issued by the Company was owned or controlled by a subsidiary of the Company or by a pension fund (if any) of any member of the Group or by an adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code or by the Independent Financial Adviser or any of its associates (as defined in the Takeovers Code), and no such person had dealt in the Shares or any convertible securities, warrants, options or derivatives issued by the Company during the Relevant Period;

(b) no Shares or any convertible securities, warrants, option or derivatives issued by the Company was managed on a discretionary basis by fund managers connected with the Company, and no such person had dealt in the Share or any convertible securities, warrants, options or derivatives issued by the Company during the Relevant Period;

(c) no person has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code.

(d) Mr. Hui Tung Wah Samuel, Mr. Simon Murray and Mr. Wong Kin Chi have confirmed that it is their intention not to accept the Share Offer, and Mr. Hui Tung Wah Samuel, Mr. Wong Che Keung Richard, Mr. Tong Yee Yung Joseph and Mr. Wong Kin Chi have confirmed that they intend to accept the Option Offer. Mr. W. Judson Martin and Mr. Simon Murray have confirmed that they intend not to accept the Option Offer. Save as disclosed in this paragraph 6, none of the Directors was interested in any Shares or has any Options as at the Latest Practicable Date, and none of them is expected to participate in the Offers; and

(e) none of the Company or any of its Directors has borrowed or lent any Shares or any convertible securities, warrants, options or derivatives issued by the Company during the Relevant Period.

7. MISCELLANEOUS

As at the Latest Practicable Date,

(a) no benefit (other than statutory compensation) had been or would be given to any Director as compensation for loss of office or otherwise in connection with the Offers;

(b) no material contracts had been entered into by the Offeror in which any Director has a material personal interest; and

(c) there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Offers or otherwise connected with the Offers.

8. DIRECTORS' SERVICE CONTRACTS

Save as disclosed below, as at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group or any associated company of the Group:

(a) which (including both continuous and fixed term contracts) have been entered into or amended within 6 months prior to 31 January 2013;

(b) which are continuous contracts with a notice period of 12 months or more; or

(c) which are fixed term contracts with more than 12 months to run irrespective of the notice period.

Directors	Term of appointment	Expiry date of letter of appointment	Remuneration
Wong Che Keung, Richard	15 June 2012 to 14 June 2015, subject to rotation and re-election in accordance with the Bye-Laws of the Company	14 June 2015 *(Note)*	HK$120,000 per annum, without variable remuneration payable under the letter of appointment
Tong Yee Yung, Joseph	15 June 2012 to 14 June 2015, subject to rotation and re-election in accordance with the Bye-Laws of the Company	14 June 2015 *(Note)*	HK$120,000 per annum, without variable remuneration payable under the letter of appointment
Wong Kin Chi	15 June 2012 to 14 June 2015, subject to rotation and re-election in accordance with the Bye-Laws of the Company	14 June 2015 *(Note)*	HK$240,000 per annum, without variable remuneration payable under the letter of appointment

Note: the terms of the office of the Directors above are subject to retirement by rotation under the bye-laws of the Company under which each of the Director will be required to retire by rotation at least once every 3 years. Each Director is eligible for re-election as a Director when he is due to retire by rotation.

9. EXPERT

The following is the qualification of the expert who has given opinions or advice which are contained in this Response Document:

Name	Qualification
Halcyon Capital Limited	a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, Halcyon did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, or had any interest, either directly or indirectly, in any assets which had been, since 31 December 2011 (the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

Halcyon has given and has not withdrawn its written consent to the issue of this Response Document with the inclusion of its advice, letter and/or report (as the case may be) and references to its name and logo in the form and context in which it appears.

10. LITIGATION

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation of material importance is known to the Directors to be pending or threatened against the Company or any of its retained subsidiaries.

11. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group after the date two years before the commencement of the Offer Period and up to the Latest Practicable Date, and are or may be material:

(a) a loan agreement dated 28 March 2011 and entered into between Mega Harvest International Limited, a wholly owned subsidiary of the Company and Sino-Forest Corporation, the ultimate holding company of the Company at the date of the loan agreement in relation to the grant of US$40,000,000 facility (the "Loan Agreement") and a supplemental letter to the Loan Agreement dated 26 March 2012 and was signed between Mega Harvest International and Sino-Forest Corporation which agreed to change the repayment date of the Loan Agreement to 17 August 2013; and

(b) a loan agreement dated 8 December 2011 and entered into between Suma Lumber Company N.V., an independent third party and Greenheart Forest Suriname Suma Limited, a wholly owned subsidiary of the Company for the provision of a loan facility of an aggregate amount of US$6,000,000.

12. GENERAL

(a) The registered office of the Company is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

(b) The principal office of the Company is 16th Floor, Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong.

(c) The English language text of this Response Document shall prevail over the Chinese language text.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection on the websites of the SFC (www.sfc.hk) and the Company (www.greenheartgroup.com) and, during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays), at the principal office of the Company at 16th Floor, Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong from the date of this Response Document until the final closing date of the Offers:

(a) the Bye-Laws of the Company;

(b) the annual reports of the Company for the two years ended 31 December 2011;

(c) the interim report of the Company for the six months ended 30 June 2012;

(d) the letter from the Board, the text of which is set out on pages 5 to 9 of this Response Document;

(e) the letter from the Independent Board Committee, the text of which is set out on pages 10 to 11 of this Response Document;

(f) the letter from Halcyon, the text of which is set out on pages 12 to 38 of this Response Document;

(g) the material contracts referred to in the section headed "Material contracts" in this appendix;

(h) the written consent referred to in this appendix; and

(i) the letters of appointment between the Company and the Directors referred to in the section headed "Directors' service contracts" in this appendix.